

Institutional Trading: Liquidity Provision, Managerial Incentives, and High-Frequency Trading

Prof. Francesco Franzoni, University of Lugano (Principal Investigator)

Analyzing the way financial institutions trade and the constraints under which they operate is key to understanding their impact on asset prices. Our project proposes to contribute to the existing literature on institutional investors' behavior by using the Ancerno dataset of institutional trades. Ancerno is released by Abel Noser, a company providing consulting services to institutional investors such as hedge funds and mutual funds. These data are still largely unexplored compared to other standard datasets, and give researchers the unique opportunity to track daily changes in the trading activity of several institutional investors that are highly representative of the financial industry.

In a first study, we aim to explore time-variation and cross-sectional differences in hedge funds' liquidity provision. Hedge funds are commonly believed to provide liquidity to financial markets. However, some studies (e.g. Ben-David, Franzoni, and Moussawi, *Review of Financial Studies*, 2012) document that in periods of market stress hedge funds withdraw from the market and demand liquidity. While most of the existing studies analyze quarterly data on holdings, money managers are likely to modify their trading behavior higher frequency (Patton and Ramadorai, *Journal of Finance*, 2012). Our objective is to use Ancerno data to investigate whether hedge funds' liquidity provision is affected by aggregate shocks to funding liquidity, and whether funds that are more constrained tend to be more impacted by these shocks.

In a second study, we intend to relate institutional trades in Ancerno to key corporate developments, such as earnings announcements, dividend initiations and omissions, CEO turnover, etc. We wish to understand how institutional investors trade around these crucial events. The ultimate goal is to explain the speed and the extent to which relevant information is incorporated into prices.

In a third leg of our project, we connect to current literature arguing that hedge fund risk changes at high frequencies, as a function of daily developments in financial conditions (Patton and Ramadorai, *Journal of Finance*, 2012). We use the knowledge of hedge fund trades in the stock market to bring evidence on the determinants of time-variation in hedge fund risks. In particular, by looking at which stocks hedge funds trade, we can understand what explains the exposure to liquidity risk. Also, we want to explore how different hedge fund characteristics (leverage, lockup period, redemption notice period, etc.) affect hedge fund exposure to changes in aggregate financial variables.

Research Team

Senior Researchers:

Prof. Francesco Franzoni, University of Lugano (Principal Investigator)

Prof. Alberto Plazzi, University of Lugano

Associated Participants:

Prof. Augustin Landier, University Toulouse

Fields of Research

Capital Markets

Financial Institutions