**FEN-MAY-2017**

["Firm Fundamentals and Realized Factor Betas"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3011256&partid=22912&did=352619&eid=426204) , [Swedish House of Finance Research Paper No. 17-14](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=2333891&partid=22912&did=352619&eid=426204)

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Firm fundamentals, in particular firm size, help explain variation in factor loadings (betas) for the market, size and value factor. Surprisingly, however, they are dominated in terms of explanatory power by an unobserved time-invariant component. This leads to surprisingly stable factor loadings: stocks with high (low) factor loadings tend to remain as such for over a decade. Our models work best in explaining market betas (r-squares up to 64%) and worst in explaining value betas (r-squares up to 35%). These results are robust to different estimation techniques of factor betas and also hold up when we limit the sample to firms with statistically significant betas.

["Origins of Too-Big-To-Fail Policy,"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2974002&partid=22912&did=342232&eid=144900) [FRB of Cleveland Working Paper No. 17-10](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=1020757&partid=22912&did=342232&eid=144900)

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This paper traces the origin of the too-big-to-fail problem in banking to the bailout of the $1.2 billion Bank of the Commonwealth in 1972. It describes this bailout and those of subsequent banks through that of Continental Illinois in 1984. Motivations behind the bailouts are described with a particular emphasis on those provided by Irvine Sprague in his book Bailout. During this period, market concentration due to interstate banking restrictions is a factor in most of the bailouts, and systemic risk concerns were raised to justify the bailouts of surprisingly small banks. Sprague’s descriptions are also used to describe the tradeoffs and the time-consistency problem faced by bank regulators. Finally, most of the bailouts in this period relied on the Federal Deposit Insurance Corporation’s use of the Essentiality Doctrine. A discussion of this doctrine is provided and used to illustrate how legal constraints on regulators may become less constraining over time.

["Ponzi Schemes and the Financial Sector: DMG and DRFE in Colombia"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2974111&partid=22912&did=342232&eid=144900" \t "_blank) 
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By the time the Colombian government closed DMG and DRFE, two Ponzi schemes that were operating in Colombia until 2008, over half a million customers had deposited funds corresponding to 1.2% of Colombia’s annual GDP. We show that the individuals who invested in DMG and DRFE obtained close to 40% more loans in the formal financial sector prior to the government closing these firms, compared to similar individuals who did not invest in these pyramids. Moreover, deposits in the formal financial sector fell in those municipalities affected by these two pyramids: a one-standard deviation increase in the municipal presence of the pyramid schemes reduced municipal saving deposits by 2.9% and Certificate Deposits by close to 10%. After the firms were shut down, the proportion of nonperforming loans of investors rose 35% above non-investors’ loans; two years later, investors’ deposits had not yet fully recovered

["Identifying and Measuring Financial Repression: The British Case in the Mid-20th Century"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2973254&partid=22912&did=342230&eid=141721) 

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A disagreement has emerged over whether advanced countries such as Britain engaged in financial repression following the Second World War. A review of the historical and archival evidence identifies eleven pieces of British legislation and sixteen directives that supported financial repression and played a role in sustaining post-war Britain's record-setting levels of public debt. This paper presents an overview of British financial repression, which included interest rate policy, capital controls, directed lending, and the conscription of the British banking system. An examination of two leading methods for measuring financial repression identifies shortcomings and the need for enhanced measurement techniques. Free market bond yield data are used to calculate British government savings attributable to financial repression of over 8% of GDP in 1948, which is more than double previous estimates for Britain and significantly greater than estimates for developing countries during the 1970s-80s

[Corporate Governance in China: The Law and Its Political Logic"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2970882&partid=22912&did=342203&eid=128872) Routledge Handbook of Corporate Law ed. Roman Tomasic . (Abingdon: Routledge, November 2016), Chapter 11, pp. 183-211.

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Although the formal structure of corporate governance in China bears some of the universal attributes, such as separate legal personality of the company and limited liability of shareholders, in response to the typical agency problems, corporate governance in China possesses also several "Chinese characteristics" resulted from China's rather unique political and economic system. It is fair to say the governance practice of Chinese enterprises is an evolving process the direction of which has been shaped by many factors. This chapter not only outlines the general allocation of corporate powers among various governance and management institutions in a company – including the shareholders' meeting, the board of directors, the supervisory board, and the management, but also place the legal framework of corporate governance in China in its political, economical and social contexts.

[Long-Horizon Returns"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2973516&partid=22912&did=342096&eid=64570) , [Chicago Booth Research Paper No. 17-17](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=930647&partid=22912&did=342096&eid=64570)

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We use bootstrap simulations to examine the properties of long-horizon U.S. stock market returns. Distributions of continuously compounded returns converge toward normal distributions as we extend the horizon from one to 30 years. We find no evidence, however, that distributions of dollar payoffs converge toward lognormal. We also find that, though largely irrelevant at short horizons, uncertainty about the expected return can have a substantial impact on uncertainty about long-horizon payoffs.

[Limits of Arbitrage under the Microscope: Evidence from Detailed Hedge Fund Transaction Data"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2970756&partid=22912&did=341917&eid=1392852) 

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We exploit detailed transaction and position data for a sample of long-short equity hedge funds to document new facts about the trading activity of sophisticated investors. We find that the initiation of both long and short positions is associated with significant abnormal returns, suggesting that the hedge funds in our sample possess investment skill. In contrast, the closing of long and short positions is followed by return continuation, implying that hedge funds close their positions too early and “leave money on the table.” As we demonstrate with a simple model, this behaviour can be explained by hedge funds being (risk) capital constrained and facing position monitoring costs. Consistent with our model, we document that the return continuation following closing orders is more pronounced when these constraints become more binding (e.g., after negative fund returns or increases in volatility)

["Liquidity Provider Incentives in Fragmented Securities Markets"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2970452&partid=22912&did=341912&eid=1383435) 

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We study the introduction of single-market liquidity provider incentives in fragmented securities markets. Specifically, we analyze the Xetra Liquidity Provider Program at Deutsche Boerse from two perspectives: First, we investigate whether fee-rebates for liquidity providers enhance liquidity on the specific venue thereby increasing its competitiveness and market share. Second, we analyze whether single-market liquidity provider incentives increase overall market liquidity available for market participants in a fragmented market. For this purpose, we consolidate high-frequency order book information of the most relevant lit venues and measure the specific liquidity contribution of individual markets to the aggregate liquidity in the fragmented market environment. Our empirical results show that single-market liquidity provider incentives in fragmented markets result in increased liquidity on the respective market, a higher contribution of that market to consolidated liquidity and gains in market share in terms of trading volume. However, we find no significant effect for turnover and liquidity of the fragmented market as a whole but a redistribution to the venue offering the incentives.

["Attention-Deficit/Hyperactivity Disorder, Delay Discounting, and Risky Financial Behaviors: A Preliminary Analysis of Self-Report Data"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2967889&partid=22912&did=341909&eid=1379636) PLoS ONE, Vol. 12(5): e0176933, 2017

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Delay discounting — often referred to as hyperbolic discounting in the financial literature — is defined by a consistent preference for smaller, immediate rewards over larger, delayed rewards, and by failure of future consequences to curtail current consummatory behaviors. Previous research demonstrates (1) excessive delay discounting among individuals with attention-deficit/hyperactivity disorder (ADHD), (2) common neural substrates of delay discounting and hyperactive-impulsive symptoms of ADHD, and (3) associations between delay discounting and both debt burden and high interest rate borrowing. This study extends prior research by examining associations between ADHD symptoms, delay discounting, and an array of previously unevaluated financial outcomes among 544 individuals (mean age 35 years). Controlling for age, income, sex, education, and substance use, ADHD symptoms were associated with delay discounting, late credit card payments, credit card balances, use of pawn services, personal debt, and employment histories (less time spent at more jobs). Consistent with neural models of reward processing and associative learning, more of these relations were attributable to hyperactive-impulsive symptoms than inattentive symptoms. Implications for financial decision-making and directions for future research are discussed.

["Why Do Accruals Predict Earnings?"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2969263&partid=22912&did=341690&eid=1245297) 

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Firms with high accruals tend to have lower future earnings. We propose a new explanation for this phenomenon based on the way sales, profits, and working capital respond to changes in a firm’s product markets. These effects arise in the absence of measurement error in accruals or investment-related changes in profitability. Empirically, we show that high accruals predict a long-lasting drop in both profits and profitability even though accruals are positively related to sales growth going forward. Accruals also predict a significant increase in future competition, suggesting that high accruals are correlated with abnormally high — and, in equilibrium, transitory — true profitability that attracts new entrants to the industry. Overall, the predictive power of accruals is better explained by product-market effects than by measurement error in accruals or diminishing marginal returns from investment.

["Financial Reporting for Pollution Reduction Programs"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2969339&partid=22912&did=341690&eid=1245297) 

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We apply the IASB’s conceptual framework to analyze the rights and obligations embodied in arrangements intended to reduce pollution (emissions). We propose a financial reporting treatment for a representative cap-and-trade program and contrast this approach with current practice and alternative treatments considered by standard setters. Under our proposal, firms initially recognize allowances as intangible, non-amortizable assets, measured at fair value with an offsetting credit to cash or other assets for purchased allowances and to a current period gain for allocated allowances; firms accrue liabilities, at fair value, as they emit with the offsetting debit to current period expense; both the asset and the liability are remeasured at fair value at every balance sheet date. Using transaction-level data from the U.S. SO2 cap-and-trade program for 1995-2009, we provide ex-ante evidence on the financial reporting effects of our proposal, current practice, and alternatives considered by standard setters. Alternative treatments, including our own, result in significant differences in financial reporting outcomes relative to current practice, including increased assets and liabilities, reduced net income, and increased income volatility. We also find that our proposed treatment is most aligned with investor perceptions as indicated by the association between market value of equity and assets, liabilities and income.

["Parameter Estimation from Overlapping Observations"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2968896&partid=22912&did=341679&eid=1233598) 

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This paper examines parameter estimation (mean, volatility and correlation) for correlated Brownian processes that makes use of overlapping return observations. We derive the minimum variance unbiased estimators within the space of linear (for the mean) and quadratic (for the variance and covariance) combinations of the observations. These estimators weight the observations using the inverse of the (known) correlation structure, for example, the variance estimator is given by: \[\sum\_{i,j=1}^N ρij^{−1} (xi − μ)(xj − μ)/(N − 1)\], where xi are the n-day overlapping return observations and μ is the estimated mean of the overlapping observations. These estimators (which are shown to be bias corrected versions of the maximum likelihood estimators) are shown to have standard errors that are not materially different from the standard error of the estimators which use non-overlapping, single-day observations.

On the other hand, it is also shown that naı̈vely using equal weighting, for example for the variance estimate: \[\sum\_{i=1}^N (xi − μ)2/(N − 1)\], as would be standard for non-overlapping observations, results in:
(1) biased estimates, requiring the replacement of N − 1 with a factor that is very close to N − n to remove the bias, and
(2) estimates that are roughly \[\sqrt{2n/3}\] times noisier that estimates coming from the derived minimum variance estimators.

These observations are demonstrated through Monte-Carlo experiments as well as using historical equity index data.

[Finance and Sustainability: From Ideology to Utopia"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2968026&partid=22912&did=341676&eid=1225371) 

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This paper is based on the observation that there is a contradiction between the current demands for sustainability and the way the financial system works. Beginning with a discussion of the epistemological assumptions underlying financial theory, it seeks to show how it may be viewed as an Ideology for the financialization of economies and societies. We use the Ricoeurian notion of the cultural imagination to develop a counterpoint Utopia, which we call Finance As A Common. The reflexivity enabled by this Utopia reveals the mental structures in which financial actors are embedded. It also allows us to plot possible pathways for the reconstruction of the financial system and the renewal of financial knowledge.

[Arbitrage and Its Physical Limits"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2967892&partid=22912&did=341439&eid=1085882) 

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We extend the Limits to Arbitrage literature by studying how physical constraints affect financial arbitrage in commodity markets. Using the U.S. crude oil market as our experimental setting, we document substantial economically significant violations of the no-arbitrage futures pricing conditions due to storage capacity constraints at the WTI futures delivery hub. We also find evidence of financial constraints. Our findings are robust to different measures of physical constraints, and controls for potential effects of U.S. Oil Fund rolls. Our results highlight the importance of both physical and financial arbitrage limits in pricing commodity futures. We also contribute to the Theory of Storage literature, which has largely ignored storage limits, by documenting the effects of finite storage capacity.

["Disentangling Trust from Risk-Taking: Triadic Approach"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2964871&partid=22912&did=341432&eid=1077515) 

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The willingness to trust human receivers is compared to the inclination to take lottery risk in six distinct scenarios, controlling the return distributions. Trust shows significantly smaller responsiveness to return expectations compared to parallel pure-risk lottery allocation, and paired comparisons reveal that investors sacrifice 5% of the expected payoff to trust anonymous receivers. Trust is more calculated and volatile for males, while appearing relative stable for females. The results complement the accumulating evidence regarding physiological differences between trust and risk, in addition suggesting that the trust-risk differences are stronger for females.

["The Relation between Market Value, Past Performance and Extreme Returns of Common Stocks in the United States, 1926-2012"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2965124&partid=22912&did=341432&eid=1077515) 

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Email: pettengg@gvsu.edu, [VIVEK SINGH](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=109546&partid=22912&did=341432&eid=1077515), University of Michigan at Dearborn - College of Business, Email: vatsmala@umich.edu

We study the interrelation between the size and winner-loser effects in U.S. stock returns, including their response to extreme returns. We find that size effect and winner-loser effect are present in data up to 2012. These are related but separate effects. However these effects are due to presence of a small number of extreme return observations in the sample. The size effect and winner-loser effects are non-existent after extreme returns are removed from the sample. Our results question the existence of size and winner-loser anomalies in the market efficiency literature.

["What's (Still) Wrong with Credit Ratings"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2969086&partid=22912&did=341239&eid=918476) 
[Washington Law Review, Forthcoming](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=146949&partid=22912&did=341239&eid=918476)
[San Diego Legal Studies Paper No. 17-285](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=594803&partid=22912&did=341239&eid=918476)

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Scholars and regulators generally agree that credit rating agency failures were at the center of the recent financial crisis. Congress responded to these failures with reforms in the 2010 Dodd-Frank Act. This article demonstrates that those reforms have failed. Instead, regulators have thwarted Congress’s intent at every turn. As a result, the major credit rating agencies continue to be hugely profitable, yet generate little or no informational value. The fundamental problems that led to the financial crisis – overreliance on credit ratings, a lack of oversight and accountability, and primitive methodologies – remain as significant as they were before the financial crisis. This article addresses each of these problems and proposes several solutions.

First, although Congress attempted to remove credit rating agency “regulatory licenses,” the references to ratings in various statutes and rules, regulatory reliance on ratings remains pervasive. I show that regulated institutions continue to rely mechanistically on ratings, and I demonstrate that regulations continue to reference ratings, notwithstanding the Congressional mandate to remove references. I suggest several paths to reduce reliance.

Second, although Congress authorized new oversight measures, including an Office of Credit Ratings, that oversight has been ineffective. Annual investigations have uncovered numerous failures, many in the same mortgage-related areas that precipitated the financial crisis, but regulators have imposed minimal discipline on violators. Moreover, because regulators refuse to identify particular rating agencies in OCR reports, wrongdoers do not suffer reputational costs. I propose reforms to the OCR that would enhance its independence and sharpen the impact of its investigations.

Third, although Congress authorized new accountability measures, particularly removing rating agencies’ exemptions from Section 11 liability and Regulation FD, the Securities and Exchange Commission has gutted both of those provisions. The SEC performed an end-run around Dodd-Frank’s explicit requirements, reversing the express will of Congress. Litigation has not been effective as an accountability measure, either, in part because rating agencies continue to assert the dubious argument that ratings are protected speech. I argue that the SEC should reverse course and implement Congress’s intent, including encouraging private litigation.

Finally, given the ongoing problems in these three areas, it is no surprise that credit rating agency methodologies remain unreliable. I conclude by illustrating the weakness of current methodologies for corporate bonds, with a particular focus on the treatment of diversification and investment holding companies. I argue that neither regulators nor investors should rely on such crude and uninformative methodologies.

This article’s overarching recommendation is straightforward: both regulators and investors should reduce reliance on credit ratings, and regulators should implement Congress’s will with respect to rating agency oversight and accountability. Credit rating agencies are a cautionary example of regulatory stickiness: reliance on ratings has proven difficult to undo. More generally, the stickiness of regulatory licenses is a warning for policymakers who are considering deferring to private entities for regulatory purposes in other areas.

["Stock Loan Lotteries and Individual Investor Performance"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2963323&partid=22912&did=341038&eid=775188) 

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Individual investors trade excessively, sell winners too soon, and overweight stocks with lottery features and low expected returns. This paper proposes and models a financial innovation, called stock loan lotteries, that improves individual investor performance. An individual investor signs a contract to lend shares of stock to a centralized exchange for multiple periods. The exchange operates a stock loan marketplace. Instead of paying each investor the lending fees on his individual shares, the exchange periodically holds a lottery for the entire pool of lending fees. I extend the Barberis and Xiong (2009) two-period model of realization utility to include stock loan lotteries. In frictionless markets, investors demand high fixed stock loan fees to hold shares for two periods. Because prospect theory investors value low probability payoffs, they demand significantly lower fees denominated in stock loan lottery tickets. In many cases, introducing stock loan lotteries provides individual investors with greater expected utility and greater expected wealth. Stock loan lotteries provide the greatest benefits to the poorest investors, who typically exhibit the strongest lottery preferences. Introducing transactions costs, leverage constraints, and taxes to the model enhances the benefits of stock loan lotteries. I propose a mechanism for exchanges to structure stock loan lottery tickets as derivative securities.

["Financial Distress Prediction in an International Context: A Review and Empirical Analysis of Altman's Z‐Score Model"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2965210&partid=22912&did=340601&eid=461685)[Journal of International Financial Management & Accounting, Vol. 28, Issue 2, pp. 131-171, 2017](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=230086&partid=22912&did=340601&eid=461685)

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This paper assesses the classification performance of the Z‐Score model in predicting bankruptcy and other types of firm distress, with the goal of examining the model's usefulness for all parties, especially banks that operate internationally and need to assess the failure risk of firms. We analyze the performance of the Z‐Score model for firms from 31 European and three non‐European countries using different modifications of the original model. This study is the first to offer such a comprehensive international analysis. Except for the United States and China, the firms in the sample are primarily private, and include non‐financial companies across all industrial sectors. We use the original Z"‐Score model developed by Altman, Corporate Financial Distress: A Complete Guide to Predicting, Avoiding, and Dealing with Bankruptcy (1983) for private and public manufacturing and non‐manufacturing firms. While there is some evidence that Z‐Score models of bankruptcy prediction have been outperformed by competing market‐based or hazard models, in other studies, Z‐Score models perform very well. Without a comprehensive international comparison, however, the results of competing models are difficult to generalize. This study offers evidence that the general Z‐Score model works reasonably well for most countries (the prediction accuracy is approximately 0.75) and classification accuracy can be improved further (above 0.90) by using country‐specific estimation that incorporates additional variables.

["Corporate Governance as Moral Psychology"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2964250&partid=22912&did=340368&eid=255470) [Washington and Lee Law Review, Forthcoming](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=259197&partid=22912&did=340368&eid=255470)

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This essay — part of a Washington & Lee symposium on Corporate Law, Governance, and Purpose — advances a simple thesis: corporate governance is best seen not as a subset of economics or even law, but instead as a subset of moral psychology.

Recent research in the nascent field of moral psychology suggests that we humans are not rational beings, particularly when we act in social and political settings. Our decisions (moral judgments) arise instantly and instinctively in our subconscious, out of conscious view. We rationalize our moral decisions — whether to feel compassion toward another who is harmed, to desire freedom in the face of coercion, or to honor those matters we consider sacred — after we have made the decision. We layer on a veneer of rationality, to reassure ourselves of our own moral integrity and to signal our moral values to like-minded others in our group. This is particularly so when we operate in the “super-organism” that is the corporation, where specialized roles have led to almost unparalleled human cooperation.

Thus, the decision-making and actions that arise from the shareholder-management relationship are best understood as the product not of rational economic incentives or prescriptive legal norms, but instead moral values. On questions of right and wrong in the corporation, the decisions by shareholders and managers, like those of other human actors, are essentially emotive and instinctive. The justifications offered for their choices — whether resting on shareholder primacy, team production, board primacy, or even corporate social responsibility — are after-the-fact rationalizations, not reasoned thinking.

In the spirit of the symposium honoring the work of David Millon and Lyman Johnson, the Essay seeks to apply these insights to a stylized corporate morality tale — namely, whether corporate directors should move a company’s possibly unhealthful manufacturing offshore. The story exposes a full range of moral values: compassion, fairness, freedom, loyalty, order, and sanctity. And, extrapolating the moral vectors implicit in their recent writings on corporate governance, the Essay identifies David as a “progressive corporate scholar” (with some libertarian leanings) and Lyman as a “conservative corporate scholar.”

[Europe's CoCos Provide a Lesson on Uncertainty"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2965085&partid=22912&did=340361&eid=251360) [OFR WP 17-02](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=2619430&partid=22912&did=340361&eid=251360)

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Contingent convertible bonds (CoCos) issued by European global systemically important banks (GSIBs) as part of their total loss-absorbing capacity (TLAC) are meant to enhance financial stability by forcing investors to absorb losses when a bank is under stress. Coupon payments are made at issuers’ discretion while loss absorption can be triggered at regulators’ discretion. This study investigates price effects of four press releases by Deutsche Bank AG in February 2016 related to the bank’s willingness and ability to make its upcoming CoCo coupon payments. Expected cash flow models capture changes in CoCo default risk, while event dates capture uncertainty effects. The price of a European G-SIB peer group portfolio declined a statistically significant 2.0-2.5 percent over two days in response to Deutsche Bank’s first press release. Deutsche Bank’s efforts to allay its own CoCo investors’ concerns appeared to increase concerns among CoCo investors generally. The results show potential negative effects of regulatory discretion.

["Institutional Trading Before Dividend Reduction Announcements"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2962796&partid=22912&did=340004&eid=5501) 
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Using a large proprietary database of transaction-level institutional trades for the period of 1997-2011, we find that institutional investors are net sellers in dividend reduction firms during the two quarters prior to the announcements. They also trade more intensively in firms that do not prepare the market for dividend cuts or that have greater information asymmetry. Trading by both pension plan sponsors and money managers affects the market reaction to the announcements. Finally, all institutional investors earn positive profits by trading in the two quarters prior to the announcements, and money managers outperform pension plan sponsors.

[How Do Smart Beta ETFs Affect the Asset Management Industry? Evidence from Mutual Fund Flows"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2962479&partid=22912&did=340004&eid=5501) 

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We examine the impact of non-market-tracking (smart beta) equity exchange-traded funds (ETFs) on how investors evaluate mutual fund performance. We rely on mutual fund flow sensitivity to alphas from different asset pricing models to measure investor behavior. Our empirical results show that when such ETFs are actively traded, fund flow sensitivity to alphas from multi-factor models increases. The dominance of CAPM alpha weakens and even disappears during the high-trading volume period of such ETFs. The results, which are robust to different empirical methods, are not caused by market-tracking ETFs or index mutual funds. The evidence is more pronounced among funds with high exposure to non-market risks and funds with more sophisticated investors

["Loss Aversion, Lying and Probability"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2961213&partid=22912&did=340005&eid=2459) 

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Garbarino et al. (2016) assert, and provide experimental evidence, that agents with loss averse preferences facing a decision to receive a bad financial payoff if they report honestly or to receive a better financial payoff if they report dishonestly are more likely to lie to avoid receiving the low payoff the lower the ex-ante probability of the bad outcome. First, modeling a loss averse agent with Koszegi and Rabin (2006) reference-dependent preferences, the paper shows that the agents’ decision to lie is independent of the probability of the bad outcome, depending solely on whether or not lying increases expected utility. Further, the probability distribution of liars along with the probability that an agent will lie is also derived. Reasoning using these two quantities suggests that the behavior observed by Garbarino et al. (2016) is an artifact of the probability calculations underlying the experiment. For example, one can show, before the experiment is conducted, that for an experiment using 50 subjects and lowering the probability of the low payoff from .5 to .2, there is a 92.2% probability that the researcher will find an increase in the probability of lying.

["Textual Analysis in Accounting and Finance: A Survey"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2959518&partid=22912&did=339837&eid=1406719)
[Journal of Accounting Research, Vol. 54, No. 4, 2016](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=469260&partid=22912&did=339837&eid=1406719)

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Relative to quantitative methods traditionally used in accounting and finance, textual analysis is substantially less precise. Thus, understanding the art is of equal importance to understanding the science. In this survey we describe the nuances of the method and, as users of textual analysis, some of the tripwires in implementation. We also review the contemporary textual analysis literature and highlight areas of future research.

["Can a Hybrid Method Improve Equity Valuation? Empirical Applications of Ohlson and Johannesson (2016)"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2959986&partid=22912&did=339630&eid=1278963) 

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We investigate whether combining the two principal valuation techniques – a price multiple model and a discounted model – can improve the quality of equity valuation. Specifically, we empirically implement the theoretical valuation model in Ohlson and Johannesson (2016), which we refer to as the OHJO model (or OHJO), as a hybrid of a price multiple model and a discounted model, and develop a novel way to estimate the model’s unique parameter – the normal forward P/E ratio. We find that our implementation produces intrinsic values that are more accurate and generally less biased, and that are better at explaining stock prices, than popular discounted models such as the Residual Income Valuation Model (RIV) and the Ohlson-Juettner Model (OJ), as well as price multiple models. OHJO’s superior valuation performance is robust in subsamples, and is more pronounced for slow growing, less risky, and larger firms. In addition, the implied cost of equity estimated from OHJO captures systematic risk and information asymmetry better than that from RIV and OJ. These results demonstrate the usefulness of a hybrid method for equity valuation and support the empirical validity of OHJO.

[Distribution of the Sharpe Ratio Using Monthly Data"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2959632&partid=22912&did=339627&eid=1275392) 

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This note addresses two related questions about estimating an annualized Sharpe ratio using monthly or other higher-frequency data. First, how do we annualize; i.e. calculate the annual Sharpe from monthly means and volatilities (standard deviations)? Second, how does the Sharpe using monthly data compare with that using annual data – specifically what is the precision or standard error of the estimate? The answer to the first question is straightforward and widely known. For the second, Jobson et al. (1981) gives the asymptotic distribution of the annual Sharpe with normal IID returns and Lo (2002) for serially correlated returns. This paper highlights the simple relation between the annual versus monthly asymptotic distribution which has not, to my knowledge, been noted. Although limited to independent increments, this an important case since most financial assets do not exhibit serial correlation (at monthly frequency). The primary contribution of this paper, however, is to examine (via simulation) the small and moderate samples often used by practitioners. The annual-data Sharpe is often far from the asymptotic distribution: baised and with large standard errors. The monthly Sharpe, in contrast, is often well-behaved and very close to the asymptotic normal distribution. Even with only five years of monthly (normal) returns the estimator has a sampling distribution difficult to distinguish from the asymptotic normal. Although limited to IID, this is nonetheless an important result for a wide range of financial assets.

[Curbing Managerial Myopia: The Role of Managerial Overconfidence in Owner-Managed Firms and Professionally Managed Firms"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2944998&partid=22912&did=338683&eid=557424" \t "_blank) 

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We develop and test a model in which managerial overconfidence offsets the underinvestment problem arising from managerial myopia. Using a three-period investment model in which we capture managerial myopia by hyperbolic discounting, we show that both overconfident owner-managers and professional managers who have myopic preferences can enhance firm value (up to a point) by increasing investment. This value-enhancing role of overconfidence is more evident for professional managers than for owner-managers. The results from simulation and empirical analyses support the model’s predictions. Thus, while managers’ cognitive biases, when considered separately, negatively impact firm performance, they can be beneficial when considered jointly.

["The Political Economy of Corporate Governance"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2956281&partid=22912&did=338656&eid=545318) 
ephemera, volume 16(1): 1-17

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Corporate governance reform for promoting efficiency and wealth creation by large corporations has been much in vogue for a few decades now (Lazonick and O’Sullivan, 2000; Filatotchev and Boyd, 2009). The academic field of corporate governance has been equally vibrant with a burgeoning of theory and research (Filatotchev and Boyd, 2009; Ireland, 2009), and influential publications on corporate governance matters, such as Jensen and Meckling (1976) and La Porta et al. (1998), rank among the most cited in the social sciences. Notwithstanding literature on financialization that suggests finance has in some ways sidestepped the corporation as capital’s primary vehicle of extracting value (see e.g. ephemera, 9(4) on ‘the university of finance’), or literature on the common(s) which implies productive activity might today more often than not be organized outside of corporations (see e.g. ephemera, 13(3) on ‘the communism of capital’), corporate governance asserts the corporate form as a key social technology of our time. This special issue engages with this field and the outcomes it entails, suggesting it is a political-ideological project based on a set of questionable conceptual and empirical assumptions, which in turn entail a set of norms and prescriptions – a normativity – with devastating political-economic effects.

["Financial Inclusion and Inclusive Growth: A Review of Recent Empirical Evidence"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2958542&partid=22912&did=338509&eid=407129) 
[World Bank Policy Research Working Paper No. 8040](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=561341&partid=22912&did=338509&eid=407129)

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There is growing evidence that appropriate financial services have substantial benefits for consumers, especially women and poor adults. This paper provides an overview of financial inclusion around the world and reviews the recent empirical evidence on how the use of financial products -- such as payments services, savings accounts, loans, and insurance -- can contribute to inclusive growth and economic development. This paper also discusses some of the challenges to achieving greater financial inclusion and directions for future research.