Predictable Price Pressure

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Is pricing of CONSUMER things…

PERSONAL FINANCE

With limited inventory due to a computer chip shortage, 82% of consumers are paying above sticker price for a new car

Limited supply/high demand
=> higher prices

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KEY POINTS

- A year ago, just 2.8% of car buyers were paying more than the manufacturer's suggested retail price, or MSRP.

…similar to pricing of FINANCIAL things?

GameStop, Corp. Price Chart: Jan 1, 2021 to March 31, 2021
(green and red bars are volume)

High demand => higher prices

Some research says YES

- Supply/demand imbalances can impact financial asset prices
- BUT: most study extreme events
  - e.g. liquidity shocks
  - Financial crises
  - Periods of high volatility
- No one really looks at "normal" events/conditions

Why does no one look at normal times?

- During normal times, hard to differentiate information-based trades from other trades
    - If can’t identify causality…

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Enter this paper (buying pressure part)…

- Focus on **dividend payments** **(boring normal events) at aggregate market level**
- Dividends announced **43 days** before being paid
  - **Announcement** date is “info” date
- Payment date provides ZERO new information…
  - …yet, market returns predictably higher on payment date (and day after)

More details

- **Result not caused by:**
  - Day of the week effects
  - Day of the month effects
  - Fed announcements
- **Result stronger for:**
  - Days when dividends are highest
- **Result driven by:**
  - Institutional investors

Individual vs aggregate effects (1)

- Prior literature finds dividend change *announcements* affect **individual stock** prices.

The Journal of FINANCE
The Journal of THE AMERICAN FINANCE ASSOCIATION

Full Access

Dividend Changes and the Persistence of Past Earnings Changes

ADAM S. KOCH, AMY X. SUN

First published: 27 November 2005 | https://doi.org/10.1111/j.1540-6261.2004.00693.x | Citations: 79

While numerous studies have documented a positive association between announced changes in dividends and contemporaneous stock price movements, there is no consensus as to what causes this association.[3] In addition, prior research suggests that

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Individual vs aggregate effects (2)

- This paper:
- **Aggregate** level effects on the *payment* date. Highest div days => strongest price reaction…
- BUT… price reaction from reinvesting in stocks that **did not pay** dividends (**&** no impact when no reinvestment)
- **To me, this is the most profound result of the paper.**

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Selling pressure

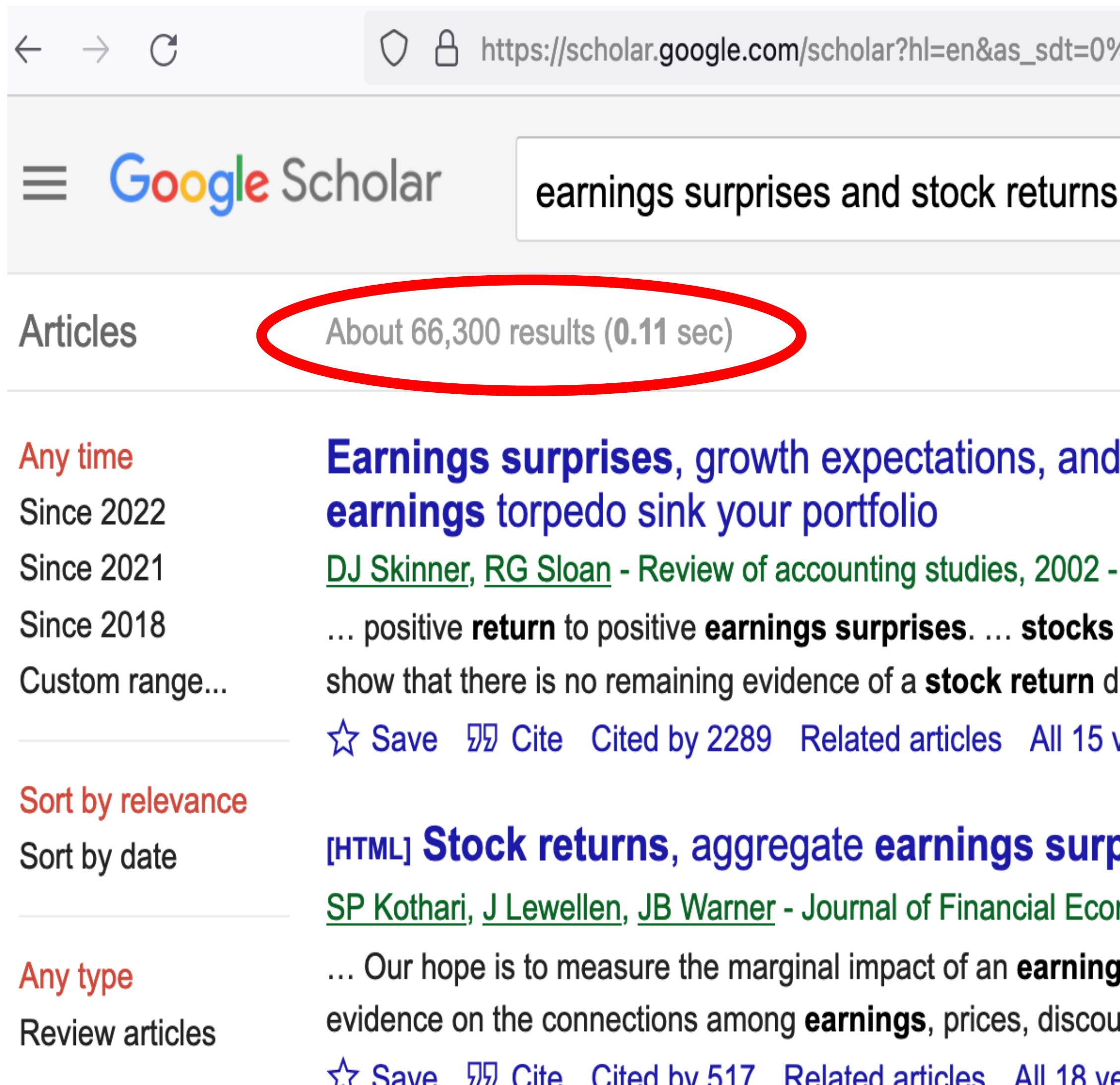
- Stock compensation
- Employees cannot trade for some time before earnings release (blackout period)

Finding

- Firms with highest stock comp expense have most negative returns
- Results are big: 117 basis points.
- This is an individual stock result, not a market wide result

Concerns

- Control somewhat for earnings announcement effect, but I'm not fully convinced, partly bc of massive lit on earnings surprises:



Suggestions…

- Selling pressure results feel incomplete
- **If keep, would be super interesting to decompose stock price change due to earnings surprises and change due to presumed employee selling (can do this because results are at the individual stock level)**
- **Could test more directly by looking at actual executive selling**

Extensions (1)

- **Further exploration/extensions**
  - Why don’t mutual funds spread buying when they get divs?
  - Is price impact from not spreading their buying offset by low returns of not being in cash?
  - Why don’t MF borrow at quarter end to pay distributions and get the money invested fast?

Research extensions (2)

- **Further exploration/extensions (2)**
  - Could someone create an ETF?!
  - What about buybacks? (this could tie together buying and selling results):

Home › Economy & Politics › **Capitol Report**

Capitol Report

SEC's Jackson says research he's conducted shows corporate insiders are using buybacks to cash out

Published: March 6, 2019 at 1:34 p.m. ET

Final thoughts

- This is the best sort of academic paper.
- It asks a HUGE question.
- The answer provides insight to many other issues, both investment and corporate.
- It has clear implications for industry participants (traders, mutual fund managers, individuals).

Thanks!!!