

Do Hedge Funds Profit from Public Information?

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May 2018



Outline

1 Introduction

2 Data

3 Results

4 Literature

5 Conclusion

Motivation: Do HFs Profit from Public Information?

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- HFs, in theory, can profit from public information with...
 - Processing advantages (Grossman & Stiglitz, 1980)
 - Complementary private signals (Kim & Verrecchia, 1994)

Motivation: Do HFs Profit from Public Information?

- Large literature dedicated to HF performance
 - Exposed to risk factors (Fung & Hsieh, 2001)
 - Have stock-picking skills (Agarwal et al, 2013)
 - Trade on private information (Massoud et al, 2011)
 - Profit from lobbyist connections (Gao & Huang, 2016)
 - And make use of FOIA (Gargano et al., 2017)

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 - And make use of FOIA (Gargano et al., 2017)
- Less clear whether HFs use and profit from public information

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 - Private Info: ??

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 - Equity Hedge, Event-Driven, Relative Value
 - U.S. HFs
 - Sample period 2003 to 2017
 - 36 months of data
 - Results robust to backfilling

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 - ARIN WhoWas
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 - ARIN WhoIS (2014, 2017)
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 - MaxMind
- Step 3: Match IPs to Edgar IPs
 - Edgar Masks IPs: 192.168.3.abc
 - Terabytes of data

ARIN Overview

- Like telephone book for IP addresses
 - Names
 - Location (street address, zip code, ...)
 - IP addresses (ex. 128.42.0.0)
- Orgs have blocks of IP addresses
 - Rice University has many IP blocks
 - One block is 128.42.0.0 to 128.42.255.255 (65,536 IPs)
- ARIN WhoWas provides registration histories by IP
 - Rice University owned IP block since Nov. 3 1997

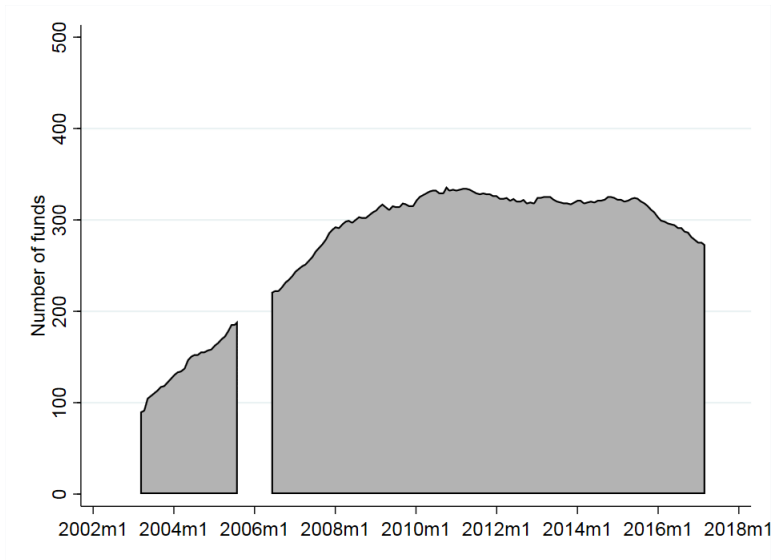
Top 15 Hedge Funds using EDGAR since 2003

Firm Name	Total Downloads	Form Type			AUM (MM)
		10-K/Q	8-K	4	
Renaissance Technologies Corp.	4,016,439	3.5%	2.0%	85.8%	50,941
PanAgora Asset Management, Inc	3,969,668	24.2%	21.6%	10.9%	42,798
Blackrock	3,704,596	3.5%	0.7%	92.4%	5,689,273
Hutchin Hill Capital, LP	3,044,555	3.7%	4.7%	8.8%	3,300
Tradeworx Inc	2,068,017	11.2%	5.6%	51.4%	61
First Pacific Advisors, LLC	2,003,707	0.0%	73.8%	0.0%	30,800
AQR Capital Management	1,944,446	28.0%	0.2%	0.1%	194,900
Jennison Associates LLC	1,857,445	4.4%	87.7%	1.5%	167,000
Schroder Investment Management	1,590,526	39.4%	55.1%	0.0%	490,700
Zack's Investment Management	1,540,158	1.8%	0.3%	96.8%	4,736
Ten Asset Management	1,044,195	26.8%	7.2%	27.1%	36
Neuberger Berman	915,603	3.9%	1.7%	89.3%	270,728
Bailard	804,940	1.1%	0.2%	98.0%	2,421
LIM Advisors Limited	424,800	1.6%	5.8%	76.8%	1,800
Benchmark Capital Advisors	309,561	0.1%	14.4%	84.3%	250

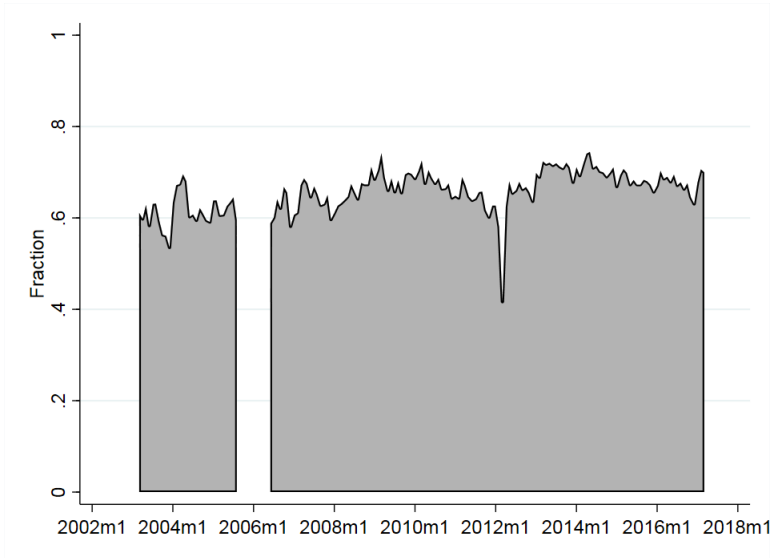
Summary Stats: Hedge Fund Sample Attributes

	Mean	Std. Dev	25th	Median	75th
Firm Assets (mm)	28838.60	260067.13	132.00	615.00	3851.00
Months in HFR	149.91	79.04	88.00	132.63	203.29
Months in Sample	79.16	43.95	43.00	74.00	115.00
Age in Months	149.76	78.87	88.00	132.63	203.29
VW Excess Ret	0.41	0.72	0.12	0.42	0.70
VW Abnormal Return	0.05	0.63	-0.21	0.09	0.38
Incentive Fee	18.97	4.43	20.00	20.00	20.00
Management Fee	1.50	0.45	1.00	1.50	2.00
Market Beta	0.37	0.35	0.13	0.35	0.56
SMB Beta	0.10	0.26	-0.01	0.08	0.20
HML Beta	-0.03	0.23	-0.14	-0.02	0.09
RMW Beta	-0.06	0.32	-0.18	-0.04	0.07
CMA Beta	-0.05	0.37	-0.17	-0.03	0.11
MOM Beta	-0.01	0.24	-0.09	-0.01	0.06
Observations	557				

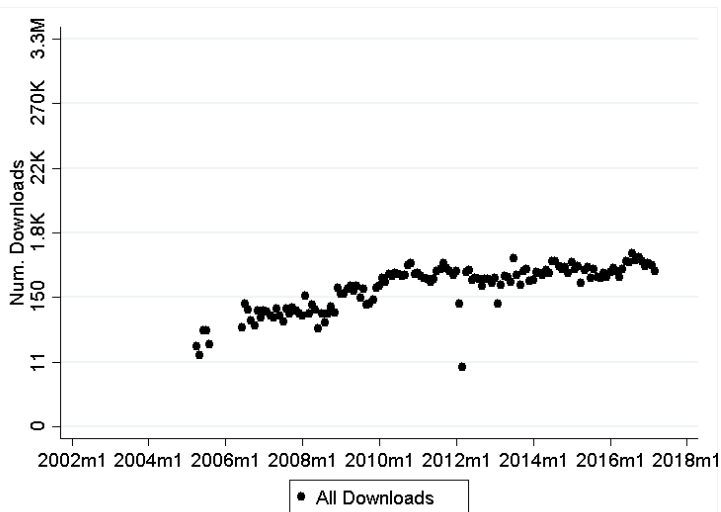
Sample size over time



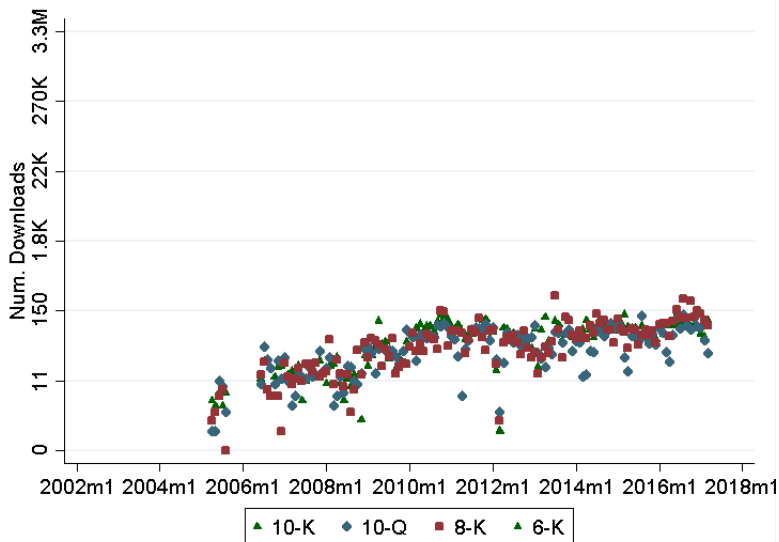
Fraction Downloading in Given Month



Ex: Paulson & Co.



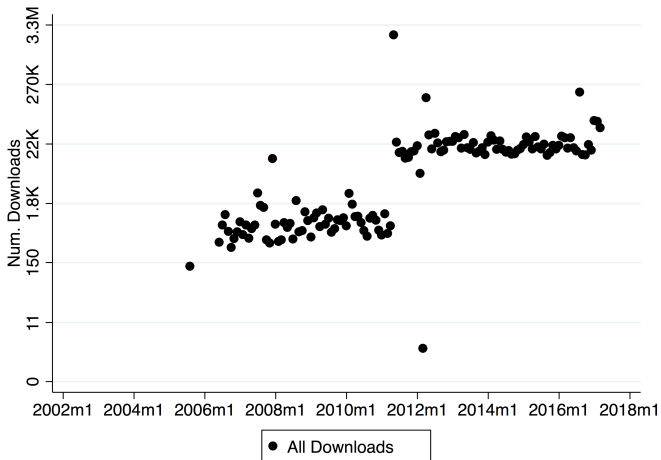
Ex: Paulson & Co.



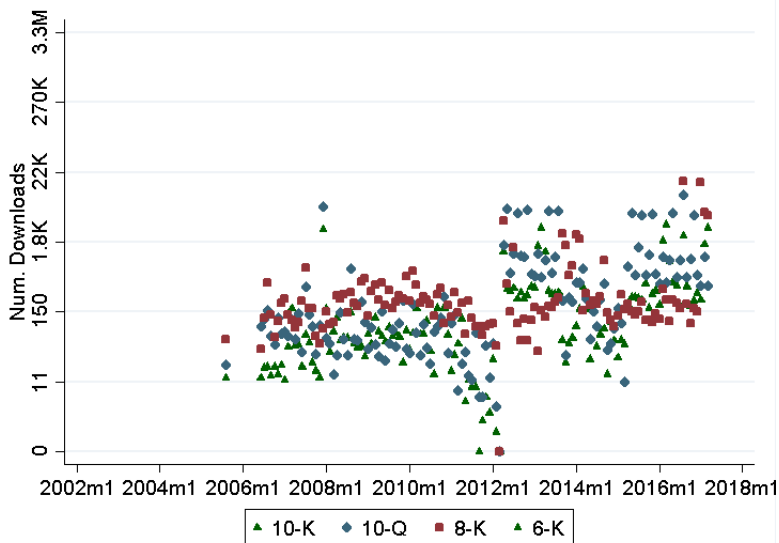
Ex: Paulson & Co. (IP 192.124.236.0/255)

Date Accessed	Time Accessed	Firm	Market Cap (\$m)	Form Type	File Size (KB)	Filing Date
2017-01-04	00:16:00	Xerox	\$ 7,249	DEF 14A	138966	2016-04-04
2017-01-04	00:16:16	Conduent	\$ 2,778	10-12B	4344	2016-06-30
2017-01-04	00:16:26	Conduent	\$ 2,778	8-K	5064	2016-11-14
2017-01-04	00:16:50	Xerox	\$ 7,249	10-Q	130637	2016-11-03
2017-01-04	00:21:57	Xerox	\$ 7,249	11-K	2666	2016-06-29
2017-01-04	00:22:03	Xerox	\$ 7,249	8-K	15267	2016-11-07
2017-01-04	00:22:09	Xerox	\$ 7,249	8-K	4366	2016-12-23
2017-01-04	15:14:45	Tobira Therapeutics	.	SC TO-T	203	2016-10-03
2017-01-04	16:56:49	Overseas Shipping Gr.	\$ 298	4	4014	2016-06-29
2017-01-04	19:17:34	Paulson & Co.	.	13-D	7309	2016-12-12
2017-01-04	20:38:47	Sears Holdings	\$ 1,109	10-Q	126979	2016-12-08
2017-01-04	22:07:06	AIG	\$ 67,760	4	3927	2017-01-04
2017-01-04	22:07:35	AIG	\$ 67,760	4	3838	2017-01-04

Ex: Renaissance Technologies



Ex: Renaissance Technologies



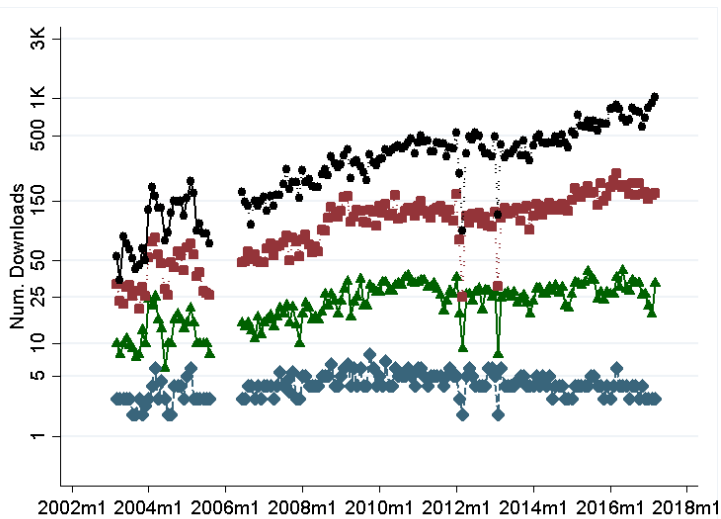
Ex: Renaissance Technologies (IP 216.223.240.0/255)

Date	Time		Market	Form	File Size	
Accessed	Accessed	Firm	Cap (\$m)	Type	(KB)	Filing Date
2017-01-03	06:29:20	Ark Restaurants	\$ 849	10-K	28877	2016-12-30
2017-01-03	06:29:22	Polarityte	\$ 14	10-K	30472	2016-12-29
2017-01-03	06:29:45	JRjr33	\$ 29	10-Q	27790	2016-12-30
2017-01-03	06:30:05	Eagle Bulk Shipping	\$ 285	10-K/A	688	2016-12-30
2017-01-03	06:30:09	Humanigen	\$ 59	10-Q/A	688	2016-12-30
2017-01-03	11:10:57	Franchise Hldgs	\$ 3	10-Q	618	2016-12-30
2017-01-03	11:10:57	Franchise Hldgs	\$ 3	10-Q	267286	2016-12-30
2017-01-03	11:10:58	Franchise Hldgs	\$ 3	10-Q	625	2016-12-30
2017-01-03	11:10:58	Franchise Hldgs	\$ 3	10-Q	622	2016-12-30
2017-01-03	11:10:58	Franchise Hldgs	\$ 3	10-Q	4993	2016-12-30
2017-01-03	11:10:58	Franchise Hldgs	\$ 3	10-Q	11321	2016-12-30
2017-01-03	11:10:58	Franchise Hldgs	\$ 3	10-Q	621	2016-12-30
2017-01-03	11:10:58	Franchise Hldgs	\$ 3	10-Q	5144	2016-12-30
2017-01-03	11:10:58	Franchise Hldgs	\$ 3	10-Q	11399	2016-12-30
2017-01-03	11:10:58	Franchise Hldgs	\$ 3	10-Q	247625	2016-12-30
2017-01-03	11:10:58	Franchise Hldgs	\$ 3	10-Q	620	2016-12-30
2017-01-03	11:10:58	Franchise Hldgs	\$ 3	10-Q	621	2016-12-30

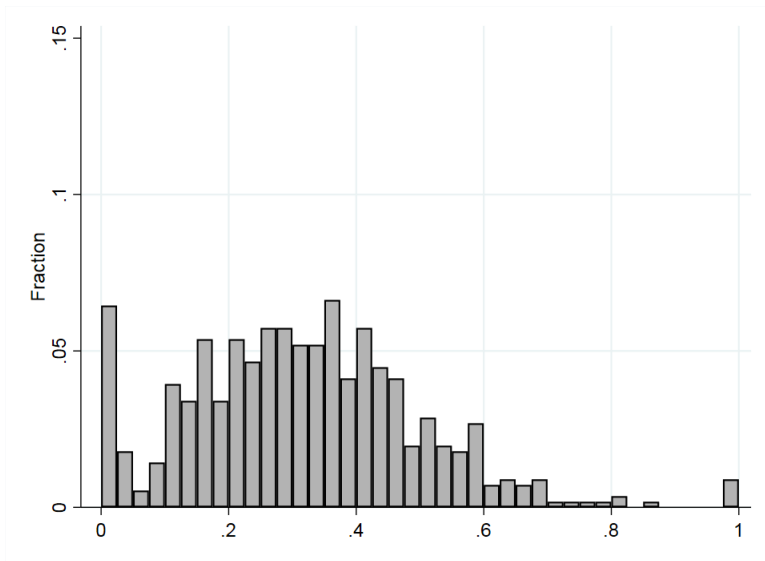
Summary Stats: Hedge Fund EDGAR Usage

	Mean	Std. Dev	25th	Median	75th
Downloads	672	19476	0	4	47
Downloads of 10-K/Q	101	3945	0	1	14
Downloads of 8-K	140	7340	0	0	7
Downloads of Form 4	290	16601	0	0	1
Downloads of 13-D	11	833	0	0	0
Downloads of 13-F	49	2068	0	0	0
Downloads of 13-G	17	1820	0	0	0
% 10-K/Q	32	28	8	29	50
% 8-K	18	21	0	13	25
% 4	5	15	0	0	3
% 13-D	2	8	0	0	1
% 13-F	4	13	0	0	2
% 13-G	2	8	0	0	1
% Other	37	29	14	32	51
Competing Views 10-K/Q	1	2	0	1	2
Filing Age 10K/Q	324	648	68	133	271
Filing Size 10K/Q (KB)	631	831	99	340	978

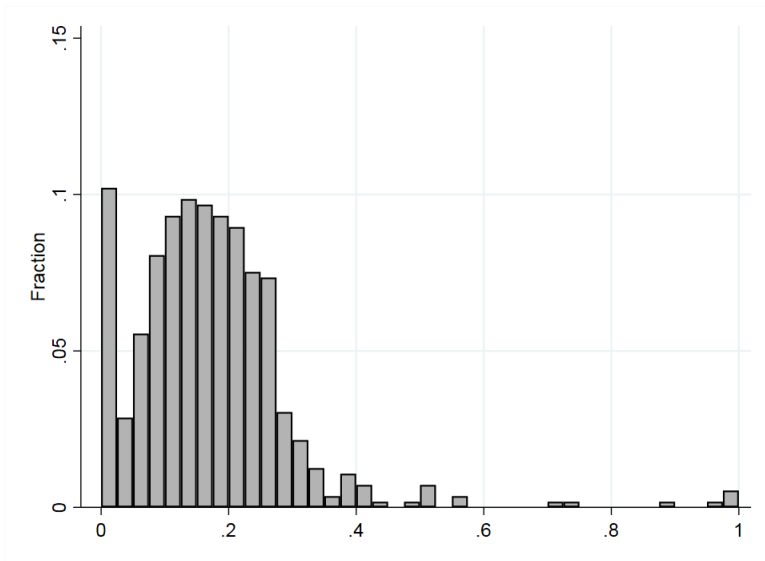
EDGAR Usage over Time



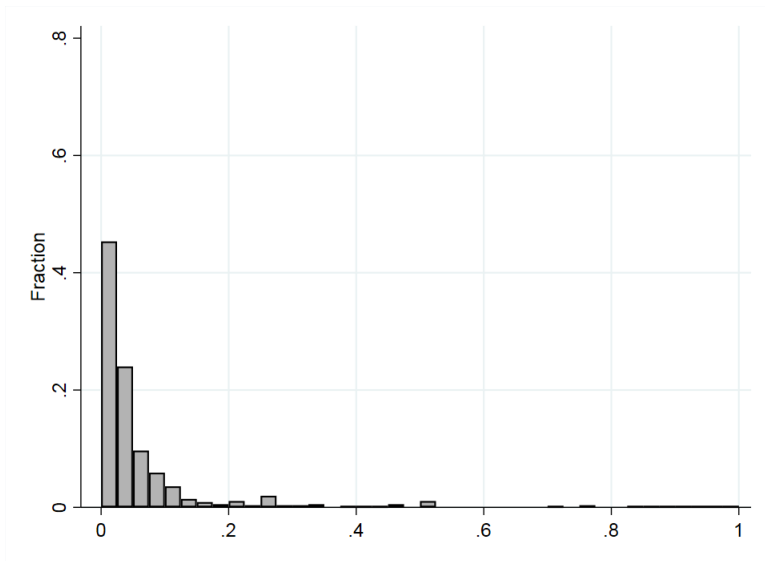
Composition of Downloads: 10-K/Qs



Composition of Downloads: 8-Ks



Composition of Downloads: Form 4



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Determinants of Information Acquisition

	(1) Any	(2) 10-K/Q	(3) 8-K
Log Age	0.02 (1.21)	0.01 (0.77)	0.01 (0.74)
Log AUM	0.07*** (5.06)	0.10*** (6.38)	0.11*** (6.98)
MKTRF Beta	-0.04** (-2.37)	-0.04** (-2.55)	-0.04*** (-2.81)
MKTRF(t-1)	-0.01*** (-2.86)	-0.01*** (-2.75)	-0.01*** (-3.29)
Time	0.01 (0.85)	0.00 (0.31)	0.03** (2.44)
New SEC Filings	-0.00 (-0.17)		
New SEC Filings-10K/Q		0.08*** (4.05)	
New SEC Filings-8K			-0.00 (-0.08)
Calendar Month FE	Yes	Yes	Yes
Adjusted R ²	0.04	0.06	0.07
Number Firms	554	554	554
Observations	43287	43287	43287

Suppressed Controls: SMB, HML, CMA, and RMW Betas, Incentive Fee, Management Fee, and Lagged Fund Return.

Information Acquisition and Performance: Extensive

Dependent Variable: Abnormal Return (t+1)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Any Download	0.1258*** (3.32)						
Any 10K/Q		0.1150*** (3.39)					
Any 8K			0.1157*** (3.58)				
Any 4				0.0511 (1.46)			
Any 13d					0.1196*** (3.65)		
Any 13f						0.0697** (1.98)	
Any 13g							0.0858*** (2.77)
AUM (t)	0.0164 (0.83)	0.0144 (0.72)	0.0131 (0.66)	0.0222 (1.11)	0.0156 (0.79)	0.0206 (1.03)	0.0188 (0.94)
Abn Ret (t)	0.1042*** (8.75)	0.1043*** (8.76)	0.1043*** (8.74)	0.1044*** (8.75)	0.1042*** (8.74)	0.1044*** (8.75)	0.1044*** (8.75)
Date FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number Firms	557	557	557	557	557	557	557
Observations	43435	43435	43435	43435	43435	43435	43435

Information Acquisition and Performance: Intensive

Dependent Variable: Abnormal Return (t+1)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Any Download	0.0918** (2.12)						
Above Med. Down.	0.0733** (2.00)						
Any 10K/Q		0.0784** (1.99)					
Above Med. 10K/Q		0.0796** (2.11)					
Any 8K			0.0904** (2.43)				
Above Med. 8K			0.0554 (1.42)				
Any 4				0.0356 (0.81)			
Above Med. 4				0.0337 (0.68)			
Any 13d					0.1256*** (3.04)		
Above Med. 13d					-0.0142 (-0.28)		
Any 13f						0.0388 (0.92)	
Above Med. 13f						0.0694 (1.60)	
Any 13g							0.0905** (2.36)
Above Med. 13g							-0.0110 (-0.20)
Date FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number Firms	557	557	557	557	557	557	557
Observations	43435	43435	43435	43435	43435	43435	43435

Suppressed Controls: AUM, Lagged Return

Information Acquisition and Performance: Within Fund

	Abnormal Return (t+1)			
	(1)	(2)	(3)	(4)
Any Download	0.126*** (3.32)	0.078* (1.76)	0.092** (2.12)	0.070 (1.51)
Above Median Download			0.073** (2.00)	0.031 (0.80)
AUM (t)	0.016 (0.83)	-0.479*** (-8.13)	0.010 (0.51)	-0.481*** (-8.14)
Abn Ret (t)	0.104*** (8.75)	0.075*** (6.25)	0.104*** (8.74)	0.075*** (6.25)
Firm FE	No	Yes	No	Yes
Date FE	Yes	Yes	Yes	Yes
Number Firms	557	556	557	556
Observations	43435	43434	43435	43434

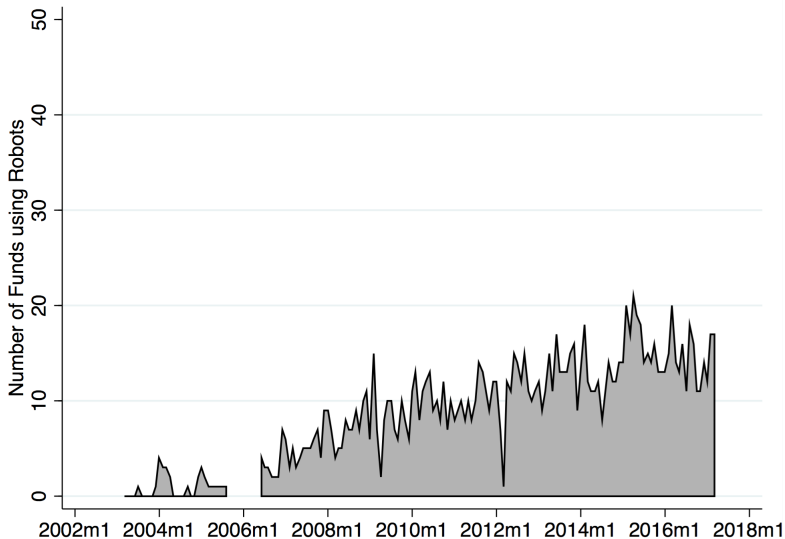
Abnormal Information Acquisition and Performance

	Dependent Variable: Abnormal Return ($t+1$)	
	(1)	(2)
Abnormal Downloads(t)	0.1063** (2.07)	
High Abnormal Downloads(t)		0.1118*** (2.72)
Low Abnormal Downloads(t)		0.0447 (1.08)
AUM (t)	0.0312 (1.61)	0.0294 (1.53)
Abn Ret (t)	0.1004*** (7.69)	0.1004*** (7.69)
Date FE	Yes	Yes
Number Firms	555	555
Observations	42320	43435

Heterogeneous Effects

Dependent Variable: Abnormal Return (t+1)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Any 10K/Q	0.0751** (1.99)	0.0746** (1.97)	0.0757** (2.00)	0.0749** (1.98)	0.0755** (1.99)	0.0744** (1.96)	0.0757** (2.00)
Abv. Median 10K/Q	0.0050 (0.11)	0.0115 (0.26)	0.0180 (0.40)	0.0054 (0.12)	0.0032 (0.07)	0.0048 (0.11)	0.0049 (0.11)
- x Age	-0.0509 (-1.61)						
- x File Size		-0.0615* (-1.66)					
- x Other HF Views			0.0737** (2.04)				
- x IVol				0.0348 (1.03)			
- x Tracked					0.0459 (1.61)		
- x Amihud						0.0292 (0.86)	
- x Uncertainty							0.0867** (2.11)
AUM (t)	-0.4813*** (-8.14)	-0.4813*** (-8.14)	-0.4820*** (-8.16)	-0.4805*** (-8.14)	-0.4826*** (-8.18)	-0.4799*** (-8.13)	-0.4818*** (-8.17)
Abn Ret (t)	0.0749*** (6.26)	0.0749*** (6.25)	0.0749*** (6.25)	0.0749*** (6.25)	0.0749*** (6.25)	0.0749*** (6.26)	0.0749*** (6.25)
Date FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Fund FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	0.09	0.09	0.09	0.09	0.09	0.09	0.09
Number Firms	556	556	556	556	556	556	556
Observations	43434	43434	43434	43434	43434	43434	43434

Robots!



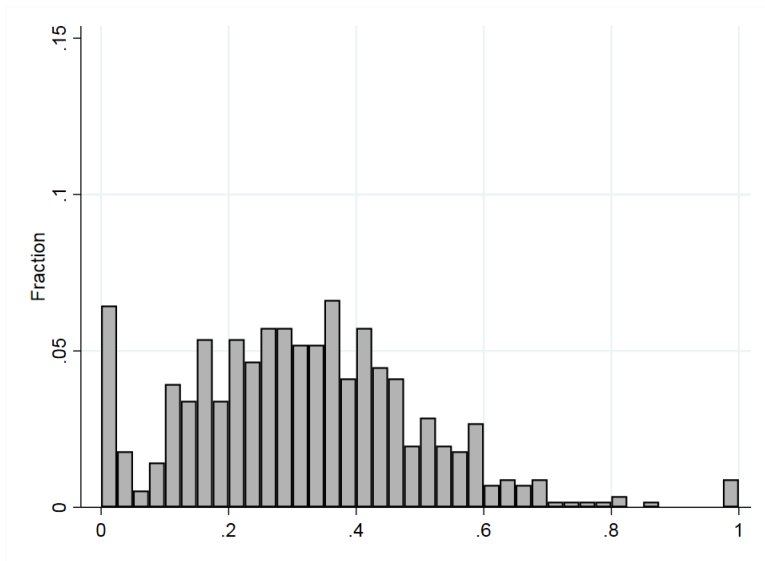
Robots

Dependent Variable: Abnormal Return (t+1)				
	(1)	(2)	(3)	(4)
Scraper	0.124*** (3.15)	0.307*** (4.08)	0.308*** (4.10)	0.308*** (4.10)
Any Downloads	0.099** (2.55)	0.120*** (2.82)	0.104** (2.29)	0.093** (1.98)
Any Downloads x Scraper		-0.210*** (-2.62)	-0.231*** (-2.90)	-0.135 (-1.54)
Above Median Downloads			0.045 (1.20)	0.078* (1.72)
Above Median Downloads x Scraper				-0.138* (-1.78)
AUM (t)	0.006 (0.31)	0.007 (0.36)	0.005 (0.24)	0.004 (0.21)
Abn Ret (t)	0.104*** (8.73)	0.104*** (8.73)	0.104*** (8.73)	0.104*** (8.73)
Date FE	Yes	Yes	Yes	Yes
Adjusted R ²	0.08	0.08	0.08	0.08
Number Firms	557	557	557	557
Observations	43435	43435	43435	43435

Robots - Heterogeneous Effects

Dependent Variable: Abnormal Return (t+1)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Age	-0.0250 (-0.34)						
File Size		0.1640** (2.25)					
Other HF Views			0.1080 (0.66)				
IVol				-0.0030 (-0.01)			
Tracked					-0.2114* (-1.85)		
Amihud						-0.0827 (-0.42)	
Uncertainty							-0.0307 (-0.17)
AUM (t)	0.1289 (1.10)	0.1894* (1.70)	0.1184 (1.02)	0.1397 (1.24)	0.1557 (1.27)	0.1422 (1.25)	0.1401 (1.26)
Abn Ret (t)	0.0976 (1.52)	0.0923 (1.28)	0.0987 (1.49)	0.1018 (1.48)	0.0902 (1.25)	0.1040 (1.52)	0.1018 (1.47)
Date FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R ²	0.03	0.04	0.03	0.03	0.04	0.03	0.03
Number Firms	45	45	45	45	45	45	45
Observations	304	304	304	304	304	304	304

Summary Stats: Hedge Fund EDGAR Usage



Specialists

Dependent Variable: Abnormal Return (t+1)				
	(1)	(2)	(3)	(4)
Any 10K/Q	0.014 (0.22)	-0.015 (-0.23)	0.093* (1.89)	0.113** (2.47)
Above Med 10K/Q	0.063 (1.28)	0.043 (0.72)	0.115** (1.98)	0.008 (0.11)
AUM (t)	0.040 (1.40)	-0.334*** (-4.45)	-0.015 (-0.51)	-0.550*** (-6.76)
Abn Ret (t)	0.137*** (5.87)	0.107*** (4.43)	0.092*** (6.83)	0.063*** (4.70)
Date FE	Yes	Yes	Yes	Yes
Fund FE	No	Yes	No	Yes
Adjusted R ²	0.11	0.12	0.07	0.08
Number Firms	182	181	375	375
Observations	15430	15429	28005	28005

Outline

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2 Data

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Related EDGAR Papers

- (Dyer, 2017, JMP) considers trading profitability in local stocks
 - Sample is 13-F universe, dominated by MFs, index funds, etc.
 - Future stock returns 27bp/qtr higher when trades coupled with EDGAR usage

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- (Chen et al. 2018) use closure of brokerage firms to shock information environment. Find PEAD increases, hedge funds trade more aggressively on affected stocks, hedge funds earn higher abnormal returns on affected stocks, confirm hedge funds increase public information acquisition of affected firms using EDGAR

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Conclusion

- Hedge funds profit from public information obtained through SEC Edgar
- Examine whether *superior processing* or *private information*
- Several results point to *private information*
 - Return-usage relation more positive for characteristics associated with complementary private information
 - Weaker relation for Robots and specialists