Dora Horstman

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EDUCATION

Texas A&M University   College Station, TX
   Ph.D. in Business Administration – Finance, May 2023

Case Western Reserve University   Cleveland, OH
   M.S. in Finance, May 2017

Shandong University   Shandong, China
   B.A. in Economics, June 2015

RESEARCH INTERESTS

Empirical Asset Pricing, Institutional Investor Behavior, Market Efficiency, Market Real Impact

WORKING PAPERS

[1] Mispricing and Firm Investment (with Yong Chen)

- Abstract: This paper studies how stock mispricing causally affects firm investment. We first examine the association between mispricing and investment by combining 98 return anomalies into a mispricing score and show that overvalued (undervalued) firms invest more (less). We further exploit academic publication of each anomaly as an exogenous shock to mispricing. Because of anomaly return decay, firms categorized as overvalued (undervalued) post-publication are less likely to truly be mispriced, and thus their investment reduces (increases). In addition, we provide evidence for a manager catering channel where managers whose compensation depends more on stock returns conduct more mispricing-induced investment. Finally, we show that firm investment induced by overvaluation leads to higher short-term stock returns but worse long-term performance. Overall, our findings suggest that stock mispricing can distort the real economy, and that academic publication can reduce such distortion.

Presentation: Texas A&M University, Wayne State University, North Carolina State University, Nankai University, 2023 CICF, 2023 CFRI & CIRF Joint Conference, 2023 FMA (scheduled)

[2] In the Same Boat? Interest Alignment and Hedge Fund Performance (with Yong Chen)

- Abstract: We measure alignment of interests (AOI) between hedge fund managers and their investors by the sensitivity of one party's economic benefits to the other's. For hedge fund managers, AOI strongly predicts future fund performance, in that funds in the top decile of AOI outperform those in the bottom decile by 3% per year on a risk-adjusted basis. Funds with higher AOI appear to have less risky portfolios, engage less in risk-shifting, and exhibit lower attrition rate. In addition, fund investors allocate more capital to higher-AOI funds and punish such funds less for poor performance. Overall, our evidence highlights the importance of alignment of interests in delegated investment.

Presentation: Texas A&M University

[3] Value Added by Hedge Funds (with Yong Chen, Wenting Dai)

- Abstract: Our paper examines the dollar value added by hedge funds. Using the metric of Berk and van Binsbergen (2015, BVB), we document that the value added of an average fund is $1.24

million per month, which is shared between managers and investors with a 60/40 split. Hedge fund complexity, measured as the proportion of exotic risk exposure to the total risk exposure, plays an important role in the economics of value added. Complexity can be a proxy for information asymmetry between managers and investors. Investors must spend higher search costs for more complex funds, and thus are compensated more in the future. Managers adopting complex strategies can add more value in the next period. However, they experience money outflow due to the search cost friction. Combined, better hedge fund managers adopting complex strategies on average are not better rewarded.

Presentation: Texas A&M University

WORKING IN PROGRESS

[4] Mutual Fund Investor Attention and Stock Return Predictability

- Abstract: The paper finds that the limited attention of equity mutual fund investors to the top 10 holding stocks inflates the fund flow sensitivity to these stocks' performance. Thus, the flow-induced price pressure to the top 10 stocks is higher than to the rest, resulting in a stronger momentum return pattern in these stocks. The paper documents a new explanation for the momentum anomaly based on investors' limited attention.

[5] Mutual Fund Competition and Information Acquisition (with Boone Bowles)

TEACHING EXPERIENCE

Instructor, Department of Finance, Texas A&M University   Spring 2020
    - Investment Analysis (Senior Level Elective)
    - Average Student Evaluation (4.3/5.0)

Teaching Assistant, Department of Finance, Texas A&M University   Spring 2021
    - Options and Financial Futures (Senior Level Elective), Prof. Yong Chen

Teaching Assistant, Department of Finance, Texas A&M University   Fall 2020
    - Managerial Finance (Senior Level Elective), Prof. Xiao Cen

Teaching Assistant, Department of Finance, Texas A&M University   Fall 2019
    - Financial Valuation (Senior Level Elective), Prof. Shane Johnson

Teaching Assistant, Department of Finance, Texas A&M University   Spring 2019
    - Investment Analysis (Senior Level Elective), Prof. Yan Liu

Teaching Assistant, Department of Finance, Texas A&M University   Fall 2018
    - Managerial Finance (Senior Level Elective), Prof. Wei Wu

Teaching Assistant, Department of Finance, Texas A&M University   Spring 2018
    - Finance for Professionals (MBA Elective), Prof. Paolina Medina

PROFESSIONAL SERVICE

Referee: Journal of Financial Research

SKILLS

Computer: Stata, Matlab, SAS, LaTeX, Python
Other Qualifications: Passed Chinese Bar Exam (2015); CFA II Candidate (2016)

HONORS AND AWARDS

Dean's Award for Outstanding Research 2021, Texas A&M University

Ph.D. Grant from Mays Innovation Research Center 2020, Texas A&M University

Mays PhD Enhancement Fellowship, Texas A&M University 2017 – 2023

Finance Department Fellowship, Texas A&M University 2017 – 2023