

Social Media Sentiment and Over-the-Counter Equity Returns

Abstract

This study examines the relation between social media sentiment and the pricing of over-the-counter stocks. We measure the sentiment of messages on the largest social network for investors, Stocktwits, using large language models. The online platform and the trading venue share retail investors as their clientele. Stock prices hike with positive sentiment and reverse afterwards, while they plummet upon negative sentiment with little subsequent reversal. The explanatory power of sentiment quantified by natural language processing is not subsumed by the binary classification of sentiment by investors themselves. These results have implications for the informativeness of messages and investors' trading behavior.