UNIVERSITY OF MANNHEIM
Business School

CHAIR OF FINANCIAL MARKETS AND FINANCIAL INSTITUTIONS

Seminar Thesis Spring 2022

Topic S1: Does Investor Mood explain stock market seasonality?

Classification: Empirical Topic

Advisor: Frederik Horn

In classical asset pricing, the return of an asset should only be determined by its risk. In recent years, there has been a surge in papers challenging this notion by arguing that psychological biases affect investment decisions. Prominently, Hirshleifer and Shumway (2003) argue that investor mood has a strong impact on stock returns. They use sunshine as a proxy for good investor mood and find that their proxy is significantly positively correlated with stock returns. Intuitively, individuals that are in a good mood have a more optimistic outlook. Subsequently, they might be more willing to buy stocks at higher prices.

Since then, several papers have provided evidence that investor mood has an impact on stock returns (e.g. Kamstra et al., 2003; Bergsma and Jiang, 2016). Recently, Hirshleifer et al. (2020) link investor mood to the research that finds considerable seasonality in stock returns. They argue that stocks have differing sensitivities to mood which then translates into seasonal swings in the stock market. Indeed, they find that stocks that outperform in times of good mood also outperform in future optimistic moods. This interesting result has far reaching implications for the stock market as a whole. It suggests that in certain times there is mood induced market wide mispricing of assets challenging the notion of rational markets.

First, the student should provide a comprehensive survey of the literature on mood and stock market returns. Next, she should replicate the main findings of Hirshleifer et al. (2020). Finally, the student should extend the time series to include more recent data.

Requirements:

The empirical work requires the use of large databases, i.e. CRSP. The databases are readily accessible for affiliates of the University of Mannheim. The candidate should feel comfortable in the use of a statistical software program (such as STATA) and econometric methods.

Introductory Literature:

Bergsma, K., & Jiang, D. (2016). Cultural New Year holidays and stock returns around the world. *Financial Management*, *45*(1), 3-35.

Hirshleifer, D., Jiang, D., & DiGiovanni, Y. M. (2020). Mood beta and seasonalities in stock returns. *Journal of Financial Economics*, *137*(1), 272-295.

Hirshleifer, D., & Shumway, T. (2003). Good day sunshine: Stock returns and the weather. *The Journal of Finance*, *58*(3), 1009-1032.

Kamstra, M. J., Kramer, L. A., & Levi, M. D. (2003). Winter blues: A SAD stock market cycle. *American Economic Review*, *93*(1), 324-343.

Topic S2: The Streaking Star Effect in the Mutual Fund Industry

Classification: Empirical Topic

Advisor: Sabrina Yufang Sun

There is an overwhelming trend in the mutual fund industry toward team-management. The finance literature, however, has generated inconsistent results with respect to the relative performance of team vs. individual-managed mutual funds (e.g. Chen et al. 2004; Bär, Kempf and Ruenzi, 2011; Partel and Sarkissian, 2017). The current project investigates the fund flows of team vs. individual-managed mutual funds from a social psychological perspective.

Social psychologists find that people exhibit a greater desire to see runs of successful performance by individuals continue more than identical runs of success by groups, a phenomenon termed “the streaking start effect”. This effect appears to result from individual streaks of success inspiring more awe than group streaks—and that people enjoying being awe-inspired. (Walker and Gilovich, 2021)

The current project aims to investigate whether the behavioral bias induced by the streaking star effect exists in the mutual fund industry: Do individual-managed mutual fund experience more inflows than team-managed mutual fund after runs of successful performances? The student should review the finance literature on team vs. individual-managed mutual funds and empirically study the potential existence of a streaking start effect using mutual fund data downloaded from the university’s databases.

Introductory Literature:

Bär, Michaela, Alexander Kempf, and Stefan Ruenzi. "Is a team different from the sum of its parts? Evidence from mutual fund managers." *Review of Finance* 15, no. 2 (2011): 359-396.

Chen, Joseph, Harrison Hong, Ming Huang, and Jeffrey D. Kubik. "Does fund size erode mutual fund performance? The role of liquidity and organization." *American Economic Review* 94, no. 5 (2004): 1276-1302.

Patel, Saurin, and Sergei Sarkissian. "To group or not to group? Evidence from mutual fund databases." *Journal of Financial and Quantitative Analysis* 52, no. 5 (2017): 1989-2021.

Walker, Jesse, and Thomas Gilovich. "The streaking star effect: Why people want superior performance by individuals to continue more than identical performance by groups." *Journal of Personality and Social Psychology* 120, no. 3 (2021): 559.

Topic S3: Gender Rebounding Gap: How do different genders fare after a professional misstep?

Classification: Empirical topic

Advisor: Sabrina Yufang Sun

The gender gap in professional success has been at the spotlight of social and political discourse, as well as the behavioral and experimental economics literature. One strand of this literature focuses the "first chance" – whether females are promoted to and supported in highly ranked professional roles. A more recent investigation focuses on the "second chance" – how females fare, relative to males, after failures and misconducts. This project focuses on the second chance, the "gender rebounding gap".

The literature has not reached a consensus as to how females fare after professional missteps. One study by Egan, Matvos, and Seru (2017) suggests the existence of a "gender punishment gap" by showing that, following an incident of misconduct, female financial advisers are 20% more likely to lose their jobs and 30% less likely to find new jobs relative to their male counterparts. Other studies demonstrate that females are more protected than their male counterparts from negative feedbacks (e.g. Jampol & Zayas, 2021).

The current project aims at understanding whether and why there might be a gender gap in rebounding after a professional misstep. Specifically, the student should use online experiments to first investigate whether females perform less well than males after they have experienced professional failures and mistakes. If such a gap is found, the student should explore two potential channels: 1) Gender Discrimination: Females might be less likely ***get*** a second chance; 2) Self-Selection: Females might be less likely to ***seek*** a second chance. Finally, the student should interpret their experimental findings in the context of the literature.

I will provide the training needed to conduct online experiments and analyze experimental data. The student should be open to this methodology and be willing to learn.

Introductory Literature:

Egan, Mark L., Gregor Matvos, and Amit Seru. *When Harry fired Sally: The double standard in punishing misconduct*. No. w23242. National Bureau of Economic Research, 2017.

Jampol, Lily, and Vivian Zayas. "Gendered white lies: Women are given inflated performance feedback compared with men." *Personality and Social Psychology Bulletin* 47, no. 1 (2021): 57-69.

Topic S4: Can the stock market differentiate between "good" and "bad" R&D expenses?

Classification: Empirical topic

Advisor: Leah Zimmerer

There is a growing body of literature that analyzes the market's ability to properly value R&D investments. One strand of literature states that investors overestimate the benefits of investments in R&D. Jensen (1993) argues that investors do not take into consideration that many R&D investments are not profitable. Daniel and Titman (2006) show that markets overreact to intangible information (R&D investments) as they are difficult to interpret and value. A more recent strand of literature states that investors underestimate the benefits of investments in R&D. Chan, Lakonishok, and Sougiannis (2001) show that high ratios of R&D predict high subsequent returns. Hirshleifer, Hsu and Li (2010) argue that high innovative efficiency (patents scaled by R&D) has a positive impact on subsequent returns.

Cohen et al. (2013) analyze a firm's past ability to translate R&D investments into a valuable firm component, e.g. sales, and interact it with the current amount of R&D the firm is undertaking. They argue that the market does not consider the information in the firm's past R&D abilities. Firms with high past R&D ability earn significantly higher future stock returns compared to firms with low past R&D ability. They show that a long-short portfolio strategy (Good R&D firms – Bad R&D firms) earns abnormal returns of approximately 11 % per year.

The goal of the thesis is to replicate the main findings of Cohen et al. (2013) including more recent years and to analyze whether the effect persists in the more recent years.

Requirements:

The empirical work requires the use of large databases, i.e. CRSP. The databases are readily accessible for affiliates of the University of Mannheim. The candidate should feel comfortable in the use of a statistical software program (such as STATA) and econometric methods.

Introductory Literature:

Chan, L. K., Lakonishok, J., & Sougiannis, T. (2001). The stock market valuation of research and development expenditures. *The Journal of Finance*, *56*(6), 2431-2456.

Cohen, L., Diether, K., & Malloy, C. (2013). Misvaluing innovation. *The Review of Financial Studies*, *26*(3), 635-666.

Daniel, K., & Titman, S. (2006). Market reactions to tangible and intangible information. *The Journal of Finance*, *61*(4), 1605-1643.

Hirshleifer, D., Hsu, P. H., & Li, D. (2013). Innovative efficiency and stock returns. *Journal of Financial Economics*, *107*(3), 632-654.

Jensen, M. C. (1993). The modern industrial revolution, exit, and the failure of internal control systems. *The Journal of Finance*, *48*(3), 831-880.

Topic S5: Mothers and Sons around the World: The impact of men's preferences on female labor market participation

Classification: Empirical topic

Advisor: Leah Zimmerer

The role of women in the economy has changed dramatically in the last 100 years. Women used to have low labor market participation rates and entirely dropped out of the labor market when they got married. In 2021, women make up 55.9% of the labor force, according to the U.S. Department of Labor.

This raises the question of why there was such a large increase in female labor market participation.

Potential explanations for the increase of female labor market participation are: the reduced amount of household work which is required due to new consumer durables (e.g. washing machine) (Greenwood, Seshadri, and Yorukoglu, 2004) and the impact of the pill which reduces the possibility of accidental pregnancy and thus incentivizes woman to invest into her career (Goldin and Katz, 2002).

Fernández et al. (2004) argue that the increasing number of women in the labor market was driven by men who grew up with a working mother. As men grow up with a working mother, it can have an impact on men's preferences for a working wife or men's cooperation in household work. This makes becoming a working woman more attractive. And thus, one would expect to see an increase in the number of women in the labor market. Fernández et al. (2004) use survey data from the US and show that the wives of men whose mothers worked are themselves significantly more likely to work.

The student should collect data from International Social Survey Program (ISSP) different for countries. The student should answer the question of whether the findings of Fernández et al. (2004) can be replicated for different countries. Do we see the same results in all countries? Are the results different in male-dominated countries?

Requirements:

ISSP data are available for download from public databases. The candidate should feel comfortable in the use of a statistical software program (such as STATA) and econometric methods.

Introductory Literature:

Fernández, R., Fogli, A., & Olivetti, C. (2004). Mothers and sons: Preference formation and female labor force dynamics. *The Quarterly Journal of Economics*, *119*(4), 1249-1299.

Goldin, C., & Katz, L. F. (2002). The power of the pill: Oral contraceptives and women's career and marriage decisions. *Journal of Political Economy*, *110*(4), 730-770.

Greenwood, J., Seshadri, A., & Yorukoglu, M. (2005). Engines of liberation. *The Review of Economic Studies*, *72*(1), 109-133.