

Discussion of “US Investors’ Emerging Market Equity Portfolio: Security-Level Analysis

By Hali Edison (IMF) and Frank Warnok (FRB)

Discussion by: Robert Flood (IMF)

Big Things:

1. How do we treat results that use confidential data ?

Surely we are better off having data collected under the condition of confidentiality than not having the data at all. Still need some sort of peer review. Totally innocent mistakes are made. I strongly suggest that other authors follow these authors and stick to simple calculations that are very likely to be correct.

These data are from a survey of investors. If I can’t see the data, I’d like to see the survey. Please post it on the web. *I’d also like a full description of the dataset.* Even if I can’t see it, I’d like to convince myself that the authors are giving me the “right stuff” conditional on data availability.

When the data is secret, I think authors should err on the side of giving out too much extra information.

2. The paper confronts a big pile of data and characterizes moments in the data that the authors find interesting. What is the question of interest here?

In sections 3 and 4 the authors look at two *different things* and this is confusing. In section 3, they study bivariate correlations of:

US % OWNERSHIP OF EMERGING MARKETS FIRMS with FIRM CHARACTERISTICS

. (See Table 3). For this variable, the correlations give an initial indication of things that might determine US stock ownership, which I suppose is a market integration measure. Positive correlations mean that when the characteristic increases, US ownership increases at the expense of foreign ownership.

Now my confusion. I thought section 4 would give the conditional correlations suggested by the results in section 3. Instead, in section 4. the authors present conditional correlations – multivariate regressions, where the variable to be “explained” is different, not completely different, but surely not the same variable as in section 3. The new variable is:

(US (FIRM) PORTFOLIO SHARE/WORLD (FIRM) PORTFOLIO SHARE) -1.

Why does the variable of interest change from section 3 to section 4? At the end of section 3 the authors say “In attempt to disentangle the various relationships, we turn next to multivariate regressions.” What is now wrong with the variable used in section 3? What is the correlation of the section 3 variable with the section 4 variable?

Notice that the section 4 variable is zero when everyone worldwide behaves identically. What this means, I think, is that *if the explanatory variables are noise or if the words is perfectly integrated wrt these variables, then the coefficients should be zero.*

Big But Picky

.Why is $R(\text{world})$ the “correct” right-hand variable for US INVESTOR beta. I really do not understand whose beta we are taking about in this paper. This is not silly. If $R(\text{world})$ is the “correct” CAPM discount rate for US-investor Betas then I think that is equivalent to saying that US investors already hold something equivalent to the world portfolio – in this case, of course, the message of the paper is drowned out.

Small Stuff

1. The most interesting variable in the study is cross listing. (The other one is firm size, but that seems almost definitionally related to someone’s portfolio share.) US ownership no matter how measured, increases *hugely* with cross listing between US and local markets. Is the cross-listed stock cross-listed ONLY in the US? How about Europe, Japan...? Can we produce additional dummies for multiple cross listings?
2. Are these data a snapshot of portfolios or an average over a period?
3. How active are the surveyed institutions in trading in the surveyed stocks?
4. How active are they in general?
5. I assume that Beta is the CAPM Beta. Cochrane has lots of Betas in his Finance book. Indeed in Cochrane’s book nearly every coefficient is a beta – no kidding.
6. Are US firms cross listed in emerging countries? Are they cross listed in industrial countries?
7. The paper cites several studies that look at cross listing and other variables. How do current results compare quantitatively with industrial country results?
8. The “prudence” variables are very murky. Indeed, I’m now sure what these are about. Why not list these last?

9. Why would you expect a preference for “high beta” stocks” to show up in percentage ownership. Foreigners might like Beta too.

10. Is the momentum trader interpretation of the lagged returns related to the serial correlation of returns? Or is this something different?