

Title: REAL ANOMALIES

Speaker: JULES VAN BINSBERGEN
University of Pennsylvania, Wharton School

Importance: Why this matters:

Van Binsbergen presents a study that approached the question: If low beta stocks are under-valued and high beta stocks are over-valued, are there mis-allocation of capital resources implications for the size of the economy? Does this anomaly lead to overvalued firms having too low a cost of capital and thus over-invest, and vice versa?

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

The first step is to evaluate the mispricings. The approach was to estimate the distance between the CAPM model and the data via decile analysis on 42 different dimensions, and converting the differences into dollars of mis-investment.

These deviations were then valued by applying **Tobin's q**, the ratio between a physical asset's market value and its replacement value.

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

The relationship between asset under/over valuation and its effects on the economy is a new area of investigation. The data is messy and the logic is heroic, but the problem approaches an area that should be of great interest to economists and investment professionals.

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

1. By the authors' assumptions, the misallocation of capital assets is significant, perhaps as much as 4.5%.
2. The author postulates that firms add economic value, while proper pricing of assets is the domain of the active managers, which they achieve by identifying mispricings. This adds exogenous factors to the process from the perspective of the economy. Thus the *economy* benefits from active management, as do *passive* managers, but *active* managers of all types provide efficient market benefits to the economy without related compensation for doing so.

Audience rating: 3.54