

PROPOSAL: PREDICTING STOCK RETURNS WITH FUND MANAGERS' BELIEFS

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In this project we will investigate the active positions of mutual funds and other large financial institutions and see how they can be used to predict future stock returns. The new approach we take includes computing the *active* portfolio weights of such institutions relative to passive benchmark indexes; using data on actual benchmark index holdings allows us to measure the active bets of money managers in a much cleaner way than before. This allows us to analyze the performance of these managers and their stock holdings as well as construct portfolio strategies that free-ride on the information contained in their active stock picks.

To get a better idea of the concepts involved, you can take a look at a paper titled "How active is your fund manager? A new measure that predicts performance." You can find it at:

<http://www.som.yale.edu/Faculty/petajisto/research.html>

The current project is ongoing research related to the above paper. The exact assignments during the summer will depend on the state of the project at that time.

Student skills:

The student is expected to work on the following:

- Work with large datasets of institutional stock holdings and exchange-listed stocks
- Develop and back-test implementable portfolio strategies
- Run regressions and generate sample statistics
- Collect data, and match existing datasets with each other

The student must be comfortable working with SAS, Stata, or an equivalent statistical package; preference is given to candidates with prior knowledge in SAS. Knowledge of introductory statistics is required. Course work in finance and economics is helpful but not required.

In the process, the student will become familiar working with large financial datasets and gain a better understanding of empirical finance research. This is highly useful experience for anyone interested in pursuing graduate studies in finance or a quantitative finance job at a hedge fund or other financial institution.