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1.Prospect Theory and Stock Market Anomalies

NICHOLAS BARBERIS, LAWRENCE J. JIN, and BAOLIAN WANG

- ABSTRACT

model of asset prices → In with

- evaluate risk according to prospect theory
- ability to explain 23 prominent anomalies

- incorporates all of the elements of prospect theory
- accounts for investors' prior gains and losses
- makes quantitative predictions about an asset's average return based on empirical estimates of the asset's return volatility, return skewness, and past capital gain

We find that the model can help explain a majority of the 23 anomalies

问题提出

- Prospect Theory is a highly influential theory of decision-making under risk, However, we still do not understand its implications asset prices.
- Under mean-variance preferences, average returns are described by the Capital Asset Pricing Model (CAPM). But what determines average returns when investors instead evaluate risk according to prospect theory? whether the model can account for 23 prominent stock market anomalies?

研究方法

- a new model of asset prices that incorporates prospect theory, as well as a related concept known as narrow framing, into investor preferences.
- how the model can be used to make quantitative predictions about the cross-section of average returns.

创新

- First, by way of a new model of the cross-section, it answers the long-standing question: “What does prospect theory predict for stock market anomalies?”
- Second, by helping to explain a majority of 23 prominent anomalies, it offers a psychological account of multiple stock market puzzles.
- Finally, to our knowledge, our paper marks the first time a “behavioral” model of either beliefs or preferences has been used to make quantitative predictions about a wide range of anomalies.

- 研究结论

- We are not aware of a previous effort to use a behavioral model to make quantitative predictions about a large number of stock market anomalies, but our analysis shows that this goal can be achieved.

When evaluating how a piece of news should affect stock prices, rational investors should think in percentage terms rather than nominal dollar terms.

2. Can the Market Multiply and Divide? Non-Proportional Thinking in Financial Markets

KELLY SHUE and RICHARD R. TOWNSEND

- ABSTRACT

hypothesize that investors partially think about stock price changes in dollar rather than percentage units

Leading to

more extreme return responses to news for lower-priced stocks

Consistent with such non-proportional thinking

a doubling in price

associated with

a 20% to 30% decline in volatility and beta

Volatility jumps following stock splits and drops following reverse splits

Lower-priced stocks also respond more strongly to firm-specific news

Non-proportional thinking

explain

asset pricing patterns :

size-volatility/beta relation, the leverage effect puzzle, and return drift and reversals

问题提出

- Wall Street Journal、popular stock-tracking applications on iphone、CNBC display tickers showing dollar price changes
- This emphasis on nominal price changes may both cause and reflect a tendency of investors to think that a given piece of news should correspond to a certain dollar change rather than a certain percentage change in price. In other words, investors may engage in non-proportional thinking.？？

研究样本

- restrict the sample to stocks that are publicly traded on the NYSE, American Stock Exchange, or NASDAQ. We also restrict the sample to assets that are classified as common equity (CRSP share codes 10 and 11)， 1926-2016.

研究方法

- Regression analysis , event study

创新

- non-proportional thinking to explain some asset pricing patterns

研究结论

- non-proportional thinking is an important determinant of cross-sectional variation in volatility and beta.
- Well-known asset pricing patterns such as the leverage effect、 the negative relation between size and risk (volatility or beta)、over and under-reaction to news、 consequent reversals and drift can be reinterpreted through the lens of non-proportional thinking.
- Our results raise the interesting question of whether managers hold mistaken beliefs when they consider whether to engage in stock splits? plits substantially raise return volatility without increasing liquidity , increase the value of options by increasing volatility .

Agency MBS are created when mortgage lenders deliver pools of similar mortgage loans to Fannie Mae, Freddie Mac, or Ginnie Mae, in exchange for an MBS with an agency default guarantee.

3. The Cross Section of MBS Returns

PETER DIEP, ANDREA L. EISFELDT, and SCOTT RICHARDSON

- ABSTRACT

a simple, linear asset pricing model of the cross section of MBS returns

MBS earn risk premia as compensation for their exposure to prepayment risk

measure prepayment risk and estimate risk loadings using prepayment forecasts versus realizations

Estimated loadings on prepayment risk decrease monotonically in securities' coupons relative to the par coupon.

Prepayment risk appears to be priced by specialized MBS investors.

The price of prepayment risk changes sign over time with the sign of a representative MBS investor's exposure to prepayment shocks.

问题提出

- $7.3 trillion. Despite the size and importance of the MBS market, relatively little work has been done to systematically explain the cross-section variation in MBS returns.

- 研究方法

- We present the first simple linear asset pricing model for the cross section of MBS returns, and we estimate the model's parameters using average monthly realized returns to proxy for expected returns.

创新

- Our study is one of the first empirical studies the returns of MBS market to document the changing sign of prepayment risk premia over both a long time series and a broad cross section
- Second, By contrast, and consistent with the vast literature examining the cross section of equity returns, we use average realized monthly returns in our study.
- Third, we are the first to measure prepayment risk loadings in the cross section of MBS using data on prepayment surprises.

研究结论

- we show that the price of prepayment risk appears to be determined by whether prepayment is wealth-increasing or wealth-decreasing for a representative MBS investor who holds the MBS market--on the composition of the market between discount and premium securities at the beginning of the month.

4. Reinvestment Risk and the Equity Term Structure

ANDREI S. GONÇALVES

- ABSTRACT

The equity term structure is downward sloping at long maturities.

Estimate an ICAPM to show that the trade-off between market risk and reinvestment risk explains this pattern

Intuitively, long-term dividend claims are highly exposed to market risk, they are good hedges for reinvestment risk because dividend prices rise as expected returns decline， and longer-term claims are more sensitive to discount rates

reinvestment risk dominates at long maturities

inducing relatively low risk premia on long-term dividend claims

downward

equity term structure cyclicality and the upward-sloping bond term structure.

问题提出

- Calculating appropriate risk premia to discount future cash flows is at the heart of investment decisions. But how do risk premia vary with cash flow maturity?(股权期限结构） As Campbell (2018) summarizes, “A recent literature has asked how to reconcile a downward-sloping risky term structure with asset pricing theory...[but]...it is not easy”

研究方法

- define reinvestment risk in the context of an extension to the ICAPM, where market risk and reinvestment risk are both priced .
- I empirically demonstrate that the trade-off between market and reinvestment risk can explain the downward-sloping equity term structure at long maturities

创新

- First, I show that a standard feature of long-term investors (namely, an endogenous aversion to reinvestment risk) helps explain the equity term structure.
- Second, I produce direct empirical evidence in support of the proposed reinvestment risk channel as opposed to studying the mechanism indirectly through a simulated economy.
- Third, unlike previous explanations for the equity term structure, the trade-off between market and reinvestment risk and its time-variation produce more nuanced features of the equity term structure, such as its humped shape and countercyclicality.

研究结论

- The key new finding is that the trade-off between market and reinvestment risk and its time-variation provide a simple explanation for the downward-sloping (at long maturities) and countercyclical equity term structure.

5. The Misallocation of Finance

TONI M. WHITED and JAKE ZHAO

- ABSTRACT

estimate real losses arising from cross-sectional misallocation of financial liabilities

Extending a production-based framework of misallocation measurement to the liabilities side of the balance sheet

using manufacturing firm data from the United States and China

we find significant misallocation of debt and equity in China but not the United States

Reallocating liabilities of firms in China to mimic U.S. efficiency

①produce gains of 51% to 69% in real value-added

②only 17% to 21% stemming from inefficient debt-equity combinations

17% - 21%融资类型，79%-83%融资总量的不当配置，即公司生产率与资源次优配置

Chinese firms (are large or in developed cities), lower distortionary financing costs.

问题提出

- misallocation of capital and labor， lower TFP. Such pervasive evidence of factor misallocation begs the question of whether the financial liabilities that back the funding of capital goods and payroll are also misallocated.
- Are the right firms getting the right amount of finance, and is the mix of debt and equity optimal?
- 研究方法
- Extending Hsieh and Klenow (2009) model, our strategy of modeling financial liabilities as factor inputs , Because more developed financial markets can indeed cause new firms to enter, our analysis provides a lower bound on the extent of financial misallocation that a dynamic model with entry and exit might find.

创新

- Our model is analogous to the setup in Hsieh and Klenow (2009), with two differences. First, we model the financial liabilities that underlie these factors and potentially contribute to TFP distortions.
- Second, while Hsieh and Klenow (2009) specify capital and labor as imperfect substitutes, we extend their framework by allowing different forms of finance to be either perfect or imperfect substitutes. This extra flexibility in our model is important because it allows for a frictionless Modigliani-Miller (MM) world as a baseline.
- Third, introduces a new methodology for quantifying the extent to which an efficient allocation of financial resources across the economy can affect both aggregate output and the TFP of an economy .引入了一种新的方法来量化整个经济体中金融资源的有效配置对一个经济体的总产出和全要素生产率的影响程度。

研究结论

- Our evidence from U .S. data points to only modest misallocation distortions, if China were able to achieve the more reasonable U .S. level of efficiency, gains of 51% to 69% would still be possible.
- When we break this figure down by the amount of finance versus the type of finance, we find that approximately four-fifths of the potential gains can be attributed to the amount of finance, with the rest attributed the mix of securities used to fund a firm’s operations.

p值篡改：科研人员不断的尝试统计计算直到$p<0.05$
(also known as data-snooping or data-mining)

6. The Limits of p-Hacking: Some Thought Experiments

- ABSTRACT

Suppose that the 300+ published asset pricing factors are all spurious.

How much p-hacking is required to produce these factors?

If 10,000 researchers generate eight factors every day , it takes hundreds of years.

because dozens of published t-statistics exceed 6.0, while the corresponding p-value is infinitesimal, implying an astronomical amount of p-hacking in a general model

More structure implies that p-hacking cannot address ≈100 published t-statistics that exceed 4.0

as they require an implausibly nonlinear preference for t-statistics or even more p-hacking.

results imply that mispricing, risk, and/or frictions have a key role in stock returns

on August 19, 2004, three of the largest New York brokerage firms privately entered into The Protocol for Broker Recruiting《经纪人招募协议》. The Protocol allowed departing advisors to retain a limited set of client data and to solicit their clients when moving to other Protocol member firms.

7. Property Rights to Client Relationships and Financial Advisor Incentives

CHRISTOPHER P. CLIFFORD and WILLIAM C. GERKEN

- ABSTRACT

study the effect of a change in property rights on employee behavior in the financial advice industry .

staggered firm-level entry into “the Protocol for Broker Recruiting”

→ effectively transferring ownership of client relationships from the firm to the advisor.

↓ advisors appear to tend to client relationships more by investing in client-facing industry licenses, shifting to fee-based advising, and reducing customer complaints.

support property rights based investment theories of the firm and document offsetting costs to restricting labor mobility

一些经销商(“核心经销商”)的关联度较高，而另一些经销商(“外围经销商”)与其他经销商的关联度较低。鉴于这些观察结果，我们提出了一个新的场外市场交易模型，重点关注库存和网络摩擦对价格和配置的联合影响

8. Inventory Management, Dealers’ Connections, and Prices in Over-the-Counter Markets

JEAN-EDOUARD COLLIARD, THIERRY FOUCAULT, and PETER HOFFMANN

- ABSTRACT

propose a new model of trading in over-the-counter markets

Dealers accumulate inventories by trading with end-investors and trade among each other to reduce their inventory holding costs

Core dealers use a more efficient trading technology than peripheral dealers， who are heterogeneously connected to core dealers

Connectedness affects prices and allocations if and only if the peripheral dealers' aggregate inventory position differs from zero. Price dispersion increases in the size of this position.

The model generates new predictions about the effects of **dealers' connectedness** and **dealers' aggregate inventories** on prices.

数据来源：We analyze retail marketable order flow from the U.S. equity market for the six years between January 2010 and December 2015.

9. Tracking Retail Investor Activity

EKKEHART BOEHMER, CHARLES M. JONES, XIAOYAN ZHANG,
and XINRAN ZHANG

创新

- we make three main contributions. First and most importantly , we propose a novel methodology for identifying and signing marketable retail trades using publicly available data with substantial coverage.
- Second, we show that the marketable retail trades that we identify can predict the cross-section of future stock returns.
- Third, we analyze the nature of the predictive power of marketable retail order flow and show that half of its predictability is likely driven by order imbalance persistence and liquidity provision, while the other half is consistent with informed trading.

- ABSTRACT

provide an easy method to identify marketable retail purchases and sales using recent, publicly available U.S. equity transactions data.

Individual stocks with net buying by retail investors outperform stocks with negative imbalances by approximately 10 bps over the following week..

Less than half of the predictive power of marketable retail order imbalance is attributable to order flow persistence, while the rest cannot be explained by contrarian trading (proxy for liquidity provision) or public news sentiment.

There is suggestive evidence that retail marketable orders might contain firm-level information that is not yet incorporated into prices.

10. Out-of-Town Home Buyers and City Welfare

JACK FAVILUKIS and STIJN VAN NIEUWERBURGH

- ABSTRACT

Many cities have attracted a flurry of out-of-town (OOT) home buyers.

Such capitalinflows affect house prices, rents, construction, labor income, wealth, and ultimately welfare.

We develop an equilibrium model to quantify the welfare effects of OOT home buyers for the typical U .S. metropolitan area

When OOT investors buy 10% of the housing in the city center and 5% in the suburbs, welfare among residents falls by 0.61% in consumption-equivalent units

House prices and rents rise substantially , resulting in welfare gains for owners and losses for renters.

Policies that tax OOT buyers or mandate renting out vacant property mitigate welfare losses.

11. Structuring Mortgages for Macroeconomic Stability

JOHN Y. CAMPBELL, NUNO CLARA, and JOÃO F. COCCO

- ABSTRACT

study mortgage design features aimed at stabilizing the macroeconomy

Model overlapping generations of borrowers and an infinitely lived risk-averse representative lender

Mortgages are priced using an equilibrium pricing kernel derived from the lender's endogenous consumption

We consider an adjustable-rate mortgage with an option that during recessions allows borrowers to pay only interest on their loan and extend its maturity .

The option stabilizes consumption growth over the business cycle, shifts defaults to expansions, and enhances welfare.

The cyclical properties of the contract are attractive to a risk-averse lender so that the mortgage can be provided at a relatively low cost.

Turkey's banking industry, rich microlevel data on bank loans to provide novel evidence on the effects of physiological and spiritual factors on credit decisions made by loan officers

12. Do Physiological and Spiritual Factors Affect Economic Decisions?

CEM DEMIROGLU, OGUZHAN OZBAS, RUI C. SILVA, and MEHMET FATİH ULU

12. Do Physiological and Spiritual Factors Affect Economic Decisions?

- ABSTRACT

in the context of Ramadan斋月

an entire lunar month of daily fasting and increased spiritual reflection in the Muslim faith

examine the effects of physiology and spiritual sentiment on economic decision-making

Using an administrative data set of bank loans originated in Turkey during 2003 to 2013

we find that small business loans originated during Ramadan are 15% more likely to default within two years of origination

Loans originated in hot Ramadans, when adverse physiological effects of fasting are greatest, and those approved by the busiest bank branches perform worse.

Despite their worse performance, Ramadan loans have lower credit spreads.

13. Risk Management in Financial Institutions: A Replication

PAUL M. GUEST

- ABSTRACT
- Rampini, Viswanathan, and Vuillemey (RVV) show empirically that net worth drives hedging.
- I identify discrepancies to which RVV's key findings are not robust:

① the positive correlation between net worth and hedging is not independent of institution size,

②house price decline shocks to net worth (which RVV use for identification) have mixed effects on hedging that are not robust across alternative specifications,

③and the treatment effects on net worth and hedging are not increasing in real estate exposure, inconsistent with a causal explanation.

Overall, my analysis does not support the conclusion of RVV that higher net worth causes more hedging.

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