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Key Finding

Consumption of firms' products improves investors' digestion of relevant firm information presented in financial reports.

Business Application

Intuition generated from "naïve" product experience is useful for interpreting "serious" quantitative analysis.

Does investors' casual product consumption influence their digestion of serious, quantitative information about relevant firms? Using a large sample of about 27,000 firm-year observations for 3,066 U.S. firms from 1998 to 2015, we find evidence that financial analysts' reports are more informative, that is, have a larger stock price response, when investors consume more of firms' products. This positive relationship continues to hold after controlling for firms' advertising and the accuracy of analysts' reports. Consistent with the idea that financial figures in analysts' reports can resonate with real product experience, facilitating investors' digestion of the reports' contents, we find that the effect of product consumption on the informativeness of reports is stronger for firms with opaque or hard-to-understand business, and for firms with more sophisticated investors or more knowledgeable consumers. In addition, exploiting the 2008 financial crisis as an example of drop in trust, we show that product consumption increases the informativeness of reports more profoundly when people have trust issues with financial institutions. This suggests that personal product experience can sometimes be used to reconcile and verify analytical research, mitigating mistrust with information generated by third parties.

Overall, our results demonstrate a reinforcing relationship between product consumption and the use of financial analysis. We show that a "naïve" raw signal generated from very subjective product experience can promote intuitive digestion and trust of a "serious" and much deeply processed signal from professional third-party analysts. Thus, our study highlights the role of product experience in making analysts' reports more readable, offering new insights into the ways investors learn from the informal and formal information sources surrounding them.

Read more: Kong, L. and Wang, C. (2018), "Do Consumers Have a Good Appetite for Analyst Research? Product Consumption, Information Digestion, and Analyst Informativeness", INSEAD Working Paper

Chengwei Wang is an Assistant Professor of Finance at SKK GSB. She received her doctoral degree from INSEAD in June 2016. To know more, visit her [website](#).

Research interests: Information in financial markets, financial intermediary, empirical asset pricing.