

Investor Attention Deficit-Disorder

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Our eyes are constantly scanning the environment looking for interesting and novel subject matter. The forces behind this activity are specific areas in our brain called the superior colliculus, the lateral pulvinar, and the parietal cortex. Unless our current task is fully riveting, these roaming attention grabbers will scan the area for the next new thing.

The media has figured out a way to capitalize on our inherent distractibility by barraging us with exciting images and titillating text. Many of us yield to the temptation. If we didn't, newsprint, television, and radio wouldn't keep using these tactics.

Stimulation Leads to Buying

You may be familiar with the May 3, 1998 *New York Times* article, "HOPE IN THE LAB: A special report; A Cautious Awe Greets Drugs That Eradicate Tumors in Mice by Gina Kolata, which stated:

"Within a year, if all goes well, the first cancer patient will be injected with two new drugs that can eradicate any type of cancer, with no obvious side effects and no drug resistance -- in mice."

The front page article caught the attention of approximately 4 million readers. The ebullient cancer treatment news went on to describe angiostatin and endostatin, two drugs that work by constricting the blood supply to tumors and thereby slow their growth. When used together, they stopped tumor growth in mice according to Dr. Judah Folkman who did the study. Entremed, Inc. (ENMD), a Rockville, Md. Company, was licensed to make the drugs. Several famous scientists were quoted about the promise of the discovery. One of them was the Nobel Laureate James Watson.

On the Friday before the article ran, less than 20,000 shares of Entremed were traded on the stock market. On the Monday after the New York Times piece, over 23 million exchanged hands. This frantic exchange continued over a week.

At the same time, the price per share precipitately ran up with the demand. There were a limited number of shares to begin with (just over 12 million), and company directors owned about one-third of them. The stock price catapulted from \$12.06 at the open on May 4th to \$85.00 within the first few minutes of trading. It closed at \$51.81 that day.

This wasn't a coincidence. Kolata's story was sizzling. The writer gathered quotes that gave readers optimism and allowed them to relate to the core message. The word, "cure," ablated the cautious positions taken by some of the scientists. The article's boldness made it unique. Its content, like kernels of corn on a hot grill, exploded. The result was a pop in both the volume and price of Entremed. This was somewhat surprising, because the same subject was reported in the New York Times six months earlier with a very little effect. The prior New York Times article was based on a scientific article in the journal *Nature*.

Just the Boring Facts

In contrast to Kolata's May 3rd, 1998 article, an earlier New York Times, November 27, 1997 piece by a different author, **Nicholas Wade**, noted that the benefit of angiostatin and endostatin was clearly restricted to mice. There was no promise of a cure in humans, though it was obvious that Dr. Folkman's research showed it in laboratory animals. Also, the headline made no promises. It was simply informational. Fewer attention grabbers were captured by it.

This was reflected in a considerably more modest public reaction. Shares in the biotechnology company rose from \$11.87 the day before the article to \$15.25 the day after, an increase of \$3.345 per share. Volume increased from 145,700 shares traded to 553,700 during the same time period. Six months after Kolata's story, the same share was worth between 51.00 and 85.00 dollars depending on when it was sold the day after the article ran.

Carl Hathaway of Hathaway and Associates in Rowayton took advantage of this price sprint (Andrew Pollack, NYT 5 10 98). His company was one of the largest institutional investors in Entremed Inc. at that time with more than 325,000 shares. Hathaway sold half after the May 4th New York Times piece.

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Boredom Causes Trouble

Not everyone was so lucky. Those that bought in the boom and still hold their shares are looking at \$2.01 for each share if they sold on October 24, 2006. Angiostatin and endostatin, the drugs mentioned in Kolata's article, apparently aren't being tested anymore. Other scientists could not produce Dr. Folkman's results. Additionally, the two drugs are difficult to produce in the quantity necessary to make them clinically available. The once exciting Entremed, Inc. is now flat on the floor.

There were people that did make money, though, like Carl Hathaway. They were aware of the effect the article had on others. This person is what Mark S. Seasholes of the Finance Group at the University of California in Berkeley calls an astute investor. He says, in his paper with Guojun Wu, entitled *Profiting from Predictability: Smart Traders, Daily Price Limits, and Investor Attention*, "We find attention-based buying by unsophisticated individual investors fuels the smart traders' profits." The researchers go on to say that attention-grabbing events lead investors to buy stocks they did not previously own. By being aware of the effect of attention grabbing events, the perceptive investor can profit.