

Outsider Trading

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In this paper we examine inefficiencies and information disparity in the Japanese stock market. By carefully analysing information publicly available on the internet, an `outsider' to conventional statistical arbitrage strategies--which are based on market microstructure, company releases, or analyst reports--can nevertheless pursue a profitable trading strategy. A large volume of blog data is used to demonstrate the existence of an inefficiency in the market. An information-based model that replicates the trading strategy is developed to estimate the degree of information disparity.

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