

Political Affiliation and Media Distrust: Evidence from Stock Market Investors*

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January 2026

Abstract

Does distrust in politically affiliated media induce a bias in investor beliefs? We study the acquisition of Dow Jones & Co. by News Corporation in 2007 as a shock to the political affiliation of Dow Jones outlets. Following the acquisition, the price of Republican- (Democrat-) aligned stocks becomes less sensitive to favorable (unfavorable) Dow Jones Newswires (DJNW) sentiment, consistent with the market attaching less credibility to a politically affiliated source. There is, however, no evidence of change in DJNW sentiment, coverage, or language about Republican/Democrat stocks, suggesting a loss of stock price informativeness. Consistent with this view, a portfolio exploiting the attenuated reaction to DJNW news earns abnormal returns following 2007.

JEL: D83, G14, L82, D72

Keywords: Politics and financial markets; trust; news analytics.

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Introduction

A growing narrative links declining trust in the news to their political affiliation. Recent surveys show that only about 40% of U.S. adults have confidence that the media report the news fairly and accurately – down from over 70% in the 1970s – and that most Americans believe news outlets systematically favor one side of the political spectrum (Gallup (2020), Pew Research Center (2020, 2021)). Such distrust has been shown to shape belief formation and contribute to polarization among general news audiences (Arceneaux, Johnson, and Murphy (2012), Ladd (2010), Guriev and Papaioannou (2022)). Although media distrust may stem from concerns that politically affiliated outlets slant their coverage, excessive suspicion could also lead audiences to dismiss reporting *even when no bias is present*. We ask whether this occurs among stock market investors. Because financial markets play a central role in allocating capital and aggregating information, it is important to determine whether investors correctly interpret news reports or whether they, too, are prone to distrusting politically affiliated media.

Answering this question is challenging because it is difficult to empirically separate low credibility due to political affiliation and low informativeness due to biased content, since news media generally display some degree of political slant (Groseclose and Milyo (2005), Gentzkow and Shapiro (2010)). An ideal test would therefore change the political affiliation of a news outlet while holding the content of its reporting constant, and specifically, without introducing any political bias into the news itself.

To address this challenge, we design a test around the takeover of Dow Jones & Co., a leading publisher of financial news, by News Corporation in 2007, and investigate the stock market investors' responses to news reports published in the Dow Jones Newswires (DJNW), a Dow Jones

& Co. outlet that distributes financial news to investment professionals.¹ The acquisition raised concerns about the independence of Dow Jones & Co. as Rupert Murdoch, News Corporation's controlling shareholder, was viewed as right-wing and not above meddling in editorial lines. We exploit this event as a shock to the political affiliation of the DJNW and test for its effect on the responsiveness of stock prices to news reports.

DJNW newswires mainly report barebone facts and numerical information, reducing the likelihood of a political slant and inherently limits DJNW's leeway to produce biased reports. DJNW's audience, moreover, consists of finance professionals who value accuracy, so that the incentive for DJNW to slant news reports to cater to the political views of its readers is also limited (Mullainathan and Shleifer (2005), Gentzkow and Shapiro (2006, 2010)). As a result, the possibility of a confounding effect from biased news reporting is reduced, helping us isolate the stock market's response to DJNW's political affiliation. In addition, the takeover does not affect the fundamentals of the firms covered in DJNW's news reports, attenuating the potential impact of omitted variables related to a firm's connection to political power (Fisman (2001), Faccio (2006), Faccio, Masulis, and McConnell (2006), Goldman, Rocholl, and So (2009)) and resulting in a comparatively clean test environment.

Our testable hypotheses are based on the theory of trust in information sources (Gentzkow, Wong, and Zhang (2021), Cheng and Hsiaw (2022)). Suppose investors have a prior that News Corporation's political affiliation induces a pro-Republican/anti-Democrat bias in DJNW news reports. Rational Bayesian updating from such a prior makes investors interpret favorable DJNW news reports about Republican-aligned stocks less favorably and unfavorable reports about

¹ In Appendix B.1, we provide more information regarding the distribution channel, the subscription model, and the informational role of DJNW.

Democrat-aligned stocks more favorably. As a result, stock prices should become less responsive to DJNW news reports. To the extent that DJNW reports economically meaningful information, this makes stock prices less informative. We take this theory to the data on a large sample of DJNW newswires published during the years surrounding the takeover of Dow Jones & Co. by News Corporation.

In the aftermath of News Corporation's takeover of Dow Jones & Co., corporate political affiliation is associated with a reduced sensitivity of stock prices to the sentiment content of DJNW news reports. Using corporate political contributions as a measure of political affiliation, we find that the prices of stocks with a political affiliation become less sensitive to DJNW sentiment, relative to the prices of non-affiliated stocks. The drop in sensitivity is substantial: Prior to the takeover, reports in the top sentiment decile are associated with 1.14 percentage points higher stock returns than reports in the bottom decile; following the takeover, the difference shrinks to 0.56 percentage points. It is also protracted: stock prices do not revert to their pre-2007 sensitivity to DJNW sentiment until late 2010 (Figure 1). This effect is driven by a reduced sensitivity for politically affiliated stocks, whereas no change in sensitivity is detectable for non-affiliated stocks. Moreover, consistent with our argument, the reduced sensitivity to DJNW sentiment is associated with reports that may suggest a pro-Republican/anti-Democrat bias – i.e., favorable reports about Republican stocks and unfavorable reports about Democrat stocks. These findings are robust, both qualitatively and quantitatively, to a broad set of checks, including alternative measures of DJNW news sentiment content and alternative proxies for corporate political affiliation.

We consider three tests to link this effect to the DJNW's political affiliation. First, we repeat our baseline analysis on the sentiment content of news sources with similar features as DJNW (focus on facts and numbers, similar audience), but considering those whose political affiliation

does not change: Reuters Newswire, Associated Press, and corporate press releases. We find no drop in the stock return sensitivity to the sentiment content of their reports. This evidence rules out the possible impact of omitted variables affecting the stock market's general responsiveness to news reports during our period of interest or related to characteristics other than political affiliation. Second, we find a stronger attenuation when the sentiment in DJNW news reports deviates the most from the sentiment in comparable news sources, consistent with the view that in such cases investors may be more likely to perceive DJNW as biased. Third, we find that less informed investors and Democrat investors are mostly affected such that they are less likely to trade in the direction implied by the sentiment content of DJNW reports.

One possible interpretation of our results is that the News Corporation takeover has indeed rendered DJNW politically biased (or exacerbated a pre-existing bias), and investors discount its reports. However, following the main approaches in the empirical literature on media bias (Snyder and Puglisi (2015)), we find no evidence that DJNW becomes more pro-Republican or anti-Democrat after 2007. In particular, we document that the sentiment content of DJNW reports does not become more favorable to Republican stocks (or less favorable to Democrat stocks) following 2007, nor is there a change in its coverage related to the political affiliation of the stocks, or a change in the language used by DJNW news reports relative to alternative sources such as Reuters Newswires or the Associated Press.

One major implication of our results is that, if DJNW news reports do not contain a political slant after the News Corporation takeover (or if the takeover does not exacerbate a pre-existing slant), the attenuated stock price sensitivity to DJNW sentiment content suggests that stock prices fail to incorporate potentially valuable information. We test whether this is the case by forming a portfolio that goes long Republican stocks that receive DJNW news reports with more favorable

sentiment and short Democrat stocks with less favorable sentiment – i.e., whose price exhibits the most pronounced attenuation in the response to DJNW sentiment content. Prior to the News Corporation takeover, the portfolio earns small returns that are statistically indistinguishable from zero; but following the announcement of the News Corporation bid, it earns significantly positive, large returns up until 2010 (Figure 2). This pattern matches the attenuated stock price sensitivity to DJNW sentiment illustrated in Figure 1 and is consistent with the notion that investors do not find DJNW news reports credible due to DJNW’s political affiliation, under-reacting to their information content.

This has material implications for liquidity and stock price informativeness. Positive DJNW news reports about Republican stocks and negative DJNW reports about Democrat stocks, to which the market becomes less responsive after the News Corporation takeover, are associated with higher bid-ask spreads and Amihud (2002) illiquidity and lower firm-specific stock price information content.

Relation to the literature. Our work contributes to the literature on learning in financial markets and its impact on investor beliefs and stock prices (Pastor and Veronesi (2009)). This literature examines how learning about cash flows and discount rates affects valuation (e.g., Pastor and Veronesi (2003, 2006)) and individual investor trading (e.g., Linnainmaa (2011), Seru, Shumway, and Stoffman (2010)), typically assuming Bayesian learning. Other studies emphasize belief differences driven by behavioral biases such as overconfidence (e.g., Scheinkman and Xiong (2003), Hong, Scheinkman, and Xiong (2006)) or from attention and salience, finding evidence that investors can respond to stale news (Huberman and Regev (2001), Tetlock (2011), Fedyk (2024), Fedyk and Hodson (2023)). Similar to this latter group, our results are consistent with

investors responding to DJNW reports as if they contained a bias, despite no such bias being detectable.

A related group of studies analyzes how uncertainty and news about government policy affect stock prices (e.g., Pastor and Veronesi (2012, 2013), Baker, Bloom, and Davis (2016), Kelly, Pastor, and Veronesi (2016)). We argue that when political affiliation shapes the perceived credibility of a news source, stock prices may become less informative – even under rational Bayesian updating – and we provide evidence consistent with information-source attributes, including political affiliation, influencing investor responsiveness.²

Our work also contributes to the empirical literature on politics and the media. This literature measures political slant in the media (Groseclose and Milyo (2005), Gentzkow and Shapiro (2010), Goldman, Gupta, and Israelsen (2024); Puglisi and Snyder (2015) provide a review) and the effects of politically biased news reporting on outcomes such as voting (DellaVigna and Kaplan (2007), DellaVigna and Gentzkow (2010), Chiang and Knight (2011), Martin and Yurukoglu (2017), Durante, Pinotti, and Tesei (2019), Wang (2021)) and corporate policies (Baloria and Heese (2018), Knill, Liu, and McConnell (2020)). Goldman, Gupta, and Israelsen (2024) find evidence of political polarization in corporate financial news in the Wall Street Journal and the New York Times and relate it to trading volumes and herding. The focus on persuasion – whether politically distorted news reports induce distorted behavior in their audience (Prior (2013)). We take a different perspective and test if a news provider’s political affiliation affects investors through credibility rather than persuasion. In this respect, our findings also relate to the literature on trust

² Kogan, Moskowitz, and Niessner (2023) find evidence that the awareness of SEC investigations about fake news indirectly affects legitimate articles, causing market participants to discount all news. Differently from their study, we focus on the impact of political affiliation on the credibility of the news source to the investors’ eyes; moreover, our results are not focused on fake news – as we show below, we detect no evidence of a political bias in DJNW reports – and the reduced reaction to DJNW news does not propagate to other news sources.

in information sources (Gentzkow, Wong, and Zhang (2021), Cheng and Hsiaw (2022)). To our knowledge, we provide the first empirical evidence that a specialized audience such as stock market investors is less responsive to a politically affiliated news source, suggesting that the survey evidence linking media affiliation to diminished trust may extend to professional audiences as well.

Finally, our study contributes to the growing literature on the impact of politics on belief formation. Numerous studies document that political views correlate with expectations and assessments of economic conditions among individuals (Alesina, Miano, and Stancheva (2020), Barrios and Hochberg (2021), Bartels (2002), Gerber and Huber (2009), Mian, Sufi, and Khoshkhou (2023)), households (Bonaparte, Kumar, and Page (2017), Meeuwis, Parker, Schoar, and Simester (2022)), financial analysts (Kempf and Tsoutsoura (2021)), and regulators (Engelberg, Henriksson, Manela, and Williams (2021)). Nordhaus and Rivers (2023) show that most of the U.S. population is poorly informed about major economic issues and that misinformation is linked with ideological or political intrusions. In a similar vein, our evidence suggests that viewing a news outlet as politically affiliated reduces the audience's willingness to believe its reports. Evidence on how political beliefs affect financial markets, however, remains limited, as existing studies focus on small investors (Bonaparte, Kumar, and Page (2017), Meeuwis, Parker, Schoar, and Simester (2022)) or very specific settings (e.g., Jha, Koudijs, and Salgado (2022)). Our results indicate that political beliefs – specifically, beliefs about news-source credibility – affect stock prices and point to reduced trust in politically affiliated outlets as a possible source of the belief differences documented in prior work. Moreover, our finding that the attenuated response to DJNW sentiment is driven by stocks traded by Democrat-leaning

institutional investors aligns with this literature and suggests that its arguments extend to large, sophisticated market participants.

II. Background and testable hypotheses

A. The takeover of Dow Jones & Co. by News Corporation

On May 1, 2007, News Corporation announced an unsolicited bid to take over Dow Jones & Company.³ The acquisition was completed on December 14, 2007, following a protracted public debate about journalistic values and political bias in the media. A concern emerged that Rupert Murdoch, News Corporation's controlling shareholder, might meddle in editorial affairs, tilting the company's outlets towards the right of the political spectrum (e.g., Bourgeois, Kapur, and Mussio (2008)).

Commentators worried that News Corporation management were unlikely to uphold the Dow Jones code of conduct, and pointed out that Murdoch believed that "the rest of the press [wa]s liberal and that the conservative swing of his Fox News Channel and New York Post exist[ed] to correct that bias."⁴ Leslie Hill, a member of the Bancroft controlling family of Dow Jones opposed to the acquisition, resigned as director arguing that the deal implied "the loss of an independent global news organization with unmatched credibility and integrity."⁵ In a letter to readers, Wall Street Journal publisher L. Gordon Crovitz insisted that "the same standards of accuracy, fairness and authority will apply to this publication, regardless of ownership."⁶ Some of the concerns voiced by the acquisition's detractors appeared to be vindicated when Murdoch appointed Robert

³ In Appendix B.2, we further discuss Murdoch's decision to choose Dow Jones & Company as the target firm for the acquisition.

⁴ "Can Murdoch Pass the Stink Test?", *Slate*, 29 May 2007.

⁵ "Dow Jones Enters News Corp. Fold", *Washington Post*, 1 August 2007.

⁶ "A Report to Our Readers", *Wall Street Journal*, 1 August 2007.

Thomson, described in the press as his “best friend,” as managing editor of the Wall Street Journal as well as editor-in-chief of DJNW in April 2008.⁷

B. Logic of the test and testable hypotheses

We explain the logic behind our empirical tests building on the economic arguments of Gentzkow and Shapiro (2006).⁸ Investors form beliefs about both the accuracy and potential bias of news outlets and update those beliefs as new information arrives. Assume that DJNW reports are, in fact, unbiased; however, investors may suspect otherwise after the News Corporation takeover, given the political orientation of its controlling shareholder. We ask how this perceived possibility of bias can shape how investors interpret and react to DJNW news reports about Republican and Democrat stocks.

Before the takeover, investors have no reason to question DJNW’s neutrality and interpret its reports at face value. After the takeover, however, they develop a prior that DJNW could slant its coverage in favor of Republican stocks and against Democrat ones. This assumption is consistent with evidence that audiences tend to associate media outlets with the political views of their owners and that such associations affect credibility assessments (Gallup (2020), FCC (2003), Gentzkow, Wong, and Zhang (2021)). As investors read DJNW articles, they infer not only information about firms but also about DJNW’s reliability. Favorable reports on Republican stocks and unfavorable reports on Democrat stocks are consistent with the perception of a pro-Republican bias, leading

⁷ “Murdoch’s Best Friend”, *New Yorker*, 4 April 2011.

⁸ We formalize the reasoning described in this section in a simple model presented in Appendix C. Gentzkow, Wong, and Zhang (2021) propose a model of trust in news sources that builds on the same mechanism as Gentzkow and Shapiro (2006) but focus on how diverging beliefs and trust can persist over time. Cheng and Hsiaw (2022) develop a model where individuals make inferential mistakes about the credibility of news sources such as experts. Thaler (2024) proposes a different mechanism, based on motivated reasoning, leading agents to process information differently and to persistent disagreement.

investors to discount those reports. As a result, stock prices react less strongly to the sentiment content of DJNW coverage that fits the perceived bias.

This reasoning yields two predictions. First, if investors become uncertain about the outlet's neutrality, the short-run market response to its reports weakens. The attenuation should be strongest when the reports align with the suspected direction of bias – i.e., when they are favorable for Republican stocks or unfavorable for Democrat ones – and more pronounced when the prior belief in bias is stronger:

H1. (a) *After the News Corporation takeover, stock prices become less responsive to DJNW sentiment content.* (b) *The attenuated stock price responsiveness to DJNW sentiment is associated with favorable news reports about Republican stocks and unfavorable news reports about Democrat stocks.*

Over time, however, investors observe information about firms' fundamentals that allows them to verify whether the original DJNW reports were accurate. When ex-post outcomes contradict investors' discounted interpretation of the news (e.g., when a Republican stock later performs well after an initially discounted favorable report) beliefs adjust upward, generating long-run return reversals:

H2. *After the News Corporation takeover, DJNW news reports with more favorable sentiment about Republican stocks are associated with higher long-run returns on those stocks, and DJNW news reports with less favorable sentiment about Democrat stocks are associated with lower long-run returns on those stocks.*

III. Data and main variables

We combine the sentiment scores of Dow Jones Newswires news reports and corporate press releases from the RavenPack news analytics database; from Factiva, the texts of news reports from Dow Jones Newswires, Reuters Newswire, and Associated Press (and, for a set of robustness checks, from the Wall Street Journal); political contributions from the Federal Elections Commission (FEC); institutional investor trades from Abel Noser Solutions (formerly Ancerno; we henceforth refer to it as Ancerno for brevity); daily stock prices and returns from CRSP; balance sheets from Compustat; analyst recommendations from IBES; institutional investor holdings from Thomson Reuters 13F filings. A description of the main data sources and variables follows. We provide detailed definitions of all variables in Appendix A.

A. News sentiment content

Most of our tests exploit the sentiment content of Dow Jones Newswires (DJNW) news reports over the period from 2003 until 2012, i.e., five years before and after the News Corporation takeover. We obtain these data from RavenPack, a leading provider of real-time news analytics used by hedge funds, mutual funds, and large banks to incorporate information from the news in their investment process. RavenPack identifies the news event discussed in each news article (e.g., earnings announcements, M&As, etc.), the companies they mention, and how relevant the article is for them.

RavenPack analyzes the content of DJNW articles and generates an *Event Sentiment Score (ESS)*, which indicates the tone of the article. The *ESS* is expressed on a scale from 0 (most negative sentiment) to 100 (most positive sentiment). As described in Table 1, the average level of the raw *ESS* score in our sample is 52 (standard deviation: 13). For example, when Amazon

increases its jewellery and watches sales by more than 120% in 2006, the *ESS* score is 90; and when, also in 2006, Google is reported as losing 8-12% market share in the search engine market in China, the sentiment score is 20. We average the *ESS* across all non-press release DJNW articles associated with a given firm on a given day and we base most of our analysis on its decile rank, which we refer to as *DJ_Sent*. We separately obtain a sentiment score based on RavenPack's *ESS* associated with corporate press releases.

In several tests, we examine an alternative sentiment score, based on the text of news pieces collected from Factiva, a news search engine. The score is built using textual analysis tools based on Loughran and McDonald (2011) and exploiting a dictionary-based method that counts the frequency of positive and negative words in texts.⁹ As in the case of the sentiment score based on RavenPack data, we base the analysis on the decile ranks of the dictionary-based sentiment scores. We apply this approach to obtain an alternative measure of sentiment for DJNW news pieces, as well as for news pieces from Reuters Newswire and the Associated Press.¹⁰

B. Corporate political affiliation

We use corporate political contributions to quantify a company's political affiliation as perceived by the investors. We retrieve data on corporate political contributions from the Federal Election Commission (FEC) detailed committee contribution files, for the period from 2003 to 2012. Political contributions are a key component of a company's public image, as they are publicly disclosed on the FEC website and frequently commented upon in the media.¹¹ For this reason, the

⁹ The details of the computation of the alternative sentiment score are described in Appendix D.

¹⁰ In Appendix H, we examine news articles from the Wall Street Journal, based on a sentiment measure constructed using textual analysis as well.

¹¹ See for example "The Most Republican Company? The Makers of Wonder Bread", *New York Times*, 7 March 2014, or "The 30 Fortune 500 Companies that Have Thrown the Most Money at Republicans and Democrats in the Last Decade", *Business Insider*, 4 March 2018.

political science and political economy of finance literatures use them as a proxy for the political affiliation of a corporation (Cooper, Gulen, and Ovtchinnikov (2010), Bonica (2013), Correia (2014), Ahn, Kim, and Lee (2019)) or of its managers and employees (Babenko, Fedaseyev, and Zhang (2020), Cohen, Hazan, Weiss, and Tallarita (2019)). Contributions reflect the stance of the firm’s management and ownership, its business, as well as any corporate actions that have political nature to the eyes of the public, acting as a “sufficient statistic” for the perception of the firm’s political alignment. In principle, this does not require that investors be aware of the firm’s actual contributions – just that those contributions relate to the firm’s public image as closer to the Democrats or the Republicans.¹²

To categorize a firm on the Democrat-Republican spectrum as a function of its political contributions, we define the *Republican* variable as $Rep/(Rep + Dem)$, where *Rep* is the dollar value of the firm’s contributions to the Republican party, and *Dem* to the Democrat party. The higher the value of *Republican*, the more “Republican-leaning” the stock. Although this variable is continuous, for ease of exposition throughout the paper, we describe a stock as “Republican” (“Democrat”) if *Republican* is above (below) the median value each year.¹³

Firms in our sample contribute slightly more to the Republican party, with an average *Republican* equal to 0.58 (standard deviation: 0.22, Table 1).¹⁴ Political affiliation is persistent:

¹² We provide a brief overview of the regulation of corporate political contributions, and how we retrieve the contributions data from the committee contributions files in the FEC database, in Appendix E. Appendix Figure I.1 summarizes the aggregate political contributions for our sample firms over the sample period.

¹³ In some cases, firms contribute similar amounts to the Republicans and Democrats. We retain these cases in most of the analysis; in robustness checks reported in Appendix Table I.5, we find stronger results if we focus on stocks with an unambiguous political affiliation.

¹⁴ A typical Republican stock is ExxonMobil, an oil and gas corporation, with an average level of *Republican* of 0.95. The media often associate ExxonMobil with positions close to the Republicans, e.g., on climate change: “ExxonMobil Continuing to Fund Climate Sceptic Groups, Records Show”, *The Guardian*, 1 July 2009, or “What Exxon Knew About the Earth’s Melting Arctic”, *Los Angeles Times*, 9 October 2015. A typical Democrat stock is Avon Products, a beauty and personal care products maker, with an average level of *Republican* of 0.10. Avon promotes itself as “the company for women”, supporting pro-choice positions through its Avon Foundation for Women.

Nearly 60% of stocks retain the same political alignment as in their first contributing year throughout our sample period (Appendix Figure I.2). In total, we have 774 distinct U.S. stocks.

C. Other data and sample characteristics

We supplement the main data with firm balance sheet data from Compustat, stock price information from CRSP, analyst recommendations from IBES, institutional investor holdings from Thomson Reuters 13F filings, and institutional investor trading data from Ancerno.¹⁵ All the variables are defined in detail in Appendix A.

We provide descriptive statistics in Table 1. Panel A presents summary statistics for the main variables in our sample. Panel B compares the main characteristics of Republican and Democrat stocks before and after the News Corporation takeover. Firms in our sample have an average market capitalization of \$35 billion. They have an average leverage of 26% and an average book-to-market ratio of 0.63. These figures are comparable with Cooper, Gulen, and Ovtchinnikov (2010), who also merge the FEC and CRSP/Compustat data. Republican and Democrat stocks are, on the other hand, similar in terms of the main observable characteristics, such as size (market value of equity), book-to-market ratio, profitability (ROA), and leverage ratio.¹⁶

IV. Changes in sensitivity to DJNW sentiment around the News Corporation takeover

A. Baseline results

To study the sensitivity of the market price of Democrat and Republican stocks to DJNW sentiment following the acquisition by News Corporation, we estimate:

¹⁵ We describe the Ancerno data in more detail in Appendix F.

¹⁶ In the Appendix Table I.1, Panel A, we report additional summary statistics on the other variables used in the analysis.

$$CAR_{it} = \alpha_i + \alpha_{jt} + \beta_1 Post_t + \beta_2 DJ_Sent_{it} + \beta_3 DJ_Sent_{it} \times Post_t + Controls_{it-1} + \varepsilon_{it} \quad (1)$$

The dependent variable is the 3-day (-1, +1) cumulative abnormal return on stock i around the news report date t relative to the Fama-French-Carhart 4-factor model.¹⁷ DJ_Sent is the sentiment associated with news report from DJNW, defined in Section III. $Post$ is an indicator variable equal to 1 starting from the completion day of the News Corporation takeover on December 14, 2007, and 0 prior to that date. α_i and α_{jt} denote firm and industry \times date fixed effects. The standard errors are clustered around calendar dates. The vector of $Controls$ includes firm size, leverage, book-to-market ratio, ROA, as well as the cumulative abnormal return over the 10-day period prior to the news report date, interacted with the $Post$ indicator.

The results are reported in Table 2, panel A. We first estimate equation (1) for stocks with a political affiliation (column 1). The coefficient on the $Post \times DJ_Sent$ interaction term is negative for the politically affiliated stocks, indicating that their prices are less responsive to DJNW news report sentiment after the News Corporation takeover. To gauge the economic magnitude of the effects implied by our estimates, consider the difference in returns associated with news reports in the top and bottom sentiment deciles ($DJ_Sent = 1$ and 0.1) for the politically affiliated stocks. Prior to the News Corporation takeover, the difference is 1.14 percentage points ($= 1.264 \times (1 - 0.1)$); after the takeover, it is 0.56 percentage points ($= (1.264 - 0.647) \times (1 - 0.1)$). This indicates a substantial drop in the sensitivity of stock prices the sentiment content of DJNW news reports. These results are consistent with our testable hypothesis H1(a) as well as with the visual evidence of Figure 1.

¹⁷ In the Appendix Table I.6, we find similar results if we consider alternative windows around the news report dates and computing abnormal returns relative to the Fama-French 3-factor model, rather than the 4-factor model.

We contrast these estimates with those for politically unaffiliated stocks in column 2.¹⁸ In that sample, the coefficient on $Post \times DJ_Sent$ is small and statistically indistinguishable from zero; the difference between the estimates for affiliated and un-affiliated stocks is highly statistically significant (F-stat: 15.56, p-value < 0.01). The fact that we find no attenuation for the unaffiliated stocks suggests that the attenuation effect detected in column 1 is related to political affiliation (as opposed to, for instance, some omitted variable characterizing stocks covered by DJNW news reports). It also helps us rule out one alternative interpretation where investors simply stop reading DJNW. If that were the case, we should observe a significant drop in the sensitivity of stock returns to the sentiment of politically unaffiliated stocks as well. Building on this result, in the remainder of the analysis we focus on firms that have political affiliation.

Hypothesis H1(b) predicts that the attenuated stock price responsiveness to DJNW sentiment is driven by favorable news reports about Republican stocks and unfavorable news reports about Democrat stocks. To test this hypothesis, we restrict the attention to stocks with a political affiliation and estimate:

$$\begin{aligned}
CAR_{it} = & \alpha + \beta_1 Post_t + \beta_2 DJ_Sent_{it} + \beta_3 Republican_{it} + \beta_4 DJ_Sent_{it} \times Post_t + \\
& \beta_5 Post_t \times Republican_{it} + \beta_6 DJ_Sent_{it} \times Republican_{it} + \\
& \beta_7 DJ_Sent_{it} \times Post_t \times Republican_{it} + Controls_{it-1} + \varepsilon_{it}.
\end{aligned} \tag{2}$$

The coefficient β_7 in equation (2) is associated with hypothesis H1(b), as it modulates the stock return's sensitivity to DJNW sentiment depending on the stock's political affiliation, captured by the variable *Republican*. In column 3, the estimate of coefficient β_7 is significantly negative, suggesting a lower responsiveness to more favorable DJNW sentiment for Republican stocks (or

¹⁸ We define a stock as politically unaffiliated if it never makes political contributions in our sample period and it is in the bottom quintile of the Addoum and Kumar (2006) political sensitivity measure. We present the main characteristics between politically affiliated firms and politically unaffiliated firms, before and after the News Corporation takeover in the Appendix Table I.1, Panel B.

to less favorable DJNW sentiment for Democrat stocks), in line with hypothesis H1(b).¹⁹

For ease of interpretation, in panel B, we also directly estimate equation (1) separately for Democrat and Republican stocks (*Republican* below/above the median) and for unfavorable/favorable DJNW sentiment (RavenPack *ESS* score below/above 50).²⁰ We find that the attenuated sensitivity to DJNW sentiment is concentrated among favorable DJNW sentiment for Republican stocks and unfavorable DJNW sentiment for Democrat stocks – i.e., for news reports that align with Dow Jones’s political affiliation. These findings are in line with the previous results and with hypothesis H1(b).²¹

In sum, the prices of politically affiliated stocks become less sensitive to DJNW sentiment following the News Corporation takeover, especially so for Republican stocks receiving favorable DJNW commentary and for Democrat stocks receiving unfavorable commentary. These results are in line with hypotheses H1(a) and H1(b) and consistent with the notion that investors believe that the DJNW becomes less credible due to its political affiliation after the takeover.²²

We subject these baseline results to a battery of robustness checks, reported in Table 3. First, they are not sensitive to using alternative measures of corporate political affiliation, such as the

¹⁹ In Appendix Table I.2, we show that our results are mainly driven by the component of the sentiment content of DJNW news that is orthogonal to the sentiment of news reported by alternative news sources (i.e., Reuters Newswire, Associated Press, and corporate press releases), or DJNW-specific news component. Conceptually, the sentiment content of DJNW news can be decomposed into a common sentiment component shared with other news outlets, and a component specific to DJNW. If investors have a prior that DJNW will release biased reports after the acquisition, they are likely to attach less credibility to these reports, effectively placing less weight on the DJNW-specific news component.

²⁰ We take the cutoff value of *ESS* = 50 as indicated by Ravenpack to define positive and negative news sentiment. In a robustness check reported in the Appendix Table I.3, we consider an alternative definition of a “Republican” firm, based on the *Republican* measure being above the median value for a given Fama-French 12 industry in a given year. The results are similar.

²¹ In the Appendix Table I.4, we present another approach and split equation (1) on the basis of positive/negative news sentiment. In addition, we decompose *DJ_Sent* into two separate measures: one associated with Democrat firms and the other with Republican firms. We then interact the two news sentiment measures with *Post* indicator respectively. The results are consistent with investors underreacting to positive news about Republican firms and negative news about Democrat firms.

²² In Appendix Table I.5, we find that the results are mainly driven by stocks held by Democrat investors who are likely to have a stronger prior that News Corporation’s political affiliation may induce a slant in DJNW reports.

proxies based on the firm's cumulative political contributions up until a given year (lifetime contributions), the ones based on the firm's total contributions over our entire sample period (total contributions), the two measures used by Babenko, Fedaseyev, and Zhang (2020), the proxies based on the individual contributions of the firm's employees other than the CEO as well as the total individual contributions including the CEO's. We also find qualitatively similar results when we look at a measure of corporate political affiliation not based on political contributions: the political sensitivity of the stock price to the Republican Party (Addoum and Kumar (2016)).

Second, our results are not sensitive to the measure of news report sentiment as well. Indeed, similar results obtain whether we consider a continuous measure or rely on the sentiment score based on textual analysis of DJNW news reports described in Section III.A, which is based on a different methodology.²³

Third, our results are robust to the inclusion of additional control variables to account for the information environment of the firms (such as analyst coverage and institutional ownership), to control for sentiment from alternative news sources (i.e., Reuters Newswire, Associated Press, and corporate press releases),²⁴ and to the inclusion of combinations of fixed effects: state \times date fixed effects that account for local political environment, industry \times date and firm \times year fixed effects, or firm fixed effects and industry \times date fixed effects interacted with an indicator for Republican stocks.²⁵

Fourth, we find similar results if, instead of looking at stock returns, we focus on trades by

²³ The number of observations drops with the score based on the textual information from Factiva, due to differences in the way that Factiva and Ravenpack attribute a news report to a given stock, and the filters that are required to construct Factiva sentiment score.

²⁴ We replace missing values in the alternative sentiment measure with zero and include indicator variables in the regressions to account for these missing observations. Indeed, all our main results are unchanged when sentiment from other news sources is included using the same triple interaction structure.

²⁵ In particular, the firm \times year fixed effects address the possibility that our firm-level control variables, although lagged, are in some way endogenously related to the dependent variable and could thus be "bad controls" (Angrist and Pischke (2009) and Gormley and Matsa (2014)). We thank Asaf Manela for suggesting this check.

institutional investors and on analyst recommendations. This suggests that their behavior is also consistent with a reduced credibility of DJNW news reports to their eyes.²⁶

B. Placebo tests; contrast between DJNW and other news sources

We perform two further tests to clarify the interpretation of our results. First, we run placebo tests to rule out that our results reflect a general decline in the market's sensitivity to news or fundamental economic changes affecting Republican and Democrat stocks differently during the period around the News Corporation takeover. We examine the sentiment content of news sources similar to DJNW but whose political affiliation does not change during this period: Reuters Newswire, Associated Press, and corporate press releases. Reuters Newswire and Associated Press are business-focused wires comparable to DJNW, and corporate press releases also tend to focus on factual and numerical content. If our results were explained by a broad attenuation in market responsiveness or by fundamentals differentially affecting Republican and Democrat stocks, we should find similar results using these alternative news sources.

We estimate equation (2) replacing *DJ_Sent* by the sentiment measures associated with the alternative news sources. We find no drop in the sensitivity of the stock price to any of the alternative news sentiment measures, regardless of the stock's political affiliation. In other words, the market appears to consider Reuters Newswire, Associated Press, and press releases just as credible after December 2007 as before, ruling out the potential alternative explanations.²⁷ More

²⁶ In Appendix Table I.6, we report additional robustness checks. We find similar results if we a) restrict the attention to stock-days where corporate press releases, Reuters Newswire, or Associated Press reports are available, if we b) restrict the attention to stock-days (or -weeks) where there is no concurrent coverage by the Wall Street Journal, c) subsamples where firms are more likely to have salient corporate affiliation, d) restrict to periods with high partisan conflict (Azzimonti (2018)) or to stocks with high political risk (Hassan, Hollander, van Lent, and Tahoun (2019)), and e) two-way cluster the standard errors by industry and date or by firm and date.

²⁷ The number of observations in these tests is lower than in Table 2, due to differences in coverage between DJNW and the other sources and to the filters required to compute the sentiment measures for Reuters Newswires and Associated Press reports based on Factiva data. To address the possibility that this might affect statistical power, in

generally, the estimates from these placebo tests are inconsistent with any “macro” drivers, e.g., related to the 2008 financial crisis, as these drivers should have an identical impact on the alternative sources.²⁸

Second, in Table 5 we relate our results to the divergence between news reports by DJNW and other news sources. To proxy for the divergence between DJNW and other news sources, for each firm on each date we compute the standardized absolute distance between DJNW sentiment score *DJ_Sent* and the sentiment from corporate press releases (*PR_Sent*) and news reports from Reuters Newswire (*RN_Score*), and Associated Press (*AP_Score*).²⁹ The attenuation effect appears mainly driven by cases of large divergence in sentiment between the DJNW and the alternative news sources, and we do not observe any effects when DJNW sentiment closely aligns with other sources, consistent with investors discounting DJNW sentiment more when they can observe a contrast between it and other news sources.³⁰ Moreover, they suggest that comparing DJNW’s news with alternative sources might facilitate investors’ learning.³¹

robustness checks reported in the Appendix Table I.6, we re-estimate our baseline in column 3 of Panel A, Table 2 by restricting the sample to stock-day observations when alternative news sources are available. We find similar results, suggesting that statistical power is not reduced by the smaller sample size in this test.

²⁸ These findings also rule out an alternative interpretation where investors simply have a strong prior that Republican stocks perform poorly and Democrat stocks perform well in the period following December 2007. If that were the case, we should observe similar results across all news sources, in contrast to the results of Table 4.

²⁹ In Appendix Table I.7, we consider three alternative indicators of high divergence between DJNW and alternative news sources: (a) An indicator equal to one if any absolute (non-standardized) differences to alternative news sources are above the median, (b) An indicator equal to one if the average absolute difference is above the median, and (c) An indicator equal to one if the average standardized difference is above median. We obtain results similar to Table 5.

³⁰ We emphasize that higher divergence between DJNW and other professional outlets does not, by itself, imply bias on the part of DJNW or alternative sources. Although these outlets all primarily report factual developments, corporate announcements, and numerical information, they operate under distinct editorial guidelines and target different audiences. As a result, differences in sentiment may naturally arise from variation in editorial judgment, writing style, audience orientation, or the degree of contextual interpretation provided, rather than from systematic bias.

³¹ We provide two additional tests showing that our main attenuation effects are more pronounced when investors are likely to maintain their prior that DJNW has a pro-Republican bias. First, we analyze days when DJNW news articles differ from other sources in the texts. To test the idea, we compute the textual similarity between DJNW and alternative sources – a measure discussed in detail in Section V.B and Appendix G, and split the sample into high/low textual similarity groups. We report the results in Appendix Table I.8. They suggest that the main effects are concentrated on cases where the textual similarity is low, whereas no significant effects are observed when DJNW articles closely resemble to those from other sources. Second, we focus on the days when DJNW reports conflicting sentiments about the same firm, measured as the standard deviation of the decile *ESS* value across DJNW articles for a given firm on a

V. DJNW readership change; value of DJNW news reports; impact on liquidity and stock price information content

Our results so far indicate an attenuated stock price reaction to DJNW news reports, consistent with investors responding to Dow Jones & Co.'s political affiliation after the News Corporation takeover. We ask next if this response is related to DJNW's readership contracting or DJNW becoming less informative/credible, or if instead investors are neglecting potentially valuable information. We articulate this analysis in five parts. First, we examine whether DJNW experiences a contraction in its readership. Second, we test if there is any evidence of a change in pro-Republican/anti-Democrat bias in DJNW news reports after the News Corporation takeover. Third, we assess the type of investors who become less responsive to DJNW news reports after the takeover. Fourth, we investigate whether following DJNW news reports leads to trading gains and ignoring them leads to trading losses. Fifth, we test if the attenuated response to DJNW news reports is associated with measures of liquidity and stock price information content.

A. A contraction in DJNW readership?

One possibility is that the readership of DJNW contracts as investors perceive it as biased. As a result, fewer investors place weight on DJNW's reporting, leading to a weaker reaction to the sentiment content in DJNW. However, this mechanism is unlikely to explain our results because explaining the differences in the sensitivity changes between politically affiliated and unaffiliated firms, as well as between Republican and Democrat firms, would require DJNW's readership to be systematically correlated with the political affiliation of the stocks it covers. For example, one

given day. On such days, contrasting positive and negative articles on the same firm may prevent investors from forming clear conclusions about DJNW's bias, leading them to retain their priors. As reported in the Appendix Table I.9, our results suggest that the main results are concentrated on days when within-day DJNW sentiment standard deviation is high.

would need to posit that certain readers subscribed to DJNW specifically to follow news about Republican firms (but not Democrat firms) before the takeover and subsequently discontinued their subscriptions. However, it is unclear why a politically unaffiliated reader would focus exclusively on news about Republican firms. Moreover, a Republican with a preference for news about Republican firms would have little reason to lose trust in DJNW and unsubscribe after the takeover. In contrast, if such a reader were instead a Democrat, it is even less likely that she would concentrate on Republican firms; she would more likely follow Democrat firms, in which case any post-takeover disengagement would imply a larger decline in sensitivity for Democrat stocks, working against our results.

In addition to these observations, we assess the change in DJNW readership. To the best of our knowledge, no database tracks DJNW subscriptions around the News Corporation acquisition directly. Two pieces of evidence, however, suggest that a pronounced contraction of DJNW's readership is unlikely.

First, we assess potential staff reductions by comparing the number of DJNW journalists from the 10-K statements of Dow Jones & Company for the years before the takeover and 10-Ks from News Corporation for subsequent years. The evidence suggests that the number of DJNW journalists remains stable, implying no significant staff cuts (Appendix Figure I.3, left axis). This is consistent with the notion that there was no major audience loss.

Second, we use circulation statistics of The Wall Street Journal (WSJ), owned by the same company Dow Jones & Co., as another indirect approach.³² Had DJNW lost readers due to a decline in trust, WSJ circulation would have likely dropped as well because of its greater potential

³² We collect data on the average paid circulation of the WSJ for our sample period from AAM's Media Intelligence Center.

for biased content. We find, however, no evidence of declining readership in WSJ (Appendix Figure I.3, right axis).

Taken together, these results suggest that a substantial drop in DJNW readership following the News Corporation acquisition is not likely.³³

B. A political slant in DJNW news reports after the News Corporation takeover?

The nature of DJNW newswires, which report mainly factual and quantitative information, suggests that they do not easily lend themselves to a political slant. In addition, the readers of DJNW newswires are primarily professionals in the finance industry who value accuracy, thus the incentives for DJNW to slant news reports to cater to readers' political preferences are also limited (Mullainathan and Shleifer (2005), Gentzkow and Shapiro (2006, 2010)).

In addition to these observations, we run formal tests to assess the likelihood of a slant in DJNW news reports. Puglisi and Snyder (2015) classify three approaches to measure media bias: (i) the “tone” approach, which looks at the sentiment content of news reports, (ii) the “issue intensity” approach, which looks at the frequency with which news items are covered by a given media source, and (iii) the “comparison” approach, which compares the language used by a given media source to a benchmark. We employ all three approaches.

First, we test if DJNW news reports become more favorable to Republican stocks or less favorable to Democrat stocks after the News Corporation takeover. In terms of Puglisi and Snyder's (2015) taxonomy, this test follows the “tone” approach. We estimate:

$$Sent_{it} = \alpha + \beta_1 Post_t + \beta_2 Republican_{it} + \beta_3 Republican_{it} \times Post_t + Controls_{it-1} + \varepsilon_{it}, \quad (3)$$

where the dependent variable is the DJNW sentiment DJ_Sent . We report the results in Panel A

³³ A related possibility is that DJNW attracts more Republican readers. We discuss this possibility in Appendix B.3, and present evidence suggesting that this is unlikely the case.

of Table 6. We find a small and insignificant negative coefficient on the *Republican* \times *Post* interaction term, suggesting that DJNW reports do not become systematically more favorable to Republican stocks (or less favorable to Democrat stocks (column 1)). A similar result obtains if we replace *DJ_Sent* by an alternative sentiment score based on textual analysis of DJNW articles retrieved from Factiva (column 2).³⁴ These results suggest that the average DJNW sentiment for Republican firms remains unchanged.

We also address the possibility that, even though on average DJNW sentiment does not change for Republican firms, the sentiment distribution does, and that DJNW sentiment for Republican firms tends to diverge more from alternative sources. Quantile regressions reveal no evidence of a change in the distribution of DJNW sentiment for Republican firms (Appendix Table I.11); tests across various subsamples find no systematic increase in sentiment divergence for Republican firms (Appendix Table I.12); and the analysis of sentiment from alternative sources (press releases, Reuters Newswire, and Associated Press) suggests no evidence of worsening sentiment for Republican stocks post-News Corporation takeover; if anything, Associated Press sentiment becomes slightly more favorable (Appendix Table I.13).³⁵

Second, we test if DJNW changes its coverage according to corporate political affiliation. In terms of Puglisi and Snyder's (2015) taxonomy, this test follows the "issue coverage" approach.

³⁴ In Appendix Table I.10, we find similar results if we replace *DJ_Sent* with the DJNW-specific sentiment used in Appendix Table I.2.

³⁵ In a separate robustness check (Appendix Table I.21), we examine a news source where a political slant is more plausible: the Wall Street Journal. Its articles more readily allow for political slant, and Goldman, Gupta, and Israelsen (2024) document a pro-Republican tilt. We also find that the WSJ tone becomes more favorable towards Republican stocks after the News Corporation acquisition. Appendix H provides additional textual analysis, and Appendix Table I.21, Panel C, shows an attenuated stock price response to WSJ sentiment after 2007. Because WSJ sentiment becomes more favorable to Republican stocks and because WSJ articles are more likely than DJNW reports to exhibit a political slant, the attenuation may reflect investors rationally discounting biased content. For that reason, we argue that DJNW reports are a more appropriate set of data for our test than WSJ articles. The effect that we document, moreover, is distinct from the response to WSJ slant: Appendix Table I.6 shows that our baseline Table 2 result is robust to restricting the sample to stocks-dates (or stocks-weeks) with no WSJ coverage.

In Panel B of Table 6, we examine whether DJNW has higher or lower coverage for Republican stocks following the News Corporation takeover, and if any changes are driven by coverage of favorable or unfavorable news (defined as in Table 2, panel B). We re-estimate equation (3) replacing the dependent variable with the number of DJNW news articles.³⁶ We perform the analysis for all the stock-days in our data (column 1), restricting the sample to the days in which at least one DJNW report is published about a given stock (column 2), and to unfavorable DJNW reports (column 3) or favorable DJNW reports (column 4). Under all the specifications, the coefficient on the *Republican* \times *Post* is small and statistically insignificant, consistent with no change in DJNW’s coverage in relation to a given stock’s political affiliation.

Third, we compare the language used by DJNW news reports and by the alternative news sources Reuters Newswires and Associated Press, for which we are able to retrieve the text of the news reports from Factiva. In terms of Puglisi and Snyder’s (2015) taxonomy, this test follows the “comparison” approach. For each DJNW-alternative source pair of news reports about a given stock on a given day, we compute a cosine similarity index measuring the “distance” between the language used by the two reports; the higher the value of the index, the more similar the language used by DJNW is to the language used by the alternative news source.³⁷ We then estimate regressions similar to equation (3), where the dependent variable is the decile value of the cosine similarity between DJNW and alternative source-news reports on a given stock on a given day. The estimates are reported in Panel C of Table 6. They do not provide any evidence of a change in the similarity between the language used by DJNW and the alternative sources after the News Corporation takeover in relation to a stock’s political affiliation.

³⁶ We estimate Poisson regressions using pseudo-maximum likelihood estimation, since the dependent variable represents count data (Santos Silva and Tenreyro (2006)).

³⁷ We provide more details about this method in Appendix G.

In sum, the nature of DJNW's news reports and of its clientele suggest that a political slant after the News Corporation takeover is unlikely. Tests looking at the tone of DJNW news reports, their coverage, and the similarity between their language and the language used by alternative sources also provide no indication of such a slant.³⁸

C. Investor sophistication and political affiliation

We assess the type of investors who become less responsive to DJNW news reports after the takeover. First, we examine whether less sophisticated investors are less likely to trade in the direction implied by DJNW sentiment. We proxy investor sophistication using past performance, measured as the investor's Fama-French-Carhart 4-factor alpha over the prior 24 months, computed from Ancerno trades. We define an indicator, *Less Sophisticated Investor*, that is equal to one if the pre-News Corporation takeover alpha is below median, and zero otherwise. For each investor-date, we calculate the share of trades that follow DJNW: net purchases of Republican stocks with favorable DJNW sentiment ($ESS > 50$) or a net sales of Democrat stocks with unfavorable DJNW sentiment ($ESS < 50$), i.e., the cases showing the strongest attenuation in Panel B of Table 2.³⁹ We also define an indicator equal to one if this share is below the median, and zero otherwise. We then regress the percentage (or the indicator) on *Less Sophisticated Investor* indicator interacted with the *Post* indicator. As shown in Panel A of Table 7, lower-alpha investors are less likely to trade in the direction implied by DJNW sentiment after the News Corporation takeover, consistent with the attenuated reaction being driven by less sophisticated investors.⁴⁰

³⁸ In Appendix Table I.14, we show that DJNW does not exhibit a pro-Republican slant in its sentiment, coverage and textual similarity even on days when DJNW sentiment highly diverges from alternative sources.

³⁹ In this test, we define a "trade" as the net change in holdings of a stock by an investor on a given day.

⁴⁰ Even when such investors recognize that DJNW does not have a pro-Republican bias, limits to arbitrage may prevent them from fully correcting the mispricing. To substantiate this argument, we provide an additional test in Appendix Table I.15. We divide stocks into "high" and "low" limits-to-arbitrage subsamples based on their idiosyncratic volatility, a common proxy for limits to arbitrage (e.g., Pontiff (2006), Wurgler and Zhuravskaya (2002)). The results

Second, we examine whether Democrat investors are less likely to follow DJNW. Specifically, we replace the *Less Sophisticated Investor* indicator in Panel A of Table 7 with an indicator for whether the investor is a Democrat investor, based on their PAC and employee contributions obtained from the OpenSecrets database. We report the results in Panel B of Table 7, finding that Democrat investors are less likely to follow DJNW, consistent with the notion that they are more likely to perceive DJNW as biased.⁴¹

D. Long-run stock performance and DJNW sentiment

We build a portfolio that tracks the DJNW reports for which stock price responsiveness is most attenuated – favorable reports on Republican stocks and unfavorable reports on Democrat stocks – and measure its performance. Following the overlapping portfolios approach of Jegadeesh and Titman (1993), each day we form a portfolio of all Republican stocks covered by DJNW news reports on that day, weighted by each stock’s sentiment decile (scaled from 0 to 1). We form a separate portfolio of Democrat stocks, weighted by 1 minus each stock’s sentiment decile. Both portfolios are held from day +2 relative to the news report date until day +6. New portfolios are formed daily, and across overlapping portfolios are averaged to produce time series of Republican and Democrat portfolio returns. From the return to going long the Republican portfolio and short the Democrat portfolio constitutes our “DJNW portfolio”.

According to hypothesis H2, the DJNW portfolio should earn positive excess returns after the News Corporation takeover. This is indeed what we find. As shown in Figure 2, cumulative excess returns are flat until the May 2007 takeover announcement and turns positive thereafter, with the

confirm that our main effects are stronger in the presence of stronger limits to arbitrage, consistent with the view that limits to arbitrage may hinder a quicker correction of mispricing in our setting.

⁴¹ In Appendix Table I.16, we extend this analysis from the investor-date level to the investor-stock-date level to investigate whether Democrat investors are particularly less likely to follow DJNW on stock-days where DJNW exhibits a greater divergence from the alternative news sources, and find supporting evidence.

positive performance persisting until 2010, when the cumulative returns level off. We formalize this by regressing the portfolio's daily returns on the Fama-French-Carhart four factors:

$$R_{pt} = \alpha + \beta_1 MKTRF_t + \beta_2 SMB_t + \beta_3 HML_t + \beta_4 UMD_t + \varepsilon_{pt}, \quad (4)$$

where R_{pt} is the portfolio's return, $MKTRF$ is the market's excess return, and SMB , HML , and UMD are the returns on the size, value, and momentum factor-mimicking portfolios. The standard errors use a Newey-West correction with 60 lags. The estimate of the intercept α measures the portfolio's average daily risk-adjusted excess return.

Panel A of Table 8 reports the DJNW portfolio's performance over the pre- and post-News Corporation takeover periods. Prior to the takeover, the DJNW portfolio earns a statistically insignificant excess return of 0.9 bps per day. After the takeover, the average excess return rises to 2 bps per day (about 5% annualized) and is statistically significant. Consistent with Figures 1 and 2, excess returns are positive through 2010 and negligible thereafter. This pattern supports hypothesis H2: following the takeover, investors behave as if DJNW has a pro-Republican/anti-Democrat bias and underreact to its information, generating excess returns; over time, they update their beliefs, reducing and eventually eliminating the portfolio's outperformance.⁴²

This result is robust to extensive checks. First, columns 5-6 of Panel A, Table 8 show similar excess returns when we shorten the holding period to 20 trading days or extend it to 120 days, and column 7 shows comparable results using a calendar-time portfolio approach (Fama (1998)) rather than overlapping portfolios.⁴³ Second, the performance of the DJNW portfolio is not reproduced by analogous portfolios based on Associated Press, Reuters Newswire, or corporate press releases: columns 1-3 of Panel B show no abnormal performance for these alternative-source portfolios

⁴² In Appendix Table I.17, we classify stock-days into high- and low-divergence portfolios and find that portfolios formed from high-divergence observations exhibit larger alphas than those formed from low-divergence observations.

⁴³ Appendix Table I.18 also confirms these findings when sentiment is constructed from DJNW articles obtained from Factiva.

once we control for the DJNW portfolio, while columns 4-7 show that the DJNW portfolio's excess returns remain intact when controlling for theirs. Third, Panel C demonstrates robustness to six additional benchmarks, included individually and jointly: the Fama and French (2016) profitability (RMW) and investment (CMA) factors, a portfolio tracking DJNW sentiment for politically unaffiliated stocks, an equally weighted Republican-minus-Democrat portfolio, an Amihud (2002) illiquidity-based portfolio, and a portfolio matched on the DJNW portfolio's industry composition using Fama-French 12-industry returns.

In sum, DJNW news reports do not appear to become more favorable to Republican stocks (or less favorable to Democrat ones) after the News Corporation takeover; the reduced response to DJNW news reports is associated with less sophisticated investors; and the DJNW portfolio exhibits positive abnormal returns until the end of 2010, suggesting that the information from DJNW news reports is valuable, even though the market becomes less responsive to it. We ask next if these results imply a loss of firm-specific information in the stock prices.

E. Impact on liquidity and the firm-specific information content of stock prices

We examine measures of stock price liquidity and informativeness. First, we consider two (il)liquidity measures: the bid-ask spread (scaled by the closing price) and the daily price impact measure (λ), based on Amihud (2002). Higher levels of these variables indicate lower liquidity and reduced information content of stock prices.

Second, we consider two measures of price informativeness. The first one is the yearly return R^2 (Morck, Yeung, and Yu (2000)), estimated from regressions of daily stock returns on market and industry returns for each stock-year in our sample. A higher value of the return R^2 indicates that stock prices move more with market- and industry-wide news, rather than firm-specific information. The second measure is the absolute difference between the return R^2 and the "news

commonality” R_N^2 proposed by Dang, Moshirian, and Zhang (2015), defined as the R^2 from a regression of individual-stock *ESS* score on market and industry *ESS* scores. The news commonality R_N^2 captures the comovement in firm fundamentals as reflected in news coverage. Therefore, a larger deviation of the return R^2 from the news commonality R_N^2 suggests that price comovement is less driven by firm-specific information – here, DJNW coverage.

Table 9 reports the estimates of regressions with specification analogous to equation (2), using these liquidity and informativeness measures as dependent variables. Across all measures, the results indicate a deterioration of liquidity and price informativeness for Republican stocks with positive DJNW sentiment and Democrat stocks with negative DJNW sentiment after the News Corporation takeover of Dow Jones.

Together with the portfolio return evidence in Table 9, these findings are consistent with the effects of a diminished trust in DJNW due to its political affiliation. They suggest that, even when alternative news sources are available, politically related losses of trust in a major news outlet can have a material impact on stock price informativeness.

Conclusion

We study the stock market’s response to the political affiliation of news sources. We design our test around the acquisition of Dow Jones & Co. by News Corporation in 2007, which was viewed as introducing a right-wing affiliation in the traditionally unaffiliated Dow Jones outlets. Following the News Corporation acquisition, stock prices become less responsive to the sentiment content of news reports that appear on the Dow Jones Newswires (DJNW), Dow Jones’s leading business newswire, particularly for favorable DJNW news reports about Republican stocks and unfavorable reports about Democrat stocks. No comparable attenuation is observed in the stock price sensitivity

to news reports in alternative sources, with similar characteristics as the DJNW (Reuters Newswire, Associated Press, and corporate press releases).

This evidence is consistent with a model where investors have a prior that following the News Corporation acquisition DJNW has a pro-Republican/anti-Democrat bias, and discount news reports that conform to the alleged bias. Several pieces of evidence suggest that, in so doing, investors fail to respond to potentially valuable information. Tests based on tone, coverage, and textual analysis of the language used by DJNW compared to alternative news sources do not detect evidence of biases in the DJNW news reports. A portfolio long Republican stocks with positive DJNW sentiment and short Democrat stocks with negative DJNW sentiment earns positive excess returns following the News Corporation acquisition.

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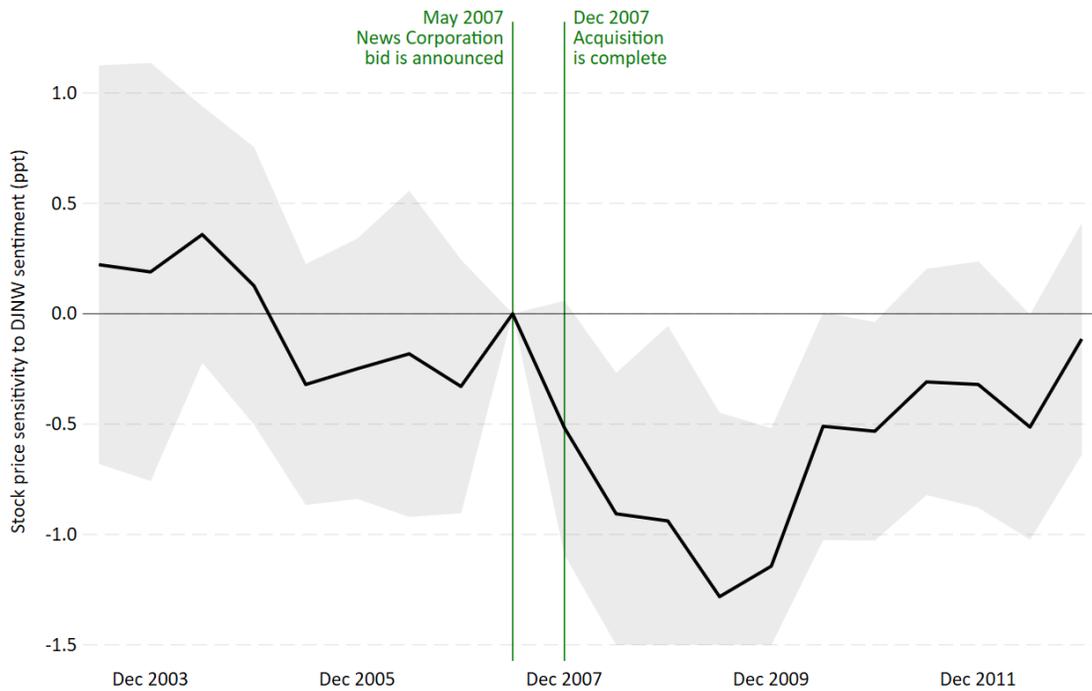


Figure 1: Stock return sensitivity to news around News Corporation takeover

The figure illustrates the test reported in Table 2. We regress the 3-day cumulative abnormal return around a news report published in the DJNW on $DJ Sent$, an indicator for stocks that have a political affiliation, and indicators for each six-month interval over 2003-2012. The regression also includes industry \times date fixed effects. We plot the coefficients on the 3-way interaction terms $DJ Sent \times$ Politically affiliated stock \times semi-annual indicators, along with 95% confidence bands.



Figure 2: Portfolio returns

The figure plots the excess returns on the portfolio analyzed in Table 8, based on a benchmark that includes the Fama and French (1993, 2016) market, size (SMB), book-to-market (HML), profitability (RMW), and investment (CMA) factors, the Carhart (1997) momentum factor (MOM), and the return on a similar portfolio based on stocks without a political affiliation (Non-political).

Table 1: Summary Statistics

Panel A reports the summary statistics for the main variables used in the analysis. Panel B reports the average value of the main firm characteristics for Republican and Democrat stocks, as well as a t-test for the difference in the characteristics between the two groups, before and after the News Corporation acquisition is completed on December 14, 2007. The sample comprises the set of all CRSP stocks with political contributions and non-missing DJNW news pieces in the RavenPack database over the period 2003-2012. All variables are defined in detail in the Appendix A.

A. Summary statistics for main variables used in the analysis

| Variable | Mean | Std. dev. | 25th pct. | 50th pct. | 75th pct. | Min | Max |
|------------------------|-------------|------------------|------------------|------------------|------------------|------------|------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| ESS | 51.972 | 12.663 | 41.500 | 51.333 | 61.333 | 0.000 | 100.000 |
| Republican | 0.582 | 0.221 | 0.453 | 0.582 | 0.722 | 0.000 | 1.000 |
| Market equity (USD bn) | 34.960 | 57.101 | 3.752 | 13.390 | 37.299 | 0.003 | 504.240 |
| Leverage | 0.256 | 0.175 | 0.126 | 0.235 | 0.353 | 0.000 | 0.877 |
| Book to market | 0.634 | 0.532 | 0.299 | 0.501 | 0.819 | 0.037 | 8.566 |
| ROA | 0.045 | 0.082 | 0.012 | 0.043 | 0.084 | -1.985 | 0.365 |
| CAR(-11,-2) (in ppt) | 0.005 | 6.013 | -2.909 | -0.031 | 2.868 | -19.432 | 20.336 |
| CAR(-1,1) (in ppt) | -0.006 | 3.540 | -1.560 | -0.048 | 1.502 | -12.231 | 12.755 |

B. Comparison of Republican and Democrat firms around News Corp. takeover

| Variable | Pre-News Corp. acquisition | | | Post-News Corp. acquisition | | |
|-----------------------|-----------------------------------|-------------|---------------|------------------------------------|-------------|---------------|
| | Rep. | Dem. | t-stat | Rep. | Dem. | t-stat |
| | (1) | (2) | (3) | (4) | (5) | (6) |
| ESS | 52.525 | 52.574 | (-0.27) | 51.508 | 51.577 | (-0.45) |
| Market equity (\$ bn) | 34.232 | 47.556 | (-1.53) | 27.567 | 32.200 | (-1.25) |
| Leverage | 0.244 | 0.262 | (-1.14) | 0.261 | 0.253 | (0.71) |
| Book to market | 0.523 | 0.487 | (1.56) | 0.747 | 0.724 | (0.60) |
| ROA | 0.055 | 0.047 | (1.49) | 0.042 | 0.041 | (0.16) |
| CAR(-11,-2) (in ppt) | 0.071 | 0.003 | (1.61) | -0.016 | -0.019 | (0.04) |

Table 2: Stock returns and DJNW sentiment around the News Corporation takeover

Panel A estimates equations (1) and (2) for politically affiliated stocks in columns 1 and 3 and for non-political stocks in column 2. Panel B estimates equation (1) separately for political stocks based on their political affiliation and DJNW news sentiment. In both panels, the dependent variable is the 3-day (-1,+1) cumulative abnormal return around the news release date, based on a Fama-French-Carhart 4-factor benchmark. Controls variables include *Firm size*, *Leverage*, *Book to market*, *ROA*, and the cumulative abnormal return over the 10-day period prior to the news release date. All variables are defined in detail in Appendix A. In all specifications, the t-statistics are based on standard errors clustered by date.

A. Full sample

| Sample of stocks | Politically affiliated (1) | Politically unaffiliated (2) | Politically affiliated (3) |
|-----------------------------|-------------------------------|---------------------------------|-------------------------------|
| DJ Sent × Post × Republican | | | -0.783 (-3.34) |
| DJ Sent × Post | -0.647 (-12.03) | -0.055 (-0.39) | -0.208 (-1.37) |
| DJ Sent × Republican | | | 0.083 (0.48) |
| Post × Republican | | | 0.541 (3.58) |
| DJ Sent | 1.264 (31.07) | 2.372 (23.86) | 1.211 (10.53) |
| Republican | | | -0.085 (-0.77) |
| Firm Controls | Y | Y | Y |
| Industry × Date and Firm FE | Y | Y | Y |
| R ² | 0.167 | 0.269 | 0.167 |
| N | 322,973 | 96,182 | 322,879 |

B. Positive/negative DJNW sentiment and corporate political affiliation

| Stock political affiliation: | Democrat | | Republican | |
|------------------------------|-------------------|------------------|-----------------|-------------------|
| DJNW sentiment: | Negative (1) | Positive (2) | Negative (3) | Positive (4) |
| DJ Sent × Post | -0.571 (-2.25) | 0.092 (0.47) | 0.225 (0.79) | -0.570 (-2.57) |
| DJ Sent | 0.633 (3.34) | 1.487 (10.89) | 0.438 (2.16) | 1.841 (11.86) |
| Firm Controls | Y | Y | Y | Y |
| Industry × Date and Firm FE | Y | Y | Y | Y |
| R ² | 0.294 | 0.292 | 0.332 | 0.329 |
| N | 75,181 | 84,241 | 65,958 | 72,714 |

Table 3: Robustness

The table presents robustness tests. Each row in the table corresponds to the estimates of a regression with similar specification as the column 3 of Table 2, Panel A; for brevity, we only report the coefficients on the $DJ\text{ Sent} \times Post \times Republican$ interaction and $DJ\text{ Sent} \times Post$, but all regressions include the same set of control variables (and fixed effects, except in panel C) as column 3 of Table 2, Panel A. Panel A considers alternative corporate political affiliation measures. Panel B considers two alternative measures of the sentiment content in DJNW reports, the average daily *ESS* (divided by 100 so as to have range between 0 and 1, to ease the comparison to *DJ Sent*) and the dictionary-based sentiment *DJ Score*. Panel C adds additional controls. Panel D uses alternative fixed effects. Panel E analyzes investors' trading behavior and analyst recommendations. All variables are defined in detail in the Appendix A.

| | Triple Int. Term | <i>t</i> -stat | Sent \times Post | <i>t</i> -stat | N |
|--|---------------------------------|----------------|--|----------------|----------|
| | (1) | (2) | (3) | (4) | (5) |
| Baseline | -0.783 | -3.34 | -0.208 | -1.37 | 322,879 |
| A. Alternative measures for political affiliation | | | | | |
| Lifetime political contributions | -1.239 | -4.06 | 0.072 | 0.37 | 322,910 |
| Total political contributions | -0.752 | -2.25 | -0.210 | -1.02 | 322,973 |
| Employee contributions | -0.532 | -2.60 | -0.402 | -3.26 | 287,966 |
| CEO and Employee contributions | -0.566 | -2.76 | -0.382 | -3.05 | 289,205 |
| Political sensitivity | -9.522 | -3.31 | -0.585 | -9.39 | 266,674 |
| B. Alternative sentiment measures | | | | | |
| Average daily Dow Jones ESS (divided by 100) | -1.735 | -3.13 | -0.489 | -1.37 | 322,879 |
| Dictionary-based Dow Jones sentiment score DJ Score | -0.664 | -2.00 | 0.191 | 0.90 | 180,422 |
| C. Additional controls | | | | | |
| Press Release sentiment | -0.770 | -3.28 | -0.251 | -1.64 | 322,879 |
| Reuters Newswire sentiment | -0.772 | -3.30 | -0.199 | -1.31 | 322,879 |
| Associated Press sentiment | -0.777 | -3.32 | -0.192 | -1.27 | 322,879 |
| All three alternative sentiment | -0.757 | -3.23 | -0.226 | -1.48 | 322,879 |
| Analyst coverage and inst. ownership | -0.772 | -3.29 | -0.223 | -1.46 | 322,081 |
| D. Alternative fixed effects | | | | | |
| Additional state \times date FE | -0.956 | -3.58 | -0.084 | -0.49 | 299,234 |
| Republican indicator \times industry \times date and firm FE | -0.639 | -2.55 | -0.260 | -1.59 | 316,955 |
| Industry \times date and firm \times year FE | -0.801 | -3.28 | -0.212 | -1.33 | 322,875 |
| E. Investor trading behaviors and analyst recommendation | | | | | |
| Net buyer indicator | -0.094 | -2.73 | 0.041 | 1.85 | 271,343 |
| Trading imbalance | -0.098 | -2.12 | 0.036 | 1.21 | 271,343 |
| Recommendation percentage change | -0.022 | -2.23 | 0.013 | 2.07 | 45,677 |
| Recommendation Up% – Down% | -0.031 | -2.40 | 0.022 | 2.71 | 48,111 |

Table 4: Placebo Tests

The table reports the estimates of equation (2), where the DJNW sentiment score $DJ\ Sent$ is replaced by sentiment scores from alternative news sources: corporate press releases (column 1), Reuters Newswire (column 2), and Associated Press (column 3). All sentiment scores are defined in detail in Appendix A. In all specifications, the set of controls and fixed effects is the same as in column 3 of Panel A, Table 2. In all specifications, the t-statistics are based on standard errors clustered by date.

| Sentiment source | Press Releases (1) | Reuters Newswire (2) | Associated Press (3) |
|--|-----------------------|-------------------------|-------------------------|
| Sent \times Post \times Republican | -0.016 (-0.03) | -0.042 (-0.10) | 0.099 (0.24) |
| Sent \times Post | 0.039 (0.13) | 0.250 (0.95) | 0.059 (0.24) |
| Sent \times Republican | 0.194 (0.68) | 0.028 (0.11) | -0.309 (-1.27) |
| Post \times Republican | 0.298 (1.12) | 0.223 (0.71) | 0.214 (0.78) |
| Sent | 0.294 (1.51) | 0.856 (4.91) | 0.985 (6.22) |
| Republican | 0.009 (0.05) | 0.121 (0.63) | 0.053 (0.30) |
| Firm Controls | Y | Y | Y |
| Industry \times Date and Firm FE | Y | Y | Y |
| R ² | 0.253 | 0.259 | 0.256 |
| N | 99,407 | 138,717 | 138,166 |

Table 5: Divergence between DJNW and other news sources

The table reports the estimates of the baseline specification of equation (2) on sub-samples splitted based on the divergence in sentiment score between DJNW and alternative news sources, i.e., corporate press releases, Reuters Newswire, and Associated Press. The set of controls and fixed effects is the same as in column 3 of Panel A, Table 2. The row labelled “Difference F-test statistic (p-value)” reports the F-test statistic and the corresponding p-value for the difference between the coefficients on the $DJ\ Sent \times Post \times Republican$ interaction term. In all specifications the t-statistics are based on standard errors clustered by date.

| Based on Split | Sentiment divergence | |
|---|----------------------|-------------------|
| | Low (1) | High (2) |
| DJ Sent \times Post \times Republican | -0.199 (-0.76) | -2.654 (-4.36) |
| DJ Sent \times Post | -0.469 (-2.74) | 0.788 (2.12) |
| DJ Sent \times Republican | -0.392 (-2.07) | 1.628 (3.83) |
| Post \times Republican | 0.138 (0.83) | 1.854 (4.56) |
| DJ Sent | 1.410 (10.90) | 0.423 (1.53) |
| Republican | 0.186 (1.57) | -0.942 (-3.16) |
| Difference F-test statistic (p-value) | 13.79 (0.000) | |
| Firm Controls | Y | Y |
| Industry \times Date and Firm FE | Y | Y |
| R^2 | 0.201 | 0.284 |
| N | 220,775 | 94,747 |

Table 6: DJNW sentiment, coverage, and language changes

The table reports the estimates of equation (3). In Panel A, the dependent variable is DJNW sentiment *DJ Sent* (column 1) or the dictionary-based DJNW sentiment *DJ Score* (column 2). In Panel B the dependent variable is the number of DJNW news pieces on a given stock at a given date, including days with no coverage (column 1), excluding them (column 2), separating negative and positive coverage (column 3 and 4). We estimate Poisson regressions for Panel B because the dependent variable represents count data. In Panel C the dependent variable is the cosine similarity between DJNW and the alternative news sources, defined in detail in Appendix G. In all specifications, the set of controls and fixed effects is the same as in column 3 of Table 2, Panel A. In all panels, the t-statistics are based on standard errors clustered by date.

A. Sentiment changes around News Corporation takeover

| Sentiment score | DJ Sent (1) | DJ Score (2) |
|-----------------------------|-------------------|-------------------|
| Republican × Post | -0.009 (-1.45) | -0.012 (-1.14) |
| Republican | -0.009 (-1.87) | 0.017 (1.87) |
| Firm Controls | Y | Y |
| Industry × Date and Firm FE | Y | Y |
| R ² | 0.222 | 0.287 |
| N | 323,069 | 184,617 |

B. Coverage changes around News Corporation takeover

| Sample | Incl. zero coverage (1) | Excl. zero coverage (2) | Negative sentiment (3) | Positive sentiment (4) |
|-----------------------------|-------------------------------|-------------------------------|------------------------------|------------------------------|
| Republican × Post | 0.013 (0.49) | -0.001 (-0.04) | -0.002 (-0.05) | -0.008 (-0.24) |
| Republican | -0.014 (-0.65) | -0.005 (-0.26) | 0.018 (0.69) | -0.000 (-0.02) |
| Firm Controls | Y | Y | Y | Y |
| Industry × Date and Firm FE | Y | Y | Y | Y |
| Pseudo-R ² | 0.201 | 0.195 | 0.226 | 0.242 |
| N | 432,163 | 323,069 | 150,095 | 166,554 |

C. Textual similarity changes around News Corporation takeover

| Textual similarity between DJNW and... | Associated Press | Reuters Newswire |
|---|-------------------------|-------------------------|
| | (1) | (2) |
| Republican × Post | -0.024 (-1.48) | -0.008 (-0.49) |
| Republican | 0.024 (1.81) | 0.025 (1.93) |
| Firm Controls | Y | Y |
| Industry × Date and Firm FE | Y | Y |
| R ² | 0.504 | 0.438 |
| N | 68,291 | 74,408 |

Table 7: Trading direction, investor sophistication and investor political affiliation

The table reports the estimates of:

$$FollowDJ_{mt} = \alpha_t + \alpha_m + \beta_1 Post_t + \beta_2 Investor_m + \beta_3 Investor_m \times Post_t + Controls_{m,t-1} + \varepsilon_{mt}$$

The dependent variable $FollowDJ_{mt}$ is either the percentage of institutional investor m 's trades that follow DJNW sentiment on date t (*Following DJNW* (%), columns 1 – 2 of both panels), or an indicator equal to one if the percentage of trades that follow DJNW is above the median, and zero otherwise (*High following DJNW*, columns 3 – 4 of both panels). A trade follows DJNW sentiment if it is a (net) purchase on a Republican stock with the DJNW news sentiment ESS above 50, or if it is a (net) sale on a Democrat stock with the news sentiment ESS below 50. In Panel A, $Investor_m$ is a flag for less sophisticated investor, *Less Sophisticated Investor $_m$* , based on the investor's average Fama–French–Carhart 4-factor alpha in the period prior to the News Corporation takeover of DJNW on 14 December 2007. Specifically, *Less Sophisticated Investor $_m$* is equal to one if the investor's pre-merger alpha is below the median, and zero otherwise. In Panel B, $Investor_m$ is *Democrat Investor $_m$* , defined as an indicator equal to one if the investor's percentage of total political contributions (PAC and employee contributions, obtained from OpenSecrets database) made to the Democrat party in the 2006 election cycle (i.e., prior to the News Corporation takeover of DJNW) is above the median, and zero otherwise. The set of controls includes the average firm characteristics used in column 3 of Panel A, Table 2, of stocks that institutional investor m trades on a given day, as well as investor and date fixed effects. In all specifications, the t-statistics are based on standard errors clustered by date.

A. Investor sophistication

| | Following DJNW (%) | | High following DJNW | |
|---|--------------------|-------------------|---------------------|-------------------|
| | (1) | (2) | (3) | (4) |
| Less Sophisticated Investor \times Post | -0.008 (-2.25) | -0.009 (-2.37) | -0.012 (-2.07) | -0.012 (-2.13) |
| Firm Controls | N | Y | N | Y |
| Investor FE | Y | Y | Y | Y |
| Date FE | Y | Y | Y | Y |
| R ² | 0.034 | 0.034 | 0.053 | 0.055 |
| N | 134,071 | 134,070 | 134,071 | 134,070 |

B. Investor political affiliation

| | Following DJNW (%) | | High following DJNW | |
|---------------------------------|--------------------|-------------------|---------------------|-------------------|
| | (1) | (2) | (3) | (4) |
| Democrat Investor \times Post | -0.014 (-1.90) | -0.015 (-1.99) | -0.046 (-3.73) | -0.053 (-4.26) |
| Firm Controls | N | Y | N | Y |
| Investor FE | Y | Y | Y | Y |
| Date FE | Y | Y | Y | Y |
| R ² | 0.071 | 0.071 | 0.092 | 0.096 |
| N | 29,106 | 29,105 | 29,106 | 29,105 |

Table 8: Portfolio returns

In panel A, the table reports the excess returns associated with following the sentiment content of DJNW news reports, based on a 60-day holding period, relative to the Fama-French-Carhart 4-factor benchmark. Performance (Alpha, measured in percentage points) is estimated over the periods: 1/1/2003–12/14/2007 (News Corporation bid announcement), 12/15/2007–12/31/2012, 12/15/2007–12/31/2010, and 1/1/2011–12/31/2012. Columns 5 and 6 report performance with 20- and 120-day holding periods, and column 7 is based on the calendar-time portfolio method. Panel B reports the performance over 12/15/2007–12/31/2010 of similar portfolios based on alternative news sources (columns 1 to 3), and on the DJNW portfolio, including the alternative news sources portfolios in the benchmark (columns 4 to 7). Panel C reports the performance of the DJNW portfolio based on a benchmark model that includes additional factors, described in detail in Appendix A. The t-statistics are based on Newey-West standard errors with lag parameter 60 days (except for columns 5 and 6 of panel A, where it is 20 and 120 days respectively).

A. DJNW portfolio

| | 60-day horizon | | | | 20-day horizon | 120-day horizon | Calendar-time |
|----------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 2003 – 2007 (1) | 2008 – 2012 (2) | 2008 – 2010 (3) | 2011 – 2012 (4) | 2008 – 2012 (5) | 2008 – 2012 (6) | 2008 – 2012 (7) |
| Alpha | 0.009 (1.10) | 0.020 (2.00) | 0.038 (3.53) | -0.004 (-0.27) | 0.041 (3.08) | 0.035 (3.40) | 0.021 (2.15) |
| N | 1,246 | 1,269 | 767 | 502 | 767 | 767 | 767 |
| R ² | 0.12 | 0.05 | 0.05 | 0.15 | 0.05 | 0.04 | 0.11 |

B. Alternative news sources

| | Portfolio: Alternative news | | | Portfolio: DJNW, controlling for... | | | |
|----------------|-----------------------------|---------------------|-----------------------|-------------------------------------|---------------------|-----------------------|-----------------|
| | Reuters Newswire (1) | Assoc. Press (2) | Press releases (3) | Reuters Newswire (4) | Assoc. Press (5) | Press releases (6) | All (7) |
| Alpha | 0.004 (0.25) | -0.018 (-1.39) | -0.009 (-0.69) | 0.018 (1.68) | 0.028 (3.12) | 0.027 (2.63) | 0.021 (2.22) |
| N | 767 | 767 | 767 | 767 | 767 | 767 | 767 |
| R ² | 0.54 | 0.55 | 0.44 | 0.51 | 0.53 | 0.45 | 0.62 |

C. Additional benchmarks

| Benchmark: Fama-French-Carhart +... | RMW, CMA | Non-political | RMD equally weighted | Illiquidity | Industry | All |
|--|-----------------|----------------------|-----------------------------|--------------------|-----------------|-----------------|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| Alpha | 0.034 (2.82) | 0.039 (3.50) | 0.020 (1.92) | 0.032 (3.32) | 0.029 (2.82) | 0.021 (1.95) |
| N | 767 | 767 | 767 | 767 | 767 | 767 |
| R ² | 0.13 | 0.06 | 0.66 | 0.06 | 0.35 | 0.69 |

Table 9: Stock price information content

The table reports the estimates of regressions with similar form as equation (2), where the dependent variable is a measure of the information content of the stock price. In columns 1 – 2, stock price information is defined as the daily bid-ask spread (divided by the closing price) or the daily price impact measure (similar to Kyle’s lambda) for stock i on day t . For these measures, daily observations are used. In columns 3 – 4, the dependent variable is the return R^2 of stock i in year t or the absolute deviation between the return R^2 and the news commonality R_N^2 . The return R^2 is the R -squared from a regression of the stock return on the market and industry indexes, using days with available DJNW sentiment; a separate regression is estimated for each stock i in year t , obtaining a panel of yearly return R^2 observations. News commonality R_N^2 is computed, following Dang, Moshirian, and Zhang (2015), as the R^2 from a regression of the daily ESS of firm i on the market’s ESS and the industry’s ESS in year t . We require at least 30 observations to estimate the yearly return R^2 and news commonality R_N^2 . $DJ\ Sent$ is the decile rank of the average sentiment score ESS of stock i in year t . In all specifications, the set of controls and fixed effects is the same as in column 3 of Table 2, Panel A (with the difference that in columns 3 and 4 the data are on the yearly frequency, and that in that case the cumulative pre-news return control variable is replaced by the average daily return over the previous calendar year). The t-statistics are based on standard errors clustered by date (columns 1 – 2) or by year (columns 3 – 4).

| | Bid-ask spread | Price impact | Return R^2 | Return R^2 – news commonality R^2 |
|---|-----------------------|---------------------|--------------------------------|--|
| | (1) | (2) | (3) | (4) |
| DJ Sent \times Post \times Republican | 0.414 (3.50) | 0.249 (2.07) | 0.158 (2.19) | 0.168 (3.11) |
| DJ Sent \times Post | -0.365 (-4.74) | -0.152 (-1.97) | -0.037 (-0.77) | -0.023 (-0.53) |
| DJ Sent \times Republican | -0.295 (-3.36) | -0.133 (-1.58) | -0.001 (-0.03) | -0.035 (-0.73) |
| Post \times Republican | -0.251 (-3.35) | -0.279 (-3.59) | -0.111 (-2.69) | -0.121 (-3.96) |
| DJ Sent | 0.384 (6.44) | 0.088 (1.57) | -0.015 (-0.40) | -0.012 (-0.39) |
| Republican | 0.218 (3.87) | 0.098 (1.69) | 0.041 (1.04) | 0.062 (1.67) |
| Data frequency | | Daily | | Yearly |
| Firm Controls | Y | Y | Y | Y |
| Industry \times Date and Firm FE | Y | Y | Y | Y |
| R^2 | 0.665 | 0.313 | 0.770 | 0.688 |
| N | 322,875 | 306,149 | 3,221 | 3,221 |

Internet Appendix to “Political Affiliation and Media Distrust: Evidence from Stock Market Investors”

This internet appendix presents additional results to accompany the paper “Political Affiliation and Media Distrust: Evidence from Stock Market Investors.” The contents are as follows:

Internet Appendix A provides variable descriptions.

Internet Appendix B provides a more thorough discussion on the information role and the subscription model of DJNW, why Dow Jones Co. was considered as a target for the News Corp. takeover, and an investigation of changes in the readership composition of the Wall Street Journal.

Internet Appendix C provides detailed derivations for our theoretical frameworks.

Internet Appendix D provides detailed information on the construction of alternative sentiment scores based on textual analysis.

Internet Appendix E provides more information about corporate PAC.

Internet Appendix F provides more information about Ancerno data.

Internet Appendix G provides more information on the cosine similarity approach to measure the language distance between DJNW and other sources.

Internet Appendix H provides additional discussions regarding the Wall Street Journal articles.

Internet Appendix I provides additional figures and tables.

Appendix A

Variable definitions

| Variables | Definitions |
|---|--|
| <i>Political affiliation variables</i> | |
| <i>Republican</i> | Proxy for a given firm's political affiliation. It is defined as $\frac{Rep_{it}}{Rep_{it} + Dem_{it}}$, the firm i 's dollar contributions to the Republican party divided by the total contributions to Republican and Democrat parties in year t . Data on firms' political contributions are retrieved from the Federal Election Commission (FEC) detailed files (http://www.fec.gov/finance/-disclosure/ftpdet.shtml). |
| Lifetime political contributions | It is defined as $\frac{\sum_{\tau=2003}^t Rep_{i\tau}}{\sum_{\tau=2003}^t Rep_{i\tau} + \sum_{\tau=2003}^t Dem_{i\tau}}$, the firm i 's cumulative dollar contributions to the Republican party up to a given year t since the sample starts, divided by the total cumulative contributions to Republican and Democrat parties. |
| Total political contributions | It is defined as $\frac{\sum_{\tau=2003}^{2012} Rep_{i\tau}}{\sum_{\tau=2003}^{2012} Rep_{i\tau} + \sum_{\tau=2003}^{2012} Dem_{i\tau}}$, the firm i 's total dollar contributions to the Republican party over the entire sample period (from 2003 and up to 2012), divided by the total contributions to Republican and Democrat parties. |
| Employee contributions | It is defined as the firm's employees' dollar contributions to the Republican party, divided by the total contributions to Republican and Democrat parties. Data is shared by collected by Babenko, Fedaseyev, and Zhang (2020). |
| CEO and Employee contributions | It is defined as the firm's CEO and employees' dollar contributions to the Republican party, divided by the total contributions to Republican and Democrat parties. Data is shared by collected by Babenko, Fedaseyev, and Zhang (2020). |
| Political sensitivity | For each firm at each month, we estimate the coefficient θ_i from the regression using a rolling window of past 180 months: $R_{it} - r_t = \alpha_i + \beta_i(r_{mkt,t} - r_t) + \theta_i Rep\ President_t + \varepsilon_{it}$ following Addoum and Kumar (2016). R_{it} is the monthly stock return, r_t is the risk-free rate and $r_{mkt,t}$ is the market return. $Rep\ President_t$ is an indicator equal to one when the presidential party is Republican at the month t , and zero otherwise. We require the regressions to have at least 120 observations for estimation. |
| <i>News sentiment and coverage variables</i> | |
| <i>DJ_Sent</i> | The decile rank of the average Event Sentiment Score (ESS) provided by RavenPack for non-press release articles in Dow Jones Newswire. |
| <i>PR_Sent</i> | The decile rank of the average Event Sentiment Score (ESS) provided by RavenPack for press releases in the Dow Jones Newswire. |
| <i>DJ_Score</i> | The decile rank of the sentiment score for Dow Jones Newswire news pieces retrieved from Factiva. The sentiment score is computed as $(P - N)/(P + N)$, where P and N are the percentage of positive and negative words in Dow Jones newswires on firm i on date t . We adjust the frequency of a given positive or negative word using the term frequency-inverse document frequency (tf-idf) technique in the spirit of Loughran and McDonald (2011). Sentiment scores for Reuters Newswire and Associated Press are |

| | |
|--|--|
| | constructed similarly but using news articles from corresponding sources. The detailed construction is presented in Appendix D. |
| <i>DJ Coverage</i> | The number of DJNW news articles per firm at each news report date t . The variable is set to zero for days when DJNW has no coverage while alternative sources (press release, Reuters, Associated Press) do. |
| <i>Textual Similarity</i> | The cosine similarity index between DJNW articles with the Reuters or the Associated Press. The higher the value of the index, the more similar the language used by DJNW is to the language used by the alternative news source. The detailed construction is presented in Appendix G. |
| <i>Firm characteristics</i> | |
| <i>Firm size</i> | The natural logarithm of the market value of a given firm's equity (defined as the product between the year-close stock price (Compustat item <i>prcc_f</i>) and common shares outstanding (Compustat item <i>csho</i>)). |
| <i>Book to market</i> | The ratio of the book value of equity over the market value of equity. Book value of a given firm's equity is defined as: Stockholder's equity (Compustat item <i>seq</i>) – Preferred Stock (Compustat item <i>pstkl</i>) + Balance Sheet Deferred Taxes and Investment Tax Credit (Compustat item <i>txditc</i>) – Post Retirement Asset (Compustat item <i>prba</i>). |
| <i>Leverage</i> | The ratio of the firm's debt (defined as the sum of the short-term debt (Compustat item <i>dlc</i>) and the long-term debt (Compustat item <i>dltt</i>)) over the book value of total assets (Compustat item <i>at</i>). |
| <i>ROA</i> | The ratio of net income (Compustat item <i>ni</i>) over total assets (Compustat item <i>at</i>). |
| <i>CAR(-11, -2)</i> | The 10-day cumulative abnormal return over pre-news 10-day. On a given day, the abnormal return is defined with respect to the Fama-French-Carhart 4-factor model, i.e. the difference between the stock's return and the expected return estimated using the Fama-French-Carhart 4-factor model, using an estimation window over trading days (-200, -20) relative to the news date. |
| <i>CAR(-1, +1)</i> | The 3-day cumulative abnormal return around the news release date. On a given day, the abnormal return is defined with respect to the Fama-French-Carhart 4-factor model, i.e. the difference between the stock's return and the expected return estimated using the Fama-French-Carhart 4-factor model, using an estimation window over trading days (-200, -20) relative to the news date. Similarly, <i>CAR(0, +1)</i> is the 2-day cumulative abnormal return over the news release date and one day after the news release date. <i>CAR(0,0)</i> is the abnormal return on the news release date. <i>CAR(-5,5)</i> is the 11-day cumulative abnormal return around the news release date. |
| <i>Investor trading, analyst recommendations, and stock price information</i> | |
| Following-DJNW (%) | The percentage of a given institutional investor's trades that follow DJNW sentiment on a given date, over all trades that have DJNW sentiment score. A trade follows DJNW sentiment if it is a (net) purchase on a Republican stock with the DJNW news sentiment <i>ESS</i> above 50, or if it is a (net) sale on a Democrat stock with the news sentiment <i>ESS</i> below 50. |
| <i>Net buyer indicator</i> | A net buyer indicator. It is equal to 1 if the 3-day cumulative value of shares purchased by investors in the Ancerno database is larger than 3-day cumulative value of shares sold, and 0 otherwise. |

| | |
|--|---|
| <i>Trading imbalance</i> | It is defined as the 3-day cumulative value of shares purchased by investors in the Ancerno database minus the 3-day cumulative value of shares sold, scaled by the sum of 3-day cumulative value of shares bought and sold. The 3-day cumulative value of shares bought (sold) is computed as the sum of the daily dollar amount of shares bought (sold) over 1 day before to 1 day after the news release date. |
| Recommendation percentage change | The percentage change of the average analyst recommendations relative to previous month as $(Rec_t - Rec_{t-1})/Rec_{t-1}$. Recommendations have been coded on a scale from 1 to 5, such that 1 denotes a strong sell and 5 a strong buy (in contrast, IBES uses an inverted scale). |
| Recommendation Up% – Down% | The difference between the percentage of “Up” recommendations and the percentage of “Down” recommendations, calculated as the difference between the number of “Up” recommendations and the number of “Down” recommendations, divided by the total number of recommendations. |
| Standardized distance between DJNW sentiment and other sources | For each firm-day on which alternative news sources (Reuters Newswire, Associated Press, corporate press releases) are available, we compute: (i) the absolute difference between DJNW sentiment and the sentiment from each alternative source; and (ii) the within-firm-day standard deviation of sentiment scores across all alternative sources. When only one alternative news source is available, the standard deviation is set to zero. Then, for each firm-day, we define the standardized divergence between DJNW sentiment and the sentiment from each of the alternative sources as the absolute sentiment differences divided by one plus the standard deviation. This measure increases when the distance between DJNW sentiment and alternative-source sentiment is larger and when there is stronger agreement among the alternative sources (i.e., a lower standard deviation). We classify a firm-day as a high-divergence case if any of the standardized absolute sentiment measures exceeds its median value and zero otherwise. For firm-days on which DJNW is the only available news source, we set the divergence indicator to zero. |
| Return R^2 | For each stock each stock i and year t , we estimate the R-squared from a regression of the daily stock return on the market and industry indexes, using days with available DJNW sentiment. |
| News commonality R_N^2 | For each stock each stock i and year t , news commonality R_N^2 is computed as the R-squared from a regression of the daily <i>ESS</i> of firm i on the market’s <i>ESS</i> and the industry’s <i>ESS</i> in year t . |
| <i>Factor-mimicking portfolios used in Table 8, panel C</i> | |
| RMW, CMA | Profitability and investment factors of Fama and French (2016). |
| Non-political | Return on a portfolio that tracks DJNW sentiment for non-political stocks. |
| RMD equally weighted | Return on an equally-weighted portfolio long Republican and short Democrat stocks, regardless of the DJNW sentiment |
| Illiquidity | Return on a portfolio based on the Amihud (2002) illiquidity ratio. |
| Industry | Industry benchmark portfolio (average on all stocks in the same industry). |

Appendix B

Additional information on DJNW

B.1 Distribution channel, subscription model, and informational role of DJNW

Business news distribution networks provide information to market participants through timely dissemination of firm-initiated information to a broad investor base, as well as creation and packaging of new information (e.g., Bushee, Core, Guay, and Hamm (2010)). The literature generally distinguishes between press wire services (e.g., PR Newswires and Business Wire) that firms hire to distribute complete press releases to various media outlets, and newswire services (e.g., Dow Jones Newswires and Reuters Newswire), which exercise editorial discretion in disseminating, creating and re-packaging news to their investor clientele (e.g., Twedt (2016)). Our analysis focuses on newswire services that have certain editorial discretion in the news reporting, which allows for the possibility that investors may perceive a potential bias in the reporting.

Business news distribution networks distribute news to businesses and financial professionals either via their own distribution platforms (such as Reuters) or through a limited number of third-party vendors that disseminate content via subscription-based services (such as Dow Jones). For example, market participants requiring real-time information can obtain Dow Jones news through distribution platforms hosted by providers such as Thomson Reuters, Bloomberg, and FactSet, while those looking for archival data can rely on services like Factiva.

Although DJNW does not have its own distribution channel, it has a broader reach and a greater influence on market activities than most other information sources. A 2006 survey by Kimsey Consulting highlighted that Dow Jones Newswire was the most popular newswire service among banks and dealing rooms, ahead of Bloomberg and Reuters.¹ The academic literature also underscores the salience and importance of DJNW articles for investors: for example, Tetlock (2011) notes that “Stories published on the DJ newswires represent the most widely circulated financial news in the United States for institutional investors, and the DJ newswire arguably has the most comprehensive coverage”.

B.2 Choice of DJNW as the target

Anecdotal evidence around the time of the takeover indicates that Rupert Murdoch’s pursuit of Dow Jones & Co. was mainly driven by his primary interest in The Wall Street Journal’s (WSJ) brand, rather than in

¹ See <https://pressgazette.co.uk/archive-content/dow-jones-wins-top-newswire-accolade/>.

Dow Jones Newswire (DJNW). Recognizing WSJ's brand as a premier national financial news outlet, Murdoch saw this acquisition as a strategic move to expand News Corporation's business portfolio.²

To provide more insight about Murdoch's decision and how it relates to the WSJ brand, we conducted a comparative case study on WSJ and other candidate newspapers. To do so, we proceed as follows. First, we compile a list of the top 50 U.S. newspapers based on circulation data reported by the Audit Bureau Circulation as of March 31st 2007. In addition, we obtain the location (city and state) of each newspaper from internet sources.

Second, we identify the ownership of these newspapers as of 2007 through various sources (newspaper website, Factiva news article searches, internet sources etc.). In total, 26 owners control these top 50 newspapers (24 corporations and 2 individuals), out of which 7 owners control three or more newspapers. We successfully linked 12 of these owners to the Compustat and Orbis databases to obtain firm-level characteristics as of 2006 (some firms are private and as a result their financial information is limited or altogether not available in these data sources). We present the top 50 newspaper list as well as its owner in Panel A of Appendix Table I.19.

Motivated by the literature on political alignment and mergers & acquisitions (Duchin et al. (2022)), we also investigate the effects of political slant of these newspapers and the political affiliation of their owners. In particular, we use the ICPSR database to obtain the media slant measure in Gentzkow and Shapiro (2006), and the OpenSecrets database to obtain their owners' PAC and employee contributions as a proxy for their political stance. Overall, 47 newspapers have a slant measure, and 14 owners have political affiliation information.

We then compare the WSJ with the other candidate newspapers. Our analysis highlights four notable characteristics of WSJ (as well as its owner Dow Jones & Co.) that likely made it an attractive acquisition target for News Corp.:

- High circulation and influence. WSJ ranks among the top-circulating national newspapers, giving it substantial influence in financial news and increasing News Corp.'s media footprint.
- Location. WSJ is based in New York City, as is News Corp.'s U.S. headquarters. This potentially lends Murdoch a familiarity bias or information advantage, which is widely documented in the literature that geography matters in acquisition decisions (e.g., Uysal, Kedia and Panchapagesan (2008), Chakrabarti and Mitchell (2013), Jiang, Qian and Yonker (2019)).

² For example, see "Murdoch's Dow Jones Bid: Crazy Like a Fox", *NBC News* 7 May 2007 (accessible online at <https://www.nbcnews.com/id/wbna18537833>).

- Lean towards the political right. Unlike other major newspaper owners, who predominantly supported the Democratic Party (e.g., New York Times Co. made political contributions in 2006 only to Democratic candidates), Dow Jones & Co. lacked a clear political affiliation. Moreover, its main outlet WSJ was leaning politically to the right (or was less left-leaning than other newspapers), with a media slant score of 0.4829, already before Dow Jones & Co. was taken over by News Corporation. This is slightly higher than the average slant score of 0.44 across the top 50 newspapers. Given Murdoch's well-known right-wing political leaning, such conservative alignment could ease integration into News Corporation.
- Small but profitable owner. Dow Jones & Co. was a relatively small but profitable corporation, with a net income-to-asset ratio of around 20% as of 2007. It outperformed major competitors like Gannett (8%), New York Times Co. (-15%), and Tribune Media Co. (4%), who owned the other top 5 newspapers. The combination of profitability and size would have made it appealing to News Corporation.

To test these observations formally, we perform a regression analysis estimating:

$$Target_{jn} = \alpha + \beta' Characteristics_{jn} + \varepsilon_n \quad (B.1)$$

where n denotes a potential target newspaper and j denotes the newspaper's owner. $Target_{jn}$ is an indicator equal to one if the newspaper is The Wall Street Journal and the owner is Dow Jones & Co., and zero otherwise. $Characteristics_{jn}$ includes a set of newspaper and owner characteristics before the takeover. We present the results in Panel B of Appendix Table I.19. Across all columns, the results suggest that the chosen target (WSJ and Dow Jones & Co.) had higher circulation, a New York City location, a right-wing leaning, greater profitability, and a smaller size compared to other newspaper owners. While we do acknowledge the limitations of this analysis given the relatively small sample size, these insights contribute valuable context to Murdoch's decision to pursue Dow Jones & Co. as a takeover target.

B.3 Potential readership composition change for DJNW

One potential change in the readership composition is that DJNW attracted more Republican readers after the News Corporation takeover. Because there are no DJNW subscription statistics, we take an indirect approach to use circulation statistics from The Wall Street Journal (WSJ) to understand whether the WSJ attracts more Republican readers. Our underlying rationale is that the WSJ is more likely to exhibit biased content favoring Republican firms than DJNW due to its editorial style. If DJNW indeed attracts more Republican-leaning subscribers, we should expect a stronger effect from WSJ. On the other hand, if we

fail to detect that WSJ attracts more Republican subscribers, it is plausible to assume that DJNW would not either. We proceed as follows:

First, we manually collect data on the average paid circulation of the WSJ by state and year from AAM’s Media Intelligence Center.

Second, following Gentzkow and Shapiro (2010), we use the Federal Election Commission’s (FEC) individual contribution files to obtain individuals’ political donations to the Republican and Democrat parties in each *state*, as a proxy for each state’s political ideology. We construct four measures: two based on the share of donations to the Republican party over the total donations to both parties (one based on the number of donations following Gentzkow and Shapiro (2010), and the other one based on the dollar amount); and two indicator variables that classify a state as a Republican state if the share of Republican donations exceeds 50%.

Finally, we estimate:

$$Paid\ Circulation\%_{st} = \alpha_s + \alpha_t + \beta_1 Republican_{st-1} \times Post_t + \beta_2 Republican_{st-1} + \beta_3 Post_t + \varepsilon_{st} \quad (B.2)$$

where $Paid\ Circulation\%_{st}$ is the percentage of paid circulation in state s relative to the total paid circulation in year t , $Republican_{st-1}$ represents the tilt of the state towards the republican party and $Post$ is an indicator equal to one for the years after 2008 (inclusive) when the takeover was completed, and zero otherwise. Equation (B.2) includes state and year fixed effects, and we use two-way-clustered standard errors by state and year. We report the results in Appendix Table I.20.

Across all the specifications, the coefficient on the interaction term $Republican_{st} \times Post_t$ is not significantly different from zero, suggesting that the WSJ did not attract more circulation from Republican states following the takeover, i.e., the composition of its readership does not appear to have changed. Thus, it is plausible to assume that DJNW is unlikely to attract more Republican subscribers after the takeover either.

Appendix C

Model deriving the testable predictions of Section II.B

C.1 Formal model

We formulate our testable hypotheses using a simple model that builds on Gentzkow and Shapiro (2006).³ Unlike in that model, we assume that DJNW news reports have no political slant; however, following the News Corporation takeover, investors have a prior that they might have one. We then analyze how investors update their beliefs in response to DJNW news reports about Democrat and Republican stocks. We describe the model in terms of what happens before and after News Corporation's takeover of Dow Jones for clarity and to better map the theory into our empirical tests; but the argument is general and applies to any setting where the audience has a prior that a news outlet has a political slant.

In our model, DJNW news reports do not contain a political slant. This assumption is plausible because the incentive to introduce such a slant to maximize profits is limited (e.g., Mullainathan and Shleifer (2005), Gentzkow and Shapiro (2006, 2010)). This would be consistent with Gentzkow and Shapiro's (2010) finding that media bias is mainly driven by the audience's preferences – in DJNW's case, the audience consists of finance professionals who value factual accuracy. DJNW's reports, moreover, are focused on barebone facts and numerical information, which do not easily lend themselves to a political slant.

Investors, however, have a prior that the News Corporation takeover has introduced a pro-Republican/anti-Democrat bias to DJNW because of the ideology of its controlling shareholder, and that this may slant its news reports in favor of (against) Republican (Democrat) stocks. This assumption is motivated by the recent survey evidence that Americans see news organizations as politically partisan (Gallup (2020)), indicating that the political affiliation of the news source is salient. Relatedly, the view that owners can introduce an ideological bias in the news outlets they control is widespread, going back to the Hutchins Commission on the Freedom of the Press in 1947, and has historically informed the actions of regulatory agencies such as the Federal Communications Commission (FCC (2003), Gentzkow, Wong, and Zhang (2021)). This suggests that investors may rely on Dow Jones & Co.'s ownership as a proxy for

³ Gentzkow, Wong, and Zhang (2021) propose a model of trust in news sources that builds on the same mechanism as Gentzkow and Shapiro (2006) but focus on how diverging beliefs and trust can persist over time. Cheng and Hsiaw (2022) develop a model where individuals make inferential mistakes about the credibility of news sources such as experts. Thaler (2024) proposes a different mechanism, based on motivated reasoning, leading agents to process information differently and to persistent disagreement.

its political affiliation and the credibility of its outlets' news reports, motivating the assumption about their prior.

As investors read DJNW news reports, they make inference about (i) whether DJNW is biased, and (ii) the true state of the world characterizing a given stock. Certain news reports are consistent with the notion that following the News Corporation takeover DJNW has a pro-Republican/anti-Democrat bias – namely, favorable reports about Republican stocks and unfavorable reports about Democrat stocks. Thus, investors do not fully believe these reports and interpret favorable news reports about Republican stocks less favorably and unfavorable news reports about Democrat stocks less unfavorably. As a result, the stock price response to the sentiment content of DJNW reports is attenuated.

There are two dates: 0 and 1. At date 0, DJNW publishes a news report about a given stock, which is read by investors. Based on the news report, investors update their beliefs about DJNW's bias and about the true state of the world. At date 1, which we interpret as the long run, investors receive, with probability μ , information that allows them to verify the true state, which we refer to as “feedback” as in Gentzkow and Shapiro (2006). Upon observing the true state of the world, investors further update their beliefs.

The state of the world characterizing a Republican (or Democrat) stock at date 0 is binary and takes values in $\{H, L\}$, where H denotes a favorable state and L an unfavorable one. DJNW issues news reports in $\{h, l\}$, where h denotes a favorable news report and l an unfavorable one; below we refer to the news report's type (h or l) as its sentiment content.

Investor beliefs about Republican and Democrat stocks are described by probabilities $p(\cdot)$, and investors revise their beliefs with Bayesian updating. Beliefs about Republican stocks have subscript R and beliefs about Democrat stocks have subscript D .

Consider first the case where DJNW reports on a Republican stock. Suppose that favorable and unfavorable states are ex-ante equally likely, i.e., $p_R(H) = p_R(L) = \frac{1}{2}$. Investors have a prior that DJNW can have a pro-Republican bias; we denote this event as B , letting $p_R(B) \equiv \lambda > 0$. If DJNW is biased, investors believe that it can slant its reports in favor of the Republican stock, i.e., $p_R(h|L, B) \equiv \pi > 0$. If DJNW is unbiased (we denote this event as U), it introduces no slant, i.e., $p_R(h|L, U) = 0$. We assume that whether DJNW is biased is independent of the underlying state of the world.⁴

⁴ The assumption that $p_R(H) = p_R(L) = 1/2$ is without loss of generality; similar conclusions obtain assuming $p_R(H) \neq p_R(L)$. A special case is one where investors have a prior that Republican stocks perform poorly and Democrat stocks perform well, i.e., $p_R(H) \approx 0$ and $p_D(H) \approx 1$. This can generate similar predictions; but it is inconsistent with the evidence that 1) there are no significant differences in the firm characteristics between Republican and Democrat stocks (see Table 1), and 2) the stock price responsiveness to news sources other than DJNW is not diminished (see Table 4 and Section IV.B). The assumption

When investors read the reports from DJNW, they update their beliefs about (i) DJNW's type (B or U) and (ii) the underlying state of the world (H or L). Bayes' rule implies posteriors about DJNW's bias:

$$p_R(B|h) = \frac{p_R(h|B)p(B)}{p_R(h|B)p(B) + p_R(h|U)p(U)} = \frac{(1 + \pi)\lambda}{1 + \pi\lambda} \quad (\text{C.1})$$

$$p_R(B|l) = \frac{p_R(l|B)p(B)}{p_R(l|B)p(B) + p_R(l|U)p(U)} = \frac{(1 - \pi)\lambda}{1 - \pi\lambda} \quad (\text{C.2})$$

The investors' posteriors about the true state of the world, given news reports and the inference on DJNW's bias, are given by:

$$p_R(H|h) = p_R(H|h, U)p_R(U|h) + p_R(H|h, B)p_R(B|h)$$

Using Bayes' rule and the fact that the underlying state of the world (H or L) is independent of whether or not DJNW has a political bias:

$$p_R(H|h, U) = \frac{p_R(h|H, U)p_R(H, U)}{p_R(h|H, U)p_R(H, U) + p_R(h|L, U)p_R(L, U)} = \frac{1 \times \frac{1}{2} \times (1 - \lambda)}{1 \times \frac{1}{2} \times (1 - \lambda) + 0 \times \frac{1}{2} \times (1 - \lambda)} = 1$$

$$p_R(H|h, B) = \frac{p_R(h|H, B)p_R(H, B)}{p_R(h|H, B)p_R(H, B) + p_R(h|L, B)p_R(L, B)} = \frac{1 \times \frac{1}{2} \times \lambda}{1 \times \frac{1}{2} \times \lambda + \pi \times \frac{1}{2} \times \lambda} = \frac{1}{1 + \pi}$$

Therefore:

$$\begin{aligned} p_R(H|h) &= p_R(H|h, U)p_R(U|h) + p_R(H|h, B)p_R(B|h) = \\ &= 1 \times \left[1 - \frac{(1 + \pi)\lambda}{1 + \pi\lambda} \right] + \frac{1}{1 + \pi} \times \frac{(1 + \pi)\lambda}{1 + \pi\lambda} = \frac{1}{1 + \pi\lambda} \end{aligned} \quad (\text{C.3})$$

Similar calculations yield:

$$p_R(L|l) = p_R(L|l, U)p_R(U|l) + p_R(L|l, B)p_R(B|l) = 1 \quad (\text{C.4})$$

Intuitively, because of their prior that DJNW may have a pro-Republican bias, investors do not fully believe a favorable news report h . On the other hand, they find an unfavorable news report l more believable.⁵ An implication is that unless investors observe a sustained stream of unfavorable news about Republican firms, their belief that DJNW has a pro-Republican bias does not immediately converge to

that DJNW's bias and the underlying state of the world are independent is consistent with our empirical approach; as we mention in the introduction, the acquisition of Dow Jones & Co. by News Corporation is unrelated to the fundamentals of the firms covered by DJNW reports.

⁵ For brevity, we abstract here from the possibility that DJNW may be inaccurate. In other words, we assume that DJNW observes the true state of the world, and that this is common knowledge among investors. In Appendix C.2, we also develop a more general model allowing for an inaccurate DJNW, reaching similar conclusions.

zero. Indeed, a favorable news report reinforces the prior that DJNW may be biased ($p_R(B|h) > \lambda$ from equation (C.1)). In other words, the learning process takes time.⁶

A similar reasoning applies to Democrat stocks. For simplicity and without loss of generality, suppose that the prior of an anti-Democrat bias in DJNW is also λ and investors believe that, if biased, DJNW will slant its news reports against Democrat stocks with probability $p_D(l|H, B) \equiv \pi > 0$. Therefore:

$$p_D(H|h) = 1 \quad (C.5)$$

$$p_D(L|l) = \frac{1}{1 + \pi\lambda} \quad (C.6)$$

Suppose that before the News Corporation takeover $\pi = \lambda = 0$, whereas following the takeover $\pi\lambda > 0$.⁷ As a result, in the pre-takeover period investors believe the news reports from DJNW, i.e., $p_R(H|h) = p_R(L|l) = p_D(H|h) = p_D(L|l) = 1$. But in the post-takeover period, $p_R(H|h)$ and $p_D(L|l)$ are below 1 (per equations (C.3) and (C.6)). This indicates that after the News Corporation takeover investor beliefs are on average less responsive to the sentiment content of DJNW news reports. Moreover, they interpret favorable reports about Republican stocks less favorably (equation (C.3)) and unfavorable reports about Democrat stocks less unfavorably (equation (C.6)). This captures findings in the political science literature that distrust in the media due to the perception of slanted reporting induce voters to discount the news reports and to rely on their predispositions (Ladd (2010)). In equilibrium, stock prices reflect investor beliefs,⁸ leading to testable hypothesis H1 from Section II.B.

An immediate corollary is that the stock price response to DJNW sentiment content is more attenuated if investors have a stronger prior that the News Corporation takeover may induce a bias in DJNW (or that a biased DJNW will produce slanted reports) – i.e., if λ (or π) is larger, an implication that we test in Section IV.B.

At date 1, with probability μ investors observe the true state of the world (H or L). Consider again the case of a Republican stock. Under our assumption that DJNW reports do not contain a bias, if at date 0 DJNW published an unfavorable report l , investors would learn that the true state of the world is L , which

⁶ The evidence from Figure 2, where the trading strategy earns excess returns for a protracted period, is consistent with this argument; Table 8 reports additional evidence for this point.

⁷ Similar conclusions obtain if $\pi\lambda$ is positive prior to the takeover, but lower than following the takeover.

⁸ We only model investor beliefs, not stock prices, as the effects on beliefs capture the main economic mechanism. If all investors have a prior that DJNW can have a pro-Republican bias, as described above, H1 immediately follows. An alternative is that only a subset of investors has such a prior, whereas the others, “arbitrageurs”, have a prior that DJNW is unbiased. In this case, as long as there are limits to arbitrage, the predictions of H1 still apply (similar to the setting of De Long, Shleifer, Summers, and Waldmann (1990)). In the Appendix Table I.15, we show that our results are indeed mainly concentrated on situations where limits to arbitrage are stronger.

aligns with their beliefs based on equation (C.4). On the other hand, if at date 0 DJNW published a favorable report h , investors' posterior about a favorable state of the world would be less than 1 as per equation (C.3). Observing the true state of the world H therefore leads them to revise their beliefs about a favorable state H upward. This revision leads the stock price to rise, to reflect updated investor beliefs. A similar reasoning applies to Democrat stocks.

Formally, suppose that at date 0 DJNW publishes a favorable news report h about a Republican stock. Conditional on observing feedback about the true state of the world equal to H , the investors' posterior about DJNW's bias are given by:

$$p_R(B|\{H, h\}) = \frac{p_R(\{H, h\}|B)p_R(B|h)}{p_R(\{H, h\}|B)p_R(B|h) + p_R(\{H, h\}|U)p_R(U|h)} = \frac{(1 + \pi)\lambda}{1 + \pi\lambda} \quad (\text{C.7})$$

where we used the fact that $p_R(\{H, h\}|B) = p_R(H|B) = 1/2$ and $p_R(\{H, h\}|U) = p_R(H|U) = 1/2$. As a result, $p_R(B|\{H, h\}) = p(B|h)$: feedback is not informative about DJNW's bias, because $\{H, h\}$ can be observed whether or not DJNW has a bias.

On the other hand, when a {true state of the world, reported state} pair $\{L, l\}$ is observed:

$$p_R(B|\{L, l\}) = \frac{p_R(\{L, l\}|B)p_R(B|h)}{p_R(\{L, l\}|B)p_R(B|h) + p_R(\{L, l\}|U)p_R(U|h)} \quad (\text{C.8})$$

Because $p_R(\{L, l\}|B) = (1 - \pi)/2$ and $p_R(\{L, l\}|U) = 1/2$, we have:

$$p_R(B|\{L, l\}) = \frac{(1 - \pi) \frac{(1 - \pi)\lambda}{1 - \pi\lambda}}{1 - \pi \frac{(1 - \pi)\lambda}{1 - \pi\lambda}} < \frac{(1 - \pi)\lambda}{1 - \pi\lambda} = p_R(B|l) \quad (\text{C.9})$$

Therefore, observing feedback that DJNW reported an unfavorable state of the world for a Republican stock results in a lower probability that DJNW is biased to the eyes of investors. At the same time, because even a biased DJNW may with probability $1 - \pi$ accurately report l when the underlying state is L , the probability that DJNW is biased remains strictly positive. For reports about Democrat stocks, the argument is similar and we have similar expressions. This reasoning leads to testable hypothesis H2 from Section II.B.

C.2 Extension where DJNW can be inaccurate

The setting is similar to the above, but we introduce the possibility that DJNW may be inaccurate. We reach testable predictions that are qualitatively similar, i.e., our arguments are not sensitive to the assumption that DJNW accurately observes the state of the world.

Assume that investors have a prior that if DJNW has no political bias, it only observes the true state of the world with probability $\rho < 1$. Therefore, even an unbiased DJNW may misreport the news, such that $p_R(h|L, U) = p_R(l|H, U) = p_D(h|L, U) = p_D(l|H, U) = 1 - \rho$. If DJNW does have a political bias, on the other hand, investors assume that it perfectly observes the underlying state of the world and that it slants the news in the same way as in the simpler model.

Under these assumptions, the posteriors about DJNW's bias conditional on observing news reports h or l about a Republican stock are:

$$p_R(B|h) = \frac{p_R(h|B)p_R(B)}{p_R(h|B)p_R(B) + p_R(h|U)p_R(U)} = \frac{(1 + \pi)\lambda}{1 + \pi\lambda} \quad (\text{C.10})$$

$$p_R(B|l) = \frac{p_R(l|B)p_R(B)}{p_R(l|B)p_R(B) + p_R(l|U)p_R(U)} = \frac{(1 - \pi)\lambda}{1 - \pi\lambda} \quad (\text{C.11})$$

and similarly for the inference based on reports about a Democrat stock.

The posteriors about the underlying state of the world are:

$$p_R(H|h) = p_R(H|h, U)p_R(U|h) + p_R(H|h, B)p_R(B|h) = \frac{1}{1 + \pi} - (1 - \rho) \frac{(1 + \pi)\lambda}{1 + \pi\lambda} \quad (\text{C.12})$$

where we used Bayes' rule to obtain:

$$p_R(H|h, U) = \frac{p_R(h|H, U)p_R(H, U)}{p_R(h|H, U)p_R(H, U) + p_R(h|L, U)p_R(L, U)} = \frac{\rho(1 - \lambda)\frac{1}{2}}{\rho(1 - \lambda)\frac{1}{2} + (1 - \rho)(1 - \lambda)\frac{1}{2}} = \rho \quad (\text{C.13})$$

and

$$p_R(H|h, B) = \frac{p_R(h|H, B)p_R(H, B)}{p_R(h|H, B)p_R(H, B) + p_R(h|L, B)p_R(L, B)} = \frac{\frac{1}{2}\lambda}{\frac{1}{2}\lambda + \pi\frac{1}{2}\lambda} = \frac{1}{1 + \pi} \quad (\text{C.14})$$

Intuitively: if DJNW is not biased, investors believe a favorable news report h only with probability ρ ; if DJNW is biased, their belief is a decreasing function of the probability of a pro-Republican slant π . Combined using the law of total probability, these two effects yield equation (C.12). Similarly:

$$p_R(L|l) = p(L|l, U)p(U|l) + p(L|l, B)p(B|l) = \rho + (1 - \rho) \frac{(1 - \pi)\lambda}{1 - \pi\lambda} \quad (\text{C.15})$$

For $\rho = 1$, these expressions collapse to the corresponding ones in Section II.B. For $\rho < 1$, they imply that stock prices become less sensitive to DJNW sentiment after the News Corporation acquisition. Moreover:

$$p_R(H|h) - p_D(H|h) = \frac{1}{1 + \pi} - (1 - \rho) \frac{(1 + \pi)\lambda}{1 + \pi\lambda} - \left[\rho + (1 - \rho) \frac{(1 - \pi)\lambda}{1 - \pi\lambda} \right] < 0 \quad (\text{C.16})$$

$$p_R(L|l) - p_D(L|l) = \rho + (1 - \rho) \frac{(1 - \pi)\lambda}{1 - \pi\lambda} - \left[\frac{1}{1 + \pi} - (1 - \rho) \frac{(1 + \pi)\lambda}{1 + \pi\lambda} \right] > 0 \quad (\text{C.17})$$

Therefore, the stock price response to any DJNW news report about a Republican stock is less positive (or more negative) than the response to a DJNW news report about a Democrat stock with similar sentiment content. Finally, feedback is associated with excess returns in the long-run.

Appendix D

Alternative sentiment scores based on textual analysis

In several robustness tests, we rely on sentiment scores based on textual analysis of news reports from the DJNW, Reuters Newswire, Associated Press, and the Wall Street Journal. The construction of these sentiment scores is briefly described in Section III.A; this appendix provides a more detailed description.

The alternative sentiment score is built using textual analysis tools based on Loughran and McDonald (2011) and exploiting a dictionary-based method that counts the frequency of positive and negative words in texts, adjusted with the term frequency-inverse document frequency (tf-idf) technique. The tf-idf technique adjusts the weight that a given positive or negative word i receives in the overall sentiment score based on its frequency within each article, as well as the importance that word i has in a given source of articles. The adjusted weight for word i in a given article j of a given source s is calculated as:

$$w_{ijs} = tf_{ij} \times \log\left(\frac{N_s}{df_{is}}\right) \quad (\text{D.1})$$

where tf_{ij} is the raw share of the number of occurrences of word i in article j , N_s represents the total number of articles in source s , and df_{is} is the number of articles containing at least one occurrence of word i in source s . The effect of the $\log\left(\frac{N_s}{df_{is}}\right)$ term is to attach more importance to words that appear less frequently in articles, accounting for the possibility that a news source might often use some particular positive/negative words.

We calculate the sentiment for a given firm and date as the ratio $(P - N)/(P + N)$, where P and N are the (tf-idf adjusted) percentages in news texts of positive and negative words from the Loughran-McDonald dictionary. We adjust negative and positive word counts for word negation (using terms such as “no”, “not”, “without”, etc.). A word is considered negated if it is preceded by a negation word within a 3-words distance.⁹ Moreover, we treat all the news reports about a given firm on a given date from a given source as one long document and remove documents with fewer than 10 words and drop news reports with zero positive and negative words.

As for the sentiment score based on RavenPack data, we base the analysis on the decile ranks of the dictionary-based sentiment scores. We apply this approach to obtain an alternative measure of sentiment

⁹ The full list of negation words includes: no, nobody, nor, not, less, neither, never, without, aint, arent, cant, didnt, dont, doesnt, hasnt, havent, isnt, mightnt, mustnt, shant, shouldnt, wasnt, werent, wont, wouldnt (contracted forms, standardized in their spelling).

for DJNW news pieces, as well as for news pieces from other outlets: Reuters Newswire, Associated Press and, in a robustness check, the Wall Street Journal.

Appendix E

Corporate PAC

Our baseline tests are based on corporate contributions to the campaigns of politicians affiliated with the Democrat and Republican parties. Federal law prohibits companies from making direct contributions to candidates in federal elections using their own treasury funds. A corporation can, on the other hand, establish a Political Action Committee (PAC), and through it solicit contributions from its employees, managers, or shareholders (but not individuals unaffiliated to the corporation). The corporation cannot directly contribute to the PAC, but it is allowed to fund the PAC's start-up, administrative, and fundraising expenses. The literature refers to contributions coming from a PAC associated with a given corporation as "corporate" political contributions, and we follow that convention (e.g., Bonica (2013), Cooper, Gulen, and Ovtchinnikov (2010), Correia (2014), Ahn, Kim, and Lee (2019), Goldman, Gupta, and Israelsen (2022)).

In addition to PAC contributions, since the 2010 landmark Supreme Court ruling on Citizens United Federal Election Commission and the D.C. Circuit Court of Appeals ruling on Speechnow.org Federal Election Commission, corporations may engage in political spending via independent-exposure committees, informally known as "super PACs." Super PACs may not make contributions to the campaigns of individual candidates or to parties directly; they may, however, engage in unlimited political spending independently of campaigns. Unlike traditional PACs, super PACs are able to raise funds from individuals, corporations, and other groups without any legal limit on donation size; at the same time, super PACs are not allowed to coordinate with candidates and/or political parties. Our sample does not contain contributions made to super PACs.

In the committee contribution files, the Federal Election Commission database identifies six groups that contribute to candidates: 1) Corporation (C), 2) Labor organization (L), 3) Membership organization (M), 4) Trade association (T), 5) Cooperative (V), and 6) Corporation without capital stock (W). We restrict our analysis to all contributions classified as made by a "Corporation". For each contributing firm, we retrieve the date and amount of the contributions and the party of the receiving candidate(s). We aggregate all contributions made by a given firm to Democrat or Republican party candidates each year.

Appendix F

Ancerno data

For several tests in Sections IV.B and V.C, we obtain institutional investor trading data from Abel Noser Solutions (formerly Ancerno, we retain the name Ancerno for simplicity). Following Goldstein, Irvine, and Puckett (2011) and Puckett and Yan (2011), we only include trades on common stocks by pension plan sponsors and mutual funds. We aggregate all the trades made by a given investor in the same direction (buy or sell) on a given stock in a given day and restrict the Ancerno sample to stocks with non-missing *DJ_Sent* and *Republican* variable.

For trade records after 2010, Ancerno no longer reports the client and manager identifier, so that we cannot identify what institutional investors are associated with what trades. For this reason, in the test that we examine individual investor trades in Section V.C, we restrict the sample to end in 2010. In the tests where we focus on aggregate trades in Section IV.B, we use the full sample period.

Appendix G

Cosine similarity approach to measure the language distance between DJNW and other sources

In Section V.B, we discuss the results of a test that compares the “distance” in the language used by DJNW news reports and other news sources, based on the cosine similarity approach. The cosine similarity approach was originally developed in the computer science literature (see e.g., Sebastiani (2002)) and has been employed in the finance and accounting literatures to measure, for instance, financial constraints (Hoberg and Maksimovic (2014)), product description similarity (Hoberg and Phillips (2016)), yearly changes in the Management Discussion and Analysis disclosures (Brown and Tucker (2011)).

The main intuition behind the cosine similarity approach is as follows. A news report can be represented as a vector in a space of words, as explained below. The cosine of the angle between two such vectors is a measure of the distance between them – i.e., of the distance between the language used by the two news reports.

The details of our implementation of the cosine similarity approach are as follows. We first preprocess the raw texts of news reports from DJNW, Reuters Newswire, and the Associated Press to remove punctuation and the 20% most common words, and apply lemmatization (e.g., reducing words such as “builds”, “building”, and “built” to the lemma “build”). Next, we form a dictionary of the unique terms thus found in the whole “corpus” of DJNW, Reuters Newswire, and Associated Press. The text of each news report is then represented as a vector; each entry in the vector represents the number of times a given word in the dictionary has been used in the news report.

Letting n_1 and n_2 be the vectors representing two news reports, the cosine similarity between them is defined as:

$$Similarity_{12} = \frac{n_1 \cdot n_2}{\|n_1\| \|n_2\|} \quad (G.1)$$

where \cdot denotes the dot product operator, $\|n_1\|$ is the length of n_1 , and $\|n_2\|$ the length of n_2 . Because each component of n_1 and n_2 is greater than or equal to 0, $Similarity_{12}$ is bounded between 0 and 1. $Similarity$ is a measure of how close articles 1 and 2 are.

Because DJNW (as well as the other news sources) may publish multiple news reports about a given stock on a given date, we merge all news reports about a given stock that are published on the same date by a given news source in one long document. We then compute the cosine similarity between DJNW and Reuters Newswire (or Associated Press) reports about the same stock that appear on the same date.

Appendix H

Additional tests on the response to Wall Street Journal articles

Our tests are focused on the market's response to the sentiment in DJNW reports, because as we discussed they are less likely to contain a political slant. The News Corporation takeover, however, also affected the perceived political affiliation of the Wall Street Journal, another Dow Jones & Co. publication. In Appendix Table I.6, to rule out a confounding effect deriving from the presence of Wall Street Journal articles, we re-run our baseline tests restricting the sample to stock-dates or stock-weeks where there is no Wall Street Journal article; we find results very similar to the baseline estimates of Table 2.

This appendix reports additional tests based on Wall Street Journal sentiment. Wall Street Journal articles are typically longer than DJNW newswires and may thus more easily lend themselves to a political slant (e.g., Goldman, Gupta, and Israelsen (2024)). If that is the case, we should observe a more favorable sentiment in Wall Street Journal articles about Republican stocks following the News Corporation takeover. We also predict that, since investors expect a slant with higher probability (a higher π in the notation of Appendix C.1) the stock price sensitivity to Wall Street Journal sentiment should attenuate more than for DJNW sentiment.

We sum up the evidence about these predictions in Appendix Table I.21. We run tests similar to Table 6.A, where the dependent variable is the sentiment score of WSJ articles (Panel A). In all specifications, the coefficient on the interaction term *Republican* \times *Post* is positive; it is also statistically significant in column 1, consistent with the view that WSJ articles become more favorable to Republican stocks after the News Corporation takeover. In corresponding regressions having the sentiment score of DJNW as the dependent variable, in line with Table 6.A, we do not detect any evidence of a change in sentiment favorable to Republican stocks (Panel B). Together, these tests suggest that there may be a pro-Republican slant in WSJ articles, but there is no evidence of such a slant in DJNW reports.

We also estimate equation (2) and run regressions similar to the baseline specification in Table 2 but based on the sentiment score of WSJ articles instead of DJNW reports (Appendix Table I.21, panel C). We find that an attenuated stock price response to WSJ sentiment after the News Corporation takeover, stronger in magnitude than the attenuation observed for the DJNW. This is consistent with the notion that investors attach a higher probability of a pro-Republican slant to WSJ articles, which is corroborated by this evidence.

Appendix I

Additional figures and tables

In this appendix, we present additional figures and tables. The contents are as follows:

Figure I.1 presents the yearly total corporate political contributions and the total number of contributors over 2003 to 2012.

Figure I.2 presents descriptive evidence about firms' political contributions.

Figure I.3 presents the number of DJNW journalists and WSJ circulation around the News Corp. takeover.

Table I.1 reports additional summary statistics.

Table I.2 repeats equation (2) by using DJ-specific sentiment and a common sentiment between DJNW articles and alternative news sources.

Table I.3 reproduces the estimates of Table 2, Panel B, re-defining a firm's classification as Republican or Democrat relative to their industry.

Table I.4 presents one non-linearity form to examine stock return reaction to DJNW positive and negative news about Republican and Democrat firms.

Table I.5 repeats Column (3) in Panel A and Panel B of Table 2 by restricting to stocks held by Democrat institutional investors.

Table I.6 reports additional robustness tests.

Table I.7 reproduces the estimates in Table 5, under alternative definitions of high/low sentiment divergence between DJNW and other news sources.

Table I.8 reproduces equation (2) on subsamples based on textual similarity between DJNW and alternative sources (i.e., Reuters and the Associated Press).

Table I.9 reproduces equation (2) on subsamples based on within-day DJNW sentiment deviation.

Table I.10 repeats Panel A of Table 6 by using DJ-specific sentiment as the dependent variable.

Table I.11 reproduces the estimates of Panel A of Table 6 by using quantile regressions.

Table I.12 reproduces the estimates of Panel A of Table 6 by using the high divergence indicator as the dependent variable.

Table I.13 reproduces the estimates of Panel A of Table 6 using alternative sources.

Table I.14 repeats Table 6 for days with high and low sentiment divergence respectively.

Table I.15 reproduces column 3 of Panel A, Table 2 and Table 8 on subsamples based on measures for firms' limits to arbitrage.

Table I.16 expands the sample in Panel B of Table 7 from investor \times date level to investor \times stock \times date level to examine investor trade on high- and low-divergence days.

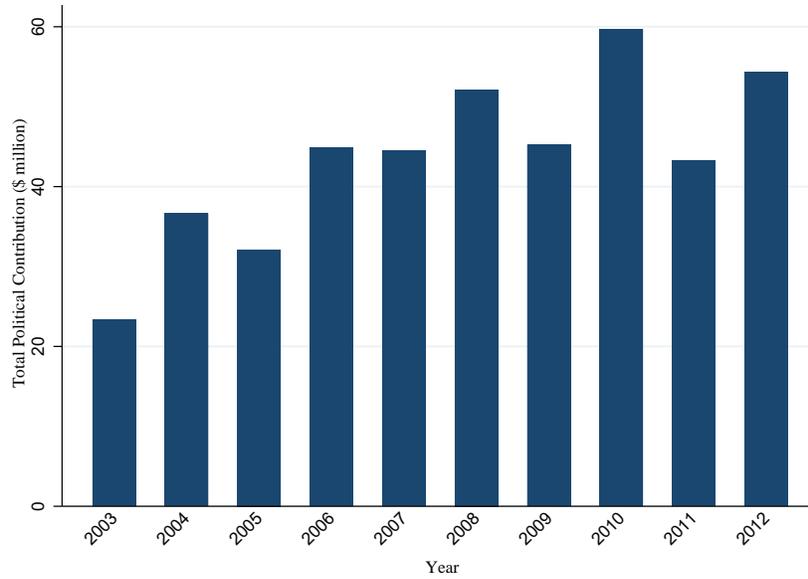
Table I.17 examines high- and low-divergence portfolio results.

Table I.18 reports the estimates of portfolio returns similar to Table 8, Panel A, where the DJ sentiment measure is based on the dictionary-based sentiment score from Factiva.

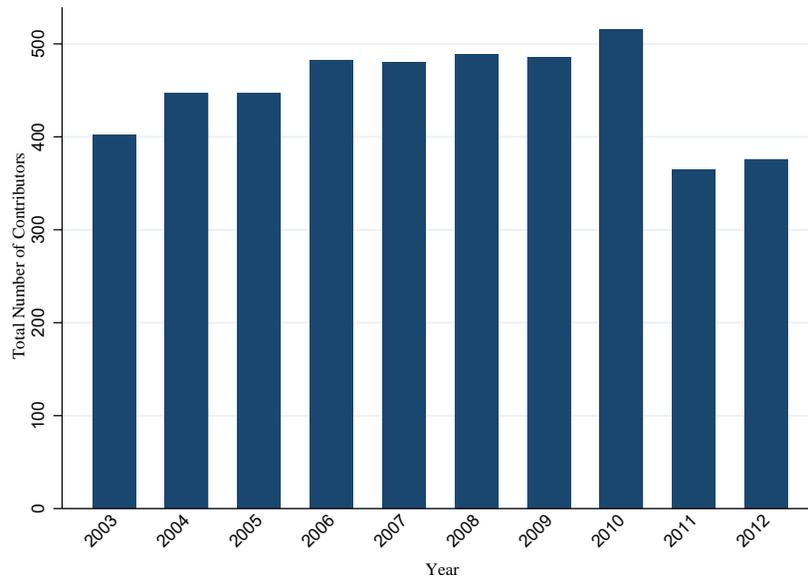
Table I.19 reports the top 50 U.S. circulated newspapers as of March 2007 and examines the likelihood of Dow Jones & Co. being a target of the News Corp. acquisition.

Table I.20 examines changes in the state-level paid circulation of the Wall Street Journal around the News Corp. takeover.

Table I.21 reports the estimates of equations (8) and (9) but focusing on changes in sentiment in the Wall Street Journal articles and stock return reactions to the Wall Street Journal sentiment.



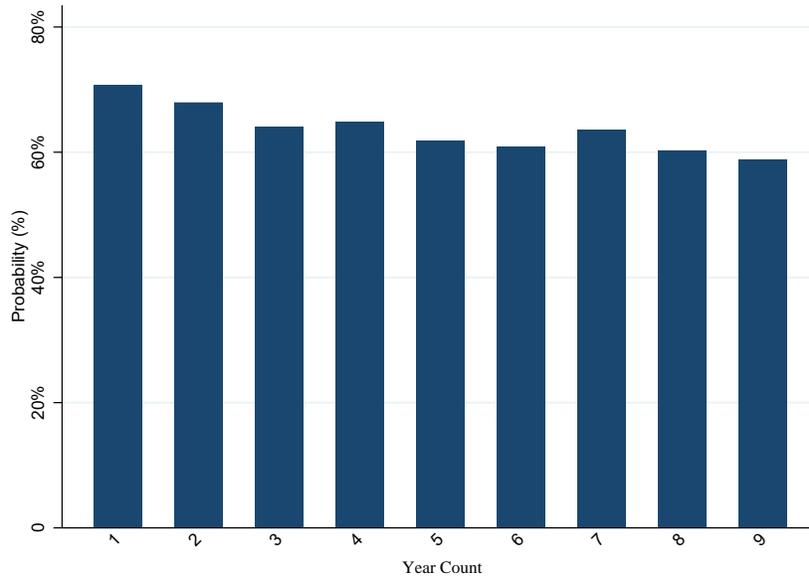
A. Total corporate political contributions



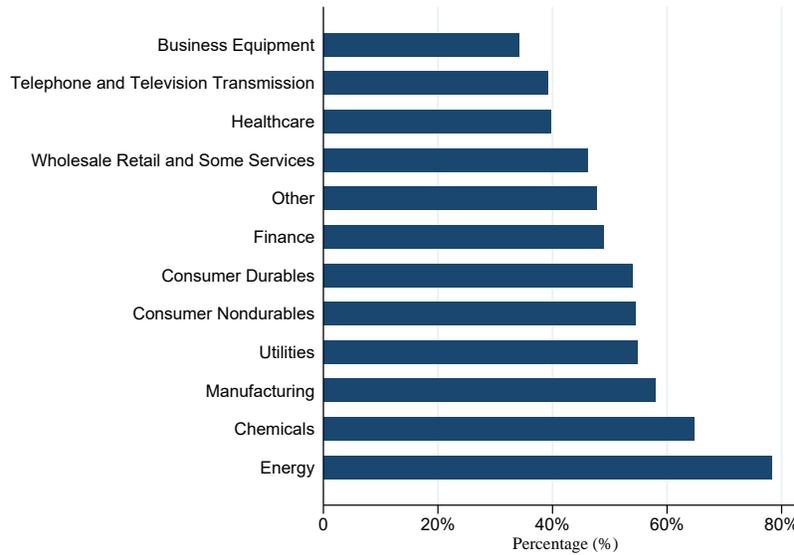
B. Total number of corporate contributors

Figure I.1: Corporate political contributions, 2003-2012

The graph reports the yearly total corporate political contributions (\$ million) in Panel A and the total number of contributors in Panel B over 2003 to 2012 in our sample.



A. Firms with the same political orientation as the first contributing year (%)



B. “Republican” firms, by industry (%)

Figure I.2: Descriptive evidence about corporate political contributions

Panel A plots the percentage of firms that retain the same political orientation (Republican or Democrat) as in their first contributing year as of 2003 after 1,2,...,9 years. Panel B plots the average percentage of Republican firms in Fama-French 12 industries over the sample period.

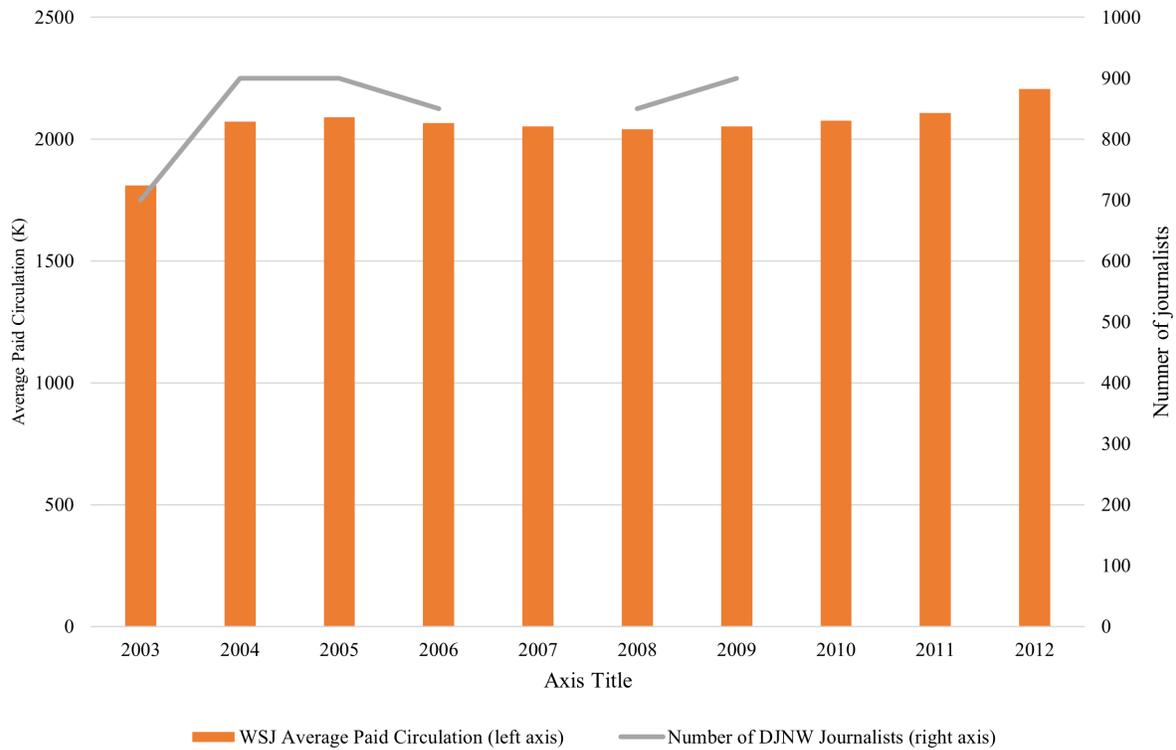


Figure I.3: Number of DJNW journalists and WSJ circulation

The figure plots the number of DJNW journalists and the average paid circulation for the Wall Street Journal. The number of journalists is obtained from the 10-Ks of Dow Jones & Co. for years prior to the News Corp takeover, and in the 10-Ks of News Corp for years in 2008 and 2009. The average paid circulation is obtained from AAM’s Media Intelligence Center.

Table I.1: Additional Summary Statistics

Panel A reports the additional summary statistics for variables used in the analysis. Panel B reports the average value of the main firm characteristics for our sample firms (referred to as politically affiliated firms) and politically unaffiliated firms, as well as a t-test for the difference in the characteristics between the two groups, before and after the News Corporation takeover.

A. Additional summary statistics for firm characteristics

| Variable | Mean | Std. dev. | 25th pct. | 50th pct. | 75th pct. | Min | Max |
|---|-------------|------------------|------------------|------------------|------------------|------------|------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| <i>Alternative political alignment measures</i> | | | | | | | |
| Lifetime political contributions | 0.616 | 0.171 | 0.513 | 0.613 | 0.723 | 0.000 | 1.000 |
| Total political contributions | 0.589 | 0.150 | 0.502 | 0.574 | 0.672 | 0.000 | 1.000 |
| Employee contributions | 0.529 | 0.249 | 0.351 | 0.522 | 0.702 | 0.000 | 1.000 |
| CEO and employee contributions | 0.540 | 0.248 | 0.365 | 0.530 | 0.718 | 0.000 | 1.000 |
| Political sensitivity | -0.010 | 0.021 | -0.020 | -0.009 | 0.002 | -0.133 | 0.127 |
| <i>Additional variables</i> | | | | | | | |
| Analyst coverage | 10.922 | 7.566 | 5.000 | 10.000 | 16.000 | 0.000 | 43.000 |
| Institutional ownership | 0.709 | 0.166 | 0.615 | 0.728 | 0.823 | 0.000 | 1.000 |
| Press Release ESS | 57.115 | 9.542 | 50.000 | 54.000 | 64.000 | 7.000 | 96.000 |
| RN Sent (raw value) | -0.326 | 0.592 | -0.817 | -0.434 | 0.003 | -1.000 | 1.000 |
| AP Sent (raw value) | -0.348 | 0.572 | -0.813 | -0.458 | -0.018 | -1.000 | 1.000 |
| Net buyer indicator | 0.508 | 0.500 | 0.000 | 1.000 | 1.000 | 0.000 | 1.000 |
| Trading imbalance | 0.015 | 0.622 | -0.535 | 0.017 | 0.569 | -1.000 | 1.000 |
| DJNW coverage | 2.854 | 3.532 | 1.000 | 2.000 | 3.000 | 1.000 | 84.000 |
| Textual similarity between DJ and AP | 0.419 | 0.226 | 0.226 | 0.405 | 0.594 | 0.024 | 0.910 |
| Textual similarity between DJ and RN | 0.370 | 0.179 | 0.224 | 0.361 | 0.503 | 0.040 | 0.779 |

B. Comparison of politically affiliated vs politically unaffiliated firms around News Corp. takeover

| Variable | Pre-News Corp. acquisition | | | Post-News Corp. acquisition | | |
|------------------------|-----------------------------------|----------------|---------------|------------------------------------|----------------|---------------|
| | Affi. | Unaffi. | t-stat | Affi. | Unaffi. | t-stat |
| | (1) | (2) | (3) | (4) | (5) | (6) |
| ESS | 52.552 | 52.356 | (1.09) | 51.544 | 52.110 | (-3.39) |
| Market equity (USD bn) | 41.448 | 5.320 | (6.95) | 29.977 | 5.136 | (6.39) |
| Leverage | 0.254 | 0.220 | (2.41) | 0.257 | 0.235 | (1.67) |
| Book to market | 0.503 | 0.524 | (-0.91) | 0.735 | 0.769 | (-0.99) |
| ROA | 0.050 | 0.016 | (4.89) | 0.041 | -0.008 | (7.27) |
| CAR(-11,-2) (in ppt) | 0.034 | 0.099 | (-1.22) | -0.018 | -0.011 | (-0.11) |

Table I.2: DJ-specific and systematic sentiment component

The table replaces *DJ Sent* in column 3 of Panel A, Table 2 with DJ-specific sentiment component relative to alternative sentiment sources in Panel A, and with common sentiment component with alternative sentiment sources in Panel B. We regress *DJ Sent* on the news sentiment from Reuters Newswire, Associated Press, and corporate press releases respectively or jointly. The residuals from these regressions are referred to as *DJ-Specific Sent* and the predicted value of *DJ Sent* are termed as *Systematic Sent*. For missing values in the alternative sentiment, we replace them with zero and include indicator variables in the regressions to account for these missing observations. All other specifications remain the same.

A. DJ-specific sentiment relative to alternative sources

| Residual sentiment to | Press Releases | Reuters Newswire | Associated Press | All |
|--|-----------------------|-------------------------|-------------------------|-------------------|
| | (1) | (2) | (3) | (4) |
| DJ-Specific Sent \times Post \times Republican | -0.763 (-3.13) | -0.744 (-3.16) | -0.795 (-3.37) | -0.747 (-3.06) |
| DJ-Specific Sent \times Post | -0.258 (-1.64) | -0.225 (-1.47) | -0.189 (-1.24) | -0.251 (-1.59) |
| DJ-Specific Sent \times Republican | 0.057 (0.32) | 0.077 (0.44) | 0.118 (0.68) | 0.083 (0.46) |
| Post \times Republican | 0.131 (1.51) | 0.129 (1.48) | 0.127 (1.46) | 0.136 (1.55) |
| DJ-Specific Sent | 1.248 (10.35) | 1.177 (10.19) | 1.150 (9.96) | 1.172 (9.71) |
| Republican | -0.043 (-0.66) | -0.042 (-0.65) | -0.042 (-0.64) | -0.044 (-0.68) |
| Firm Controls | Y | Y | Y | Y |
| Industry \times Date and Firm FE | Y | Y | Y | Y |
| R^2 | 0.167 | 0.167 | 0.167 | 0.167 |
| N | 322,879 | 322,879 | 322,879 | 322,879 |

B. Systematic sentiment with alternative sources

| Systematic sentiment to | Press Releases | Reuters Newswire | Associated Press | All |
|-------------------------------------|---------------------------|-----------------------------|-----------------------------|-------------------|
| | (1) | (2) | (3) | (4) |
| Systematic Sent × Post × Republican | -0.829 (-0.81) | -4.135 (-1.41) | 0.392 (0.12) | -0.976 (-0.99) |
| Systematic Sent × Post | 0.509 (0.82) | 2.699 (1.54) | -0.875 (-0.45) | 0.622 (1.03) |
| Systematic Sent × Republican | 0.573 (0.92) | 0.724 (0.38) | -3.296 (-1.56) | 0.238 (0.40) |
| Post × Republican | 0.552 (1.00) | 2.294 (1.48) | -0.104 (-0.06) | 0.621 (1.18) |
| Systematic Sent | 0.414 (1.00) | 4.173 (3.41) | 7.393 (5.48) | 1.418 (3.59) |
| Republican | -0.352 (-1.04) | -0.429 (-0.43) | 1.702 (1.53) | -0.170 (-0.53) |
| Firm Controls | Y | Y | Y | Y |
| Industry × Date and Firm FE | Y | Y | Y | Y |
| R^2 | 0.156 | 0.156 | 0.156 | 0.156 |
| N | 353,120 | 353,120 | 353,120 | 353,120 |

Table I.3: Stock return reaction to DJNW positive/negative sentiment and corporate political affiliation: alternative Republican firm definitions

The table reproduces the estimates of Panel B in Table 2, re-defining firms' political affiliation. A firm making political contributions is defined as Republican if the Republican variable is above the median within a given Fama-French 12 industry classification in a given year, and as Democrat otherwise. All the other variables remain the same. The t-statistics are based on standard errors clustered by date.

| Stock political alignment DJNW sentiment | Democrat | | Republican | |
|---|------------------------|------------------------|------------------------|------------------------|
| | Negative (1) | Positive (2) | Negative (3) | Positive (4) |
| DJ Sent \times Post | -0.606 (-2.25) | 0.049 (0.24) | 0.344 (1.24) | -0.549 (-2.45) |
| DJ Sent | 0.669 (3.40) | 1.523 (11.01) | 0.331 (1.68) | 1.836 (11.92) |
| Firm Controls | Y | Y | Y | Y |
| Industry \times Date and Firm FE | Y | Y | Y | Y |
| R ² | 0.319 | 0.314 | 0.320 | 0.317 |
| N | 73,821 | 83,381 | 66,962 | 73,250 |

Table I.4: Baseline specification: non-linearity form

The table estimates equation (1) in the main paper separately for positive and negative news. In addition, we decompose the *DJ Sent* into news sentiment about Republican firms (referred to as *DJ Sent of Republican Firm*) and news sentiment about Democrat firms (referred to as *DJ Sent of Democrat Firm*). The row labelled “Difference F-test statistic (p-value)” reports the p-value as well as the F-test statistic for the difference between the coefficients on the *DJ Sent of Republican Firm* \times *Post* and *DJ Sent of Democrat Firm* \times *Post*. We additionally include the firm’s political affiliation in the set of control variables. The t-statistics are based on standard errors clustered by date.

| Split | Negative Sentiment | Positive Sentiment |
|--|--------------------|--------------------|
| | (1) | (2) |
| DJ Sent of Republican Firm \times Post | 0.055 (0.23) | -0.460 (-2.33) |
| DJ Sent of Democrat Firm \times Post | -0.549 (-2.38) | 0.013 (0.07) |
| DJ Sent of Republican Firm | 0.617 (3.47) | 1.762 (13.00) |
| DJ Sent of Democrat Firm | 0.631 (3.74) | 1.568 (13.11) |
| Difference F-test statistic (p-value) | 3.70 (0.055) | 3.47 (0.063) |
| Firm Controls | Y | Y |
| Industry \times Date and Firm FE | Y | Y |
| R^2 | 0.239 | 0.232 |
| N | 150,006 | 166,456 |

Table I.5: Baseline specification: stocks held by Democrat 13F institutional investors

The table repeats column 3 in Panel A and Panel B of Table 2 by restricting to stocks held by Democrat institutional investors. To define stocks held by Democrat institutional investors, we first collect PAC and employee contributions of 13F institutional investors that have ever held our sample stocks in the sample period from the OpenSecrets database. Then for each institutional investor, we calculate the percentage of total contributions (PAC and employee contributions) made to the Republican party during each election cycle, and then average these percentages at the stock level, weighting them by the shares held by each institutional investor. We classify firms as being held by Democrat investors if the weighted average of contributions to the Republican party is below the median. All the other specifications remain the same as in Table 2.

A. Full sample

| | (1) | (2) |
|---|-------------------|-------------------|
| DJ Sent \times Post \times Republican | -1.075 (-2.92) | -1.025 (-2.79) |
| DJ Sent \times Post | 0.145 (0.64) | 0.117 (0.52) |
| DJ Sent \times Republican | -0.071 (-0.34) | -0.086 (-0.41) |
| Post \times Republican | 0.924 (3.76) | 0.896 (3.64) |
| DJ Sent | 1.072 (7.96) | 1.078 (7.90) |
| Republican | 0.036 (0.27) | 0.021 (0.15) |
| Firm Controls | N | Y |
| Industry \times Date and Firm FE | Y | Y |
| R ² | 0.205 | 0.206 |
| N | 159,464 | 159,002 |

B. Positive/negative DJNW sentiment and corporate political affiliation

| Stock political alignment DJNW sentiment | Democrat | | Republican | |
|---|-------------------|-----------------|-----------------|-------------------|
| | Negative (1) | Positive (2) | Negative (3) | Positive (4) |
| DJ Sent \times Post | -0.353 (-0.88) | 0.411 (1.30) | 0.624 (1.31) | -0.768 (-2.17) |
| DJ Sent | 0.476 (2.01) | 1.287 (7.60) | 0.369 (1.34) | 1.809 (8.48) |
| Firm Controls | Y | Y | Y | Y |
| Industry \times Date and Firm FE | Y | Y | Y | Y |
| R ² | 0.326 | 0.335 | 0.368 | 0.371 |
| N | 35,226 | 38,919 | 30,723 | 32,868 |

Table I.6: Additional Robustness

This table presents additional robustness tests of our baseline estimates. The baseline regression refers to the specification in Table 2, column 3 in Panel A. For brevity we only report the coefficient on the triple interaction term $DJ\ Sent \times Post \times Republican$ and $DJ\ Sent \times Post$, suppressing all other coefficients. Panel A restricts the sample to stock-dates when news reports from alternative news sources are available. Panel B examines the stock-dates or stock-weeks when there are no articles reported in the Wall Street Journal. Panel C considers alternative windows to define the market reaction to the news reports. Panel D restricts to subsample that firms are more likely to have salient corporate affiliation. In particular, we drop from the sample the stocks with the lower (bottom quartile) values of yearly political contributions, or lifetime contributions, or total contributions during our sample period. We also restrict the sample to stocks for which the Republican variable, measuring the percentage of a firm's contribution that go to Republicans, is above 60% or below 40%. Panel E restricts the sample to days in which partisan conflict index of Azzimonti (2018) is higher (above the median in a given year), and to stocks with high political risk measure (above the median in a given year) of Hassan, Hollander, van Lent, and Tahoun (2019). Panel F considers alternative clusters for the standard errors.

| | Triple Int. Term | <i>t</i> -stat | Sent × Post | <i>t</i> -stat | N |
|--|---------------------------------|----------------|------------------------|----------------|----------|
| | (1) | (2) | (3) | (4) | (5) |
| Baseline | -0.783 | -3.34 | -0.208 | -1.37 | 322,879 |
| <i>A. Restricting to stock-dates with available news from alternative sources</i> | | | | | |
| Days when press release is available | -2.161 | -2.81 | 0.944 | 2.04 | 67,832 |
| Days when Reuters Newswire is available | -2.919 | -4.18 | 0.720 | 1.70 | 87,795 |
| Days when Associated Press is available | -1.912 | -2.67 | 0.382 | 0.90 | 83,473 |
| <i>B. Restricting to stock-dates or stock-weeks without WSJ</i> | | | | | |
| Days when WSJ is not available | -0.797 | -3.31 | -0.095 | -0.60 | 275,144 |
| Weeks when WSJ is not available | -0.762 | -2.94 | -0.035 | -0.21 | 225,968 |
| <i>C. Alternative windows for return reaction as the dependent variable</i> | | | | | |
| CAR(0,0) | -0.833 | -5.64 | 0.107 | 1.09 | 322,875 |
| CAR(0,1) | -0.815 | -4.01 | -0.016 | -0.12 | 322,877 |
| CAR(-5,5) | -1.013 | -2.58 | -0.156 | -0.62 | 322,878 |
| CAR(-1,+1) (rel. to Fama-French 3-factor model) | -0.746 | -3.18 | -0.240 | -1.58 | 322,879 |
| <i>D. Subsamples with more salient corporate political orientation</i> | | | | | |
| Excl firms with bottom 25% yearly contributions | -1.252 | -3.89 | 0.052 | 0.26 | 243,365 |
| Excl firms with bottom 25% lifetime contributions | -1.723 | -5.47 | 0.355 | 1.78 | 244,010 |
| Excl firms with bottom 25% total contributions | -1.413 | -4.65 | 0.159 | 0.81 | 243,868 |
| Excl firms with <i>Republican</i> between 40% to 60% | -0.753 | -2.88 | -0.147 | -0.80 | 200,081 |
| <i>E. Partisan conflict index; Political risks</i> | | | | | |
| Days with high partisan conflict index | -1.072 | -3.21 | -0.145 | -0.67 | 161,518 |
| Stocks with high political risk | -1.022 | -2.73 | -0.020 | -0.08 | 149,206 |
| <i>F. Alternative standard error clusters</i> | | | | | |
| Double-clustered by firm and date | -0.783 | -2.50 | -0.208 | -1.07 | 322,879 |
| Double-clustered by industry and date | -0.783 | -3.98 | -0.208 | -1.42 | 322,879 |

Table I.7: Stock return reactions and sentiment divergence between DJNW and other news sources: alternative divergence measures

The table reproduces the estimates of Table 5 using alternative sentiment divergence measures. For each firm and day, we calculate three values: (a) the absolute differences between *DJ Sent* and sentiment from the alternative sources, (b) an average of these absolute differences, and (c) a standard deviation of sentiment scores across all alternative sources. High divergence occurrences are defined as observations for which any of these differences is above the median in columns 1 – 2, or the average absolute difference is above the median in columns 3 – 4, or the standardized measure, i.e., the average absolute difference as (b) divided by 1 plus the standard deviation as (c), is above the median in columns 5 – 6. All the other specifications remain the same as in column 3 of Panel A, Table 2.

| Divergence based on | Any of the differences | | Average difference | | Standardized difference | |
|-----------------------------|------------------------|-------------------|--------------------|-------------------|-------------------------|-------------------|
| | Low (1) | High (2) | Low (3) | High (4) | Low (5) | High (6) |
| DJ Sent × Post × Republican | -0.261 (-1.01) | -2.667 (-4.29) | -0.323 (-1.26) | -2.550 (-3.94) | -0.314 (-1.22) | -2.617 (-4.04) |
| DJ Sent × Post | -0.431 (-2.54) | 0.849 (2.23) | -0.435 (-2.58) | 0.820 (2.06) | -0.423 (-2.51) | 0.772 (1.94) |
| DJ Sent × Republican | -0.371 (-1.97) | 1.694 (3.92) | -0.338 (-1.79) | 1.611 (3.61) | -0.336 (-1.78) | 1.574 (3.52) |
| Post × Republican | 0.165 (0.99) | 1.873 (4.54) | 0.281 (1.71) | 1.684 (3.88) | 0.270 (1.64) | 1.740 (4.04) |
| DJ Sent | 1.387 (10.77) | 0.403 (1.43) | 1.476 (11.49) | 0.143 (0.49) | 1.461 (11.39) | 0.234 (0.81) |
| Republican | 0.180 (1.53) | -0.956 (-3.15) | 0.142 (1.20) | -0.899 (-2.87) | 0.148 (1.24) | -0.950 (-3.03) |
| Firm Controls | Y | Y | Y | Y | Y | Y |
| Industry × Date and Firm FE | Y | Y | Y | Y | Y | Y |
| R ² | 0.199 | 0.290 | 0.192 | 0.318 | 0.193 | 0.318 |
| N | 226,034 | 89,368 | 241,753 | 73,159 | 241,766 | 73,094 |

Table I.8: Stock return reactions and textual similarity between DJNW and other news sources

The table reports the estimates of equation (2) on sub-samples based on the textual similarity between DJNW and either Reuters or the Associated Press. We define a subsample as “High” if the textual similarity between DJNW articles and either source is high (based on median value), and “Low” otherwise. We use DJNW sentiment measures from Factiva because we only have the full text for DJNW news reports obtained from Factiva. The row labelled “Difference F-test statistic (p-value)” reports the F-test statistic and the corresponding p-value for the difference between the coefficients on the $DJ\text{ Sent} \times Post \times Republican$ interaction terms. All the other specifications remain the same as in column 3 of Panel A, Table 2.

| Split | DJNW textual similarity to AP or RN | |
|---|--|-------------------|
| | Low (1) | High (2) |
| DJ Sent \times Post \times Republican | -0.753 (-2.08) | -0.177 (-0.11) |
| DJ Sent \times Post | 0.434 (1.87) | -0.054 (-0.06) |
| DJ Sent \times Republican | 0.304 (1.09) | 0.158 (0.25) |
| Post \times Republican | 0.686 (2.72) | 0.413 (0.39) |
| DJ Sent | 0.257 (1.41) | 1.605 (3.91) |
| Republican | -0.252 (-1.26) | 0.525 (1.14) |
| Difference F-test statistic (p-value) | 0.118 (0.731) | |
| Firm Controls | Y | Y |
| Industry \times Date and Firm FE | Y | Y |
| R^2 | 0.255 | 0.428 |
| N | 141,805 | 28,226 |

Table I.9: Stock return reactions and within-day DJNW sentiment deviation

The table reports the estimates of equation (2) on sub-samples based on the within-day DJNW sentiment deviation, which is computed as the standard deviation of the decile value of the sentiment measure (ESS) across DJNW articles for each firm on a given day. A subsample is classified as “High” if the within-day standard deviation is above the median value, and “Low” otherwise. The row labelled “Difference F-test statistic (p-value)” reports the F test statistic and the corresponding p-value for the difference between the coefficients on the $DJ\ Sent \times Post \times Republican$ interaction term. All the other specifications remain the same as in column 3 of Panel A, Table 2.

| Split | Within-day DJNW sentiment deviation | |
|---|--|---------------------|
| | Low (1) | High (2) |
| DJ Sent \times Post \times Republican | -0.579 (-2.22) | -1.292 (-2.04) |
| DJ Sent \times Post | -0.226 (-1.34) | 0.182 (0.47) |
| DJ Sent \times Republican | -0.089 (-0.45) | 0.318 (0.77) |
| Post \times Republican | 0.378 (2.17) | 1.067 (2.76) |
| DJ Sent | 1.037 (7.95) | 1.690 (6.13) |
| Republican | -0.048 (-0.38) | -0.285 (-1.07) |
| Difference F-test statistic (p-value) | 1.079 (0.299) | |
| Firm Controls | Y | Y |
| Industry \times Date and Firm FE | Y | Y |
| R^2 | 0.218 | 0.242 |
| N | 183,221 | 132,962 |

Table I.10: Sentiment changes around the News Corporation takeover: DJ-specific sentiment

The table repeats Panel A of Table 6 by replacing *DJ Sent* with DJ-specific sentiment component relative to alternative sentiment sources, i.e., *DJ-Specific Sent* in Panel A of Table I.2. All other specifications remain the same.

| Residual sentiment to | Press Releases | Reuters Newswire | Associated Press | All |
|------------------------------|---------------------------|-----------------------------|-----------------------------|-------------------|
| | (1) | (2) | (3) | (4) |
| Republican × Post | -0.008 (-1.42) | -0.009 (-1.46) | -0.008 (-1.39) | -0.009 (-1.49) |
| Republican | -0.008 (-1.69) | -0.009 (-1.78) | -0.009 (-1.89) | -0.008 (-1.65) |
| Firm Controls | Y | Y | Y | Y |
| Industry × Date and Firm FE | Y | Y | Y | Y |
| R^2 | 0.218 | 0.221 | 0.221 | 0.219 |
| N | 322,879 | 322,879 | 322,879 | 322,879 |

Table I.11: Sentiment changes around the News Corporation takeover: quantile regressions

The table repeats Panel A of Table 6 using quantile regressions by focusing on the 25th, 50th, and 75th percentiles. The t-statistics are based on standard errors clustered by date.

| | Quantile 25 | Quantile 50 | Quantile 75 |
|------------------------------------|--------------------|--------------------|--------------------|
| | (1) | (2) | (3) |
| Republican \times Post | -0.009 (-1.35) | -0.008 (-1.32) | -0.007 (-1.04) |
| Republican | -0.008 (-1.56) | -0.010 (-2.00) | -0.012 (-2.04) |
| Firm Controls | Y | Y | Y |
| Industry \times Date and Firm FE | Y | Y | Y |
| N | 323,857 | 323,857 | 323,857 |

Table I.12: Likelihood of sentiment divergence around the News Corp. takeover

The table examines the likelihood of receiving news sentiment that is divergent to alternative sources. We repeat the equation (3) but replacing news sentiment with the indicator for whether there is a large divergence between DJNW sentiment and alternative sources. We report the results for the full sample in column 1, and separately for negative and positive sentiment in columns 2 and 3. All other specifications remain the same.

| Sample | Full (1) | Negative Sentiment (2) | Positive Sentiment (3) |
|------------------------------------|---------------------|-----------------------------------|-----------------------------------|
| Republican \times Post | -0.021 (-2.42) | -0.018 (-1.36) | -0.014 (-0.94) |
| Republican | 0.007 (1.02) | 0.000 (0.02) | 0.011 (0.90) |
| Firm Controls | Y | Y | Y |
| Industry \times Date and Firm FE | Y | Y | Y |
| R^2 | 0.202 | 0.316 | 0.261 |
| N | 353,122 | 150,006 | 166,456 |

Table I.13: Sentiment changes around the News Corporation takeover: alternative sources

The table examines the sentiment changes for alternative sources: press release, the Associated Press and Reuters Newswire. All the other specifications remain the same as in Panel A of Table 6.

| Sentiment score | Press Releases | Reuters Newswire | Associated Press |
|------------------------------------|-----------------------|-------------------------|-------------------------|
| | (1) | (2) | (3) |
| Republican \times Post | 0.007 (0.58) | 0.002 (0.14) | 0.021 (1.80) |
| Republican | -0.013 (-1.42) | 0.013 (1.26) | -0.007 (-0.69) |
| Firm Controls | Y | Y | Y |
| Industry \times Date and Firm FE | Y | Y | Y |
| R ² | 0.371 | 0.328 | 0.292 |
| N | 99,493 | 139,199 | 139,078 |

Table I.14: Sentiment, coverage, textual similarity changes and sentiment divergence

The table examines changes of DJNW sentiment (in column 1), coverage (in column 2), and textual similarity with Associated Press or Reuters Newswire (in columns 3 and 4) separately for days with high and low sentiment divergence. In column 2 of both panels, we estimate a Poisson regression because the dependent variable represents count data, and we report the pseudo- R^2 accordingly. All the other specifications remain the same as in Table 6.

A. High sentiment divergence between DJNW and alternative sources

| | Sentiment | Coverage | Similarity between DJNW and | |
|------------------------------------|-------------------|-------------------|-----------------------------|------------------|
| | (1) | (2) | Associated Press | Reuters Newswire |
| | (1) | (2) | (3) | (4) |
| Republican \times Post | -0.001 (-0.09) | 0.050 (1.10) | 0.013 (0.56) | 0.014 (0.60) |
| Republican | -0.002 (-0.22) | -0.044 (-1.18) | 0.002 (0.13) | 0.021 (1.13) |
| Firm Controls | Y | Y | Y | Y |
| Industry \times Date and Firm FE | Y | Y | Y | Y |
| R^2 | 0.355 | 0.272 | 0.569 | 0.517 |
| N | 94,854 | 94,854 | 30,595 | 33,845 |

B. Low sentiment divergence between DJNW and alternative sources

| | Sentiment | Coverage | Similarity between DJNW and | |
|------------------------------------|-------------------|-------------------|-----------------------------|-------------------|
| | (1) | (2) | Associated Press | Reuters Newswire |
| | (1) | (2) | (3) | (4) |
| Republican \times Post | -0.010 (-1.45) | 0.030 (1.07) | -0.064 (-2.10) | -0.036 (-1.11) |
| Republican | -0.012 (-2.07) | -0.013 (-0.59) | 0.025 (1.00) | 0.041 (1.61) |
| Firm Controls | Y | Y | Y | Y |
| Industry \times Date and Firm FE | Y | Y | Y | Y |
| R^2 | 0.263 | 0.200 | 0.580 | 0.512 |
| N | 220,870 | 328,790 | 25,530 | 28,454 |

Table I.15: Limits to arbitrage

The table repeats the baseline specification in column 3 of Panel A, Table 2 and the portfolio results in column 3 of Panel A, Table 8 for subsamples sorted based on firms' idiosyncratic volatility. We use idiosyncratic volatility as a measure of limits to arbitrage, and compute the standard deviation of daily excess returns relative to the Fama-French-Carhart four factor model during a given quarter and define subsamples as "High" if idiosyncratic volatility in the previous quarter is above the median value, and "Low" otherwise. The row labelled "Difference F-test statistic (p-value)" reports the F-test statistic and the corresponding p-value for the difference between the coefficients on the $DJ\ Sent \times Post \times Republican$ interaction term in Panel A, and for the difference between the coefficients on the $Alpha$ interaction term in Panel B.

A. Return responses around News Corp. takeover

| Split | Idiosyncratic volatility | |
|---|--------------------------|-------------------|
| | High (1) | Low (2) |
| DJ Sent \times Post \times Republican | -0.979 (-2.28) | -0.370 (-1.48) |
| DJ Sent \times Post | -0.073 (-0.27) | -0.349 (-2.15) |
| DJ Sent \times Republican | 0.149 (0.47) | 0.037 (0.19) |
| Post \times Republican | 0.691 (2.49) | 0.354 (2.26) |
| DJ Sent | 1.749 (8.50) | 0.767 (5.95) |
| Republican | -0.074 (-0.37) | -0.137 (-1.13) |
| Difference F-test statistic (p-value) | 1.510 (0.219) | |
| Firm Controls | Y | Y |
| Industry \times Date and Firm FE | Y | Y |
| R^2 | 0.249 | 0.245 |
| N | 119,747 | 196,147 |

B. Portfolio returns around News Corp. takeover

| Split | Idiosyncratic volatility | |
|---------------------------------------|--------------------------|-----------------|
| | High (1) | Low (2) |
| Alpha | 0.064 (2.59) | 0.016 (1.28) |
| Difference F-test statistic (p-value) | 2.91 (0.09) | |
| R^2 | 0.07 | 0.03 |
| N | 767 | 767 |

Table I.16: Trading direction, investor political affiliation and sentiment divergence

The table expands the sample in Table 7 from investor \times date level to investor \times stock \times date level. The dependent variable, *Following DJNW*, is an indicator equal to one if the investor follows DJNW and zero otherwise. A trade is classified as following DJNW sentiment if it represents a (net) purchase of a Republican stock with the DJNW news sentiment ESS above 50, or a (net) sale of a Democrat stock with the news sentiment ESS below 50. *Democrat Investor* is an indicator equal to one if the investor's percentage of political contribution to the Democrat party prior to the News Corporation takeover of DJNW is above the median, and zero otherwise. Column 1 reports the results for the full sample. In columns 2 and 3, we split the sample based on the divergence in sentiment score between DJNW and alternative news sources, i.e., corporate press releases, Reuters Newswire, and Associated Press. In all specifications, the t-statistics are based on standard errors clustered by date.

| Dependent Variable | Following DJNW | | |
|--|--------------------|-----------------------|------------------------|
| | Full Sample (1) | Low Divergence (2) | High Divergence (3) |
| Democrat Investor \times Post | -0.012 (-2.40) | -0.005 (-0.85) | -0.013 (-1.90) |
| Firm Controls | Y | Y | Y |
| Industry \times Date and Investor FE | Y | Y | Y |
| R ² | 0.103 | 0.143 | 0.212 |
| N | 278,032 | 168,596 | 106,692 |

Table I.17: Portfolio returns: high divergence portfolios

The table reports the estimates of the performance of portfolios analogous to those in column 3 of Panel A, Table 8, where stock-days are classified into high- and low-divergence portfolios. In columns 1 and 2, a stock is grouped into the high-divergence group if there is high divergence between DJNW and the other sources on day t . Columns 3 to 6 adopt a classification to limit frequent switching between high- and low-divergence portfolios. Specifically, we compute the fraction of high-divergence days over a prior window and assign stocks to the high-divergence portfolio at time t if this fraction is above the top quartile, and to the low-divergence portfolio if it is below the bottom quartile. Columns 3 and 4 use the window from $t - 10$ until day $t - 1$, and columns 5 and 6 use the window from $t - 30$ until day $t - 1$.

| | Basic | | 10 days | | 30 days | |
|-------|--------------------|-------------------|--------------------|-------------------|--------------------|-------------------|
| | High (1) | Low (2) | High (3) | Low (4) | High (5) | Low (6) |
| Alpha | 0.041 (3.33) | 0.036 (2.99) | 0.047 (2.12) | 0.021 (1.37) | 0.040 (2.77) | 0.024 (2.13) |
| R^2 | 0.07 | 0.06 | 0.08 | 0.08 | 0.07 | 0.12 |
| N | 767 | 767 | 767 | 767 | 767 | 767 |

Table I.18: Portfolio returns (DJNW sentiment based on Factiva data)

The table reports the excess returns on a portfolio following DJNW, constructed as in Table 8.A but where DJNW sentiment is assessed via textual analysis on data from Factiva. The DJNW portfolio's performance is estimated as the intercept ("alpha") from the Fama-French-Carhart 4-factor model over different periods: 2003 until the completion of the News Corporation takeover on December 14, 2007 (column 1), from the takeover's completion until December 31, 2012 (column 2), from the takeover's completion until December 31, 2010 (column 3), and from January 1, 2011 until December 31, 2012 (column 4). Columns 5 and 6 separately report the performance over the period from the takeover's completion until December 31, 2010 for similar portfolios, based on a shorter (20 trading days) or longer (120 trading days) holding period. Column 7 reports the performance over the period from the takeover's completion until December 31, 2010 for a similar portfolio, constructed using the calendar-time approach. In all columns, the t-statistics, reported in parentheses, are based on Newey-West standard errors with a lag parameter of 60 trading days (except columns 5 and 6, where the lag parameter is set to 20 and 120 trading days respectively).

| | 60-day horizon | | | | 20-day horizon | 120-day horizon | Calendar-time |
|----------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 2003 – 2007 (1) | 2008 – 2012 (2) | 2008 – 2010 (3) | 2011 – 2012 (4) | 2008 – 2012 (5) | 2008 – 2012 (6) | 2008 – 2012 (7) |
| Alpha | 0.010 (0.80) | 0.040 (2.33) | 0.070 (3.02) | 0.003 (0.22) | 0.073 (2.88) | 0.068 (2.35) | 0.018 (2.23) |
| N | 1,247 | 1,269 | 767 | 502 | 767 | 767 | 767 |
| R ² | 0.10 | 0.18 | 0.24 | 0.10 | 0.18 | 0.30 | 0.06 |

Table I.19: Dow Jones & Co. as a target of the News Corp. acquisition

Panel A of the table reports the top 50 U.S. circulated newspapers as of March 2007. Column 3 list the corresponding owner of the newspaper, and column 4 presents the media slant measure based on Gentzkow and Shapiro (2006). Panel B examines the likelihood of Dow Jones & Co. being a target of the News Corp. acquisition.

A. Top 50 U.S. newspapers

| Rank | Newspaper | Owner | Slant |
|-------------|---|-----------------------------|--------------|
| (1) | (2) | (3) | (4) |
| 1 | USA Today | Gannett | 0.4212 |
| 2 | The Wall Street Journal | Dow Jones & Co | 0.4829 |
| 3 | The New York Times | New York Times Company | 0.4271 |
| 4 | Los Angeles Times | Tribune Company | 0.4327 |
| 5 | New York Post | News Corporation | 0.4332 |
| 6 | The New York Daily News | Mortimer Zuckerman | 0.3648 |
| 7 | The Washington Post | Graham Holdings | 0.4339 |
| 8 | Chicago Tribune | Tribune Company | 0.4132 |
| 9 | Houston Chronicle | Hearst Corporation | 0.4889 |
| 10 | The Arizona Republic | Gannett | 0.4811 |
| 11 | The Dallas Morning News | Belo Corporation | 0.4160 |
| 12 | Newsday | Tribune Company | 0.4335 |
| 13 | San Francisco Chronicle | Hearst Corporation | 0.4064 |
| 14 | The Boston Globe | New York Times Company | 0.4251 |
| 15 | The Star-Ledger | Advance Publications | 0.4387 |
| 16 | Atlanta Journal-Constitution | Cox Enterprises | Unknown |
| 17 | The Philadelphia Inquirer | The McClatchy Company | 0.4221 |
| 18 | Star Tribune (Newspaper of the Twin Cities) | The McClatchy Company | 0.4642 |
| 19 | The Plain Dealer | Advance Publications | 0.4425 |
| 20 | Detroit Free Press | Gannett | 0.3624 |
| 21 | St. Petersburg Times | Times Publishing Company | 0.4382 |
| 22 | The Oregonian | Advance Publications | 0.4594 |
| 23 | The San Diego Union-Tribune | Copley Press | 0.4684 |
| 24 | The Orange County Register | Freedom Communications | 0.4934 |
| 25 | The Sacramento Bee | The McClatchy Company | 0.4244 |
| 26 | St. Louis Post-Dispatch | Lee Enterprises | 0.4650 |
| 27 | The Miami Herald | The McClatchy Company | 0.4428 |
| 28 | The Indianapolis Star | Gannett | 0.4631 |
| 29 | The Kansas City Star | The McClatchy Company | 0.4552 |
| 30 | The Denver Post | MediaNews Group Inc | 0.4593 |
| 31 | Rocky Mountain news | E. W. Scripps Company | Unknown |
| 32 | San Antonio Express-News | Hearst Corporation | 0.4494 |
| 33 | The Baltimore Sun | Tribune Publishing Company | 0.3939 |
| 34 | Mercury News | MediaNews Group Inc | Unknown |
| 35 | Milwaukee Journal Sentinel | Journal Media Group | 0.4428 |
| 36 | The Tampa Tribune | Media General | 0.4619 |
| 37 | Orlando Sentinel | Tribune Publishing Company | 0.4421 |
| 38 | Sun-Sentinel | Tribune Publishing Company | 0.4399 |
| 39 | The Seattle Times | The Seattle Times Company | 0.4381 |
| 40 | The Columbus Dispatch | Wolfe family | 0.4793 |
| 41 | The Courier-Journal | Gannett | 0.4250 |
| 42 | The Daily Oklahoman | Oklahoma Publishing Company | 0.5140 |
| 43 | The Charlotte Observer | The McClatchy Company | 0.4281 |
| 44 | Pittsburgh Post-Gazette | Block Communications | 0.4456 |
| 45 | Fort Worth Star-Telegram | The McClatchy Company | 0.4543 |
| 46 | The Cincinnati Enquirer | Gannett | 0.4119 |
| 47 | The Detroit News | MediaNews Group Inc | 0.3891 |
| 48 | Boston Herald | GateHouse Media | 0.4421 |
| 49 | Saint Paul Pioneer Press | MediaNews Group Inc | 0.4649 |
| 50 | Richmond Times-Dispatch | Media General | 0.4679 |

B. Dow Jones & Co. as a target

| | (1) | (2) | (3) |
|-----------------------|--------|--------|---------|
| Circulation (million) | 0.162 | 0.160 | 0.091 |
| | (3.53) | (3.54) | (1.94) |
| NY State | 0.133 | 0.156 | 0.203 |
| | (1.96) | (2.31) | (2.76) |
| Media Slant | | 1.286 | 0.860 |
| | | (2.37) | (1.14) |
| Net Income% | | | 1.405 |
| | | | (4.18) |
| Log(Total Assets) | | | -0.063 |
| | | | (-2.82) |
| R^2 | 0.397 | 0.468 | 0.718 |
| N | 49 | 46 | 31 |

Table I.20: WSJ circulation and reader political affiliation

The table examines the changes in the state-level paid circulation of the Wall Street Journal around the News Corporation takeover. The unit of observations is at state-year level. The dependent variable is the percentage of paid circulation in a given state over the total paid circulation in a given year. We based our proxy for a state's political affiliation on the dollar amount of donations in columns 1 and 2, and on the number of donations in columns 3 and 4. *Republican%* is the percentage of donations to Republican party relative to the total donations to Republican and Democrat party. *Republican State* is an indicator that is equal to one if *Republican%* exceeds 50%. Standard errors are double-clustered by state and year.

| Republican variable based on | Paid circulation % | | | |
|------------------------------|--------------------|-------------------|-----------------|-------------------|
| | Dollar donations | | # of donations | |
| | (1) | (2) | (3) | (4) |
| Republican% × Post | 0.250 (1.11) | | 0.284 (1.18) | |
| Republican State × Post | | 0.091 (1.13) | | 0.110 (1.49) |
| Republican% | -0.080 (-0.47) | | 0.017 (0.09) | |
| Republican State | | -0.064 (-1.36) | | -0.028 (-0.63) |
| Controls | N | N | N | N |
| State and Year FE | Y | Y | Y | Y |
| R^2 | 0.997 | 0.997 | 0.997 | 0.997 |
| N | 510 | 510 | 510 | 510 |

Table I.21: Stock return reaction and sentiment changes of news articles in the Wall Street Journal

In Panel A, the table reports regressions similar to equation (3), focusing on changes in the sentiment of Wall Street Journal articles. In Panel B, it reports similar regressions, where the dependent variable is the sentiment score DJ Sent for DJNW reports. The control variables in these panels are the same as in Table 6, Panel A. In Panel C, it reports regressions similar to equation (2), but focusing on the sentiment of Wall Street Journal articles. The control variables and fixed effects in this panel are the same as in column 3 of Table 2, Panel A.

A. WSJ Sentiment changes around News Corporation takeover

| | (1) | (2) | (3) |
|------------------------------------|-------------------|-------------------|-----------------|
| Republican \times Post | 0.035 (2.02) | 0.022 (1.16) | 0.011 (0.47) |
| Republican | -0.010 (-0.63) | -0.002 (-0.15) | 0.027 (1.37) |
| Firm Controls | N | Y | Y |
| Date and Firm FE | Y | Y | N |
| Industry \times Date and Firm FE | N | N | Y |
| R ² | 0.151 | 0.145 | 0.426 |
| N | 81,270 | 71,615 | 64,373 |

B. DJNW Sentiment changes around News Corporation takeover

| | (1) | (2) | (3) |
|------------------------------------|-------------------|-------------------|-------------------|
| Republican \times Post | -0.006 (-1.09) | -0.005 (-0.92) | -0.009 (-1.44) |
| Republican | -0.010 (-2.19) | -0.010 (-2.15) | -0.009 (-1.87) |
| Firm Controls | N | Y | Y |
| Date and Firm FE | Y | Y | N |
| Industry \times Date and Firm FE | N | N | Y |
| R ² | 0.125 | 0.126 | 0.222 |
| N | 325,966 | 323,886 | 323,098 |

C. Stock return reaction around News Corporation takeover

| | (1) | (2) |
|------------------------------|-------------------|-------------------|
| WSJ Sent × Post × Republican | -2.162 (-2.74) | -2.274 (-2.88) |
| WSJ Sent × Post | 1.102 (2.29) | 1.209 (2.52) |
| WSJ Sent × Republican | 0.933 (1.62) | 0.983 (1.71) |
| Post × Republican | 0.520 (0.94) | 0.800 (1.43) |
| WSJ Sent | 0.160 (0.43) | 0.104 (0.28) |
| Republican | -0.256 (-0.60) | -0.347 (-0.80) |
| Firm Controls | N | Y |
| Industry × Date and Firm FE | Y | Y |
| R ² | 0.336 | 0.337 |
| N | 64,256 | 64,068 |