

Learning from Prospectuses

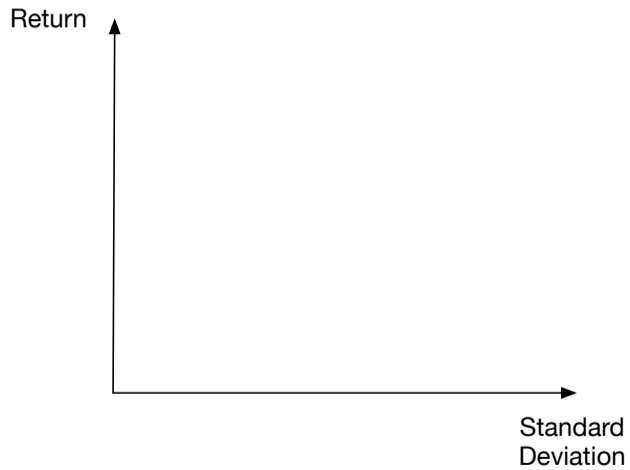
Simona Abis, Andrea Buffa, Apoorva Javadekar, and Anton Lines

Discussion by Savitar Sundaresan
Imperial College

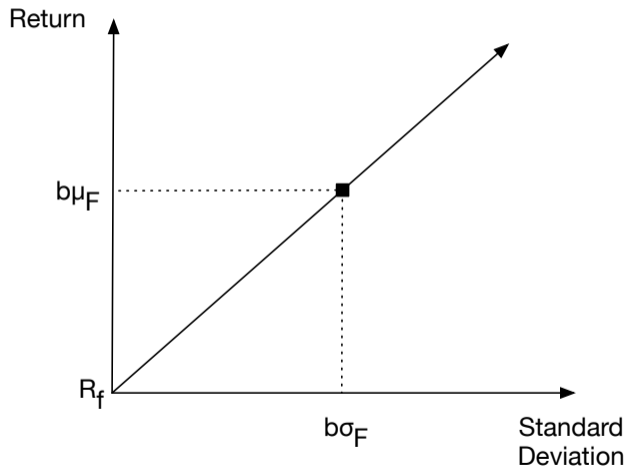
May 23, 2022

- Why I liked this paper:
 - Textual analysis on a topic learning/uncertainty.
 - Tractable theory that combines two types of learning parsimoniously.
 - Thought-provoking empirical results.
- Where I struggled:
 - Linking theory to empirics.
- What's coming:
 - My walkthrough of the model.
 - A few quibbles.

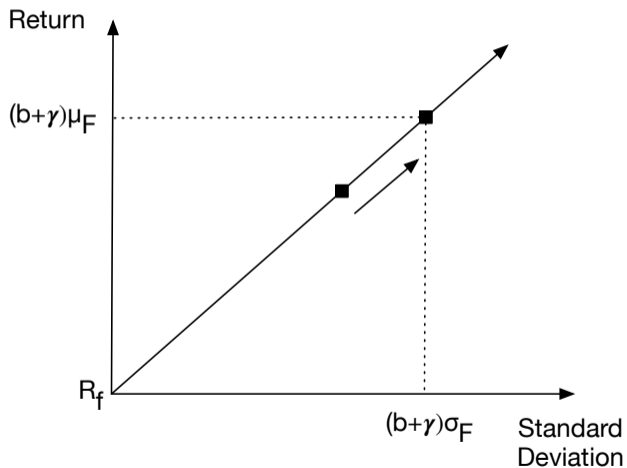
Setup



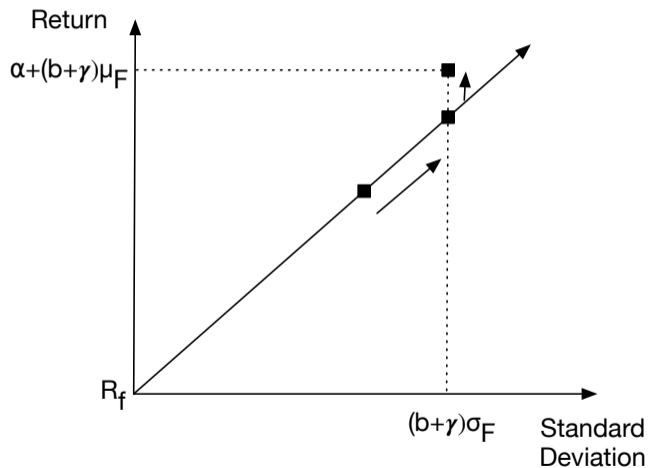
Setup - with no strategy or skill



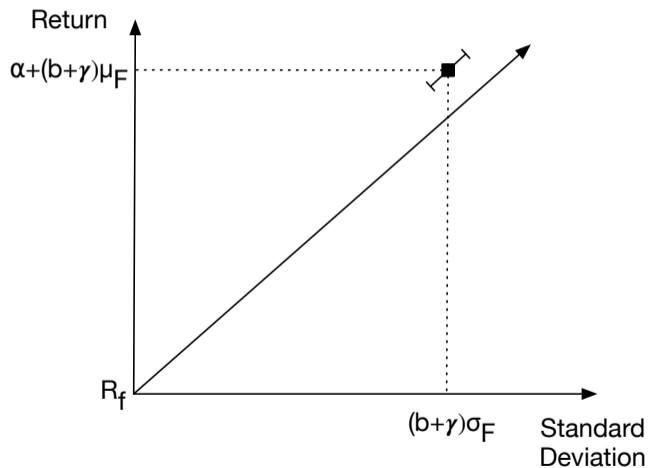
Setup - with no skill



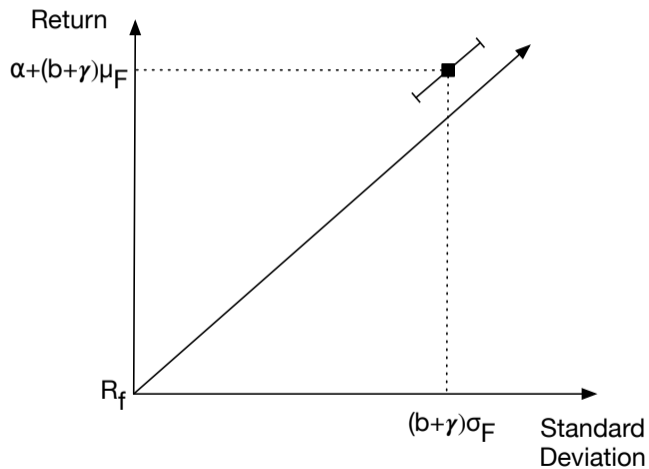
Setup with no uncertainty



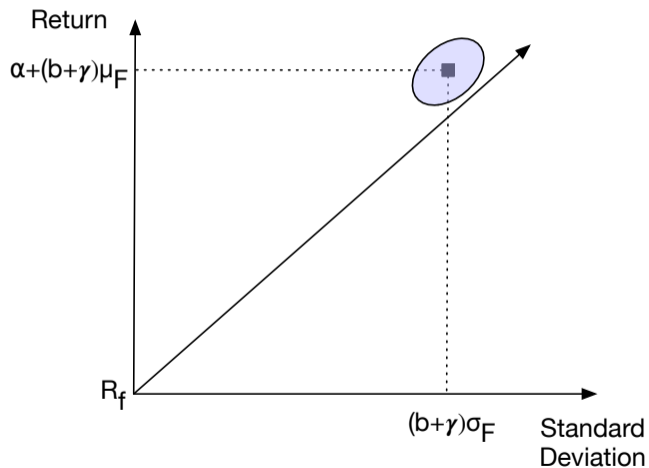
Setup with uncertainty over b



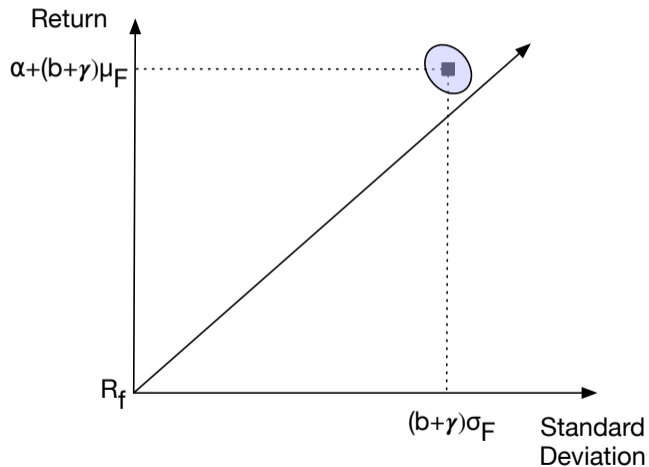
Setup with uncertainty over b and γ



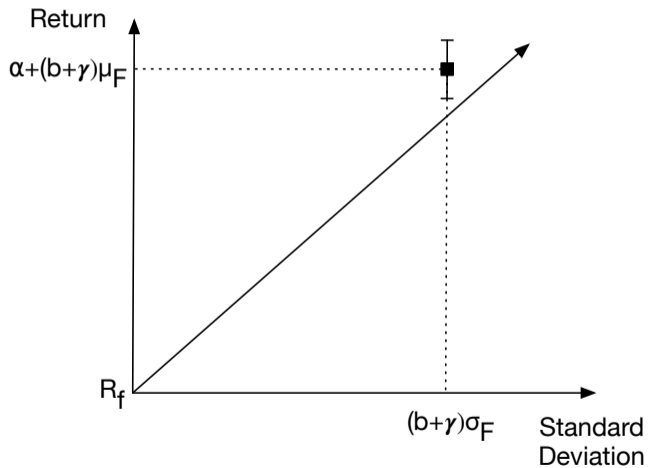
Setup with uncertainty over b and γ and α



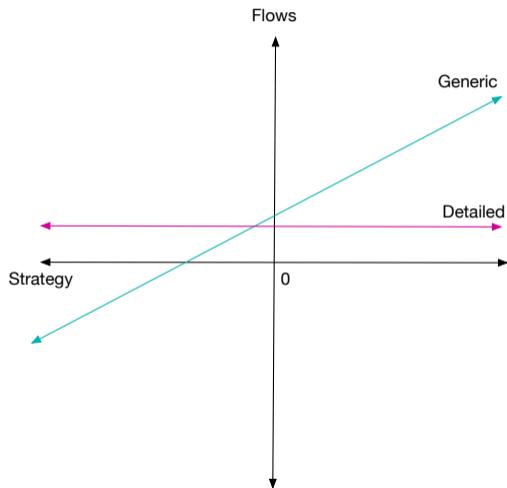
Setup with generic prospectus



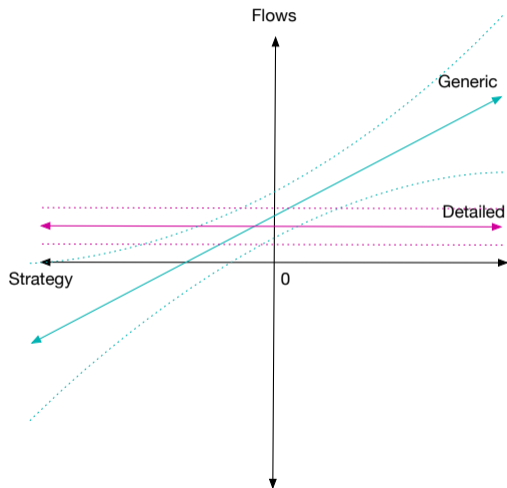
Setup with detailed prospectus



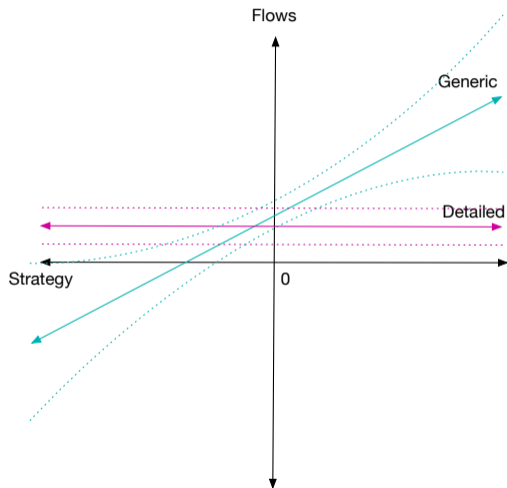
Inference Problem



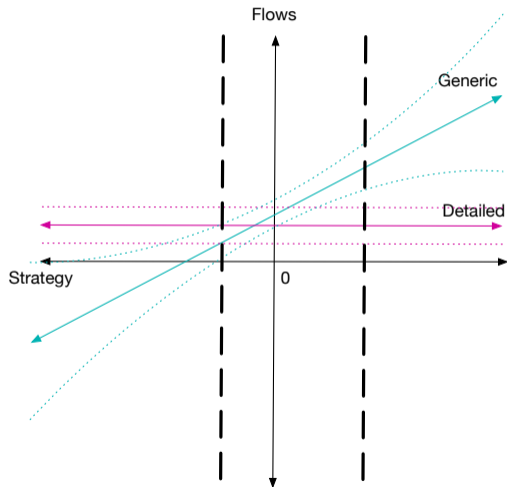
Inference Problem



Inference Problem



Inference Problem



Tracking assumptions through mechanisms

- High/Low specialization \Rightarrow high/low return volatility \Rightarrow wants/doesn't to reveal info.
 - **Assumption:** Funds don't get to pick their own strategies.
- Detailed/Generic prospectuses lets/doesn't let investors see your skill.
 - **Assumption:** Fund managers don't know their own skill.
 - **Assumption:** Average skill is positive.

A Few Odd Side-Effects

- Funds with very negative expected returns still attract funds.
 - **Assumption:** Funds do not care about performance (only fees, which are fixed)
 - **Assumption:** Investors do not care about fundamental (only skill, which is positive)
- Generic funds are the only ones with positive expected utility.
- Size be negative.

Pretty sure all of this can be ruled out using boundary conditions of B+G.

Quibble 1

- Empirical results on age are tenuously justified by model.
- In B+G older age means tighter estimates on α .
- Tighter estimate means less chance of investor mistakes.
- Weakens incentive for issuing generic prospectus.

Suggestion: Either make model dynamic, or don't refer to it in age results.

Quibble 2

- Size-Flow experiments also not well supported by model.
- All funds have same size at time 1.
- Size-flow sensitivity in model, is actually expected flow vs actual flow sensitivity.

Suggestion: Could just make size exogenous (maybe proxy by introducing heterogeneity on c).

State of Play

- Most interesting finding:
 - **Detailed prospectuses lead to fewer benchmarking errors!**
- Secondary findings:
 - Detailed prospectuses lead to higher sensitivities of flows to performance.
- Tougher findings to justify via existing model:
 - Age related differences.
 - Distinguishing size and flow.