Ruicong LI

Department of Finance – HKUST Business School
Clear Water Bay, Kowloon, Hong Kong

📱 +(852)9147-7742 • ✉ rliah@connect.ust.hk

Education

Ph.D., Finance, Hong Kong University of Science and Technology   Expected: 2021

     Visiting Scholar, Boston College   2018

M.Sc., Economics, Hong Kong University of Science and Technology   2014

B.Sc., Physics, Renmin University of China   2013

Research Interests

Information Frictions and Empirical Asset Pricing; Textual Analysis; Network Analysis.

Working Papers

Asymmetric News Repetition and the Cross-section of Stock Returns. (Job Market Paper)

Presented at: HKUST Finance Brown Bag Seminar 2020

Abstract: Previous literature finds a strong negative association between firms' operating performance and the language repetitiveness (redundancy) of financial reports. Researchers interpret this pattern as indicative of managerial obfuscation. This paper complements this finding by proposing a novel method to decompose the information redundancy in firm disclosure into news redundancy ratio (NRR) and stale-news redundancy ratio (SNR) based on Shannon's information theory and data compression technology. In contrast with previous findings, I find that NRR is positively associated with firm operating performance and filing announcement returns, while SNR exhibits previously-documented patterns. NRR also has substantial implications for firms' future returns. A portfolio that buys stocks with high NRR and shorts stocks with low NRR generates value-weighted alphas of 5%-11% per annum. This return predictability does not reverse, cannot be explained by limits to arbitrage, and remains robust for large stocks, in crisis periods, and after controlling for known predictors and previous textual measures. These results are consistent with the notion that managers present good (bad) news with more (less) repetition and repeat stale-news to obfuscate unfavorable information, while investors have difficulty extracting news due to limited attention.

Jumps and Diffusive Volatility: A Granular Analysis of Individual Stock Returns. (with Chu ZHANG and Gang LI)

Abstract: Jumps and diffusive changes in stock prices are different ways in which information is reflected in the prices. We use nonparametric methods to decompose returns on individual stocks into jumps and diffusive components. Contrary to the conventional assumption that jump intensity is positively related to diffusive volatility, we find little evidence of this pattern in cross-sections and abundant evidence that realized jump intensity and diffusive volatility are not correlated or even negatively related. The jump-diffusive beta is found to positively contribute to the volatility smile of options on individual stocks. We also document a counter-cycle behavior of the realized jump size, which challenges the i.i.d. jump size commonly assumed before. The findings provide useful guidance on modeling options pricing.

A Benchmark for Collateralized Loan Obligations. (with Redouane ELKAMHI and Yoshio NOZAWA)

Presented* at: Australian National University, HKUST, SAIF, University of Melbourne

Abstract: We build a benchmark for AAA-rated tranches of Collateralized Loan Obligations (CLOs) using Business Development Companies (BDCs), which hold a diversified portfolio of loans as CLOs do. Unlike CLOs, BDCs are publicly listed, and their share price, equity volatility, and borrowing cost are observable to researchers. Furthermore, BDC's debt is not rated as AAA. Applying a structural credit

risk model of Nagel and Purnanandam (2019) to BDCs, we extract market-implied, forward-looking measures of default correlation in the loan portfolio. By comparing the credit spreads on AAA tranches of CLOs with BDC-implied benchmark, we conclude that seemingly large credit spreads on CLO senior tranches after the financial crisis are a fair reflection of the systematic risk of correlated loan defaults.

Work in Progress

Robot Journalism and Stock Return Synchronicity.

Abstract: Natural language processing (NLP) and generating (NLG) technologies show an impact on the financial market in recent decades. In 2014, Associated Press (AP) launched a "Robo-journalism" scheme to generate automated financial news articles using data collected from public firms' announcements. Using generalized difference-in-differences estimators, I find that on the one hand, retail investors' participation increases, and so does liquidity of the automatedly reported stocks. On the other hand, stock prices exhibit higher synchronicity, which indicates that relatively more market-wide and industry level information, rather than firm-specific information, is capitalized into stock prices after the automation. These results are consistent with an attention dilution effect by massively produced robot news, in which investors suffer from more severe attention constraints and exhibit more categorical learning behaviors.

Attention Network, the Path of Information Spill-over and Cross-momentum.

The Dynamics of Investments, Payout Policy, and Debt: Evidence from Unexpected Cash Windfalls. (with Kasper NIELSEN and Sudipto DASGUPTA)

Teaching Experience

Tutor, Undergraduate Research Opportunity Program (UG Course)	Fall 2020
T.A., Fixed Income Analysis (MSc in Investment Management & Financial Analysis)	Spring 2020
T.A., FinTech Analytics (MSc in Investment Management & Financial Analysis)	Spring 2019
T.A., Market Structure and Trading (UG Course)	Spring 2019
T.A., Intro to Financial Markets (UG Course)	Spring 2017

Honors and Awards

HKUST Overseas Research Awards for PhD Students	2018
HKUST Postgraduate Studentship	2015-2020
HKUST M.Sc. Scholarship	2014
Excellent Graduating Student of Beijing (5%)	2013
Meritorious Winner, Mathematical Contest in Modeling (MCM)	2013

References

Prof. Chu ZHANG
Professor
Department of Finance
HKUST Business School
✉ czhang@ust.hk

Prof. Jialin YU
Associate Professor
Department of Finance
HKUST Business School
✉ jialin@ust.hk

Prof. Yoshio NOZAWA
Assistant Professor
Department of Finance
HKUST Business School
✉ nozawa@ust.hk

Last updated: November 12, 2020