Research Statement

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Research Areas and Philosophy

My research interests include both investments and behavioral factors that influence investment decisions. Specifically, my research focuses on the welfare of individual and household investors. In generating research ideas, I consider questions from the perspective of the retail household investor. This includes broad questions such as: What are optimal investment strategies? How is the performance of new investment products? As a household investor, are my best interests being represented by plan sponsors, consultants, and investment managers? And lastly, what investment mistakes do individual investors often make? Some of my research investigates specific behavioral factors including social conformity and disposition. I also look into popular investment trends, such as the increasing interest in corporate social responsibility, as well as new products developed for retail investors, such as Hedge Fund ETFs.

Current Research

My job market paper investigates the puzzling allocation to company stock in 401(k) plans. Since the collapse of Enron and Worldcom, concerns regarding the investment in company stock have been expressed by researchers, advisers, lawyers, and the media. Despite the near universal admonishment, employees continue to do so. As of 2012, the mean allocation to company stock in 401(k) plans was 18% for companies that offer their own stock as a menu option. My research reveals that social conformity helps explain why investors make this suboptimal investment decision. The investment preferences of employees toward company stock are highly correlated with the investment preferences exhibited by management. Furthermore, this relationship between employees and management is negatively impacted by increases in geographic dispersion and decreases in trust, as predicted by social conformity theory.

Another behavioral bias that plagues retail investors is disposition. In my working paper titled "Disposition and Prospect Theory: Evidence from Insider Trading," I investigate potential explanations of disposition by examining the transactions of insiders. Although prospect theory has been a popular explanation, I reject it because the proportion of sells across the risk profile of stocks is inconsistent with the predictions of prospect theory. Prospect theory's convex utility function over the negative domain implies that individuals prefer *riskier* options when choosing between two potential losses. However, insiders at firms with more volatile stock returns do not exhibit a stronger preference toward holding onto losing positions compared to insiders at firms with less volatile returns. Rather, I find that the belief in mean reversion contributes to disposition, consistent with what we know about the trading characteristics of insiders.

Being unaccredited, retail investors are excluded from some types of investments, such as hedge funds. To address this deficiency, a new investment product has emerged, the Hedge Fund ETF. Hedge Fund ETFs are designed to mimic hedge funds' investment strategies to provide retail investors access to such investment styles including long/short equity, global macro, event driven, and fixed income arbitrage. In a new project titled “The Performance of Hedge Fund ETFs,” which I am co-authoring with Hayden Kane and Austin Shelton, we look into the performance of Hedge Fund ETFs since inception. Unfortunately for the prospective investor, we find that Hedge Fund ETFs perform terribly. Collectively, these funds underperform risk adjusted models, hedge fund benchmarks, and the returns to a risk equivalent portfolio composed of the S&P 500 and a risk free asset.

Potential Areas of Future Research

I plan to continue exploring household investment. I am particularly interested in the role of consultants, whose guidance is increasingly being sought by plan sponsors in an effort to maintain a prudent list of 401(k) menu options. I hope to examine whether and how consultants add value through menu choices. Specifically, I plan to investigate whether the mutual funds on menus under the guidance of a consultant outperform or have lower fees than the funds offered by comparable plans. Similarly, I’m interested in whether menu changes to these plans lead to improvements in the menu offering.

Lastly, I am fascinated by market anomalies that continue to puzzle researchers. Examples of such anomalies include momentum, reversals, news drift, and 52 week high phenomena. In future work, I hope to shed light on why these anomalies arise by examining intra-day data, which I see as a promising but under-explored setting, to test proposed theoretical explanations.