

DISSERTATION DEFENSE

Essays on Closed-End Funds and Advance Disclosure of Trading

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Monday, April 9, 2012

10:00 am

324 GSIA

My dissertation is comprised of three essays. In the first essay, I present a dynamic partial equilibrium model of a simple economy with a closed-end fund. My model demonstrates that a combination of management fees and a time-varying information advantage for a fund manager can account for several empirically observed characteristics of closed-end funds simultaneously. The model is consistent with the basic time-series behavior of fund discounts, explains why funds issue at a premium, accounts for the excess volatility of fund returns, justifies the underperformance of funds that trade at a premium, and is consistent with many time-series correlations between discounts, NAV returns, and fund returns.

In the second essay, I present a dynamic rational expectations model of closed-end fund discounts that incorporates feedback effects from activist arbitrage and lifeboat provisions. I find that the potential for activism and the existence of a lifeboat both lead to narrower discounts. Furthermore, both activist arbitrage and lifeboats effectuate an ex post transfer of wealth from managers to investors but an ex ante transfer of wealth from low-ability managers to high-ability managers. On average, investor wealth is unaffected by either activist arbitrage or lifeboats because their potential benefits are factored into higher fund prices. Although lifeboats can reduce takeover attempts, they do not increase expected managerial wealth.

In the third essay, I present a noisy rational expectations equilibrium model in which agents who possess private information regarding the profitability of a firm are required to provide advance disclosure of their trading activity. I analytically characterize an equilibrium and conduct a numerical analysis to evaluate the implications of advance disclosure relative to a market in which informed agents trade without providing advance disclosure. By altering the information environment along with managerial incentives, advance disclosure increases risk in the financial market while reducing risk in the real economy. I also find that advance disclosure has implications for equilibrium prices and allocations, managerial compensation contracts, investor welfare, and market liquidity.