Trading on Coincidences (2012)

How do traders decide which stocks to analyze each period? This paper models traders’ attention allocation problem, proposes that they use coincidences among the ten stocks with the highest and lowest past returns as a heuristic solution, derives post-coincidence comovement as a testable empirical implication of this hypothesis, and then documents this effect in monthly US stock market data. I study a discrete-time, infinite-horizon economy where stocks display a large number of attributes and realize attribute-specific cash flow shocks. Because of the sheer number of attributes, traders cannot look up and then check every single attribute-specific cluster of firms for a shock each period. As a heuristic solution, I demonstrate that a coincidence among the ten stocks with the highest or lowest past returns (e.g., Apple and Dell realizing top ten returns from October to December 2005) is a noisy signal for both the existence and location of an attribute-specific shock. Then, I characterize asset prices when traders only update their beliefs about an attribute after observing a coincidence. If traders adopt this attention allocation rule, I show that stock returns will display post-coincidence comovement (e.g., the returns of all computer hardware stocks will rise in January 2006) as a testable empirical implication. Supporting this prediction, I find that a trading strategy exploiting post-coincidence comovement at the industry level (e.g., holding all computer hardware stocks except Apple and Dell in January 2006) generates a 10.91% per year excess return that is not explained by popular factor models, behavioral biases, market frictions, or large to small stock cross-autocorrelation.

Distant Speculators and Asset Bubbles in the Housing Market (2012), with Chris Mayer

We investigate the role that out of town second house buyers (“distant speculators”) played in bubble formation in the US residential housing market. Distant speculators are likely to be more reliant on capital gains rather than dividend consumption for financial returns as well as less informed about local market conditions. Using transactions level data that identify the address of both the purchased property and the primary residence of the buyer, we show that an increase in purchases by distant speculators (but not local speculators) is strongly correlated with appreciation in both house price and implied-to-actual rent ratios.
(IAR)—a proxy for mispricing in the housing market. We develop a simple model that helps us address the issue of reverse causality. Consistent with this model, we show that the size of the MSA that out of town second house buyers come from is positively related to the impact of distant speculators on house price and IAR appreciation rates in the target MSA suggesting that out of town second house buyers are not simply responding to unobserved changes in housing values in the target MSA. We conclude by demonstrating the large impact that distant speculators have on the local economy, with out of town second house purchases equalling as much as 5% of total output in Las Vegas during the boom.

The Positive Externality of Accurate Prices (2012)

Presentations:

2013: Arizona State (Finance), Ohio State (Finance), Illinois (Finance), Wharton (Real Estate), Yale (Finance), Toronto (Finance), WFA, AREUEA


Referee for:


Edwin Elton Prize

Best Job-Market Paper in Asset Pricing (Fall 2012)

Marcus Nadler Doctoral Fellowship

NYU Stern Business School (Fall 2012 - Spring 2013)

Instructor:

Debt Instruments and Markets (Summer 2011)

Teaching Assistant:

Financial Econometrics, Prof. Robert Engle (Fall 2011)

Real Estate Finance, Prof. Chris Mayer (Fall 2007)