

ANTTI PETAJISTO

Leonard N. Stern School of Business
New York University
44 West 4th Street, Suite 9-190
New York, NY 10012-1126
Tel: +1-212-998-0378, Fax: +1-212-995-4233
<http://www.petajisto.net/>
antti.petajisto@stern.nyu.edu

POSITIONS

- NYU Stern School of Business** New York, NY
Visiting Assistant Professor of Finance, 2009-present
Instructor, 2011, Behavioral Finance (MBA elective)
Instructor, 2009, Foundations of Finance (MBA core)
- Yale School of Management** New Haven, CT
Assistant Professor of Finance, 2003-2009
Instructor, 2005-2009, Investment Management (MBA elective)
Instructor, 2003, Financial Management (MBA core)
- MIT Sloan School of Management** Cambridge, MA
Teaching Assistant, 2001-2003, Finance Theory I (investments, MBA core)
Teaching Assistant, 2000, Finance Theory II (corporate finance, MBA core)
Research Assistant, 1999-2000, for Andrew Lo and Jiang Wang
- Nokia Telecommunications** Espoo, Finland
M.Sc. Thesis Researcher, 1997-1998; network optimization
- Helsinki University of Technology** Espoo, Finland
Teaching Assistant and Research Assistant, 1996-1997, math and computer science

EDUCATION

- MIT Sloan School of Management** Cambridge, MA
Ph.D. in Financial Economics, 1998-2003
Dissertation title: Essays on Index Premia and Demand Curves for Stocks
Committee: Stephen A. Ross (co-chair), Jiang Wang (co-chair), Dimitri Vayanos
- Helsinki University of Technology** Espoo, Finland
M.Sc. in Engineering Physics and Mathematics, 1995-1998

CONSULTING

Expert witness for law firms regarding mutual fund litigation
Academic advisor to MutualDecision.com regarding their mutual fund data service
Work on mutual fund evaluation and selection for pension plans
Lectures at money management firms and practitioner conferences

AWARDS, FELLOWSHIPS, MERITS

For finance research:

INQUIRE Europe Research Grant (2010), Commonfund Prize on Endowment and Foundation Management at the European Finance Association Annual Meeting (2009), Best Paper Award at the Financial Management Association European Conference (2009), Q-Group Research Grant (2007), Best Paper Award at the Financial Research Association Annual Meeting (2006), Emil Aaltonen Foundation (2002), Finnish Cultural Foundation (1999-2002), Osk. Huttunen Foundation (1999-2002), Yrjö Jahnsson Foundation (1998, 2002), Walter A. Rosenblith Fellowship Fund (1998)

From Helsinki University of Technology, and miscellaneous:

Award for exceptionally fast graduation, valedictorian of graduating class (1998); Student Union Award for academic achievement (1997); Finland's Young Scientist research contest, 4th place (1995); Finland's national high school mathematics contest, 3rd and 5th places (1992-1993); US Patent 7180853: Method and apparatus for performing connection admission control (2007)

PROFESSIONAL ACTIVITIES

Referee:

Journal of Finance, Review of Financial Studies, American Economic Review, Journal of Economic Theory, Econometrica, Journal of Political Economy, Journal of Financial and Quantitative Analysis, Journal of Empirical Finance, European Financial Management, Journal of Portfolio Management

INVITED PRESENTATIONS AND DISCUSSIONS

University of New South Wales (2011), University of Sydney (2011), European Pensions Symposium (2011), Corporate Funds Roundtable (2011), Morningstar (2010), Drexel University (2010), Aberdeen Asset Management* (2010), Russell Investments* (2010), SUNY Binghamton (2010), Temple University (2010), Fidelity Investments (2010), SAC Capital (2010), American Finance Association (2010), European Finance Association* (2009), Financial Management Association European Conference* (2009), Maastricht University* (2009), Rotterdam School of Management* (2009), Financial Intermediation Research

Society Conference (2009), Helsinki School of Economics (2009), HEC Montreal* (2009), University of Toronto (2009), Hong Kong University of Science and Technology (2009), Q-Group Spring Seminar* (2009), Purdue University* (2009), University of Massachusetts at Amherst (2009), Harvard Business School (2009), Utah Winter Finance Conference (2009), University of Colorado at Boulder (2009), UC Irvine (2009), HKUST Asset Pricing Conference* (2008), NBER Asset Pricing (2008), Conference on Financial Economics and Accounting* (2008), Numeric Investors (2008), Dartmouth College (2008), Arizona State University (2008), Western Finance Association (2008), AQR Capital (2008), Credit Suisse Private Banking* (2008), University of Amsterdam* (2008), Adam Smith Asset Pricing Conference (2008), INSEAD (2008), Fidelity Investments (2008), American Finance Association (2008), Wharton School (2007), NYU Stern Five-Star Conference (2007), Baruch College (2007), Conference on Institutional Investors at UT Austin* (2007), AllianceBernstein* (2007), Barclays Global Investors* (2007), European Finance Association (2007), Morningstar Investment Conference (2007), Boston College Center for Asset Management (2007), ISCTE Business School in Lisbon* (2007), Goldman Sachs Asset Management (2007), Asset Pricing Retreat in Amsterdam* (2007), University of Maryland* (2007), Federal Reserve Bank of New York* (2007), University of Chicago* (2007), American Finance Association (2007), Financial Research Association (2006), Super Bowl of Indexing (2006), Securities and Exchange Commission* (2006), Conference on Financial Economics and Accounting (2006), NBER Asset Pricing (2006), CRSP Forum (2006), European Finance Association (2006), University of Vienna* (2006), Tilburg University* (2006), Swedish School of Economics (2006), European Finance Association (2005), NBER Universities Research Conference (2005), American Finance Association (2005), Harvard University (2004), University of Alberta (2004), Helsinki School of Economics (2004), European Financial Management Association (2003), INSEAD (2003), Rice University (2003), Yale University (2003), University of Michigan (2003), Massachusetts Institute of Technology (2002)

(*) indicates presentation by coauthor

BOOK CHAPTERS

Hedge Funds, Mutual Funds, and ETFs

(with Stephen Brown and Anthony Lynch, October 2010)

Regulating Wall Street: The Dodd-Frank Act and the New Architecture of Global Finance, ed. by Acharya et al., Wiley, 2010, chapter 12:351-366

PUBLICATIONS AND WORKING PAPERS

Active Share and Mutual Fund Performance (December 2010)

I sort domestic all-equity mutual funds into different categories of active management using Active Share and tracking error, as suggested by Cremers and Petajisto (2009). I find that over my sample period until the end of 2009, the most active stock pickers have

outperformed their benchmark indices even after fees and transaction costs. In contrast, closet indexers or funds focusing on factor bets have lost to their benchmarks after fees. The same long-term performance patterns held up over the 2008-2009 financial crisis. Closet indexing has become more popular after market volatility started to increase in 2007. Cross-sectional dispersion in stock returns positively predicts average benchmark-adjusted performance by stock pickers.

Inefficiencies in the Pricing of Exchange-Traded Funds (October 2010)

Winner of INQUIRE Europe Research Grant

The prices of exchange-traded funds can deviate significantly from their net asset values, in spite of the arbitrage mechanism that allows authorized participants to create and redeem shares for the underlying portfolios. The deviations are larger in funds holding international or illiquid securities where net asset values are most difficult to determine in real time. After controlling for stale pricing of the underlying assets, I find that significant mispricings remain especially in funds holding illiquid and international securities.

Should Benchmark Indices Have Alpha? Revisiting Performance Evaluation

(with Martijn Cremers and Eric Zitzewitz, December 2008)

Winner of the Commonfund Best Paper Award at the EFA 2009 Annual Meeting

Winner of the Best Paper Award at the FMA 2009 European Conference

Winner of the Roger F. Murray Best Paper Prize (3rd place) at the Q-Group 2009 Conference

Winner of Q-Group Research Grant

Standard Fama-French and Carhart models produce economically and statistically significant nonzero alphas even for passive benchmark indices such as the S&P 500 and Russell 2000. We find that these alphas primarily arise from the disproportionate weight the Fama-French factors place on small value stocks which have performed well, and from the CRSP value-weighted market index which is a downward-biased benchmark for U.S. stocks. We explore alternative ways to construct these factors as well as alternative models constructed from common and easily tradable benchmark indices. Such index-based models outperform the standard models both in terms of asset pricing tests and performance evaluation of mutual fund managers.

How Active Is Your Fund Manager? A New Measure That Predicts Performance

(with Martijn Cremers, September 2009)

Review of Financial Studies, 2009, 22(9):3329-3365 (lead article)

Winner of the Best Paper Award at the Financial Research Association 2006 Annual Meeting

Top 100 most downloaded paper on SSRN across all time and disciplines

We introduce a new measure of active portfolio management, Active Share, which represents the share of portfolio holdings that differ from the benchmark index holdings. We compute Active Share for domestic equity mutual funds from 1980 to 2003. We relate Active Share to fund characteristics such as size, expenses, and turnover in the cross-section,

and we also examine its evolution over time. Active Share predicts fund performance: funds with the highest Active Share significantly outperform their benchmarks, both before and after expenses, and they exhibit strong performance persistence. Non-index funds with the lowest Active Share underperform their benchmarks.

Why Do Demand Curves for Stocks Slope Down? (October 2009)

Journal of Financial and Quantitative Analysis, 2009, 44(5):1013-1044 (lead article)

Representative agent models are inconsistent with existing empirical evidence for steep demand curves for individual stocks. This paper resolves the puzzle by proposing that stock prices are instead set by two separate classes of investors. While the market portfolio is still priced by individual investors based on their collective risk aversion, those individual investors also delegate part of their wealth to active money managers who use that capital to price stocks in the cross-section. In equilibrium the fee charged by active managers has to equal the before-fee alpha they earn; this endogenously determines the amount of active capital and the slopes of demand curves. A calibration of the model reveals that demand curves can indeed be steep enough to match the magnitude of many empirical findings, including the price effects for stocks added to (or deleted from) the S&P 500 index.

The Index Premium and Its Hidden Cost for Index Funds (October 2010)

Journal of Empirical Finance, forthcoming

This paper empirically investigates the index premium and its implications from 1990 to 2005. First, we find that the price impact has averaged +8.8% and +4.7% for additions to the S&P 500 and Russell 2000, respectively, and -15.1% and -4.6% for deletions. The premia have been growing over time, peaking in 2000, and declining since then. Second, the implied price elasticity of demand increases with firm size and decreases with idiosyncratic risk, supporting theoretical predictions. Third, we introduce a new concept that we label the index turnover cost, which represents a hidden cost borne by index funds (and the indices themselves) due to the index premium. We illustrate this cost and estimate its lower bound as 21-28bp annually for the S&P 500 and 38-77bp annually for the Russell 2000.

Selection of an Optimal Index Rule for an Index Fund (February 2008)

Journal of Financial Markets, revise and resubmit

Several empirical studies document a substantial price premium for stocks in the S&P 500 index. For index investors this creates a recurring cost: as the index is updated, they need to buy stocks with the premium and sell stocks without the premium. Different index rules can produce different index premia due to the different frequency and criteria of updating. We build a model to investigate the behavior of the index turnover cost and the portfolio performance of a mechanical index fund under a market-cap rule, an exogenous random rule, and a deterministic rule. We find that the rational anticipation of future index composition reflected in prices today eliminates any first-order differences in index fund performance across the three index rules. As the index investors become a large part of the

market, the non-index investors become less diversified, and this induces hedging motives which hurt the index investors especially under a market-cap rule.

WORK IN PROGRESS

Active Management and Performance by Large Institutions

Hedge Fund Failures, Restarts, and Manager Incentives

(with Mila Getmansky-Sherman, Christopher Schwarz, and Hongjun Yan)

What Is the True Cost of Active Management? A Comparison of Hedge Funds and Mutual Funds (with Jussi Keppo)

Predicting Stock Returns with the Distribution of Fund Managers' Beliefs

SELECTED MEDIA CITATIONS

- “The Return of the Market-Beating Fund Manager,” *The Wall Street Journal*, December 18, 2010
- “The Hidden Costs of Indexing,” *Morningstar*, October 27, 2010
- “Closet Indexers Make Up One Third of Fund Assets,” *Reuters TV*, October 25, 2010
- “SEC Regulation, Volatility Drive Closet Indexing Trend,” *Reuters TV*, October 25, 2010
- “Go Active or Go Home,” *Morningstar*, September 6, 2010
- “Don’t Tar All Actives with the Same Brush,” *Financial Times*, May 30, 2010
- “Case for Active Management Is Actually Strong,” *Financial Times*, May 2, 2010
- “Closet Index Funds Are Doomed to Underperform,” *Fidelity Perspective*, May, 2010
- “Genuine Active Managers Can Add Value,” *Financial Times*, January 10, 2010
- “What Are You Paying For?” *The Wall Street Journal*, December 8, 2009
- “Active versus Passive Equity Managers: Using the ‘Active Share’ Measure,” *Hammond Associates research note*, August, 2009
- “Compelling Evidence that Active Management Really Works,” *Advisor Perspectives*, June 23, 2009
- “As Firms Boost Analyst Ranks, Here’s How to Sort Out Funds,” *The Wall Street Journal*, November 5, 2007
- “A Lesson in Pursuing Alpha and Beta,” *Financial Times*, July 23, 2007
- “When Divergence is Good,” *Barron’s*, July 23, 2007
- “Advantages of Active Investing,” *Financial Times*, July 9, 2007
- “Spot Closet Indexers,” *Kiplinger.com*, July 9, 2007
- “Is Your Fund a Closet Indexer?” *SmartMoney.com*, May 3, 2007
- “There Are a Few Skeletons Lurking in the Closets,” *Financial Times*, February 10, 2007
- “A Nugget to Please Active Managers,” *Financial Times*, February 5, 2007
- “How Active Is Your Fund Manager?” *Global Investor Magazine*, November 2006
- “Kaappi-indeksi laskuttaa tyhjästä,” *Talouselämä*, November 6, 2006 (in Finnish)
- “Index Funds: A Good Driver of Investment Returns,” *Bankrate.com*, October 4, 2006
- “How Active Is Your Fund Manager?” *Financial Planning*, October 1, 2006
- “Indexing Brings Peace of Mind to Mutual Funds,” *The Philadelphia Inquirer*, September 5, 2006
- “Aktiivisimmat menestyvät,” *Helsingin Sanomat*, September 3, 2006 (in Finnish)
- “A Warning for Investors,” *The Motley Fool*, August 30, 2006

“Alpha Superheroes,” Financial Times Investment Adviser, August 23, 2006
“Yale Study: A Third of Mutual Funds Are ‘Closet Indexers,’” Institutional Investor, August 22, 2006
“More Actively Managed Funds Tied to Indexes,” Money Management Executive, August 21, 2006
“Professors Shine a Light into ‘Closet Indexes,’” The Wall Street Journal, August 18, 2006
“Index Hugging,” Financial Times Investment Adviser, July 31, 2006
“Research Sorts Index Huggers from Active,” Financial Times Investment Adviser, July 31, 2006
“Come Out of the Closet, or, Show Me the Alpha,” Dresdner Kleinwort Global Equity Strategy
research report, July 19, 2006

REFERENCES

Professor Nicholas Barberis

Yale School of Management, PO Box 208200, New Haven, CT 06520-8200

Tel: +1-203-436-0777, E-mail: nick.barberis@yale.edu

Professor Stephen A. Ross

MIT Sloan School of Management, 50 Memorial Drive, E52-443, Cambridge, MA 02142

Tel: +1-617-258-8371, E-mail: sross@mit.edu

Professor Dimitri Vayanos

London School of Economics, Department of Finance, A350, Houghton Street,

London WC2A 2AE, UK

Tel: +44-20-7955-6382, E-mail: d.vayanos@lse.ac.uk