Discussion of:
Adapting to Radical Change: The Benefits of Short-Horizon Investors
by: Giannetti & YuDam

Oren Sussman

1Saïd Business School, University of Oxford

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Motivation

- Joint stock companies and stock markets are among the most basic institutions of capitalism

- Yet, their coexistence is uncomfortable
  - for both analytic and public policy considerations
  - Grossman and Stiglitz (1980), Grossman and Hart (1980): one seems to undermine the effectiveness of the other
  - the 1720 “Bubble Act” (repealed only 1825): companies better have “real owners”, few and stable

- Relatively little is known, empirically, about the interrelations between stock trading and corporate governance
  - Giannetti & Yu: companies with short-term investors respond better to negative shocks
The shock

- Big cuts in import tariffs
  - how big?
  - major trade deals?
  - which trade deals?
    - perhaps focus on the major deals?
  - how long between ratifying and implementing?
  - how long negotiated?

- When was the price effect priced?
Institutional investors

- Unconditionally,
  - institutional investors have a 35% stake (SD is 28%)
  - short term institutional investors (STII) have a 10% stake (SD is 10%?)

- More information:
  - block size
  - duration of holding
  - type of institution: hedge fund? pension funds? activist?
Main results

- Right after the tariff cut, performance falls sharply
  - sales, employment, assets, Tobin’s q, ROA

- But the effect is moderated by the presence of STII
  - significantly: both economically and statistically

- Certain policies are correlated with the presence of STII
  - diversification, differenciation, executive turnover, R&D
“Our empirical approach thus allows us to identify the causal impact of short-term institutional investors on firm performance in the aftermath of large negative shocks, as long as short-term institutional investors are not particularly good at selecting firms that they expect to perform better in comparison to other firms following negative shocks.” (p. 14)

What is their trading motive?
“Short-term investors ... have and advantage in acquiring information”
“Long-term investors might not be able to sell as fast”
“Long-term investors are passive”
“Long-term ... investors tend to hold larger positions”
“Firms with short-term investors are more likely to be subject to ... runs”
“Short-term institutional investors can demand firms to restructure”
Target firms “... have organizational structures ... that make them more prone to weather negative shocks”

“There is no evidence that short-term institutional ownership decreases following the tariff cut. If anything, short-term institutional ownership increases” (p.16)
Questions that the data can answer

- Conditional on firm characteristics, what trades are being executed
  - buy and sell
    - were badly performed companies abandoned by STII?
  - before/after the cuts were announced/implemented
    - the effect of liquidity: decimalization $\Rightarrow$ STII
    - cross-sectional variations are not exploited

- Conditional on trades
  - what restructuring steps were taken?

- Conditional on restructuring
  - how did firms perform?
Excessive sub-optimal restructuring
  interesting idea, no evidence

Short horizon or short-term
  short term: in terms of duration
  short horizon: a myopic bias, over discounting future cash flows
    Stein (1989)