Seminar in Investments

FINA 6312-001. Tuesday 2-4:50pm, COBA 138
The course syllabus provides a general plan for the course;
deviations may be necessary.

Office: COBA 631
Instructor: John Adams, Ph.D. Phone: 904.476.2946
Department Phone 817.272.2528
E-mail: jcadams@uta.edu

Office Hours: 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. 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 15 weeks. The first class on 8/28 is an organizational meeting and minimal preparation is needed. The last class meeting is 12/11.

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

Grading scale: Your grade will be computed relative to your classmates. Class GPA target is 3.5 (no +/-).

Assessment: Grades are based on two paper summaries and discussion (10%), three presentations (15%), paper replication (40%), and exam (35%).

Deliverables: Since this is a seminar class students will present the papers. Each week there will be 2-4 papers with most presented by students. Some of the papers, especially towards the

beginning of the course, are theoretical works but most are empirical in nature. Selected papers 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 five deliverables.

1. Assignments. Each week at least one student will be assigned to review one of the discussion papers. All of the assignments will have the same basic format.
   - A maximum of 2 pages. Times New Roman 11 pt font, 1.5 line spacing, and 1 inch margins all around. Include a header that identifies you, the papers covered, and the date.
   - The summary must add value beyond the abstract.
   - Value can be created by drawing connections 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 and methodology may add value.
   - 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 2-3 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?

   There are 16 assignments (mostly 1 or more papers per week). Late assignments not 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. For selected class meetings there will be one or more 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 time it. Maximum number of slides is 10. Cut slides if you cannot present in 20 minutes.

   Think of the class meeting as a 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 20 minutes or do not manage to spend 5 minutes on the critical evaluation portion.

3. Participation. We will discuss each paper in depth. Students are expected to vigorously participate and lead these discussions. Since you have read the paper beforehand and have prepared a discussion document (the assignment), you are expected to actively participate.

4. Paper Replication. To be presented at the last meeting (scheduled final exam date). A 20 minute presentation briefly describing your replication paper. The replication paper will have the following

   - An introduction that motivates the topic and why the original research is important and was published in a quality journal.
   - Data section that includes descriptions of the variables of interest and how they are computed and how obtained (e.g. CRSP, Compustat, Morningstar, etc.)
   - Comparison of your results and the authors for the same and different sample periods.
   - Applicable tables (to be determined in advance – not all tables will be replicated).
   - Discussion on robustness of original paper's results.
   - A discussion of why your results differ from the original (if there is a difference) and the path required to finalize the project to prepare for submission to a journal.

5. Exam. This is a take home essay. Will be assigned at the conclusion of the 10/23/2018 class meeting and is due at the beginning of the 11/6/2018 meeting (we will not meet on 10/30/2018).

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.

<u>Reading List and Class Schedule:</u>
1. 8/28/2018 Econometric Issues I.
    a. Petersen (2009). Estimating Standard Errors in Finance Panel Data Sets: Comparing Approaches. Review of Financial Studies,
    b. Harvey, Lui, and Zhu (2016). …and the Cross-section of expected returns. Review of Financial Studies, Vol. 29, No. 1, pp. 5-68.
    c. Jonathan Lewellen (2015). The Cross-section of Expected Stock Returns. Critical Finance Review, Volume 4.
2. 9/4/2018 Econometric Issues II.
    a. (P) Andrew C. Chang and Phillip Li (2018). Is Economics Research Replicable? Sixty Published Papers from Thirteen Journals Say "Often Not". Critical Finance Review, Volume 7+.
    b. (IP) Adams, Hayunga, and Mansi (2018). Diseconomies of Scale in the Actively-Managed Mutual Fund Industry: What Do the Outliers in the Data Tell Us? Critical Finance Review, Volume 7+.
3. 9/11/2018 Factor Models.
    a. (P) (D) Stambaugh and Yuan (2017). Mispricing Factors. Review of Financial Studies, Volume 30, Issue 4, 1 April 2017, Pages 1270–1315
    b. (P) Fama and French (2016). Dissecting anomalies with a five-factor model. Review of Financial Studies, forthcoming.
    c. (D) Kozak, Serhiy and Nagel, Stefan and Santosh, Shrihari, Interpreting Factor Models (March 27, 2017). Journal of Finance, Forthcoming. Available at SSRN: https://ssrn.com/abstract=2945654

4. 9/18/2018 Efficient Frontier
    a. (P) Brennan, T. J. and A. W. Lo. 2010. "Impossible frontiers". Management Science. 56(6): 905–923.
    b. (P) Moshe Levy and Richard Roll (2015). (Im)Possible Frontiers: A Comment. Critical Finance Review, Volume 4.
    c. (P) Jonathan E. Ingersoll (2015). Always Possible Frontiers. Critical Finance Review, Volume 4.
    d. (P) Thomas J. Brennan and Andrew W. Lo (2015). Reply to '(Im)Possible Frontiers: A Comment.' Critical Finance Review, Volume 4.

5. 9/25/2018 Anomalies and Return Predictability.
    a. (P) McLean and Pontiff (2016). Does academic research destroy stock return predictability? The Journal of Finance, forthcoming.
    b. (2D) Novy-Marx and Velikov, (2016). A taxonomy of anomalies and their trading costs. Review of Financial Studies, forthcoming.
    c. (P) Schmalz, Martin C. and Zhuk, Sergey (2018), Revealing Downturns. Review of Financial Studies, forthcoming.

6. 10/2/2018 Anomalies and Return Predictability II
    a. (P) (2D) Ang, Hodrick, Xing, and Zhang (2006). The cross-section of volatility and expected returns. The Journal of Finance, Vol. 61 No. 1, pp. 259-299.

    b. (P) Stambaugh, Yu, and Yuan, (2015). Arbitrage asymmetry and the idiosyncratic volatility puzzle. The Journal of Finance, Vol. 70 No. 5, pp. 1903-1948.

    c. (D) Engelberg, J., D. McLean, and J. Pontiff. Anomalies and News. Journal of Finance, forthcoming.

7. 10/16/2018 Investments I - (Dis)Economies of Scale.

    a. (P) (2D) Berk and Green (2004). Mutual Fund Flows and Performance in Rational Markets. Journal of Political Economy 2004 112:6, 1269-1295

    b. (P) Pástor, Luboš, Robert F. Stambaugh, and Lucian A. Taylor, 2015. "Scale and skill in active management." Journal of Financial Economics 116: 23–45.

    c. (IP) Adams, Hayunga, and Mansi (2018). Returns to Industry Scale in Active Management. University of Texas at Arlington working paper.

8. 10/23/2018 Investments II – Manager Skill

    a. (D) Berk and Binsbergen (2017). Mutual Funds in Equilibrium. Annual Review of Financial Economics. Volume 9, pp. 167-167.

    b. (P) (D) Berk and Binsbergen (2015). Measuring skill in the mutual fund industry. Journal of Financial Economics, Vol. 118, pp. 1-20.

    c. (P) Cici, Gjergji and Gehde-Trapp, Monika and Goericke, Marc-André and Kempf, Alexander (2018). The Investment Value of Fund Managers' Experience Outside the Financial Sector. Forthcoming, Review of Financial Studies.

9. 10/30/2018 Investments III – Manager Behavior and Other Funds

    a. (P) Da, Zhi and Larrain, Borja and Sialm, Clemens and Tessada, José, Destabilizing Financial Advice: Evidence from Pension Fund Reallocations (January 10, 2018). Forthcoming: Review of Financial Studies.

    b. (D) Ben-David, Franzoni, and Moussawi (2017). Exchange-Traded Funds, Annual Review of Financial Economics.

    c. (P) (D) Hang, H. and M. Verardo, Does Herding Reveal Skill? An Analysis of Mutual Fund Performance, Journal of Finance, forthcoming.

10. 11/13/2018 Markets and Prices

    a. (P) Cassella, Stefano and Gulen, Huseyin, Extrapolation Bias and the Predictability of Stock Returns by Price-Scaled Variables (September 5, 2017). Forthcoming, Review of Financial Studies. Available at SSRN: https://ssrn.com/abstract=2676860 or http://dx.doi.org/10.2139/ssrn.2676860

    b. (D) Carpenter and Whitelaw (2017). The Development of China's Stock Market and Stakes for the Global Economy. Annual Reviews of Financial Economics, Volume 9, pp. 233-257.

    c. (P) Dugast, J., Unscheduled News and Market Dynamics. Journal of Finance, forthcoming.

11. 11/20/2018 Alternative Investments

a. (P) (D) Kurlat and Strobel (2015). Testing for information asymmetries in real estate markets, Review of Financial Studies, Vol. 28 No. 8.
b. (D) Dimson, Rousseau, and Spaenjers (2015). The price of wine. Journal of Financial Economics 118, 431-449.
c. (P) David (2018). Exploration Activity, Long-run Decisions, and the Risk Premium in Energy Futures. Review of Financial Studies, forthcoming.

12. 11/27/2018 Investor Behavior.
a. (P) Parsons, Christopher A. and Sulaeman, Johan and Titman, Sheridan (2018), The Geography of Financial Misconduct. Journal of Finance, Forthcoming.
b. (P) (D) Akbas, Armstrong, Sorescu, and Subrahmanyam (2015). Smart money, dumb money, and capital market anomalies.
c. (P) Barber, Brad M. and Huang, Xing and Odean, Terrance, Which Factors Matter to Investors? Evidence from Mutual Fund Flows (May 18, 2016). Review of Financial Studies, vol. 29, issue 10, 2600-2642