Columbia Business School
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| Program for Financial Studies

Fall '19 Events Preview:
Program for Financial Studies (PFS)

The Program for Financial Studies (PFS) at Columbia Business School is a partnership between academia and industry whose goal is to support and promote the School's research in financial economics, connecting with internal and external stakeholders - students, alumni, advisory board - and the practitioners operating in the financial services industry.

The dropping cost of computational resources, the extraordinary growth in traditional and nontraditional data sets, and constant innovation in the open-source software community have combined to fundamentally transform research in the social sciences. A theme that runs through our research and programmatic efforts at the PFS is the application of new tools and data sets to traditional problems in finance and economics. PFS affiliated research currently looks at new technologies in finance, the interaction of news (and other textual data) and financial markets, as well as finance-motivated approaches to addressing climate change and to studying the impact of regulation. The research is interdisciplinary in nature, and our affiliated faculty draw from multiple divisions at the Business School and from the University as a whole.

Professor Harry Mamaysky, Faculty Director and Melina Denebeim '12, Program Director, invite you to preview our upcoming Fall 2019 programming!

Visit our Website

An Exciting Semester of Events in Business, Finance, Engineering and Data Science

New Technologies in Finance Conference
Inaugural launch as part of PFS' FinTech research and programming
(Nov. 15, Lerner, 8am-6pm)

A Small Step to Big Data: Intro to Python for Business
Big Data for Better Business seminar series
Featuring Professor Mattan Griffel
(Sep. 11, Uris Hall, 6-9pm)

Ethics in AI
Big Data for Better Business seminar series
Featuring Professor Oded Netzer
(Oct. 2, Uris Hall, 6-8:30pm)

FinTech Entrepreneurship Competition
hosted in conjunction with Lang Center and Engineering School
(Nov. 4, 11, Uris Hall)

No Free Lunch seminar series
Featuring research presentations by Professors Geoffrey Heal, Kinshuk Jerath, Shiva Rajgopol
(Sep. 17 and Oct. 29, Uris Hall, 12:30-1:45pm)

PGIM Chief Economist
Nathan Sheets
Presenting a live webinar for students and investors
(November, date and time TBA)

Taking the Floor: Models, Morals and Management in a Wall Street Trading Room
Featuring Daniel Beunza, co-hosted with Bernstein Center and Heilbrunn Center
(Oct. 14, Uris Hall)

Creative Destruction in Financial Services
EMBA block week NYC Immersion course, taught by Professor Charles Calomiris
(Dec. 16-20, NYC)

Welcome to our Newest Advisory Board Members!

Ciara Burnham '93

Antonio Gagliardi

Charles Rusbasan '91

CLICK HERE for full academic and executive advisory board list and bios

Current Research Projects

Man vs. Machine: Quantitative and Discretionary Equity Management

A machine learning technique used to classify the universe of active equity mutual funds into "quantitative funds" and "discretionary funds." Proposed equilibrium model in which quantitative funds have greater information processing capacity but less adaptive strategies. The model predicts that quantitative funds hold more stocks and display pro-cyclical performance, but their trades are vulnerable to "overcrowding." Discretionary funds alternate between stock picking in expansions and market timing in recessions, display counter-cyclical performance and focus on stocks for which less overall information is available. The empirical evidence in this paper supports these predictions.

Simona Abis, Columbia Business School

Read more

The Effect of Information Opacity and Accounting Irregularities on Personal Lending Relationships

We examine how personal lending relationships between lenders and managers are affected by information and accounting environments of borrowing firms. We address this question by exploring whether, following managerial turnover, lenders migrate with the manager from the firm where a relationship developed (origin firm) to the manager's new firm (destination firm). We find that the opacity of the external information environment of the destination firm significantly increases the probability of lenders' co-migration, while accounting irregularities at both the destination and origin firms decrease it. We also show that co-migration is affected by a lender's characteristics, such as monitoring efficiency, industry concentration of the loan portfolio and loan growth. We further find that the relation between co-migration and a lender's monitoring efficiency depends on the information and accounting environments of the origin and destination firms. A lender's monitoring efficiency increases its co-migration probability when a manager moves to an opaque firm but not when she moves to a transparent one. When the destination or origin firm experiences accounting irregularities, even lenders with strong monitoring capabilities are mostly reluctant to continue their relationship with a migrating manager.

Urooj Khan, Columbia Business School
Xinlei Li, Hong Kong University of Science and Technology
Chris Williams, University of Michigan

Regina Wittenberg-Moerman, University of Southern California

Time Variation in the News-Returns Relationship

We find that the well-documented underreaction of stock prices to news exhibits substantial time variation. The risk-bearing capacity of financial intermediaries and the degree of passive ownership of stocks are important conditioning variables for how contemporaneous and future prices respond to news. Once we control for likely institutional trading motives, we find the surprising result that stock prices overreact to news. Changing informativeness of news explains a portion but not all of the time variation in the news-returns relationship. The particular association of entropy, a text-based measure of news informativeness, with the news-returns relationship supports our interpretation that strategic institutional trading induces persistent price moves in response to news.

Paul Glasserman, Columbia Business School
Fulin Li, University of Chicago
Harry Mamaysky, Columbia Business School

Working paper

Monetary Policy and Exchange Rate Returns: Time Varying Risk Regimes

What are the connections between monetary policy and future exchange rate returns? Do these connections arise from the relationship between monetary policy and priced risks? We address these questions using a text-based measure of the monetary policy stance of globally important central banks. A standard deviation increase in dovishness of the latter forecasts a 5.8% (4%) annual excess return of DM (EM) currencies against the dollar post crisis. We also show that the interest rate differential forecasts currency returns in time-varying ways, reflecting the global economic cycle and monetary policy.

Charles Calomiris, Columbia Business School
Harry Mamaysky, Columbia Business School University

Dynamic Information Regimes in Financial Markets

We develop a dynamic model of information and asset prices in which investor information choices influence the level of available public and private information about fundamentals. We study two types of feedback. In the first, as more investors become informed, more information about fundamentals becomes available. As a consequence, two regimes emerge, one with higher prices and lower volatility, and one with lower prices and higher volatility. Information dynamics move the market between regimes, creating large market drops and rallies, with no change in fundamentals, but large changes in discount rates reflecting changes in information asymmetry between informed and uninformed investors. In the second type of feedback we study, an increase in the number of informed investors leads to greater public information through leakage or disclosures; this mechanism has a stabilizing effect. When calibrated to market

data, the positive feedback model suggests a role for information dynamics in financial crises; the negative feedback model helps explain empirical findings in the literature on the market reaction to the loss of analyst coverage.

Paul Glasserman, Columbia Business School
Harry Mamaysky, Columbia Business School
Yiwen Shen, Columbia Business School

[Read more](#)

Alpha Decay

Using a novel sample of professional asset managers, we document positive incremental alpha on newly purchased stocks that decays over twelve months. While managers are successful forecasters at these short-to-medium horizons, their average holding period is substantially longer (2.2 years). Both slow alpha decay and the horizon mismatch can be explained by strategic trading behavior. Managers accumulate positions gradually and unwind gradually once the alpha has run out; they trade more aggressively when the number of competitors and/or correlation among information signals is high, and do not increase trade size after unexpected capital flows. Alphas are lower when competition/correlation increases.

Anton Lines, Columbia Business School
Rick Di Mascio, Inalytics Limited
Narayan Y. Naik, London Business School

[Read more](#)