The answer is via social media!

How do companies get information out to markets quickly? How do smaller and "neglected" companies overcome informational barriers and achieve wider recognition? The answer is via social media!

One of the biggest trends in the last decade has been the rise of social media. It is fair to say that platforms such as Facebook and Twitter have transformed the informational landscape of the world. Suddenly, the ability to communicate news or information is no longer a privilege granted to news agencies, but is widely available through many channels. Anyone with an internet connection can be a source of information. The distinction between information providers and consumers is becoming fuzzier by the day. One can simply post a quick 140-character message on Twitter which travels the world within seconds. But how can this help companies?

In financial economics, models by Diamond and Verrecchia (1991) and Merton (1987) show that firms that communicate more information to financial markets attract more investor attention and achieve a lower cost of capital. Attracting investor attention may be difficult.

Traditionally, stock analysts have helped improve the information environment of companies and attract investors' attention. The problem is, analysts are more likely to cover larger and better known firms. Another mechanism that attracts investor attention is traditional news media. Companies like IBM and Apple receive extensive media coverage. Such companies can easily communicate information to markets, and markets listen. Necessarily, the media is biased towards covering companies that attract the most readership; who is not interested in news about Apple or Tesla?

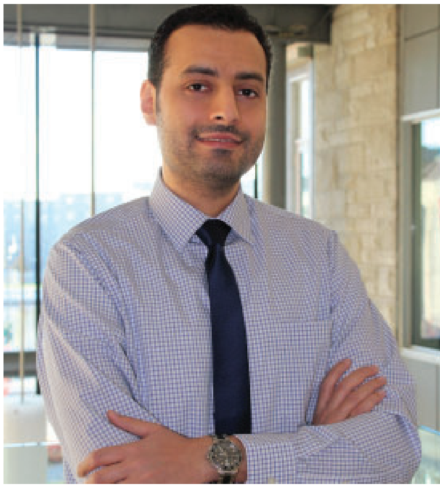
Since media coverage is not always a company's choice, many firms remain neglected in this arrangement. After all, how many investors are interested in a small mining company in the middle of the continent? As a way to alleviate information asymmetries, companies started communicating financial information on their corporate websites. In 2008, The Securities and Exchange Commission (SEC) declared corporate websites an official information channel where companies are permitted to communicate relevant information to investors. But once again, how do you drive investors to your website, or in other words, how do you "pull" them in?

> "AS CORPORATE USE OF SOCIAL MEDIA INCREASED, THE SEC ISSUED A NEW REGULATION IN 2013 THAT ALLOWS COMPANIES TO USE SOCIAL MEDIA AS AN OFFICIAL CHANNEL TO COMMUNICATE WITH MARKETS."

The answer is you "push" the news out to them. This is precisely what social media, particularly Twitter, does. It became a low cost mechanism to help companies disclose information and reach investors. Ultimately, this gives companies more control over their information environment. They are no longer at the mercy of analysts or the media: they control their own information releases.

As corporate use of social media increased, the SEC issued a new regulation in 2013 that allows companies to use social media as an official channel to communicate with markets. Since then, investors have flocked to social media in search of corporate information.

MOHAMED AL GUINDY



BIOGRAPHY

MOHAMED AL GUINDY is an Assistant Professor of Finance at the Sprott School of Business at Carleton University. Dr. Al Guindy's research focuses on the role of social media in financial markets – and more broadly, on how technology affects financial markets. Dr. Al Guindy completed his PhD in Finance and MBA at Queen's University. An engineer by training, he completed his Bachelor's degree in Electrical Engineering at the University of Toronto, and Master's degree in Electrical Engineering at Queen's university – with particular emphasis on Artificial Intelligence. Al Guindy's research has been funded by the Canadian Foundation for Governance Research and the Canadian Securities Institute Research Foundation. His work is featured on Yahoo Finance and Investment Relations (IR) Magazine among other outlets. In addition, his research is regularly presented at academic conferences such as the Northern Finance Association and the Financial Management Association conferences. Dr. Al Guindy was the recipient of the CSI Research Foundation's Doctoral Award during his Doctoral studies at Queen's University.

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My research is very data intensive – it requires the use of very powerful computers to process and manage the large social media datasets. The CSI award has helped me build the technological infrastructure necessary to carry out this innovative research.

In this research, I examine corporate use of social media since the inception of Twitter in 2006. I use complex textual analysis algorithms to analyze millions of tweets originating from publicly listed companies since the very first tweet in 2006. I find that companies that use Twitter to communicate information to markets have a lower cost of equity capital. What is more promising, smaller companies, companies that are followed by the least number of analysts, and companies with the least institutional ownership, benefit particularly from tweeting financial information. What this means is that those often "marginalized" or "neglected" companies can finally shape their own information environment thanks to social media, and as a result, achieve a reduction in their cost of equity capital. The message for companies, big and small, is to start tweeting!