Keynote Address

What is a keynote address? I had no clue
  Ask someone who has done this before recently
  So I asked Mark Bradshaw – who shared his slides

Looks like he had no clue either (but his slides were very funny)

So – I have decided to wing it

My presentation will have two portions
  Accounting Research on Valuation
  How to shepherd your papers through the publication process – insights from the school of hard knocks
PART I : ACCOUNTING RESEARCH IN VALUATION
How Did I become a Valuation Researcher?

- My thesis was on voluntary disclosure
  - Never got published – that’s why you’ve never heard of it
- Simple answer – serendipity
  - 1999 was the days of the “Tech Boom”
    - Eli Bartov and I started working on a paper on Tech IPO valuation (with Chandra Seethamraju). JAR 2002
  - At NYU, Jim Ohlson was developing a new model on “Implied cost of capital”
    - Wrote a paper with Dan Gode. RAST 2003
  - NYU asked me to teach Financial Statement Analysis
    - Motivated me to write a paper on applying FSA to growth stocks. RAST 2005
- I have papers on all these three streams of research
Some General Points

• I’ll focus on valuation and where I see opportunities for future research
• Forward looking
  • No complaining about “Good old days …. and how the research these days is crap”
• Many of the areas I identify will be interdisciplinary
• No “Where is the Accounting?”
  • To me it’s everywhere
• Unapologetic bias towards areas I have worked in
Looking beyond Equity

- Prior valuation research has strong equity focus – firm level earnings and stock returns
- Now there is much more interest in looking beyond equity
  - Debt markets (e.g. Bhojraj and Swaminathan (2009 RAST) – accrual anomaly in bond markets, Correia (2012 RAST) – value investing in credit markets
  - Options (Lyle (2019 TAR) – How Information Quality is related to returns depends on how “option-like” the firms equity is
  - ETFs (Israeli, Lee, Sridharan(2017 RAST), Glosten et al. (2020 MS), Bhojraj, Mohanram and Zhang (2020 JAE)).
- Important issues related to
  - Sophistication of the market participants
  - Diversification of investors
  - What is systematic and what is idiosyncratic – and does it even matter?
Importance of the Aggregate

- Recent interest in the role of Aggregate Accounting numbers.
- Remarkable differences between firm-level and aggregate
  - e.g. Sloan (1995 TAR) and Hirshleifer et. al (2009 JFE)
  - e.g. Bernard and Thomas (1989 JAR) and Kothari et al (2006 JFE)
- Does not necessarily negate the firm-level result
  - Cross-sectional (firm) vs. Time series (aggregate)
  - Positive aggregate accruals a sign of likely economic growth
- Accounting numbers can be very insightful in the aggregate
  - Even if they mean different things
- The rise in interest of ETFs also is a reflection of this
Accounting and the Macroeconomy

• Growing research on the importance of accounting information for macroeconomic forecasting and vice versa
  • Konchitchki and Patatoukas (2014 JAE) – accounting earnings and GDP
  • Konchitchki and Patatoukas (2014 TAR) – using financial statement analysis for macro-forecasting
  • Abdalla and Carabias (TAR 2022) – Aggregate special items

• Can we improve our forecasting models with more macro-level data?
  • Cross-sectional forecasts used in implied cost of capital
Risk vs. Mispricing

- Valuation research - often fundamentally questions market efficiency
  - Should have a high standard of proof - Consistency of returns across time, Timing of bad returns, Rigorous asset pricing tests

- However, the “It has to be risk” guys get a free pass
  - Why? Everything cannot be a “risk” factor (unless both authors names start with F).

- Need to have a more flexible and less dogmatic view
  - Not efficiency vs inefficiency, rather “adaptive efficiency”

- Consider the Accrual Anomaly and the vast literature about whether it is risk or mispricing.
  - When it disappeared
    - Green et al (2010 MS) – “Going, going, gone” – arbitrageurs
    - Mohanram (2014 CAR) – Cash flow forecasts
    - Bhojraj et al (2017 MS) – Improved accounting standards
Asset Pricing — Accounting Perspective

- Latest Fama and French model has five factors
  - CMA (investment factor) and RMW (profitability)

- These are empirical factors that meet the necessary conditions for risk — positive and generally consistent risk premium.
  - Are they sufficient?
  - Will they hold up to greater scrutiny — e.g. the characteristics vs covariance test

- Can one come up with economic rationale for risk story?
  - Penman and Zhu (JAE 2022) - riskiness embedded in earnings growth
  - Much earlier work by Basu (1977 JF) and Ball (1992 JAE) among others

- As accounting academics, we should stop viewing what Finance does as “Manna from heaven”.
  - PIN is priced “information risk” — Lambert et al. (2007 JAR) theoretically and Mohanram and Rajgopal (2009 JAE) empirically question this
Measurement of Cost of Capital

• Many people question ICC models, based on well cited critiques by Easton and Monahan (2005 TAR) and others that
  • Models don’t really line up with future returns or other risk factors
  • Underlying models are noisy and/or analyst forecasts provided biased inputs

• Recent research indicates that
  • Forecast bias can be mitigated (Mohanram and Gode 2013 RAST) or avoided with cross-sectional forecasts (Li and Mohanram 2014 RAST)
  • Models perform quite well – unbiased, reflect future returns and other risk factors

• Work very well in the aggregate – Li, Ng and Swaminathan (2013 JFE)

• Can we separate risk from mispricing to improve ICC models?
  • High ICC => High Risk => High Returns
  • High ICC => Mispriced (undervalued) => Market corrects => High Returns
Ignored Areas – Growth Stocks, Banking

• The way we deal with “problem areas” – avoid them. E.g. Fundamental analysis
  • Does not/cannot work in growth firm
  • Does not/cannot be made to work in Banks and FIs
• Problem areas are actually opportunities for research with real and practical implications
  • Mohanram (2005 RAST) GSCORE paper – Fundamental analysis tailored to growth stocks
  • Mohanram, Saiy and Vyas (2018 RAST) – tailoring fundamental analysis for bank stocks
    • Works particularly well during financial crisis
    • Signals based on identifying bank ratios related to profitability, growth and risk
    • Excessive anchoring on ROE – miss out on finer drivers of valuation
Ignored Areas - Tax

• Tax and valuation is another important unexplored area
• Research indicates that even sophisticated users ignore or make naïve assumptions about tax rates
  • How about investors? Do investors consider tax efficiency of the firm’s they are investing in?
  • This is especially the case, as the only money one gets ones hand on in most cases is the after-tax dollar
• I think as accountants, we can add to important macroeconomic debates on tax policy
  • E.g. Khan, Nallareddy and Rouen (2019 MS) – high US tax rates impact on GDP growth
  • Edwards et al (2016 CAR) – trapped foreign cash and profitability of cross border M&A
• We need to encourage research using data from outside the US

• Often papers are rejected, because the question asked is what are the broader implications
  • Why?
  • Knowing what’s happening in India or China will be increasingly important for everyone

• Within valuation/fundamental analysis
  • Emerging markets may give us another look at risk vs mispricing
  • Controlled experiments with different timing of regulatory changes
  • Impact of changing disclosure quality, accounting standards, institutions, governance and enforcement on market efficiency
New Sources of Information

- Research now uses new and emerging sources of information
  - Social Media information (Twitter)
  - Crowd sourced information (Seeking Alpha research, Estimize)

- Research also uses new techniques for analysis
  - Big Data and AI/ML approaches

- Old dogs have to learn new tricks
  - Cannot just spin the old Compustat/CRSP/IBES tapes
  - My 2018 TAR paper
    - Uses Twitter to measure “Aggregate Opinion”
    - Shows that aggregate opinion on Twitter can predict earnings surprises and announcement period returns
My Valuation WIP


Interdisciplinary Work

- We need to encourage and reward inter-disciplinary work – both within accounting and across accounting and other disciplines
  - Broaden the definition of what we consider top tier publications
  - Read papers and worry less about Top 3 vs Top 5 etc.
  - Journals need to be more open towards big picture ideas, different methodologies and approaches
  - Encourage junior people to work on big picture ideas
  - We need to stop being dogmatic about “why is this accounting” kind of questions
Search for the Truth vs. Turf Protection

- At many conferences and presentations, I’ve noticed people feel the need to protect their turf.
  - Many cases of ABC writing ripostes to XYZ, who write replies and on and on
  - Research on whether something is risk or mispricing
  - Research on ICC
  - Research on whether a model is correct or not
- We should, to the extent possible, be “truth seekers”
- Good research should imply belief revision, including your own beliefs
  - If I am wrong, I would like to know
Advice to Junior Empiricists

- Double check your work — it will be replicated and it better replicate
- Make sure you understand all the tests in your paper, not just the part you did
- Share your code freely and your data as well, whenever possible
- Continue working with data — even as you become a “senior” empiricist
- Pay attention to details — signs of coefficients on control variables matter!
- Don’t hide behind — “the fixed effect takes care of it”.
- Whenever possible, use the simplest possible research design and implementation
  - I always have a sneaking suspicion of something amiss in a “Hidden Markov Latent variable analysis with right censored coarsened exact matching”
PART II : HOW TO SHEPHERD YOUR PAPERS THROUGH THE PUBLICATION PROCESS
Congrats! You’ve finished your PhD, what next?

- You need to start publishing
  - Your thesis hopefully (unlike me)
  - Other co-authored research

- In this presentation, I will try to focus on
  - When to send your paper out?
  - Where to send your paper?
  - What to do if your paper is rejected?
  - How to revise a paper?

- Based on my personal experience
  - Publishing papers in FT50 journals
  - Zero rejections after 2\textsuperscript{nd} round
  - Referee
  - Editor and now Editor-in-chief, CAR
A job market paper is not the same as a publishable paper.

After the job market, make a detailed list of all comments received.

Classify comments into categories
- Things you : absolutely have to fix, would be nice to fix, could add to paper
- Ideas that may lead to future projects

Fix as many “problems” as you can – some of these people may be referees

Do not sit on your paper - Nothing gets published sitting on your desk
- Don’t get bogged down in teaching
- Don’t get diverted by the excitement of new projects

For future projects – you don’t need to perfect a paper to submit it
- Brown bag, conference presentation, 1-2 external presentations
- Latter will be tough, especially early
Where to send your paper?

- Figure out what the list of Top/Acceptable journals are at your schools
  - Top 3
  - Top 3 + CAR, RAST, AOS
  - Broader List

- Talk with your advisors and new colleagues
  - Would your paper’s theme and focus suit or not suit a given journal?
  - Is the journal known to be clubbish or elitist?
  - Does sending your paper to a journal conference make sense?
    - Quicker turnaround
    - Almost guaranteed acceptance in some journals
    - Can be a very public rejection in others
Dealing with Rejection Letters

- In our profession, it is important to have a thick skin
  - Rejection rates at top journals exceed 80%
  - Odds are your papers are going to face rejection
  - Don’t take it personally

- Responses to avoid
  - The referee is a moron – I’ve addressed that very issue in Table 7
  - The editor clearly did not read the paper
  - The whole system is rigged – it’s no point
  - While each of the above statements might indeed be true, they do not help you achieve your goal

- Decide what you are going to do
  - In most cases – the right response is make major changes and send to another journal
  - Sometimes you may decide to shelve a project
Resubmitting Rejected Papers

- Think about why the paper was rejected the last time around
  - Motivation and Incremental contribution
  - Weaknesses in theory/hypothesis development
  - Problems with empirical execution
  - Writing and communication

- Very important to address all major issues related to prior submissions
  - Odds of the same referee are quite high
  - Comments will improve the paper

- Were you aiming too high?
  - Maybe consider 2nd tier or field journals (especially if they count)
You’ve got a “revise and resubmit”. Great. Now what?

Read through the editor’s letter and referee reports
- I “cut and paste” the points across all letters/reports into a document
- This document becomes the early draft of a response memo

Condense the comments
- Some comments can overlap
- Some comments can contradict each other

Set up a plan for a revision
- How are you going to address each point
- Who is going to address it
- Timeline

Don’t take forever – referees and editors forget details
- CAR allows 1 year, many journals far less
- I try to get revisions back within 3-4 months, 6 months max.
Importance of Response Letters

- Response letters are often more important than your revision

- In this, you lay out
  - Exactly how your paper is changed
  - How you addressed each concern that the editor/reviewer had
    - Minimize the number of responses where you do something in the response memo but nothing makes it to the revised paper
    - You are telling the referee – “I don’t think your comment is worthy of real estate in my paper, but because you asked – see, it does not make a difference”.
    - Don’t waste time trying to convince the referee/editor that they are wrong

- If you could not/did not address a concern, be explicit about it
  - People notice. It will come back next round if there is one.

- Your tone is important. Remember to thank the reviewers and editor
  - In most cases, they are doing this for free
THANK YOU