

Discussion of “More informative disclosures,  
less informative prices? Portfolio and price  
formation around quarter-ends” by Gormley,  
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RAPS Conference, February 15, 2020

## This paper: main idea

Investigate the role of mandatory disclosures for fund trading and price efficiency

- For each fund-day-stock, classify executed volume as *Initiating*, *Completing*, *Building*, or *One-off* volume
  - Compare the signed cumulative volume on that day to the signed cumulative volume in the previous/next 28 days
    - Example: if a fund is a net buyer of AAPL today, was a net buyer of AAPL in the past 28 days, and is *not* a net buyer of AAPL in the next 28 days
- ⇒ *Completing*=1
- Examine these fund-day-stock indicators over the quarter

## This paper: key findings

- Funds 8% less likely to initiate new positions at quarter-ends (relative to other days)
- Funds 9% more likely to complete positions at quarter-ends
- ⇒ Mandatory disclosures lead funds to adjust their trading strategy over the quarter
  - Not only *window-dressing* and/or *portfolio pumping* since disclosure are *more* informative about future holdings
- Implications for return predictability
  - Trades are “less informative” at quarter-ends
  - Short-term reversal strategy more profitable at quarter-ends
  - ⇒ Lower price efficiency

# This discussion

- 1 ANcerno data
- 2 Price impact
- 3 Reversals

# Institutional trading data (Abel Noser)

The paper uses ANcerno/Abel Noser (AN) data over 1998-2010 to estimate institutional trading patterns around quarter-ends

- Nice idea to use AN data to classify trades
  - [Hu, Jo, Wang, and Xie \(2018\)](#) provide a detailed overview of the AN data
    - Covers only a subset of institutional investors (but still 8-12% of CRSP volume over sample period)
    - + Long series, detailed information on transactions (size, sign, identity)
- ⇒ It would be useful to provide some more background information on the data and descriptive statistics

## Price impact and reversal: intuition

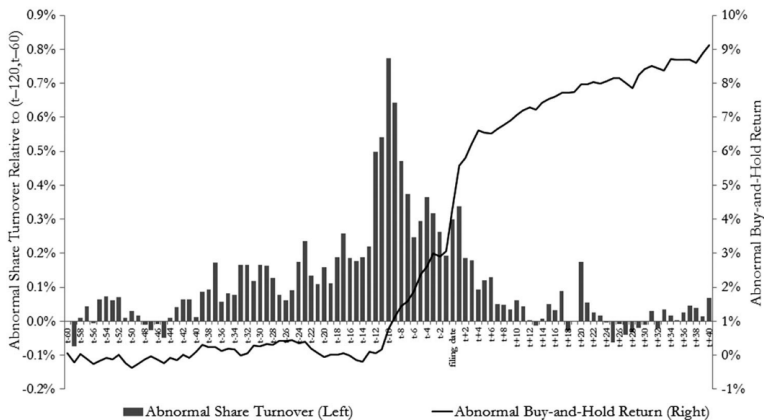
Trades move prices because of risk aversion and adverse selection (Glosten-Milgrom (1985), Grossman-Miller (1988))

- Ultimately, only informed trades should have permanent price impact (Hasbrouck (1991))

In the context of quarter-end trades:

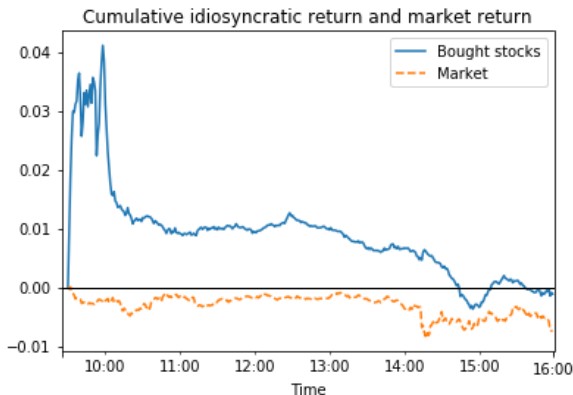
- Window-dressing/portfolio pumping trades are uninformative
- Here focus is on a different channel: decrease in initiating/building trades and increase in completing trades  
⇒ (?) lower price informativeness
- Empirically, at the *micro* scale the impact of trades must be history-dependent (e.g., Bouchaud et al. (2018))

# Schedule 13D filers (Collin-Dufresne and Fos (2015))



Low price impact until close to the filing date

# Knight Capital Trading Glitch



Complete reversal within one day

⇒ important to examine the price impact of the different trade categories



# Trade categories and return reversals

Challenge is to estimate the price impact of trade categories

$$\begin{aligned} Ret(t+1, t+30)_{st} = & \beta_1 Ret(t)_{st} + \beta_2 Rank(Initiating)_{st} + \beta_3 Rank(Initiating)_{st} \times Ret(t)_{st} + \\ & \beta_4 Rank(Completing)_{st} + \beta_5 Rank(Completing)_{st} \times Ret(t)_{st} + \beta_6 Rank(Building)_{st} + \\ & \beta_7 Rank(Building)_{st} \times Ret(t)_{st} + \beta_8 Rank(One\_Off)_{st} + \beta_9 Rank(One\_Off)_{st} \times Ret(t)_{st} + \\ & \beta_{10} Rank(CommPerShare)_{st} + \beta_{11} Rank(CommPerShare)_{st} \times Ret(t)_{st} + \delta_t + \alpha_s + \varepsilon_{st}, \quad (3) \end{aligned}$$

- Returns on days with high proportion of one-off trades reverse *more*
- But also marginally *more* reversal for high building and completing trade-day returns
- High initiating trade-day returns reverse *less*
  - Consequence of order splitting over several days (by definition)? How do we know it is not just price pressure?

Another view: what is the performance of these trades?

# Performance of institutional trades

[Puckett and Yan \(2011\)](#) use ANcerno data over 1999-2005 to study the performance of intra-quarter round-trip trades

- Strong evidence of interim trading skills
  - Abnormal returns do not seem to correlate with holding period
    - 1-week/1-month/2-month round-trip trades have same abnormal return
    - Does not seem consistent with the one-off trades result (outside of quarter-ends)
- ⇒ Does the 28-day threshold to classify trades matter?
- ⇒ A comparison with [Puckett and Yan \(2011\)](#) would help
- They argue that disclosures may erode the short-term informational advantage of institutions
  - Seems broadly supportive of the main idea in this paper

# Reversal

Short-term reversal is an important factor in U.S. stock returns

- Consistent with the explanation, stronger short-term reversal at quarter-ends
- The results do not seem to be driven by portfolio pumping and tax-loss selling
- Hard to fully rule out window dressing, but reversal concentrated in more liquid stocks seems inconsistent
- Evidence of volume-induced reversals ([Campbell, Grossman, and Wang \(1993\)](#)) also provides nice support for a less informed/uninformed trading explanation
  - The theory is about a decline in informed trading rather than an increase in uninformed trading, however

# Indexing effects

At month-ends/quarter-ends, passive investors may have stronger incentives to be in line with their benchmarks

- There may be even higher increases in index-related trading at month-ends and quarter-ends
- This should predominantly happen in liquid stocks that are part of many indices
- Strong increase in passive ownership in recent years: do we see a change over time?

## S&P 500 stocks

dep. var:  $\text{ret}(t + 1:t + 30)$

	1998-2010		2011-2018	
$\text{ret}(t)$	-0.07	(-4.04)	-0.03	(-1.83)
$\text{ret}(t) * \text{Mos\_end}$	0.02	(0.29)	-0.08	(-1.41)
$\text{ret}(t) * \text{Qtr\_end}$	-0.27	(-2.29)	-0.13	(-0.45)
FE	day		day	
$R^2$	0.03%		0.01%	
obs.	1,564,988		982,146	

Reversal at one-month horizon weaker in recent years for these stocks except at month-ends

## Misc. comments

- Does the excess reversal on high one-off trade days hold when excluding month and quarter ends?
- Reliance on crsp opening price for trading strategy may be problematic (especially to interpret reversal)
- Possible to take into account total volume executed in trade classification methodology?
- Prior to May 2004, the SEC only required mutual funds to report holdings semi-annually, do we see a change in trading patterns?

# Conclusion

Nice idea!

- New results on fund trading strategies over the quarter
- Raises interesting questions on the price impact of trades
- Also interesting results on commissions
- The evidence suggests that disclosure rules can affect price informativeness beyond portfolio pumping/window-dressing channels

# Trivia

- p.4 future prices will follow a random walk (rather than returns)
- Intercept in (1) seems to be missing
- It would help to report sample periods in the tables