SELLING FAST AND BUYING SLOW

Heuristics and Trading Performance of Institutional Investors

Klakow Akepanidtaworn
University of Chicago

Rick Di Mascio
Inalytics

Alex Imas
University of Chicago

Lawrence Schmidt
MIT
OBJECTIVE

To analyse buying and selling decisions to see if professional investors exhibit the same biases as private individuals

- Research is based on Inalytics’ database of 783 institutional portfolios
  - Vast majority of data collected in near real time
  - A unique data set with daily holdings/trades of experts
  - Database of decisions taken by experts
  - Average outperformance of their respective benchmarks is 2.5% p.a.
  - With a mean size of $573m
  - With daily holdings and 4.4m individual trades
  - For the period between 2003-2016
DO THE BUYING DECISIONS ADD VALUE?

The short answer - Yes

Counterfactual Returns for Buys

The same picture emerges when measured against benchmarks.
DO THE SELLING DECISIONS ADD VALUE?

The short answer - No

Counterfactual Returns for Sells

The same picture emerges when measured against benchmarks

• Compared to conservative strategy of randomly selling an alternative stock held but not traded
ANECDOTAL EXPLANATIONS?

Investors pay more attention to buying than selling, or put another way Managers use heuristics when selling, not when buying.

Quoting Matt Levine (Bloomberg)

“The basic folksy rule-of-thumb wisdom for buying is about fundamentals, but for selling is about price action.”

Quoting Clients

“When I sell, I’m done with it. In fact, after I sell, I go through and delete the name from the research universe. It’s gone for good.”

Quoting Clients

“Selling is simply a cash raising exercise for the next buying idea.”
WHICH STOCKS ARE BEING SOLD?

Most Likely to Sell After a Large Price Move in Prior Week

Selling after extreme moves indicates the use of heuristics.
Using heuristics is costly.

It is associated with 150 bp of forgone returns relative to a random selling strategy.
WHAT HAPPENS WHEN THEY FOCUS (1)

They get it right

Result announcements

Selling largest active holdings adds value.
WHAT HAPPENS WHEN THEY FOCUS (2)

They get it right

Result announcements

Selling decisions on announcement dates add value.

One of the most interesting results in the paper.
Main Findings

- Selling decisions typically lose value
- Explained by use of heuristics
- Which can cost a significant 150 bps
- But all is not lost as there is evidence of selling skills when heuristics are put to one side and PMs focus on the decision
- This last point shows that there is scope to use this research to learn from it and improve selling decisions