Stock loan lotteries and individual investor performance
Jordan Moore

Discussion by Vincent Grégoire

University of Melbourne

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Overview

- Individual investors:
  1. Trade excessively
  2. Sell winners too soon
  3. Overweight stocks with lottery features (and low returns)

Solution:
Have them commit not to sell their stocks for a year, in exchange for a lottery payoff.

Use (3) to prevent (1) and (2)
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- 3+ versions of the model:
  1. Barberis and Xiong (2009) (base case)
  2. Stock lending fees
  3. Stock lending fees lottery (multiple structures)
  4. + frictions (transaction costs, leverage constraint, taxes)

In many cases, the lottery set up provides:
- Greater expected utility (based on subjective weights)
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The paper also discusses briefly implementation and the legal environment.
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Comments

- How do you help people who don’t know better?
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- Model is quite simplistic
  - Wealth is committed to investment (risky or riskfree)
  - The only way to ”gamble” is through the risky stock (incomplete markets)
  - If lottery was available as separate product, what would be the investment choice?
Comments

- Paper would greatly benefit from closed-form solutions.
  - Discussion would not have to rely so much on calibration.
- No need for all these versions of the model; pick one structure for the lottery and stick with it.
- Stock lending is much more complicated than assumed.
Stock lending

- Lock-up is typically not required for lending, lender can recall anytime.
  - “Let The Bear Beware: The Inopportune Timing of Stock Recalls” Chuprinin & Ruf (WP2016)

- Recall is necessary for voting at the AGM
  - “Vote Trading and Information Aggregation” Christoffersen, Geczy, Musto and Reed (JF 2007)
Stock lending

- Supply of stocks for lending affect stock returns
  - “Risk, uncertainty, and divergence of opinion” Miller (JF 1977)
  - “Short-sale constraints and stock returns” Jones and Lamont (JFE 2002)
  - “Short-Sale Constraints, Differences of Opinion, and Overvaluation” Boehme, Danielsen, and Sorescu (JFQA 2006)
Market for stock lending is competitive, is depends on demand as much as supply.

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Implications for the models:
- Should \( f \) be risky?
- Should \( f \) be neg. correlated with stock returns?
- In a hypothetical multiple assets framework, would we want investors to favor high \( f \) stocks?
Conclusion