Data Abundance and Asset Price Informativeness*

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Abstract

Information processing filters out the noise in data but it takes time. Hence, low precision signals are available before high precision signals. To capture this feature, we develop a model of securities trading in which investors can acquire signals (about future cash flows) of increasing precision over time. As the cost of producing low precision signals declines, prices are more likely to reflect these signals before more precise signals become available. This effect increases price informativeness in the short run but not necessarily in the long run, because it reduces the profit from trading on more precise signals. We make additional predictions for trade and price patterns.

KEYWORDS: Asset Price Informativeness, Big Data, FinTech, Information Processing, Markets for Information, Contrarian and momentum trading.

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