FRIDAY, APRIL 28, 2017

Friday, 6:30 PM Dinner Ten50 BBQ, Richardson, TX

SATURDAY, APRIL 29, 2017

Saturday, 7:30 AM – 8:15 AM Continental Breakfast Room 2.902
Saturday, 8:15 AM – 8:30 AM WELCOME – Dr. Varghese Jacob Room 2.902
Saturday, 8:30 AM – 9:15 AM Morning Session Chair – Kelsey Wei Room 2.902

Agency and Portfolio Choice in Public Pension Funds
Alexander Dyck, University of Toronto; Paulo Manoel, University of California, Berkeley; Adair Morse, University of California, Berkeley; Lukasz Pomorski, AQR
DISCUSSANT: Malcolm Wardlaw (UTD)

Boards of public pension funds are prone to unique agency frictions because of their status as being in the public sector. We model public pension boards' hiring and compensating of investment managers to achieve optimal portfolios for constituents. Agency conflicts manifest in board preferences over manager quality and portfolio choice, reflecting underfunding pressures, outrage constraints on paying market compensation to managers, bureaucratic incentives and board political capture. Testing the model in global data covering $5.4 trillion of assets, we find underfunding induces risk-taking, but that outrage over compensation materially affects the board’s ability to pay qualified managers ($327,823 lower). Funds with bureaucratic trustees instead look overly conservative, taking 0.035 portfolio weight away from risky asset classes, resulting in lower tracking error and portfolio performance. Pay-to-play motivations for political chairpersons result in a shift of 0.05 portfolio weight from vanilla equities into hedge funds, private equity and real estate, which then underperforms benchmarks by 1.2%. We are able to tie the mechanism to the hiring of lower quality managers ($243,293 lower), consistent with our model that board influence over investment manager quality and compensation matters.

Saturday, 9:15 AM – 10:00 AM Room 2.902

The Geography of Financial Misconduct
Christopher A. Parsons, University of California, San Diego; Johan Sulaeman, National University of Singapore; Sheridan Titman, University of Texas at Austin
DISCUSSANT: Steven Xiao (UTD)

Financial misconduct (FM) rates differ widely between major U.S. cities, about as much as between industries. Although spatial differences in enforcement or firm characteristics do not account for these patterns, city-level culture appears to be very important. For example, FM rates are strongly related to other unethical behavior in the city, involving its politicians, doctors, and (potentially unfaithful) spouses. We provide some causal evidence that cultural norms are contagious, i.e., transmitted through peer effects.

Saturday, 10:00 AM – 10:15 AM Room 2.902

BREAK

Saturday, 10:15 AM – 11:00 AM Room 2.902

Friends during Hard Times: Evidence from the Great Depression
Tania Babina, Columbia University; Diego Garcia, University of Colorado at Boulder; Geoffrey Tate, University of North Carolina
DISCUSSANT: Jim Linck (SMU)

We test whether network connections to other firms through executives and directors increase value by exploiting differences in survival rates in response to a common negative shock. We find that firms that had more connections on the eve of the 1929 financial market crash have higher 10-year survival rates during the Great Depression. Consistent with a financing channel, we find that the results are particularly strong for small firms, private firms and firms with small cash holdings relative to the sample median prior to the shock. Moreover, connections to cash-rich firms are stronger predictors of survival, overall and among financially constrained firms. Because of the greater segmentation of markets in the 1920s and 1930s than in modern data samples, we can mitigate the potential endogeneity of network connections at the time of the shock by exploiting variation in the local demand for directors’ services. We also find evidence that the information that flows through network links increases the odds that a firm will be acquired.
Sentiment Metrics and Investor Demand
Luke DeVault, Clemson University; Richard Sias, University of Arizona; Laura Starks, University of Texas at Austin
DISCUSSANT: Kumar Venkataraman (SMU)

Recent work suggests that sentiment traders shift from safer to more speculative stocks when sentiment increases. Exploiting these cross-sectional patterns and changes in share ownership, we find that sentiment metrics capture institutional rather than individual investors’ demand shocks. We examine the economic mechanisms underlying the relation between institutions and sentiment and find that a combination of common institutional trading patterns and motivations explain much of the relation including institutions’ risk management, reputation concerns, and investment styles.

LUNCH

Analyzers and Anomalies
Joseph Engelberg, University of California, San Diego; R. David McLean, Georgetown; Jeffrey Pontiff, Boston College
DISCUSSANT: Thomas Moeller (TCU)

Analysts’ price targets and recommendations contradict stock return anomaly variables. Forecasted returns based on price targets are higher (lower) among stocks that anomaly variables suggest will have lower (higher) returns. Analysts’ one-year forecasted returns are 14% for anomaly-longs and 24% for anomaly-shorts. Similarly, analysts issue more favorable recommendations for anomaly-shorts than anomaly-longs. Analysts’ ex-post mistakes, which we calculate as the forecasted return less the realized return, can be predicted with anomaly variables. Our findings show that investors who follow analysts may contribute to mispricing.

CEO Savings Culture and Corporate Cash Policy
Chen Lin, University of Hong Kong; Xiaoding Liu, University of Oregon
DISCUSSANT: Umit Gurun (UTD)

Using the national savings rate in the CEO’s country of ancestry as a proxy for culturally inherited preference for savings, we document a significant positive impact of CEO savings culture on corporate cash holdings in the U.S. The results hold in a subsample of internal CEO turnovers and CEO departures due to exogenous reasons. We also find that the impact of CEO savings culture on cash holdings is stronger when the CEOs are more powerful and entrenched. Using the relaxation of interstate branching restrictions under the Interstate Banking and Branching Efficiency Act as a natural experiment, we find that only CEOs with low savings culture respond to the improvement in access to external finance by reducing cash holdings. We also examine corporate payouts and find that CEOs with high savings culture would rather retain cash than make distributions to shareholders. Finally, we explore the origin of savings culture and partly trace it back to the ancestry country’s historical exposure to major famines and the structure of the ancestry country’s primary language.

BREAK
This paper utilizes fund flows to test whether investors’ allocations are best predicted by the CAPM, or whether information availability is driving investor behavior. Prospectuses of sector funds provide investors information regarding both sector and overall market performance. We investigate whether investors respond only to the outperformance of a fund with respect to the market, or whether sector outperformance matters as well. We find that investors respond to both performance metrics. Experimental results using an online survey platform provide out-of-sample confirmation of these findings. These results show that the average investor responds to all performance information readily available to her.

We study the relation between mutual fund managers’ family backgrounds and their professional performance. Using hand-collected data from individual Census records on the wealth and income of managers’ parents, we find that managers from poor families deliver higher alphas than managers from rich families. This result is robust to alternative measures of fund performance, such as benchmark adjusted return and value extracted from capital markets. We argue that managers born poor face higher entry barriers into asset management, and only the most skilled succeed. Consistent with this view, managers born poor are promoted only if they outperform, while those born rich are more likely to be promoted for reasons unrelated to performance. Overall, we establish the first link between family descent of investment professionals and their ability to create value.