

Seminar in Investments

FINA 6312-001. Tuesday 3-5pm, COBA 436

*The course syllabus provides a general plan for the course;
deviations may be necessary.*

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Office Hours: 2:00-3:00 TR. I am willing to make appointments if you cannot meet during my office hours. I strongly encourage you to come by and see me if you need to do so.

Prerequisites: This course is for first and second year Ph.D. students interested in investments and financial economics. Exceptions are granted on an individual basis. Prior or concurrent course work in macroeconomics, microeconomics, mathematics, and statistics at the Ph.D. level are assumed as is successful completion of the seminar in theory of finance. Prior exposure to theoretical or empirical asset pricing is a plus but not required.

Course Objective: Research should be fascinating and packed with intellectual excitement. This course is a rigorous, quantitative, seminar course designed to introduce you to research opportunities in the area of investments and asset pricing. Each class is designed to familiarize you with current and important topics in the literature. The intent is to cover a large number of topics so that (hopefully) you will find topics that you like and may consider pursuing original research in that area.

Suggested texts: A quality master's level text in investments may be helpful in providing an overview of a particular area or concept. Other excellent references are i) The Econometrics of Financial Markets, by John Campbell, Andrew Lo, and Craig MacKinlay, 1997 and ii) Asset Pricing (Revised Edition) by J. Cochrane (2005).

Meetings: The class meets once per week for 12 weeks. The first class on 1/15 is an organizational meeting and no preparation is needed. There will be no class on 2/5, 3/5, and 4/9 although deliverables will be due those dates. The last class meeting is 5/7.

Additional Materials: Overheads, suggested problems solutions, and additional readings can be found on the class website (Blackboard).

Grading scale: Class GPA target is 3.5 (no +/-).

Assessment: Grades are based on assignments (40%), in class presentations (20%), in class participation (20%), and research proposal (20%). There is no final exam.

Deliverables: Since this is a seminar class students will present the papers. Each week there will be 3-4 papers. Some of the papers, especially towards the beginning of the course, are theoretical works but most are empirical in nature. Each paper will be presented by one student

and a class discussion will follow. All students are expected to contribute in the post presentation discussion. The class will help develop several skills necessary for a successful thesis and academic career:

- Structured thinking: the ability to summarize the important/essential contributions of a paper in a concise way, and to put them in perspective
- Critical thinking: the ability to ask probing questions about the papers you read, to think about the suitability of the author's approach, and to isolate key strengths and weaknesses of papers
- Creativity: the ability to see existing research in a new light and to combine ideas from seemingly unrelated topics so as to create a new, original, research opportunity.
- Presentation skills: the ability to expose a set of ideas in a clear, concise, and well-organized way

To facilitate the development of these skills there are four deliverables.

1. Assignments. Each week there will be an assignment that is to be turned in at the beginning of class. All of the assignments will have the same basic format. The first part of each assignment is a summary of the week's papers.
 - Minimum of 1 page and a maximum of 2 pages. Times New Roman 11 pt font, 1.5 line spacing, and 1 inch margins all around. Use a cover sheet that identifies you, the papers covered, and the date.
 - The summary must add value beyond the abstracts.
 - Value can be created by drawing connection between the papers (similarities and differences).
 - Value can also be created by formulating, in your own words, in a concise manner the key insights of the papers.
 - For empirical papers a review of the data sets may add value.

The second part of the assignment is a critical assessment of the papers and opportunities for future research.

- This part also will consist of a minimum of 1 page and a maximum of 2 pages. Times New Roman 11 pt font, 1.5 line spacing, and 1 inch margins all around.
- A critique of one or more of the papers. You can use the similarities and differences obtained from the summary to discuss strengths and weaknesses of one or more of the papers.
- Act as a referee. A good referee report focuses on the few important points (e.g. what are the key strengths and weaknesses?) rather than a large number of small comments (although these can be helpful for well-polished working papers).
- What are your thoughts on how this literature should proceed? That is, what research opportunities can you identify? If you were to write a paper based on

the 3-4 papers (and all other papers in this class, prior classes, and your independent readings) what would be the main research questions?

- In discussing potential research opportunities try to be as specific as possible. If you were to devote the summer to conducting research on this topic or were to pursue the idea as a dissertation topic what is really worth doing?

The combined length of the assignment is 2-4 pages. There are a total of 12 assignments. Your grade will be based on your best 10 submissions. This means there are potentially 2 “dropped” assignments. No late assignments will be accepted. All work **MUST** be completed individually and must be original (see the section on academic dishonesty below). Copying from others or simply copying from the papers defeats the purpose of the course and robs you of the opportunity to develop important skills necessary for a successful academic career. You will only be evaluated on the value you add.

2. Presentation. Each class there will be 3-4 paper presentations, which will be assigned to students the first week of class. The presentation should include;
 - A short introduction and motivation (limit references)
 - Model setup and research question/hypothesis
 - Main results
 - Evaluation/critique of the paper which lasts 10 minutes.
 - Practice the presentation aloud at home and times it. Cut slides if you cannot present in 30 minutes (25 minutes for weeks with 4 papers).

Think of the class meeting as the American Finance Association meeting or other conference presentation session. You only have one shot at the presentation and the more you practice the more you are able to share in the allotted time. You will be penalized if you cannot complete the presentation in 30 minutes or do not manage to spend 10 minutes on the critical evaluation portion.

3. Participation. After each presentation there will be a 20 minute (15 minutes for those weeks with 4 papers) group discussion. Since you have read the paper beforehand and have prepared a discussion document (the assignment), you are expected to actively participate.

4. Research proposal. To be presented at the last meeting. A 10 minute presentation briefly describing your research proposal. The research proposal will have the following
- An introduction that motivates the topic and why the research is important and ultimately publishable in a quality journal.
 - A hypothesis development section that fleshed out the research questions. This section also provides necessary references to key papers in the area that are relevant to the research questions.
 - Data section that includes descriptions of the variables of interest and how they are computed and how obtained (e.g. CRSP, Compustat, Morningstar, etc.)
 - A discussion of the path required to finalize the project to prepare for submission to a journal.

Religious Holidays: Students who anticipate being absent from class due to a major religious observance must provide a written notice of the date(s) and event(s) to the instructor by the second meeting.

Students with Disabilities: If you have a disability, as defined by the Americans with Disabilities Act, that might impair your performance in this course, please inform me during the first week of class. You should also notify the Disability Resource Center at 272-3364 (www.uta.edu/disability).

Academic Dishonesty:

All students are expected to pursue their scholastic careers with honesty and integrity. It is the philosophy of this Department, this instructor, and the University of Texas at Arlington that academic dishonesty is a completely unacceptable mode of conduct and will not be tolerated in any form. All persons involved in academic dishonesty will be disciplined in accordance with University regulations and procedures. Discipline may include suspension or expulsion from the University. "Academic dishonesty includes, but is not limited to, cheating, plagiarism, collusion, the submission for credit of any work or materials that are attributable in whole or in part to another person, taking an examination for another person, or any act designed to give unfair advantage to a student or the attempt to commit such acts."

(Regents Rules and Regulations, Part One, Chapter VI, Section 3, Subsection 3.2, Subdivision 3.22) Institutional procedures regarding charges of academic dishonesty are outlined in Part II, Chapter 2, of the Handbook of Operating Procedures of The University of Texas at Arlington. Copies of the Handbook are available at more than 75 locations on campus, including the Student Congress office, the Library, and the Finance/Real Estate Department office.

Reading List:

1. 1/22 Asset Pricing I.
 - a. Campbell, John Y. (2000). "Asset Pricing at the Millenium" *Journal of Finance*, Vol. 55, No. 4, pp. 1515-1567.
 - b. Fama, E, and K. French, Dissecting anomalies, 2008, *The Journal of Finance*, v63 n4, 1653-1678
 - c. Savov, Alexi (2011): Asset Pricing with Garbage. *The Journal of Finance*, 66(1)
 - d. Han, Yang, and Zhou, (2013). A new anomaly: The cross-sectional profitability of technical analysis. Washington University in St. Louis working paper.
SR: Scherbina and Schlusche (2011)
2. 1/29 Asset Pricing II. Production-Based Asset Pricing
 - a. Zhang, L. (2005). The Value Premium, *Journal of Finance*, 60 (1), 67-103.
 - b. Chen, L, and L Zhang, A better three-factor model that explains more anomalies, *Journal of Finance*, (2010).
 - c. Asparouhova, Bessembinder, and Kalcheva (2012). Noisy prices and inference regarding returns. *Journal of Finance*, forthcoming.
3. 2/5 Return predictability
 - a. Campbell, J., and S. Thompson, Predicting excess stock returns out of sample: can anything beat the historical average? 2008, *The Review of Financial Studies*, v21 n4, 1511-1531
 - b. Eiling, (2013). Industry-specific human capital, idiosyncratic risk, and the cross section of expected stock returns. *Journal of Finance*, forthcoming.
 - c. Brandon and Wang (2013). Liquidity risk, return predictability and hedge funds' performance: An empirical study. *Journal of Financial and Quantitative Analysis*, forthcoming.
 - d. Wermers, Yao, and Zhao, (2012). Forecasting stock returns through and efficient aggregation of mutual fund holdings. *Review of Financial Studies* 25 (12).
4. 2/12 Behavioral Finance
 - a. Daniel, Hirshleifer, and Subrahmanyam, 1998, "Investor Psychology and Security Market Under- and Overreactions," *JF* 53.
 - b. Cen, Hilary, Wei (2013). The role of anchoring bias in the equity market: Evidence from analysts' earnings forecast and stock returns. *Journal of Financial and Quantitative Analysis*, forthcoming.
 - c. Kumar and Korniotis (2013). Do portfolio distortions reflect superior information or psychological biases? *Journal of Financial and Quantitative Analysis*, forthcoming.
5. 2/19 Financial distress, risk mitigation and macroeconomic factors
 - a. Avramov, Chordia, Jostova, and Philipov (2013). Anomalies and financial distress. *Journal of Financial Economics*, forthcoming.
 - b. Acharya, Schnabl, and Suarez, (2013). Securitization without risk transfer. *Journal of Financial Economics*, forthcoming.
 - c. Belo, Gala, and Li, (2013). Government spending, political cycles, and the cross section of stock returns. *Journal of Financial Economics*, forthcoming.

6. 2/26 Volatility/Uncertainty
 - a. Bekaert, Hodrick, and Zhang (2013). Aggregate idiosyncratic volatility. *Journal of Financial and Quantitative Analysis*, forthcoming.
 - b. Chang, Christoffersen, and Jacobs, (2013). Market skewness risk and the cross section of stock returns. *Journal of Financial Economics* 107, 46-68.
 - c. Conrad, Dittmar, and Ghysels (2012). Ex-ante skewness and expected stock returns. *Journal of Finance* 68 (1).
 - d. Armstrong, Banerjee, and Corona, (2013). Factor-loading uncertainty and expected returns. *Review of Financial Studies* 26 (1).
7. 3/5 Momentum
 - a. Antoniou, Doukas, Subrahmanyam (2013). Cognitive dissonance, sentiment, and momentum. *Journal of Financial and Quantitative Analysis*, forthcoming.
 - b. Wahal and Yavuz (2013). Style investing, comovement and return predictability. *Journal of Financial Economics* 107, 136-154.
 - c. Hong, Jordan, and Liu, (2011). Industry information and the 52-week high effect. Working paper. University of Kentucky.
8. 3/19 Earnings Announcements and Analysts
 - a. Kaniel, Ron, Liu, Shuming, Saar, Gideon and Titman, Sheridan. (2012). Individual Investor Trading and Return Patterns around Earnings Announcements, *The Journal of Finance*, 67(2)
 - b. Hilary and Hsu (2013). Analyst Forecast Consistency. *Journal of Finance*, forthcoming.
 - c. Clement, Keskek, Tse, and Tucker, (2012). Analyst Information production and forecast timing. Working paper. University of Texas-Austin.
9. 3/26 Investment Management I.
 - a. Ramadorai, Tarun (2012). The Secondary Market for Hedge Funds and the Closed Hedge Fund Premium, *The Journal of Finance*, 67(2)
 - b. Khan, Mozaffar, Kogan, Leonid and Serafeim, George. (2012). Mutual Fund Trading Pressure: Firm-Level Stock Price Impact and Timing of SEOs, *The Journal of Finance*, 67(4)
 - c. Shive and Yun, (2013). Are mutual funds sitting ducks? *Journal of Financial Economics* 107, 220-237.
 - d. Ferrerira, Keswani, Miguel, and Ramos, (2012). *Review of Finance*, forthcoming.
10. 4/2 Investment Management II.
 - a. Pool, Stoffman, and Yonker (2012). No place like home: Familiarity in mutual fund manager portfolio choice. *Review of Financial Studies* 25 (8).
 - b. Jaio, (2012). Hedge funds and equity prices. *Review of Finance*, forthcoming.
 - c. Sun, Wang, and Zheng (2012). The road less traveled: Strategy distinctiveness and hedge fund performance. *Review of Financial Studies* 25 (1).
 - d. Busse and Tong (2012). Mutual fund industry selection and persistence. *Review of Asset Pricing Studies* 2 (2).

11. 4/9 Empirical Considerations

- a. Neuhierl and Schlusche, (2011). Data snooping and market-timing rule performance. *Journal of Financial Econometrics* 9 (3).
- b. Petersen (2009). Estimating standard errors in finance panel data sets: Comparing approaches. *Review of Financial Studies* 22 (1).
- c. Rohleder, Scholz, and Wilkens (2011). Survivorship bias and mutual fund performance: Relevance, Significance, and Methodical Differences. *Review of Financial Studies*, 15(2).
- d. Ferson, Nallareddy, Xie, (2013). The out of sample performance of long run risk models. *Journal of Financial Economics*, forthcoming.
SR: Beeler and Campbell (2009) and Bansal and Yaron (2004).

12. 4/16 Investor Bias

- a. Korniotis and Kumar (2011). Do behavioral biases adversely affect the macro-economy? *Review of Financial Studies* 24 (5).
- b. Bhattacharya, Hackethal, Kaesler, Loos, and Meyer, (2012). Is unbiased financial advice to retail investors sufficient? Answers from a large field study. *Review of Financial Studies* 25 (4).
- c. Keloharju, Knupfer, and Linnainmaa (2012). Do investors buy what they know? Product market choices and investment decisions. *Review of Financial Studies* 25 (10).
- d. Cronqvist and Siegel, (2012). Why do individuals exhibit investment bias? Working paper. Claremont McKenna College and University of Washington.