



Connected Stocks via Business Groups: Evidence from an Emerging Market

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Iran Economic Forum

Sharif University of Technology, GSME, 27 July 2022

Summary

- *Objectives*
 - To study the impact of direct and indirect common ownership on stock return co-movements
 - To identify the underlying mechanisms of the co-movements
- *Data*
 - 17,522 unique firm pairs from TSETMC
 - Period: 2015-2020
- *Methodology*
 - Follow Anton and Polk (2014 JF)
- *Main findings*
 - Common ownership and business group affiliation are positively associated with higher co-movements
 - Simultaneous trades in the same direction in business groups explains the co-movements



Discussion

- Introduction
- Analysis
- Results
- Other Comments



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Introduction

- Structure
- Content

Introduction

Desired Structure

- Research Objective
- Motivation
- Identification challenges and Research Design
- The dataset (briefly)
- Main Findings (briefly)
- Contribution to the Literature

Introduction

The Structure in the Paper

- Reviewing the Literature (para 1; 22 lines)
- The Gap in the Literature (para 2; 3 lines)
- Motivation (para 2; 7 lines)
- Research Objective (para 2; lines 33-34 of the Introduction)
- The Gap in the Literature (para 3; 8 lines)
- Hypothesis (para 4; 2 lines)
- Motivation (para 4; 3 lines)
- Identification challenges and Research Design (para 5; 1 line)
- The dataset (briefly)
- Main Findings (para 5-7)
- Contribution to the Literature

Introduction

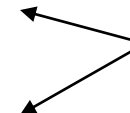
- **Reviewing the Literature (para 1; 22 lines):**

1. Stock return comovements (Shiller 1989; Barberis and Schleifer 2003; Barberis et al. 2005)
2. The impact of common ownership on firms' performance
 - Azar et al. (2018 JF): The anticompetitive effect of common ownership
 - A controversial debate
3. The Impact of common ownership on stock return comovement
 - Anton and Polk (2014 JF): Net inflows and outflows to/from the funds drives comovements
 - A less disputable evidence

Add little value



They are different
literature



Introduction

- **The Gap in the Literature (para 2; 3 lines):**
- “While most of the prior investigations on factor affecting common-ownership have focused on the fund, **the role of the block-holders** as one of the most important factors in firms’ governance has remained a black box.”
- **Motivation (para 2; 7 lines):**
 - So do you mean “intermediate” vs “direct” ownership?
 - inadequate
- “The fact that funds are intermediaries and behave differently due to their needs, making it difficult to generalize these results to other types of ownership. Edmans (2014) provide a theoretical framework for the implications of **common ownership of block-holders** for corporate governance and asset pricing. Regardless, **the block-holders’ daily ownership data**, including mutual fund ownership, is publicly available in Iran. So research through this data can show whether common ownership other than mutual fund can lead to comovement or not”
- **Research Objective (para 2; lines 33-34 of the Introduction):**
 - What do you mean by “Following”?
Explain how your study is different or complement it
- “Following Anton and Polk (2014), we are the first study that use **block-holder ownership** to investigate the relationship between common ownership and comovement.”

Introduction

OK, there is no literature! but explain why
doing this study is important

- **The Gap in the Literature (para 3; 8 lines):**
- “Despite the presence of the **business group** in both emerging economies, ..., and developed countries, ..., there is no evidence on whether **being at the same business group** can lead to comovement. ... (IT EXPLAIN BUSINESS GROUPS), to the best of our knowledge, we are the first comprehensive study about the different **roles of the business groups and common ownership** on comovement.”
- **Hypothesis (para 4; 2 lines)**
- “We hypothesize that stocks with a high level of common ownership and ***the same ultimate owner*** exhibit strong comovement.”
- **Motivation (para 4; 3 lines):**
- “In fact, when we talk about the presence of two stocks in the same group, we talk about a high level of ***invisible common ownership*** between two stocks that we cannot measure by common ownership measurements.”

The reader is puzzled: Block-holders; Business
Group; Ultimate Owner

OK, we have two types of common ownership:
visible and invisible
But earlier you compare “**intermediaries**” and **block-holders**

Introduction

- **Identification challenges and Research Design (para 5; 1 line)**
- “We test this hypothesis using Anton and Polk (2014) methodology ...”
- **Main Findings (para 5-7)**
- **Contribution to the Literature!**



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Analysis

- Methodology (Para 5): We follow Anton and Polk (2014 JF)
- The authors discuss strengths and weaknesses of various measures of common ownership
 - They modify (and improve) the measure used by Anton and Polk (2014)
- They use a detailed dataset
- They control for potential drivers of comovements
- They have conducted several robustness checks

Analysis

- **Concerns:**

- Business group ownership might be endogenous!
 - Business groups might consist of firms which are similar in fundamentals
- Anton and Polk (2014) use the mutual funds scandal in 2003 to have exogenous variation in common ownership
- You control for potential drivers of comovements:
 - Size, book to market, Same Industry, Cross Ownership,
 - and in some specifications: pair size type, business group fixed effects
- You may also control for:
 - concentration degree of business group,
 - the number of chains between the firm and the business group



Analysis

- **Concerns:**

- Anton and Polk (2014 JF) use active mutual funds in their sample
- Greenwood and Thesmar (2011 JFE): active mutual fund owners can have correlated trading needs and hence their stocks can commove.
- Vayanos and Woolley (2013 RFS):
 - provide a theory for momentum and reversal
 - Show fund flows can generate comovement
 - In their model, they consider flows out from active funds into the index fund
 - These flows can generate comovement.
 - If outflows are gradual, then we will have a momentum



Discussion

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- **Results**
- Other Comments

Results

Main Findings (para 5-7 of Introduction):

- *Common ownership is crucial* for predicting the comovement
- *Business groups play a more critical role* in predicting comovements than common ownership
- *Common ownership can predict comovement only inside the business groups*
- Correlated trade in business groups is the channel of comovement
- **Comments:**
 - Not sure if the results support these claims

Results

Page 13: “It suggests that common ownership affects stock return comovement among our sample firms mostly through business group affiliations.”

(A) The main analysis

| | Dependent Variable: Future Pairs's Comovement | | | | | |
|------------------|---|----------------------|---------------------|---------------------|---------------------|---------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| MFCAP* | 0.00600*** (8.10) | 0.00328*** (4.87) | | | 0.00104 (1.68) | 0.000929 (1.53) |
| SameGroup | | | 0.0358*** (9.99) | 0.0254*** (8.45) | 0.0242*** (8.21) | 0.0219*** (7.02) |
| SameIndustry | | 0.0267*** (7.39) | | 0.0216*** (6.81) | 0.0212*** (6.72) | 0.0215*** (6.80) |
| SameBM | | 0.0224*** (6.41) | | 0.0213*** (6.09) | 0.0214*** (6.16) | 0.0199*** (5.77) |
| SameSize | | 0.0123** (3.24) | | 0.0143*** (3.85) | 0.0138*** (3.71) | 0.0254*** (5.56) |
| CrossOwnership | | 0.0600*** (5.50) | | 0.0300* (2.36) | 0.0316* (2.48) | 0.0377** (2.93) |
| Constant | 0.0142*** (12.80) | 0.0204*** (8.91) | 0.0103*** (9.42) | 0.0187*** (7.99) | 0.0188*** (8.04) | 0.0280*** (9.43) |
| PairType Control | No | No | No | No | No | Yes |
| Observations | 389591 | 389591 | 389591 | 389591 | 389591 | 389591 |

Results

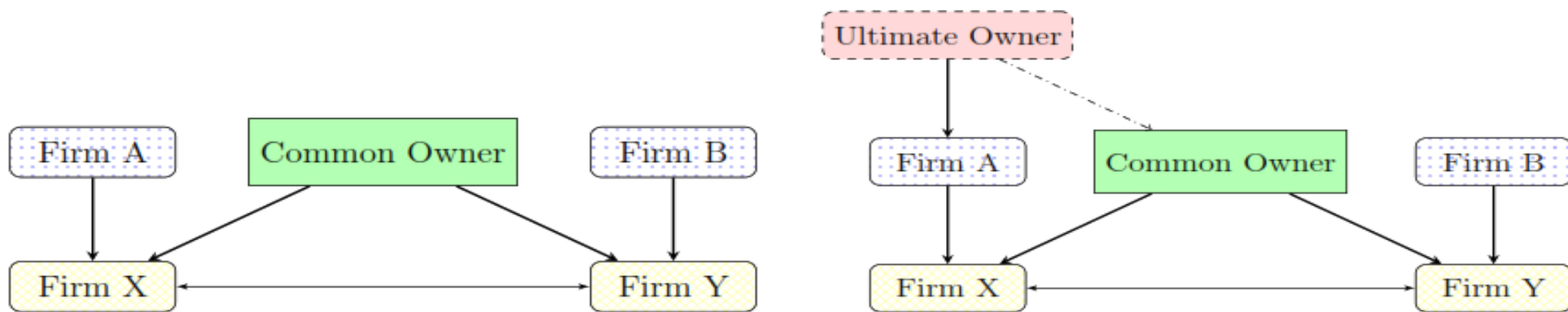
(B) Common Ownership and Business Group

| Dependent Variable: Future Pairs's Comovement | | | | |
|---|----------------------|----------------------|----------------------|---------------------|
| | (1) | (2) | (3) | (4) |
| MFCAP* | 0.00915*** (6.64) | -0.000114 (-0.18) | -0.000161 (-0.26) | 0.000309 (0.63) |
| SameGroup | | | 0.0100** (2.97) | 0.00749 (1.99) |
| MFCAP* × SameGroup | | | 0.0123*** (10.04) | 0.0118*** (9.69) |
| Sub-sample | SameGroup | Others | All | All |
| Business Group FE | No | No | No | Yes |
| Observations | 47076 | 342515 | 389591 | 389591 |

Results

- **Comments:**

- The findings is not in line with Anton and Polk (2014 JF)
- The intuition of the findings is unclear.
- Can we explain the results based on *visible vs invisible common ownership* or *intermediaries vs block-holders*?



Ref: Figure 1 of the Paper



Results

- **Comments:**
- Implications!
 - Economic significance
 - Any novel trading strategy?



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Other Comments

Title:

Connected Stocks via Business Groups: Evidence from an Emerging Market

- “Connected Stocks via Business Groups”
 - The message is unclear
- “Evidence from an Emerging Market”
 - Are you replicating a study?
 - “An Emerging Market”!
- **Writing!**
 - Para 1, line 3:
 - “**More recently**, it has been recognized that return comovement could rise between fundamentally unrelated stocks (Barberis and Shleifer **2003**; Barberis et al. **2005**)”