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Initial public offerings news in social media and investor sentiments

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ABSTRACT: Social media has provided the opportunity for companies to build self-image and also to stimulate significant attention and positive emotional responses to a passive participant. This practice is characterized by communication, comments, mention, reactions towards information and expression of sentiments, hence, an increase in the number of companies with public interest and media coverage has a direct influence on the investors. The purpose of this study, therefore, is to determine the effect of social media on investor sentiment in the Indonesian capital market in order to obtain an overview to follow the market and predict future *returns* stock and trade volumes. The results showed that the neutral sentiment does not affect the stock trading volume, which was the inverse for the negative and positive sentiments, although they collectively had no effect on *returns* stock on Instagram.

1 INTRODUCTION

The phenomenon of an initial public offering of shares is a situation followed by an abnormal movement of price on the first day, illustrating the poor correspondence of stock price movement towards the efficient market hypothesis. This discrepancy (empirical deviation) is often referred to as an efficient market anomaly. Stewart (2000) explained *behavioral finance* as a study of psychology and financial science phenomena, which shows the investors' conduct during the process of understanding and responding to information. Tauni (2017) explained the influence of these psychological factors in the determination of how investors make decisions, known to be likely influenced by the observations of others and some individuals during social interactions. Furthermore, the continuous development of technology provides innovations leading to the emergence of social media, thus enhancing the ease of assessing all important information about the company. These characteristics media platforms, alongside its role as a place for social interaction, are of high relevance to investors. In addition, the sentiment is a picture of their emotions and thoughts channeled through social media, where the positive forms possibly improve the *brand image* and reputation, while the negative tend to cause damage. These characteristics eventually influence the determination of investment decisions.

Nussbaumer (2011) emphasized the importance of remaining competitive through the utility of various information made available in print media and online sources. Therefore, it is imperative to understand the search process and the choice of information channels, and was supported by (Sattar Chaudhry, 2013), which stated its complexity in the general business sector and particularly in the investment sector. Furthermore, various types of financial and non-financial data are required to back up financial analysts (Sattar Chaudhry and Alansari, 2013), based on the assumption that most investors obtain information through the use of smartphones, instant messages and e-mails every day, and a few tend to adopt the use of Facebook, Twitter, blogs and wikis, and Sattar Chaudhry, (2013) confirmed the enormous amount of time spent during searches. Furthermore, investors are now enabled to view posts, rate news, and attach comments after the emergence of social media. Empirically, several studies by (Bollen 2011) were identified as the first to use Twitter sentiment in the prediction of stock market performance, showing evidence on the influence of investor sentiment. The research results indicate the influence of the existing atmosphere on *public happiness* as a positive sentiment that possibly predicts stock price movements. Coviello, (2014); and Kramer, (2014) supported the spread of emotions transmitted among internet users through text-based communication.

Concerning social media, Muchnik (2013) and Trinkle (2015) demonstrated the possibility of participants' perceptions and reactions towards news to be influenced by the opinion of the majority, expressed through social media comments. Chen (2014) conducted a textual analysis of negative opinions and comments contained in articles specifically based on investors in the USA, and a decline in *returns* stock was observed. Ranco, (2015) showed the influence of positive sentiment on the increase in *Cumulative Abnormal Return* (CAR) of 30 companies in the DJIA Index, while Nofer, (2015) examined the effects of emotional contagion in financial settings (using the Twitter mood and its effect) on stock returns, and the results demonstrated evidence that supports its transmission behavioral influence. Empirically, most studies observed to have examined the impact of Twitter and StockTwits in the financial context tend to mainly focus on testing the predictive power of sentiment/information for stock market performance. This was supported by (Jaziri, 2018), known to have related the positive emotions at the time of Ramadan with the significant effect of increasing *returns* stock on financial markets in Arabia. Furthermore, the effect was perceived by Arab financial markets within the first 10 days and 10 days after a positive sentiment on social media.

Alexander (2014) stated the central role of social media in "eliminating the asymmetry" of information between various agents, to ascertain if it is up to date. Also, they are known to allow two-way communication, including amongst individuals and between individuals and companies that allow not only communication of information to investors but also encourages the feedback of perceptions (Cade, 2018). Furthermore, there are known social ties that cause an individual to place higher trust on others or groups, due to the extent of personal interactions with the information sources through social media, as well as the interpersonal connection (Elliott, 2018). This study also established the possibility of investors to develop stronger social ties and higher trust when CEOs communicate company news through a personal Twitter account. Ali, (2018) reported evidence on an existing relationship between investor sentiment and *return*ed stock in the context of the capital market, although research conducted by We Are Social (2018) stipulated that about 120 million Indonesians use mobile devices, encompassing smartphones or tablets to access social media. ComScore (2017) reported that the application *of Instagram* has more users than *Facebook*. The purpose of this study, therefore, is to determine the effect of social media on investor sentiment in the Indonesian capital market, in order to provide investors with an overview for following the market, predicting future *returns* stock, and trading volumes.

2 RESEARCH METHODS

This research is a combination of qualitative and quantitative approaches. (1) The qualitative approach, characterized by utilizing the technique of *Content Analysis* to collect and evaluate the data in the form of words, pictures, symbols, meanings, themes and messages, communicated via written text, illustrated or discussed in books, newspapers, articles, magazines, speeches, and others. This was conducted on the sentiments contained in the comments of investors through the Instagram handle, followed by analysis using an automatic machine (NVIVO 12) for coding the words contained. Furthermore, the proficiency level of the meanings was obtained using *human coding*, followed by coding to alter the aspect that represents variables into numbers. (2) The quantitative approach was performed to link the results of *Content Analysis* with stock movements, using causality (regression) analysis.

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