Bryan T. Kelly

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EDUCATION

2010 **Leonard N. Stern School of Business, New York University**
Ph.D. in Finance *(expected)*
M.Phil. in Finance

2005 **University of California, San Diego**
M.A. in Economics

2000 **University of Chicago**
A.B. in Economics *(with honors)*

RESEARCH INTERESTS

Asset pricing (theoretical and empirical)
Origins and consequences of extreme events in finance
Information and markets
Financial econometrics

HONORS AND AWARDS

2010 Herman E. Krooss Award for best dissertation at NYU-Stern (across all disciplines)
2010 SAC Capital Ph.D. Candidate Award for Outstanding Research, WFA Annual Meeting (for "Risk Premia and the Conditional Tails of Stock Returns")
2009 Shmuel Kandel Award (Outstanding North American Ph.D. Student in Financial Economics)
2009 Best Dissertation Proposal Award in Risk Management, FMA Annual Meeting
2009 Joseph H. Taggart Fellowship, NYU Stern School of Business
2008 Best Paper Award in Financial Markets, FMA Annual Meeting (for "The Value of Research")
2005 NYU Stern School of Business Fellowship

WORKING PAPERS

"Risk Premia and the Conditional Tails of Stock Returns" (Job market paper)

"Testing Asymmetric-Information Asset Pricing Models" (with A. Ljungqvist)
(Under review at *Journal of Finance*)

"Dynamic Equicorrelation" (with R. Engle)
(Under review, third round at *Journal of Business and Economic Statistics*)

"A Practical Guide to Volatility Forecasting" (with C. Brownlees and R. Engle)
(Under review at *Journal of Business and Economic Statistics*)

"The Value of Research" (with A. Ljungqvist)

INVITED PRESENTATIONS

2009 NYU-Stern Finance Department Seminar Series
University of Waterloo, 10th Annual Financial Econometrics Conference
NYU-Stern Volatility Institute, Quanitative Finance and Econometrics Seminar

CONFERENCE PRESENTATIONS

2009 Western Finance Association
Society for Financial Econometrics
2008 European Finance Association
2007 London Business School, Ph.D. Trans-Atlantic Conference

TEACHING EXPERIENCE

2008 Instructor, Foundations of Financial Markets (Undergraduate)
Overall Teaching Rating: 6.2 out of 7.0 (Commendation for teaching excellence)
2007-2009 Teaching Assistant, Volatility (MBA), Prof. Robert Engle
2007-2008 Teaching Assistant, Corporate Finance (MBA), Prof. Daniel Wolfenzon

PROFESSIONAL EXPERIENCE

2000-2002 **Morgan Stanley & Co.**
Analyst, Investment Banking Division
1999 **UBS Warburg Dillon Reed**
Summer Analyst, Block/Listed Equities Trading Desk

REFEREEING

Journal of Empirical Finance
Journal of Financial Econometrics
Journal of Applied Econometrics

REFERENCES

Prof. Robert F. Engle (Chair)
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RESEARCH ABSTRACTS

"Risk Premia and the Conditional Tails of Stock Returns" (Job market paper)

Abstract: Theory suggests that the risk of infrequent yet extreme events has a large impact on asset prices. Testing models of this hypothesis remains a challenge due to the difficulty of measuring tail risk fluctuations over time. I propose a new measure of time-varying tail risk that is motivated by asset pricing theory and is directly estimable from the cross section of returns. My procedure applies Hill's (1975) tail risk estimator to the cross section of extreme events each day. It then optimally averages recent cross-sectional Hill estimates to provide conditional tail risk forecasts. Empirically, my measure has strong predictive power for aggregate market returns, outperforming all commonly studied predictor variables. I find that a one standard deviation increase in tail risk forecasts an increase in excess market returns of 4.4% over the following year. Cross-sectionally, stocks that highly positively covary with my tail risk measure earn average annual returns 6.0% lower than stocks with low tail risk covariation. I show that these results are consistent with predictions from two structural models: i) a long run risks economy with heavy-tailed consumption and dividend growth shocks, and ii) a time-varying rare disaster framework.

"Testing Asymmetric-Information Asset Pricing Models" (with A. Ljungqvist)
(Under review at *Journal of Finance*)
Abstract: Modern asset pricing theory is based on the assumption that investors have heterogeneous information. We provide direct evidence of the importance of information asymmetry for asset prices and investor demands using a natural experiment. The experiment captures plausibly exogenous variation in information asymmetry on a stock-by-stock basis for a large set of U.S. companies. Consistent with predictions derived from a Grossman and Stiglitz-type model, we find that prices and uninformed investors' demands fall as information asymmetry increases. In the cross-section, these falls are larger, the more investors are uninformed, the larger and more variable is stock turnover, the more uncertain is the asset's payoff, and the noisier is the better-informed investors' signal. We show that at least part of the fall in prices is due to expected returns becoming more sensitive to liquidity risk. Our results confirm that information asymmetry has a substantial effect on asset prices and imply that a primary channel linking asymmetry to prices is liquidity.

"Dynamic Equicorrelation" (with R. Engle)
(Under review, third round at *Journal of Business and Economic Statistics*)
Abstract: A new covariance matrix estimator is proposed under the assumption that at every time period all pairwise correlations are equal. This assumption, which is pragmatically applied in various areas of finance, makes it possible to estimate arbitrarily large covariance matrices with ease. The model, called DECO, involves first adjusting for individual volatilities and then estimating correlations. A quasi-maximum likelihood result shows that DECO provides consistent parameter estimates even when the equicorrelation assumption is violated. We demonstrate how to generalize DECO to block equicorrelation structures. DECO estimates for US stock return data show that (block) equicorrelated models can provide a better fit of the data than DCC. Using out-of-sample forecasts, DECO and Block DECO are shown to improve portfolio selection compared to an unrestricted dynamic correlation structure.

"A Practical Guide to Volatility Forecasting" (with C. Brownlees and R. Engle)
(Under review at *Journal of Business and Economic Statistics*)
Abstract: We present a volatility forecasting comparative study based on the methodology and financial data from Vlab, an econometric software application for automated real time volatility analysis. Our goal is to identify successful predictive models over multiple horizons and to investigate how predictive ability is influenced by choices for estimation window length, innovation distribution, and frequency of parameter re-estimation. Test assets include a range of domestic and international equity indices and exchange rates. We find that model rankings are insensitive to forecast horizon and suggestions for estimation best practices emerge. While our main sample spans 1990-2008, we take advantage of the near-record surge in volatility during the last half of 2008 to ask if forecasting models or best practices break down during periods of turmoil. We find that volatility during the 2008 crisis was well approximated by predictions one day ahead, and should have been within risk managers' 1% confidence intervals up to one month ahead.

"The Value of Research" (with A. Ljungqvist)

Abstract: We estimate the value added by sell-side equity research analysts and explore the links between analyst research, informational efficiency, and asset prices. We identify the value of research from exogenous changes in analyst coverage. On announcement that a stock has lost all coverage, share prices fall by around 110 basis points or $8.4 million on average. The share price reaction is attenuated the more analysts continue to cover the stock, suggesting that there are diminishing returns to coverage at the margin. The adverse effect of coverage terminations is proportional to the analyst's reputation and experience and to the size of the broker's retail sales force. Exogenous reductions in coverage are followed by: less efficient pricing and lower liquidity; greater earnings surprises and more volatile trading around subsequent earnings announcements; increases in required returns; and reduced return volatility. Simulations suggest investors can trade profitably on the volatility changes. Finally, retail investors sell and large institutional investors buy around coverage terminations, suggesting that different investor clienteles have different demands for analyst research.

November, 2009