ASPER SCHOOL OF BUSINESS

Quadrant Private Wealth

# The Third Quadrant Private Wealth Behavioral Finance Conference

**PRESENTED BY THE I.H. ASPER SCHOOL OF BUSINESS**

**Tuesday, June 1, 2021**

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# **PROGRAM** (All Times Listed in Central Time)

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| **8:30 – 9:00 AM** | **Registration and Login** |
| **9:00 – 9:15 AM** | **Opening Remarks**<br>**Gady Jacoby,** Dean and CPA Manitoba Chair in Business Leadership<br>**Michael Susser,** President & CEO, Quadrant Private Wealth<br>**Chi Liao,** Conference Chair |
| **9:15 – 10:00 AM** | **Visibility Bias in the Transmission of Consumption Beliefs and Undersaving**<br>**Bing Han**, University of Toronto<br>David Hirshleifer, University of California, Irvine<br>Johan Walden, University of California, Berkeley |
| **10:00 – 10:45 AM** | **Uncovering the Hidden Effort Problem**<br>**Zhi Da**, University of Notre Dame<br>Azi Ben-Raphael, Rutgers Business School<br>Bruce Carlin, Rice University<br>Ryan Israelsen, Michigan State University |
| **10:45 – 11:00 AM** | **Break** |
| **11:00 – 11:45 AM** | **Wealth and Insurance Choices: Evidence from US Households**<br>**Camelia Kuhnen,** University of North Carolina at Chapel Hill<br>Michael Gropper, University of North Carolina at Chapel Hill |
| **11:45 – 12:15 PM** | **Lunch Break** |
| **12:15 – 1:15 PM** | **Keynote: Green Bonds**<br>**Malcolm Baker,** Harvard University |
| **1:15 – 1:30 PM** | **Break** |
| **1:30–2:15 PM** | **CEO Pet Project**<br>**Denis Sosyura,** Arizona State University<br>Paul Decaire, Arizona State University |
| **2:15–3:00 PM** | **Is Wall Street Turning Blue?**<br>**Yosef Bonaparte,** University of Colorado at Denver |
| **3:00 – 3:15 PM** | **Break** |
| **3:15 – 4:00 PM** | **Triple Bottom Line Asset Pricing: Theory and Evidence**<br>**Huijing Li,** Asper School of Business, PhD Student |

Dr. Malcolm Baker

## Green Bonds

**Malcolm Baker,** Harvard Business School

**ABSTRACT:** Estimates suggest that mitigating and adapting to climate change will cost trillions of dollars. Green municipal bonds arguably represent the greatest empirical opportunity, to date, to study green pricing and ownership. These bonds are issued at a small premium of several basis points to otherwise similar ordinary bonds, except when they are issued simultaneously with matched ordinary bonds from the same issuer, in which case a differential premium emerges on the secondary market. Green bonds, particularly small or nearly riskless ones, are also more closely held than ordinary bonds. These facts are consistent with a simple framework that incorporates assets with nonpecuniary utility, or an investor preference to be green. I will discuss whether these findings extend to other capital markets where the preference for green securities is harder to quantify, and I will offer some suggestions for future research, with the goal of understanding how green financial instruments can support a transition to net zero emissions.

**BIOGRAPHY:** Malcolm Baker is the Robert G. Kirby Professor of Business Administration at the Harvard Business School, where he currently teaches finance in the required curriculum. His research is in the areas of behavioral finance, corporate finance, and capital markets, with a primary focus on the interactions among corporate finance, investor behavior, and inefficiency in capital markets. Professor Baker has made numerous presentations to academic and practitioner audiences. His research awards include the Brattle Prize, given annually by the American Finance Association to the best corporate finance paper in the *Journal of Finance*, second place for the Jensen Prize, given annually by the *Journal of Financial Economics*, the Sharpe Award, given annually by the *Journal of Financial and Quantitative Analysis*, and the Graham and Dodd Scroll, given annually by the *Financial Analysts Journal*. He has served as associate editor for the *Journal of Finance* and the *Review of Financial Studies.*

Dr. Denis Sosyura

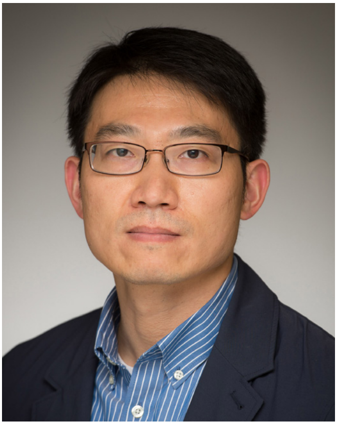
# CEO Pet Projects

**Denis Sosyura,** Arizona State University

Paul Decaire, Arizona State University

**ABSTRACT:** Using hand-collected data on CEOs' personal assets, we find that CEOs prioritize corporate investment projects that increase the value of CEOs' private assets. Such pet projects are implemented sooner, receive more capital, and are less likely to be dropped. This investment strategy delivers large personal gains to the CEO, but selects lower NPV projects for the firm and erodes its investment efficiency. Using information from CEOs' relatives as an instrument for the location of their private assets, we argue that these effects are causal. Overall, we uncover CEOs' private monetary interests in capital budgeting decisions.

**BIOGRAPHY:** Denis Sosyura is a Professor of Finance at Arizona State University (ASU). Before joining ASU in 2017, he had served on the faculty of the University of Michigan for nine years after completing his PhD at Yale University. His primary research focus is on corporate finance, financial institutions, and financial media. His work has been published in the *Journal of Finance, Journal of Financial Economics,* and *Review of Financial Studies.* He has received eight best paper awards from leading academic conferences. He also holds the Distinguished Referee Award from the *Review of Financial Studies*. He is a Chartered Financial Analyst (CFA). His teaching has also been recognized by a number of awards, such as the Most Impactful Finance Professor and the John W. Teets Outstanding Teaching Award, as well as numerous award nominations, including the Economist Intelligence Unit Business Professor of the Year Award, ASU Centennial Professorship Award, Provost Prize for Teaching Innovation, Golden Apple Teaching Award, and the MBA Teaching Excellence Award.



Dr. Zhi Da

# Uncovering The Hidden Effort Problem

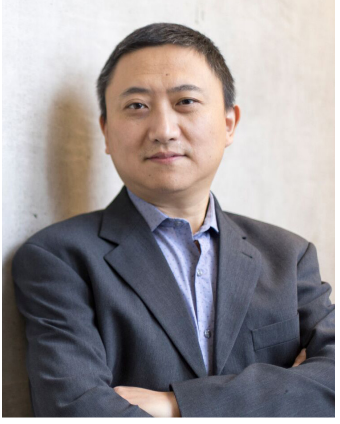
**Zhi Da,** University of Notre Dame

Bruce Carlin, Rice University

Ryan Israelsen, Michigan State University

**ABSTRACT:** We use machine learning to analyze minute-by-minute Bloomberg online status data and study how the effort provision of top executives in public corporations affects firm value. While executives likely spend most of their time doing other activities, Bloomberg usage data allows us to characterize their work habits. We document a positive effect of effort on unexpected earnings, cumulative abnormal returns following firm earnings announcements, and credit default swap spreads. We form long-short, calendar-time, effort portfolios and show that they earn significant average daily returns. Finally, we revisit several agency issues that have received attention in the prior academic literature on executive compensation.

**BIOGRAPHY:** Zhi Da is the Howard J. and Geraldine F. Korth Professor of Finance at the University of Notre Dame's Mendoza College of Business. His research focuses on empirical asset pricing and investment. In recent papers, he studied the role of limited investor attention, the behavior of institutional investors, and cash flow risks of financial assets. His papers have been published in the *Journal of Finance, Review of Financial Studies, Journal of Financial Economics* among others. He is currently serving as an associate editor at several journals including *Review of Financial Studies, Management Science, Journal of Banking and Finance,* and *Critical Finance Review.* Zhi has received the 2017 JFQA William F. Sharpe Award for Scholarship in Financial Research, among other research awards and grants. After gaining a BBA and an MSc from National University of Singapore, he worked at the interest rate and exotic derivative trading desk in DBS Bank. He subsequently earned a PhD in Finance from Northwestern University.



Dr. Bing Han

# Visibility Bias in the Transmission of Consumption Beliefs and Undersaving

**Bing Han,** University of Toronto

David Hirshleifer, University of California, Irvine

Johan Walden, University of California, Berkeley

**ABSTRACT:** We model visibility bias in the social transmission of consumption behavior. When consumption is more salient than non-consumption, people perceive that others are consuming heavily, and infer that future prospects are favorable. This increases aggregate consumption in a positive feedback loop. A distinctive implication is that disclosure policy interventions can ameliorate undersaving. In contrast with wealth-signaling models, information asymmetry about wealth reduces overconsumption. The model predicts that saving is inuenced by social connectedness, observation biases, and demographic structure; and provides a novel explanation for the dramatic drop in savings rates in the US and several other countries in recent decades.

**BIOGRAPHY:** Bing Han is a Professor of Finance and TMX Chair in Capital Markets at Rotman School of Management, University of Toronto. His research focuses on Investments and Behavioral Finance. He has published in *Journal of Finance, Journal of Financial Economics, Review of Financial Studies, Review of Economic Studies, International Economic Review, Journal of Economic Theory,* and *Management Science.* His research has been presented at many international conferences, and featured in media such as *BBC*, *Economist, New York Times, Washington Post* and *Wall Street Journal*. Professor Han has received numerous grants and prizes. He currently serves as Editor of Financial Management. Professor Han holds a PhD in Finance from UCLA and a PhD in Mathematics from University of Chicago.

Dr. Yosef Bonaparte

## Is Wall Street Turning Blue?

**Yosef Bonaparte,** University of Colorado at Denver

**ABSTRACT:** We demonstrate that since the early 1990's, it is becoming increasingly common for firms to be run by CEOs who are aligned with the Democratic Party, which we refer to as the blue trend. We find evidence that at least one factor driving this trend appears to be the rise of the role of women, who tend to have values that align with the Democratic Party. Further, we find that the blue trend is stronger in industries that are more considerable to women as a source of employees or customers (e.g., hospitality, computers, etc.). Nevertheless, the trend appears to be quite pervasive, as nearly 75% of industries turned bluer. The blue trend also has several implications on corporate governing and on the overall stock market performance and volatility, as the presence of more CEOs who are aligned with the Democratic Party is associated with the lower overall stock market returns. Collectively, our evidence suggests that there is a change in the leadership on Wall Street and that has implications for corporate culture, and the stock market landscape.

**BIOGRAPHY:** Yosef Bonaparte graduated with his PhD from the University of Texas at Austin in 2008. Currently, he is an Associate Professor of Finance at the University of Colorado at Denver, where he also reigns as the Center Director of Finance for the University's JP Morgan Center for Commodities. Along with enhancing the education of students in the CU Denver Community, he conducts research related to portfolio choice and asset pricing where he evaluates how the political climate and one's political affiliation may influence the structure of their portfolio, as well as their activity in the stock market in general. A few of his research papers can be found in prestigious journals including the *Economics and Finance Journal, Journal of Monetary Economics,* and the *Journal of Financial Economics.* In addition, his work has been cited by top media outlets in the world such as the *Wall Street Journal, The New York Times, ABC, CNBC, MarketWatch,* and at a top Israeli cable program. Currently, Bonaparte has been conducting his research through a diverse lens, examining how sexual orientation, or how belonging to disadvantaged groups and underserved communities, such as female African Americans, may influence portfolio choices and risk perception.

Dr. Camelia Kuhnen

## Wealth and Insurance Choices: Evidence from US Households

**Camelia Kuhnen**,
University of North Carolina at Chapel Hill

Michael Gropper,
University of North Carolina at Chapel Hill

**ABSTRACT:** Most individuals purchase insurance products, yet empirically we know little about this aspect of the financial portfolios of households. Theoretically, one of the most important factors that should influence insurance purchases is wealth. Specifically, classic economic models posit that wealthier individuals will purchase less insurance compared to their less well-off peers and will prefer to self-insure instead, as it is cheaper to do so given that insurance products come with monitoring and other costs. In the context of life and property insurance, there is scarce empirical evidence as to how wealth relates to insurance choices, and existing evidence is mainly based on survey data. Here we use administrative data covering more than 60,000 individuals to examine the relation between wealth and insurance coverage. We document that the prediction of classic theories of insurance choices is contradicted in the data. Specifically, we find that wealthier individuals have more extensive coverage in terms of life insurance, homeowners insurance, and other property-related insurance. We investigate which characteristics of individuals or insurance markets lead to this empirical pattern, to assess which features need to be accounted for by future theoretical models of households' insurance choices. Differential background risk by wealth levels, as well as differential exposure to legal risk help account for the puzzling relation we document between wealth and insurance coverage.

**BIOGRAPHY:** Camelia M. Kuhnen is a Professor of Finance and S.G. Kenan Distinguished Scholar at the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill, and an NBER Research Associate. Prof. Kuhnen serves as an editor at the *Review of Corporate Finance Studies,* and as an associate editor at *The Journal of Finance, The Review of Financial Studies,* and *Management Science.* She is a past president of the Society for Neuroeconomics. Professor Kuhnen's research spans neuroeconomics, household finance, and empirical corporate finance, with an emphasis on labor and personnel issues. She has undergraduate degrees in finance and in neuroscience from MIT and a PhD in finance from Stanford University. Prior to joining the University of North Carolina at Chapel Hill, she was an Associate Professor of Finance at Northwestern University's Kellogg School of Management.

Huijing Li

## Triple Bottom Line Asset Pricing: Theory and Evidence

**Huijing Li,** PhD student, Asper School of Business

**ABSTRACT:** We develop a model to study the role of Corporate Social Responsibility (CSR) costs in the cross-section of stock returns. In our CAPM-based model, we modify the standard assumptions to allow for social and environmental costs. These CSR costs are defined as the return that a CSR-violating firm has to forgo should it invest to become fully CSR compliant. Our model predicts two risk factors, in addition to the market risk premium, that represent the aggregate market-level social and environmental cost factors and, which are priced in the cross-section of stock returns. We then empirically test the implication of our pricing model by using data from MSCI ESG. In a univariate analysis, we find that the quantile portfolio with the lowest CSR (social or environmental) cost beta significantly outperforms the highest CSR cost beta portfolio. In addition, in agreement with the theoretical predictions of our model, we find negative and significant risk premiums on both the environmental and social risk factor. In other words, when investors hold a well-diversified portfolio (as in the CAPM), when the level of aggregate CSR transgressions is high, investors prefer assets that tend to perform well and can serve to hedge for high market environmental and social costs.

**BIOGRAPHY:** Huijing Li is a Finance doctoral candidate at the Asper School of Business, the University of Manitoba. She holds a Bachelor's degree in Statistics (Actuarial Mathematics) and a Master's degree in Actuarial Mathematics from the University of Manitoba. The focus of her research work is on empirical asset pricing and behavioral finance. Her recent research projects focus on topics such as: the impact of health perceptions on asset pricing, the pricing of CSR risk factors, and ethical investment decision-making.