Commentary

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A Little Bird Told Me: When Twitter Moves Markets

It's hard to believe the impact a mere 140 characters can have on financial markets.

As demonstrated by President-elect Donald Trump, tweet-shaming packs a powerful punch. In the early morning hours of December 6, Trump tweeted that Boeing's new Air Force One fleet project, at a cost of $4 billion, was "out of control." When markets opened for trading several hours later, shares of the aviation contractor slid by 1%. Similarly, Trump's Twitter tongue-lashing of aerospace contractor Lockheed Martin later in the month resulted in its stock closing down more than 2.4%. Both companies' stocks recovered shortly after these incidents.

Calling out companies on Twitter isn't a move reserved just for Republicans. During the 2016 presidential campaign, Democratic nominee Hillary Clinton also took to Twitter to criticize pharmaceutical firms Mylan NV (maker of the EpiPen) and Valeant Pharmaceuticals International, Inc., which both have been widely denounced for their price-gouging practices. Following Clinton's social-media castigations, Mylan's and Valeant's stock prices immediately plunged 5.5% and almost 6%, respectively, before eventually recovering.

Tweets have been moving markets for years. In April 2013, Syrian hackers took over the Associated Press' Twitter account and tweeted that (false) explosions at the White House had injured President Obama. Within three minutes, the S&P 500 lost $136 billion and the Dow Jones dropped nearly 1% before the AP's corporate communications team used a separate Twitter account to identify the bogus tweet, reversing the sharp sell-off. In the interim, investors fled equities and sought safety in bond and currency markets; as a result, the 10-year Treasury yield plunged almost six basis points while the U.S. dollar temporarily fell before the fake tweet was disproved. Such is the strength of social media.

Even the Securities and Exchange Commission (SEC) recognizes the role of social media. In 2013, the agency approved U.S. companies' use of social-media sites (such as Twitter and Facebook) as a means for companies to announce important information in compliance with the SEC's Regulation Fair Disclosure; with the caveat that investors are alerted as to which social-media outlet will be used to disseminate the information. The report came on the heels of an SEC investigation of Netflix CEO Reed Hastings, whose post about Netflix's monthly viewership results on his personal Facebook page in July 2012 (rather than an SEC filing or official news release) caught the attention of commission officials.

Trading on Tweets is for the Birds

Remember that many tweets are unfiltered and unedited, and anyone can post anything, regardless of accuracy (or veracity). Social media can be a great source of investment information, but it should not be used as the primary resource.

Know your investment objectives. This may seem a tired trope, but it holds true for a good reason. Trying to time the market based on social-media postings is a losing proposition, and following the crowd is never a good investment strategy. Short-term market movements, while alarming, should not impact long-term investment planning.