Title: **BETTING AGAINST BETA OR DEMAND FOR LOTTERY?**

Speaker: **Scott T. Murray**
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Importance: Why this matters:

The topic of whether risk is compensated (high beta stocks have higher expected returns) has been debated for a long time. This paper provides evidence that the historically observed relatively low returns of high beta stocks (security market line was too flat) was due to investors' preference for lottery-like payoffs (a chance of very high returns), rather than risk not being compensated.

Investigation: "Speaker analyzed XXX data to address the questions yyy, zzz, etc."

For each stock, each month, they calculated MAX, the average return of the five highest daily returns during the month, which is used as a proxy for the stocks' lottery-like characteristics. They then studied the performance of portfolios using a two-way sort: Beta and Max, and applying Fama-MacBeth regressions.

Innovation: Are there new techniques of interest in the data or approach to the problem?

The use of MAX in conjunction with other risk measures allowed the disentangling of the behavior of risk from other metrics. MAX "worked", while different metrics suggested by other researchers were not able to explain the "betting against beta" phenomenon.

Insights: 1-2-3, what are the three most important things the speaker offered?

1. Once MAX was included in the analysis, the return to beta was broadly in line with theoretically expected value, rejecting the inability to lever arguments for "betting against beta."

2. While correlated with Beta, the correlation with risk is not perfect. MAX captures lottery-like qualities of stocks. The component of Beta that is orthogonal to MAX does not produce the "Betting against beta" result.

3. MAX seems to capture stocks' behavior that other risk characteristics such as skewedness, co-skewedness and idiosyncratic volatility do not.

Audience rating: 3.99