William Waller

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EDUCATION

The University of North Carolina, Chapel Hill, NC

Ph.D. in Finance — expected May 2015

Texas Tech University, Lubbock, TX

M.S. in Personal Financial Planning — May 2009

Minor in Finance

B.S. in Animal Science — May 2007

Summa cum Laude with Honors
Minors in Agribusiness Management and Chemistry

COMPLETED PAPERS

Default, Recovery, and the Macroeconomy
Job Market Paper

While recent theoretical research has highlighted the importance of time-series variation in the cost of financial distress in explaining well-document corporate debt puzzles, empirical research has found that estimates of firm recovery rates are unrelated to overall market conditions. This paper answers the question: do default costs vary across the business cycle or are aggregate measures of default costs simply picking up differences in asset quality? Specifically by jointly estimating a model of ex-ante recovery rates and default probabilities, I find that a one standard deviation increase in the level of interest rates is associated with a 0.3% increase in the cost of default (decrease in recovery rate) and with firms liquidated 13 months earlier than the case of no change in interest rates. Moreover, a one standard deviation increase in the slope of interest rates is associated with a 0.7% decrease in the cost of default (increase in recovery rate) and with firms delaying the default decision 45 months than in the case of no change in interest rates.

How Important is Financial Risk?
with Gregory W. Brown and Söhnke M. Bartram
Forthcoming in *Journal of Financial and Quantitative Analysis*

We explore the determinants of equity price risk of non-financial corporations. Operating and asset characteristics are by far the most important determinants of risk. For the median firm, financial risk accounts for only 15% of observed stock price volatility. Furthermore, financial risk has declined over the last three decades indicating that any upward trend in equity volatility was driven entirely by economic risk factors. This explains why financial distress (as opposed to economic distress) was surprisingly uncommon in the nonfinancial sector during the recent crisis even as measures of equity volatility reached unprecedented highs.

Revealing Shorts: An Examination of Large Short Position Disclosures

with Charles M. Jones and Adam V. Reed

Revising for third submission to *Review of Financial Studies*

By 2012, all European Union countries began requiring the disclosure of large short positions. This regime change reduced short interest, bid-ask spreads, and the informativeness of prices. After specific disclosures, short-run abnormal returns are insignificantly negative, but 90-day cumulative abnormal returns are a statistically significant −5.23%. We find disclosures are likely to be followed by other disclosures, especially when the initial discloser is large or centrally located, but there is no subsequent increase in short interest, and prices do not subsequently reverse. These results indicate that large short sellers are well-informed, and that disclosures are not being used to coordinate manipulative attacks.

Taxes, Spending, and Market Returns

with Anthony M. Diercks

Submitted

How fiscal policy impacts equity and bond returns is an open question. Unlike previous studies, we address this issue in a way that decomposes current returns into news about cashflows and news about discount rates. Moreover, we use narrative methods to identify plausibly exogenous shocks to fiscal policy. Our main findings suggest that tax increases lead to lower cash flow news and lower discount rates. However, the discount rate news dominates so that higher taxes are associated with higher equity returns. We confirm these results with simulations from a standard New Keynesian DSGE model.

Yes, U.S. Stocks are Getting Riskier

with Gregory W. Brown

Over the last few decades U.S. stocks have become significantly more volatile. This result holds even when excluding the financial crisis period of 2008-2009. Both the market index and individual stocks have become more volatile indicating that higher volatility is not just the result of higher idiosyncratic risk or increased correlations among stocks. Instead, the increase in risk is due entirely to more frequent and more extreme spikes in volatility. We find that after decomposing volatility into a long-run component and a transitory component, there is no meaningful trend in the long-run component. In contrast, our measure of transitory volatility has tripled over the last 40 years. The upward trend in the transitory component is primarily the result of changing characteristics of the typical publicly-traded firm due to the appearance of many new and riskier firms (e.g., technology stocks). Our findings show that the expansion of U.S. stock markets in recent decades has fundamentally altered the types of risks born by equity investors.

Redemption Fees: Reward for Punishment

with Michael S. Finke and David Nanigian

Short-term redemption fees may prevent investors from frequently trading in and out of mutual funds, which results in an implicit wealth transfer from long- to short-term fund investors. This paper studies determinants and implications of short-term redemption fees. We find that the probability of redemption fee initiation is increasing in operating expenses and recent returns and decreasing in the liquidity of portfolio stockholding. In the cross-section of mutual funds, those with redemption fees outperform their counterparts by 1.0 to 1.4 percent a year. Moreover, we observe this increase within a given fund such that the estimate is simply a proxy for managerial quality. Instead, portfolio characteristics change with the introduction of a redemption fee. Most notably cash holdings decrease by 77 to 102 basis points after fee initiation.

Research in Progress

Can Structural Models of Credit Risk Predict Returns?
with Gregory W. Brown and Zhen Cao

Intertemporal Equity Risk and Forward Guidance
with Anthony M. Diercks

Presentations

Eastern Finance Association Annual Meeting, New Orleans, LA (Scheduled 2015)

European Finance Association Annual Meeting, Copenhagen, Denmark (2012)

FDIC-Cornell-UH Derivative Securities and Risk Management Conference (2012)

Conference on Financial Economics and Accounting, Bloomington, IN (2011)

Southwest Finance Association Annual Meeting, Oklahoma City, OK (2009)

Teaching

BUSI 408: Corporate Finance – Summer 2013, Spring 2014 (2 Sections)

Popular Press

Powell, R., "How to better understand your risk tolerance," *MarketWatch*, May 23, 2012.

Hough, J., "Why the Stock Market Has Turned Bipolar," *Smart Money*, August 11, 2011.

McDermott, M., "Funds Drop Redemption Fees as Market-Timing Fears Wane," *BoardIQ*, July 5, 2011.

Brown, J., "The Fee That Makes You Money," *Banking My Way*.

Awards

American Finance Association Doctoral Student Travel Grant, 2012

Inquire Europe Research Grant (€10,000), 2011

Best Paper Award Academy of Financial Services Annual Meeting, 2009

Best Paper Award Academy of Financial Services Annual Meeting, 2008

College of Agricultural Sciences and Natural Resources Banner Bearer, 2007

Presidential Endowed Scholar, 2003–2007

College of Agricultural Sciences and Natural Resources Dean's Scholar, 2003–2007

Carl B. and Florence E. King Foundation Scholar, 2003–2007

Other Publications

Finke, M.S., S.J. Huston, and W. Waller, 2009, Do Contracts Impact Comprehensive Financial Advice? *Financial Services Review* 18(2): 177–194.

Hanna, S.D., W. Waller, and M.S. Finke, 2008, The Concept of Risk Tolerance in Personal Financial Planning, *Journal of Personal Finance* 7(1): 96–108.

References

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Sarah Graham Distinguished Scholar Professor of Finance, UNC at Chapel Hill
Dissertation Committee Chair

Charles M. Jones (cj88@columbia.edu, +1.212.854.4109)
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Christian T. Lundblad (christian_lundblad@unc.edu, +1.919.962.8441)
Edward M. O'Herron Distinguished Scholar Professor of Finance, UNC at Chapel Hill

Adam V. Reed (adamvreed@gmail.edu, +1.919.962.9785)
Associate Professor of Finance and Julian Price Scholar, UNC at Chapel Hill