

Research Review: Only in Scandinavia?

Ron Bird | University of Technology Sydney | 10 April 2017

Scandinavia is a goldmine when it comes to financial research because of the unique data sets that are collected. Here we review research on three questions which are of wide interest that have only recently been able to be addressed because of the availability of this data.

1. Personal Trading by Employees of Financial Intermediaries – Henk Berkman, Paul Koch and Joakim Westerholm

We have known for a long time now that professional investors as a group do not seem to be able to deliver outperformance to their clients. An interesting question addressed in this paper is whether they do better when investing on their own behalf.

The authors find that the personal stock market trading by brokers, analysts and fund managers is highly profitable over short windows up to a month. These financial experts earn particularly high abnormal returns for their own account when they trade simultaneously with other experts and when they trade ahead of earnings announcements, revisions of analyst recommendations, and large price changes. They also engage in profitable front-running ahead of corporate insider trades and ahead of institutional buying or selling pressure. In sum, financial experts appear to benefit handsomely from their privileged access to material private information.

2. Are Mutual Fund Managers Paid for Investment Skill? Marcus Ibert, Ron Kaniel, Stijn Van Nieuwerburgh and Roine Vestman

Following on the theme of the previous paper, these authors examine the relationship between the remuneration of professional investors and the performance of their investments and the amount of funds that they manage. They find a weak relationship between pay and performance, but a strong relationship between pay and size, measured as fee revenue. The non-performance related components of size drive the link with pay. Only at the top of the performance distribution do they find a meaningful link between performance and pay, suggesting performance-based pay components often are absent or are asymmetric, and often expire out-of-the-money.

Profitable fund companies pay higher wages and have wages that are more sensitive to performance and less sensitive to revenue. This is consistent with the larger funds being more interested in maintaining the funds that they have under management than in

attracting new funds. The authors conclude that remuneration is geared by owner to align managerial incentives with their own goals rather than that of their clients.

3. Portfolio Performance Across Genders and Generations: The Role of Financial innovation – Denis Davydov, Otto Florestedt, Jarkko Peltomäki, and Marcus Schön

This paper is on a completely different theme. The authors use a unique dataset on the trading transaction records of private investors from Sweden to explore the role of gender and age in the use of Exchange Traded Funds (ETFs), considered to be innovative investment products, with respect to implications for portfolio performance. They provide evidence that investors perform better when trading and investing in mutual funds, but younger investors may be relatively more skilful users of ETFs. They also find that older men and women trade more actively, although they also show a better investment performance. And, they find that age and gender are very different demographic determinants of investor behaviour and performance.



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