Event Based Strategy

MBA Student Investment Management Fund

May 1, 2020

ASU W. P. Carey School of Business
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Event-Based Strategy

Hartzmark & Solomon, 2013

The Dividend Month Premium

Two Event-based Theories

Bessembinder & Zhang, 2015

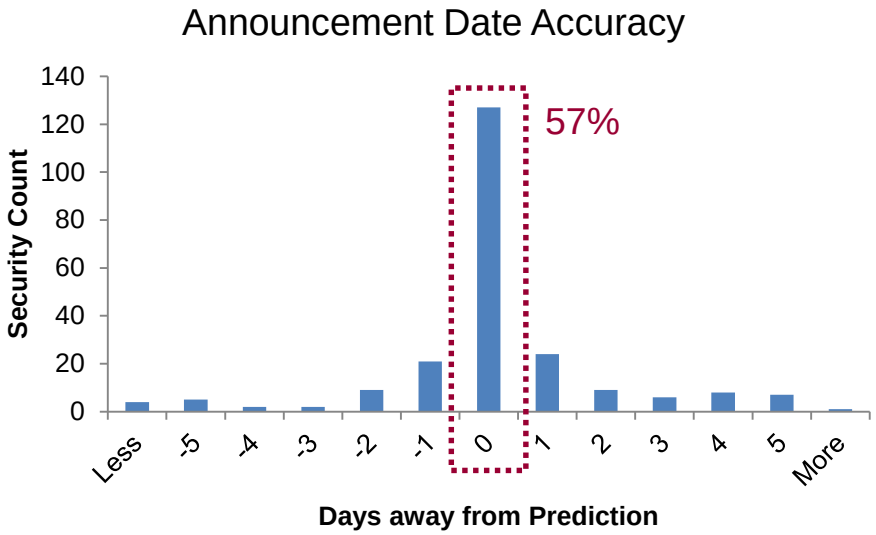
Predictable Corporate Distributions & Stock Returns

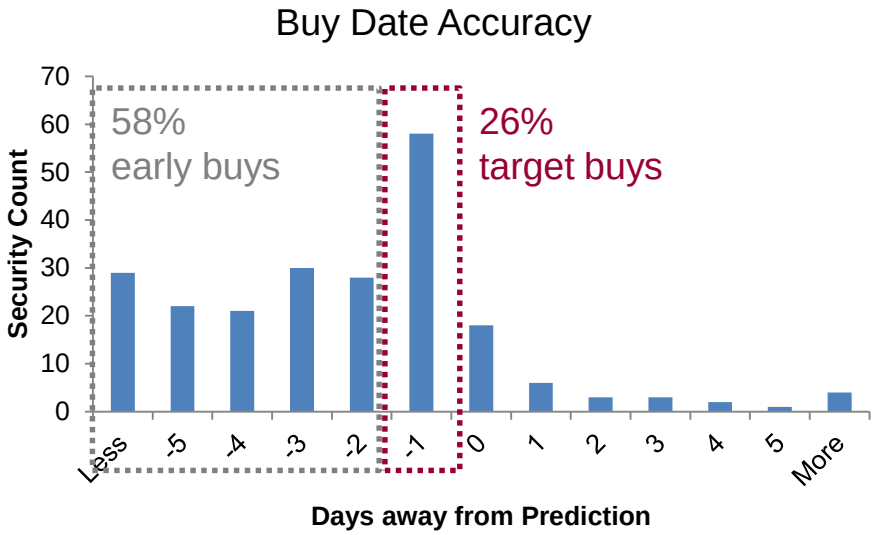
Capturing Event Based Returns

Implementation

1. **Predicted announcement dates**
2. **Predicted dividend increases**
3. **Selected securities to maximize cash investment over time:**
    - Priority 1: Dividend increase with Double Date Verification (DDV)
    - Priority 2: Dividend increase only
    - Priority 3: DDV only
    - Priority 4: No dividend increase or DDV
4. **Weighted securities to achieve sector neutrality over time**

Announcement Date Prediction Accuracy

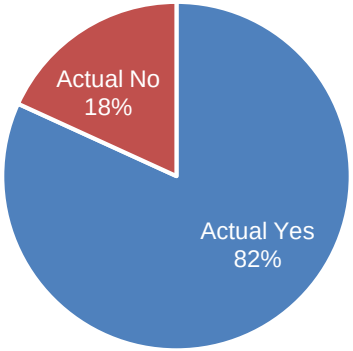




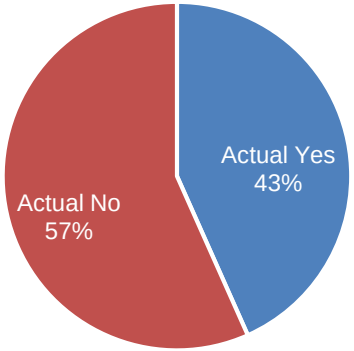
*Data excludes 6 stocks that suspended or cancelled dividends due to COVID-19

Dividend Prediction Accuracy

Predicted to Increase



Predicted Not to Increase



More companies announced dividend increases than expected

*Data excludes 6 stocks that suspended or cancelled dividends due to COVID-19

Trading Costs

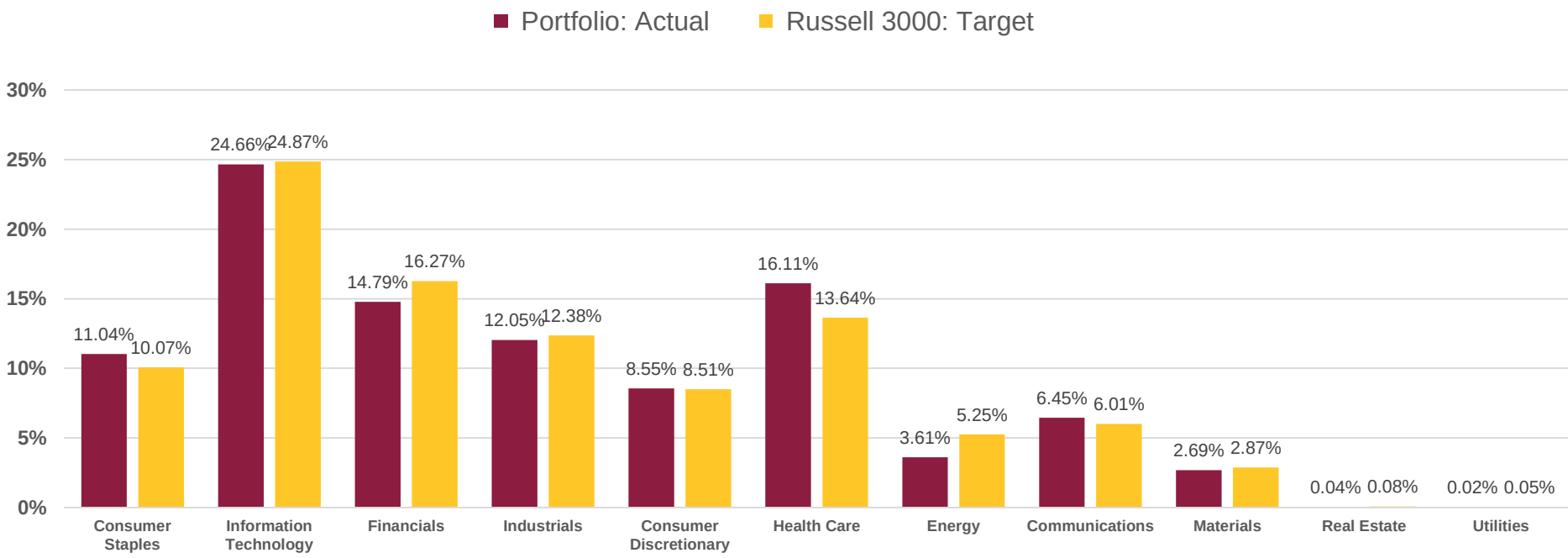
Pre-Pandemic Snapshot
(as of 2/25/20)

- **Total Commission Costs: $2,824.53**
- **Total Spread Costs: $671.85**
  - Avg round trip per security: $4.05
- **Total Transaction Costs: $3,496.38**
  - ~58 bps of portfolio

Final Portfolio
(as of 4/24/20)

- **Total Commission Costs: $4,828.12**

Average Sector Exposure



Impact of COVID-19

COVID-19 has created a liquidity crisis that directly impacts the underlying hypothesis of the dividend premium strategy

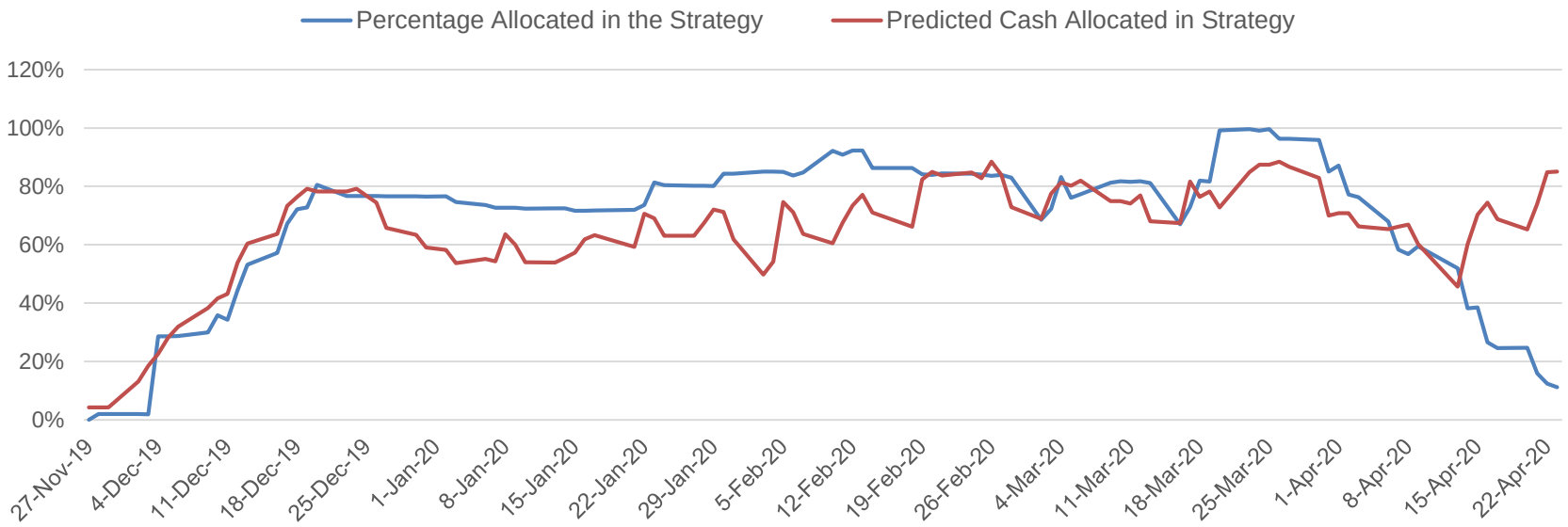
- Companies are delaying or suspending dividends to hoard cash
  - ~300 companies withdrew financial guidance
  - ~175 companies suspended stock buybacks or dividends

Mid-March Adjustments:

- Sold securities after 5 business days if they did not announce as expected
- Stopped buying new securities April 3, sold according to strategy until April 24
  - This eliminated ~1/4 of planned buys
- Remaining securities sold April 24

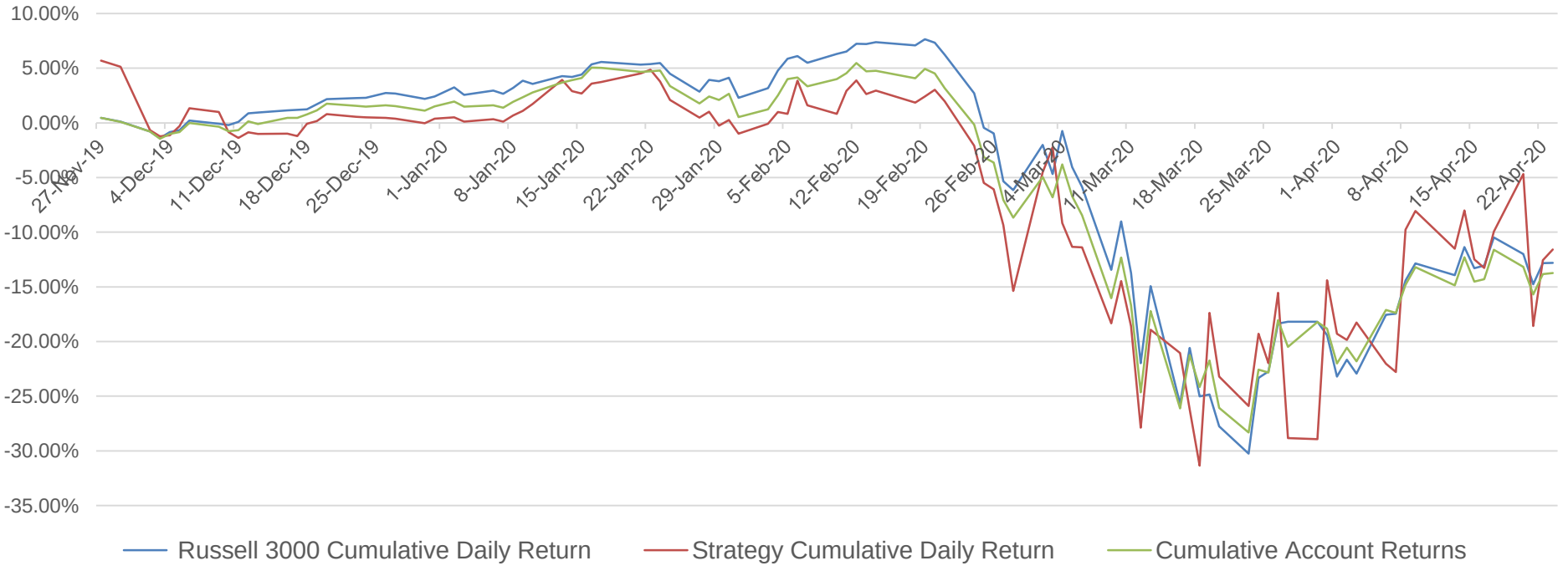
Value Invested

The portfolio consisted of the Event Driven Strategy plus investment in the Russell 3000 to manage cash

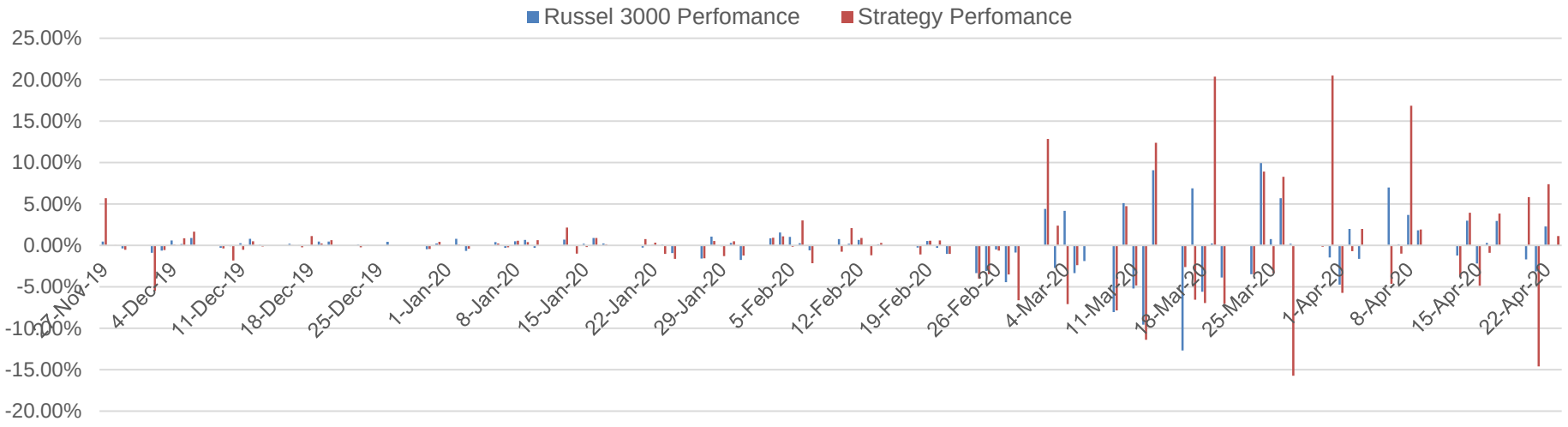


- Chart shows divest decision once team evaluated unfavorable market

Overall Performance



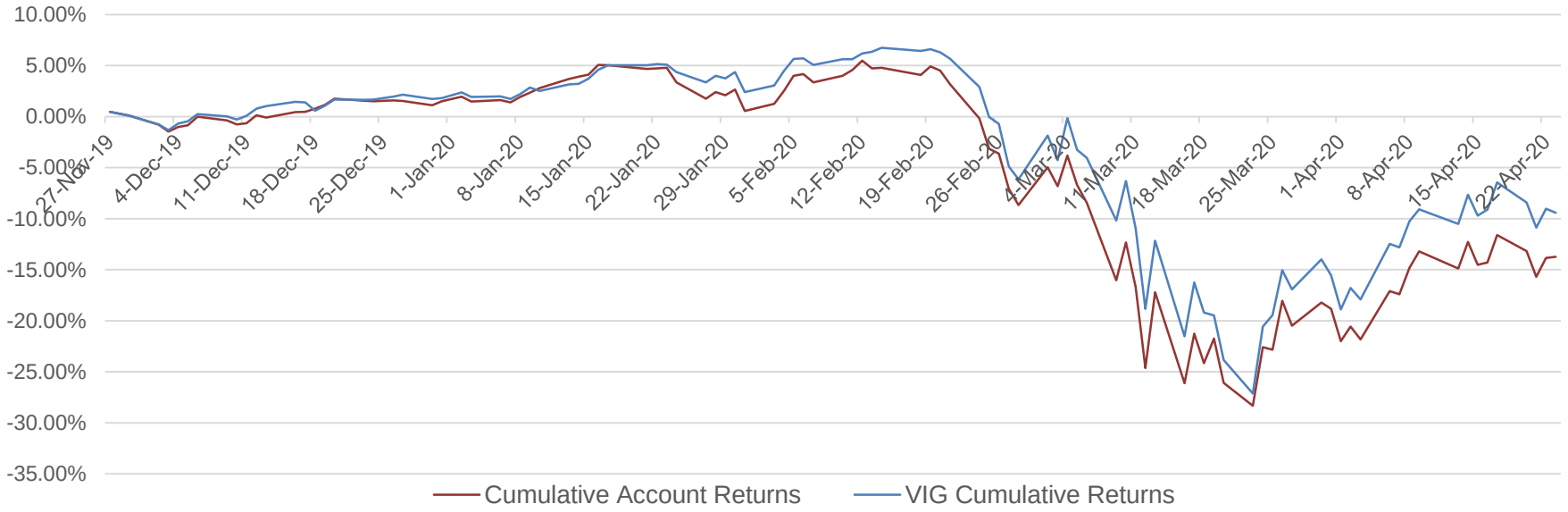
Overall Performance – Daily Returns



- Volatility increased as a result of COVID-19

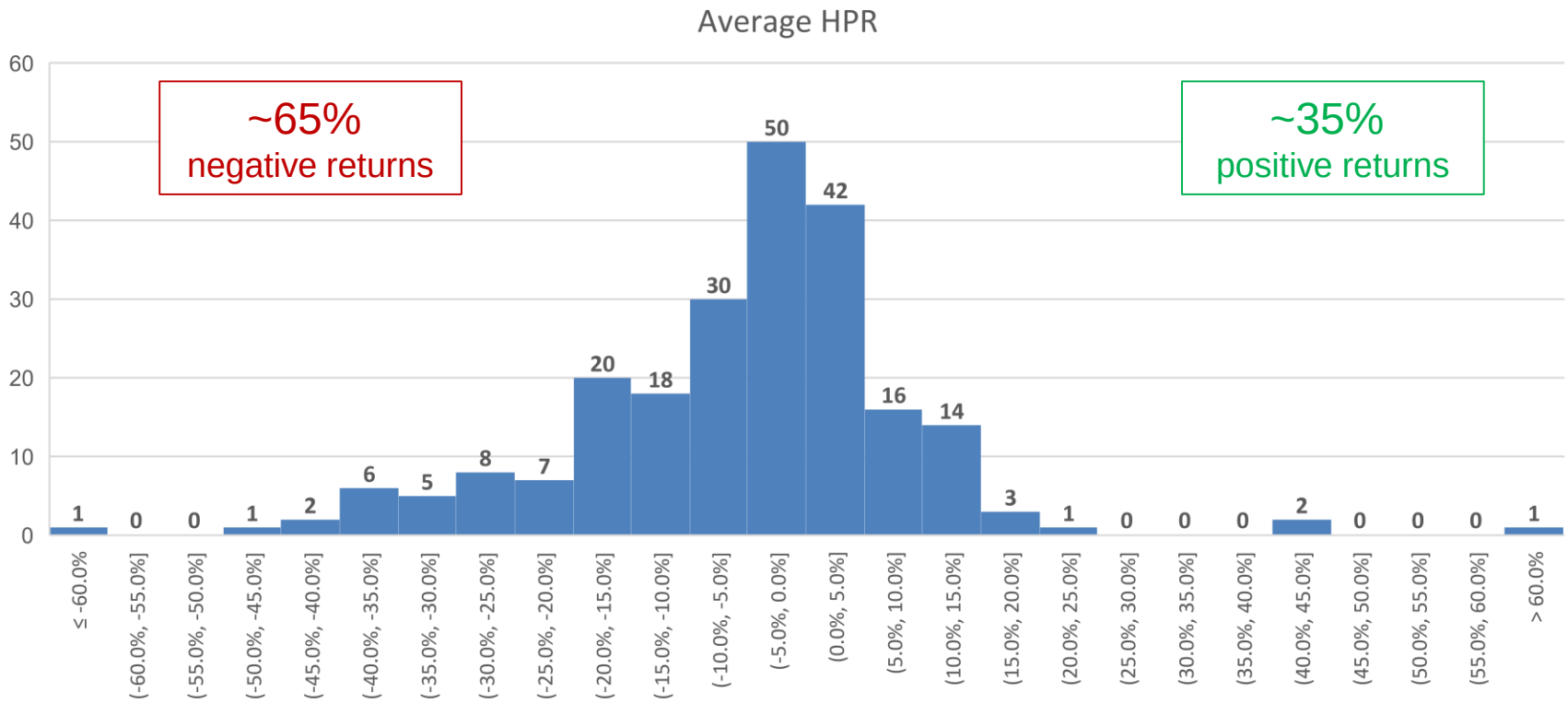
	Account	Russell 3000	Strategy
Mean	-0.10%	-0.09%	0.02%
Std Dev	2.94%	3.08%	5.42%
Variance	0.09%	0.09%	0.29%

Cumulative Returns (Account vs. VIG)

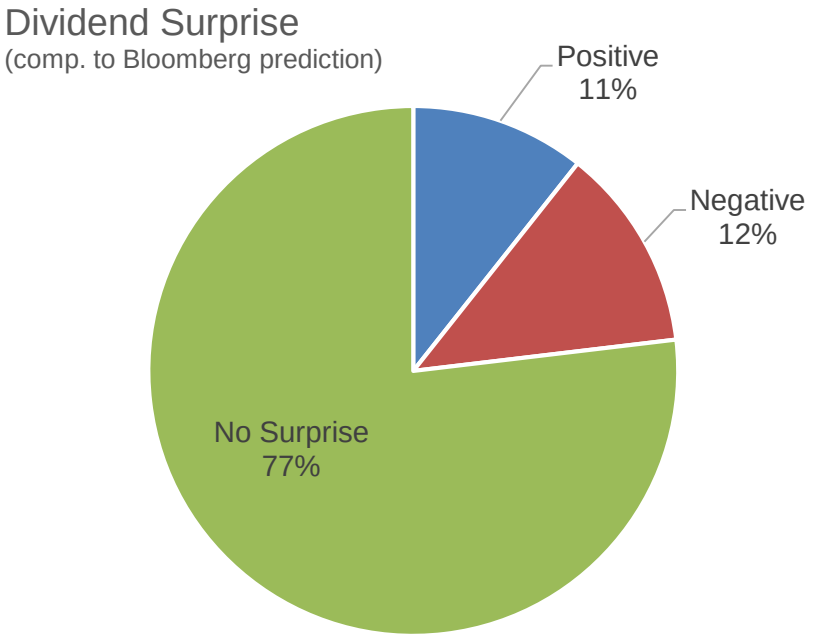


*VIG - Vanguard Dividend Appreciation ETF

Trade Performance



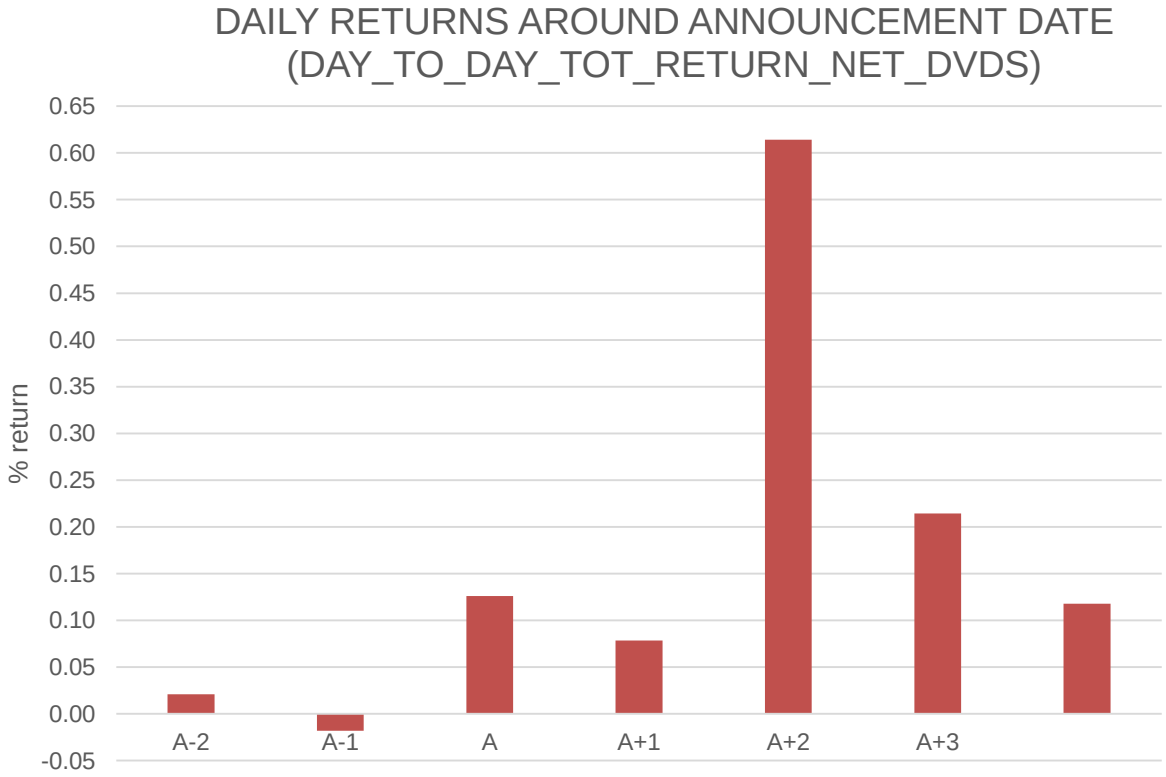
Performance Attribution – Dividend Surprise



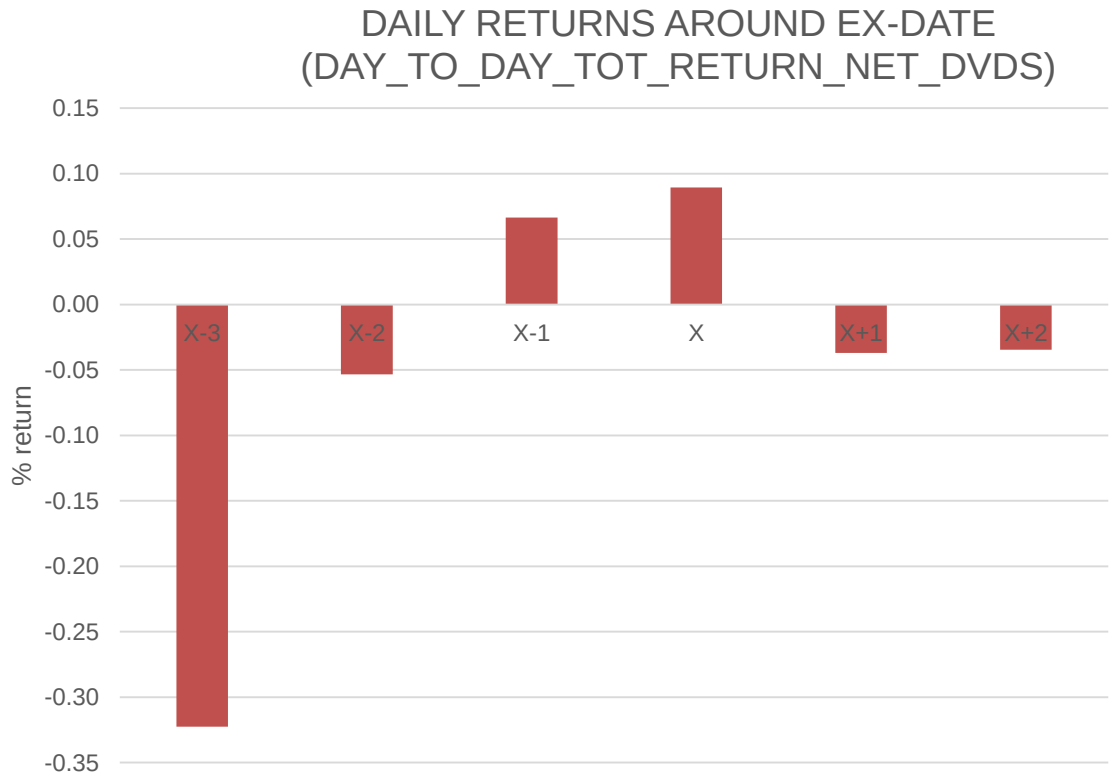
Dividend Surprise	Security Count	Mean Return
Negative	28	-10.20%*
No Surprise	173	-5.48%
Positive	24	-5.99%

*Statistically significant at 95% confidence level

Performance Attribution – Daily Returns



Performance Attribution – Daily Returns



Key Takeaways

1. Dividend premium strategy demands access to high quality, reputable data.
2. Active management is required to stay abreast of expected announcements.
3. High trading costs erode returns.
4. Bear markets diffuse strategy as companies delay or cancel dividends to manage cash.
5. COVID-19 transformed a strategy that was seemingly easy to execute into one that lacked a valid underlying thesis and needed constant attention.
6. Awareness & agility is required to respond to market changes quickly and maintain confidence in the fund.

Thank you!

Questions?

Predictable Corporate Distributions and Stock Returns

Hendrik Bessembinder & Feng Zhang, 2015

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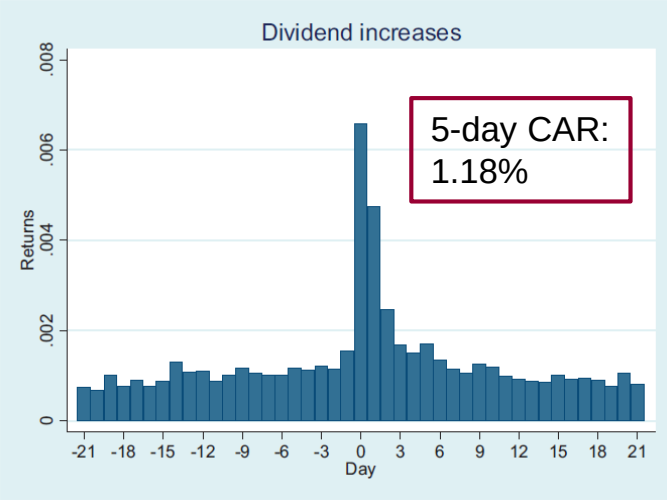
Corporate distribution events tend to **occur at regular intervals** and the **market reacts positively** to their announcement.

	Probability of Dividend Increase
Unconditional Probability	1.18%
One Prior Event (t-12)	32.9%
Two Prior Events (t-12, t-24)	55.3%
Three Prior Events (t-12, t-24, t-36)	62.7%
Four Prior Events (t-12, t-24, t-36, t-48)	66.8%



- The market fails to appreciate the degree to which these distribution events can be forecast.

The Dividend Month Premium

Samuel Hartzmark and David Solomon, 2013

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Price pressure from dividend-seeking investors in the lead-up to ex-day creates large abnormal returns.

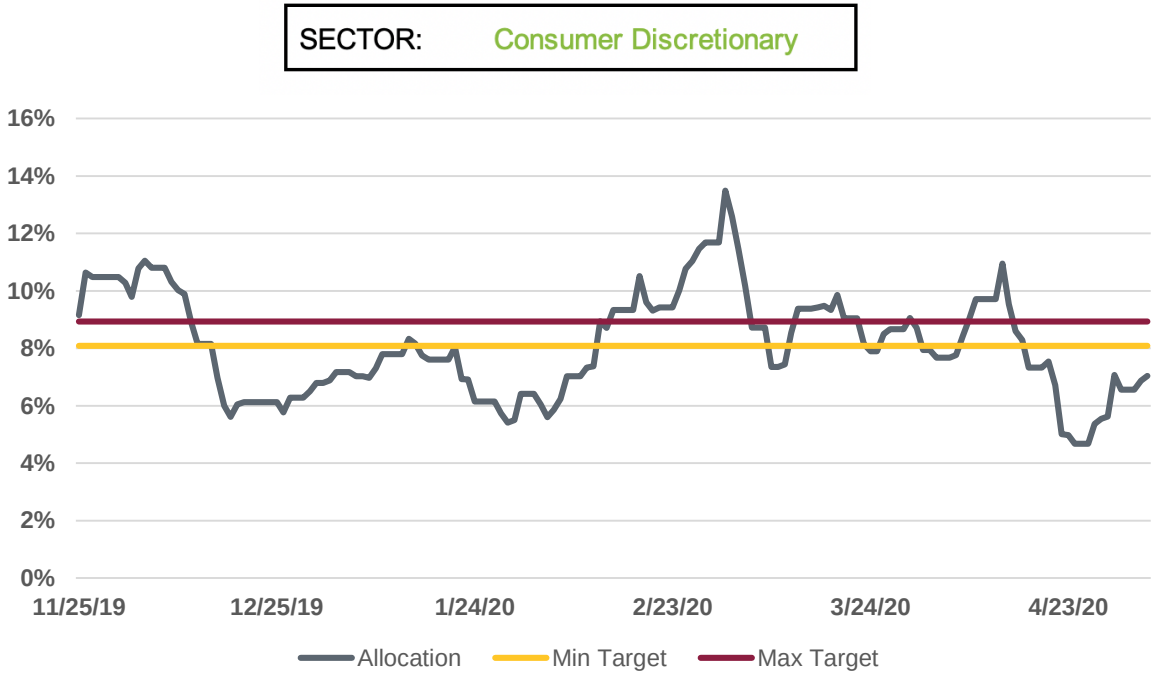
Abnormal Returns

	Abnormal Returns
Announcement Day	**12 bps**
Predicted Announcement Day	**3 bps**
Ex-day	**26 bps**
Interim Period	**17 bps**
Total (Holding Period)	**= 58 bps**

- Significant reversals (-72 bps) occur in the 40 days after ex-day

Appendix

Sample of Average Industry Neutrality Over Time



Appendix

Security Weighting

	Russel 3000	Trading Amount per Security	Total Securities
Consumer Staples	10.07%	$ 35,000	25
Information Technology	24.87%	$ 36,000	28
Financials	16.27%	$ 7,000	126
Industrials	12.38%	$ 7,000	76
Consumer Discretionary	8.51%	$ 10,000	60
Health Care	13.64%	$ 27,500	19
Energy	5.25%	$ 42,000	6
Communication Services	6.01%	$ 21,000	11
Real Estate	0.08%	$ 21,000	0
Materials	2.87%	$ 21,000	22
Utilities	0.05%	$ 21,000	0