Strategic R&D Expense Classification and Cost of Debt (Job Market Paper)

Abstract:
Five percent of Compustat firms report no R&D expense on Compustat but have filed for patents in a given year (hereafter, Pseudo Blank R&D firms). Koh and Reeb’s (2015) argue missing R&D is not an accidental outcome but instead, a deliberate choice of the firm. In this paper, I examine whether cost of debt of these Pseudo Blank R&D firms is different from otherwise similar firms. Pseudo Blank R&D firms, on average, pay 15 basis points less in loan spread compared to control firms. Further, banks with more experience in a particular industry charge higher loan spread relative to banks with less experience which suggests that experienced banks see through the hidden R&D by Pseudo Blank R&D firms. These findings suggest banks perceive R&D expense as a risk factor and some firms benefit from strategically classifying the R&D expense in other expense categories. These findings are broadly consistent with the notion that managers engage in classification shifting of expenses as shown by McVay (2006) and Fan, Barua, Cready and Thomas (2010).

Day of the week trading pattern of individual investors and its implication

Abstract:
I document day of the week trading pattern of individual investors using a unique dataset of NYSE traded firms and discuss its implication on the Weekend/Monday effect i.e. the findings that the Monday stock returns are generally lower than that of other weekdays and on an average negative. Since, I use the actual trading data of individual investors; I do not have to rely on various proxies used by previous studies to measure individual investor activity. Further, the most popular proxy used to measure individual investor activity is ‘percentage of odd-lot trading to NYSE volume’ which may not necessarily capture individuals trading activity because it is impossible to distinguish whether numerator effect (odd-lot) or denominator effect (NYSE volume) is driving the result. Results show that Individual investors trading activity on Monday is lower than previously documented. This finding is in contrast with the long-held beliefs about individual investors being most active on Mondays. Further, I fail to find that the average net selling by individual investors on Monday is any different than that on other 4 weekdays. Taken together, this study challenges the findings of previous studies that hold individual investors responsible for the Weekend/Monday effect.