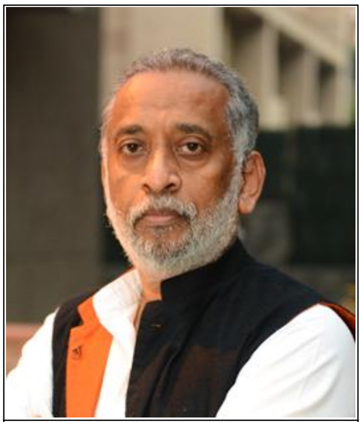
Changing Role of Media in Investor Education



Dilip Cherian
Founding Partner
Perfect Relations Pvt.Ltd.

[1] The pandemic has generated financial anxieties and operational risks as companies grapple with inflation, capacity constraints, supply-chain disruptions and demand erosion. With so much uncertainty, the distribution of information plays a crucial role in shaping financial markets.

[2] In the arithmetic of investments, timing is everything. Media, therefore, is critical to the dissemination and interpretation of relevant financial information – financial news, market announcements, corporate news and analyst forecasts. Not surprisingly, a firm's media visibility affects its stock price as much as financial fundamentals disseminated by a company.

[3] Stocks that attract consistent headlines offer better returns to investors. Interestingly, it does not always have to be positive coverage. Companies that receive negative media coverage generally see a higher stock valuation than those companies that have no media attention.

[4] So, the first lesson is that high media coverage always attracts investor mindshare. In this respect, the media clearly has an agenda-setting role. Visibility in the media ensures that stocks and companies are more likely to be present in investors' perceptions and therefore are more likely to be part of their investment agenda.

[5] Secondly, communication professionals that target investors must focus both on relationships with influential stakeholders and shareholders and equally, manage media relations. Media sentiment and messaging volume does not only impact investor decisions it also influences analysts' recommendations for certain industries and stocks that dominate the media space.

[6] The pandemic has impacted the media environment, which has implications for investor 'education'. Traditional media services such as television and newspapers have been severely dented due to falling circulation and diminishing ad spends. Many newspapers and magazines have shut down or have been forced to curtail editions or reduce pages. In India, we are seeing rural local editions of newspapers being slowly replaced by district-level digital start-ups. Though traditional media services such as television and newspapers have taken a hit, they are still a force to reckon with. People still turn to old media for news they can trust. But social media has seen exponential growth.

[7] Today, it is social media that is the people's go-to platform, especially millennials. It is here that people are freely opining and sharing information about investment on online forums, microblogs and social networks. So, the news becomes viral within a fraction of a second. Social sites, which can be regarded as an extension of word-of-mouth information, have given everyone the power to influence popular opinion. These digital platforms act as an indicator of the people's mood and enable investors to learn about other people's opinions on companies and the future of the economy. It is both an opportunity and a risk for media professionals.

[8] This segues into our third point. From a strategic communications perspective, social media is undoubtedly a quicker and more efficient way of attracting investor attention. One study showed almost 80% of institutional investors today use social media as part of their regular workflow, and approximately 30% obtain information about the investment through social media. This has become possible thanks to the democratisation of market data and new avenues to tap the minds of investors. Clearly, social media has become an integral part of the investment world and this summer's cryptocurrency hysteria underlines the incendiary role that social media is playing in igniting investor behaviour.

[9] Fourth is the flip side of social media – a caution that is relevant for both media professionals and investors. While social media disseminates information at digital speed, it equally misinforms and misrepresents. Ethical principles of fact-checking and verification that gave traditional media its credibility do not concern social media jockeys. Fake news can damage investor confidence with misleading claims. Much of what is passed around these days may be unverified information. What needs to be learnt here is, "scan everything, trust nothing 'til you verify".

[10] The fifth learning is that only cross-checked information that is reliable will enable investors to de-risk investment choices. At the cost of repetition, one should make it a point to get information from a source that is authentic and balanced, one which is unbiased in communicating both favourable and unfavourable news or information about a company or an investment product.

[11] There are other factors that are relevant to investment choices. Investors are driven by a herd mentality – they follow market trends. However, experienced financial journalists use an investing matrix to evaluate investments. This investment evaluation grid is in the form of a triangle. The base of the triangle is the state of the economy, then comes the sectors most likely to perform well in the short to medium term, then the companies in that segment that will outperform the economy. These companies are scrutinized for performance and investment value. Investors will do well to follow this schematic.

[12] At **Perfect Relations**, we practice what we preach. Our insights are based on three decades of experience in communicating to retail and institutional investors. Our objective always is to increase our clients' share of voice in the media by two-way communication between the company and different stakeholders. We develop robust communications strategies and manage strong and clear communication between internal and external parties while providing advisory to senior management to enable them to unlock fair valuation.

[13] Whether you are buying a car, a house or investing in a company, it is not just the features of the purchase but its brand value that eventually matters – so you must capture mindshare before you can capture market share.