Summary of Do Fund Managers Misestimate Climatic Disaster Risk?

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1. **What are the research questions?**
   - Whether close professional fund managers overreact to large climatic disasters?
2. **Why are the research questions interesting?**
   - Policy makers and investors are increasingly concerned about climate risk, but there is limited empirical research on the asset pricing implications of climate risk.
   - If fund managers misestimate climate risk, they will adversely affect the efficiency of the market, so it's important to figure out whether their estimations are correct.
3. **What is the paper's contribution?**
   1. Work on climate risk.(Bansal et al.,2016;...)
      - **Past studies:** rely on rational asset pricing versus deviations from rational pricing.
      - **Expand:** use actual trading behavior data of fund managers to study whether they misestimate the climatic risk, and whether this induces irrational biases.
   2. Study about salience bias.(Bordalo et al., 2012;...)
      - **Past studies:** argue that investors may overweight the probability of a rare downside event when it is salient, and may act in an overly risk-averse manner.
      - **Expand:** study whether fund managers who are regarded as professional investors will be influenced by salience bias or they will behave correctly since they have superior information(Coval and Moskowitz, 2001).
4. **What hypotheses are tested in the paper?**
   - H1: Mutual funds located close to firms in the disaster zone subsequently underweight such firms, relative to funds located further away from the disaster zone.
   - H2A (Information Hypothesis): If mutual fund managers underweight disaster zone stocks because of superior information, then such stocks should underperform in the near future.
   - H2B (Salience Hypothesis): If mutual fund managers underweight disaster zone stocks because of salience bias, then such stocks should not underperform in the near future.

   a) Do these hypotheses follow from and answer the research questions?
      - Yes, the hypotheses assume that mutual funds closer to firms in the disaster zone will overreact.

   b) Do these hypotheses follow from theory?Explain logic of the hypotheses.
      - Theory: Models about salience bias and subsequent action(Bordalo et al., 2012).
      - Logic: H1 studies the factor that influences fund managers' reaction and H2 tests two channels of the effect.
5. **Sample: comment on the appropriateness of the sample selection procedures.**
   - sample starts from January 1995 to 2016, while ETF and index funds are eliminated. The sample selection procedure is normal.
6. **Comment on the appropriateness of variable definition and measurement.**

- Independent variable: **CLOSE** equals 1 if the headquarters of mutual fund m is located within 100 miles of the headquarters of firm s and otherwise equals 0. I think continuous CLOSE variable is better.
- Dependent variable: **WEIGHT** is the weight of stock, it's measured correctly.

7. **Comment on the appropriateness of the regress/predict model specification.**

   - The regression model controls fund-quarter fixed effect and errors are clustered in fund level, it's appropriate.

8. **What difficulties arise in drawing inferences from the empirical work?**

   - The independent variable CLOSE is one-zero rather than continuous, which may make the empirical work not so convincing.

9. **Describe at least one publishable and feasible extension of this research.**

   - This paper only uses location distance to proxy managers' concern on climate risk, but there may exist other ways. For example, the weight of stocks in disaster zone before the disaster occurs.