Trade Less and Exit Overcrowded Markets: Lessons from International Mutual Funds

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- Thank you for coming.
- Thanks for being part of the crowding session.

1. General Comments

- I like this paper as it examines a very important aspect of crowding – the concentration of a particular investor in a particular market. The potential problematic effects this can have.

- I think it is well written and thus I have only a few comments

2. Specific Comments

- Study is from 2001 – 2014, if you remove 2007-2009, how do the results change?

- You mention that factor returns are difficult, because non-investable. Today, we have lots of quant ETFs/smart beta, you could potentially use those as your factor returns and *those are investable*.

2. Specific Comments

- You estimate the betas over the entire period and then do alpha. I wonder about in-sample issues. Would it make sense to do betas in a rolling regression and then create out-of-sample alpha estimates?

- You weight on volume traded at a certain point in the paper – I didn't understand this, perhaps make it clearer what and why.

2. Specific Comments

- You mention differences between your work and Berk and VB. You might wish to reproduce their results with your data, just to confirm that the differences are from your marginal holding rather than total holding.

- AIS measure – see also investment bank publications on measures related to this

2. Specific Comments

- Equation (3) measures with respect to market capitalization. Might also consider with respect to ADTV (average daily trading volume) or 3-day volume.

- I like the way you treat entire industry as one fund – some of this is also done in Chincarini (2017) when dealing with market impact costs of many funds in the industry – might be useful to look at

2. Specific Comments

- Equation (8) – are there any econometric issues to worry about – minor multicollinearity, etc?

- I like that you consider standard error of estimates. It might be nice to provide a graph or table of upper and lower bound and where each equity market is within that range – even how it's changed through time

2. Specific Comments

- You talk about "optimal size of industry" based on total alpha profits. Although not optimal, this might not be a "crowding dangerous" market. That would come with perhaps higher saturation. You might discuss that even surpassing optimal area might be bad for total profits, but not necessarily yet dangerous crowding level

2. Specific Comments

- You show US is most “crowded” market, but US is also one of the most favored/liquid/innovative markets. It might be nice to provide a graph of the “excess” optimal size over time for the USA. I think relative to its past might be more of an indication of crowding that a static comparison to other markets…just a thought

2. Specific Comments

- You show how "crowded" markets lead to lower returns…this is a key element of crowding. You might also mention other research showing similar ideas like:

1. *The Crisis of Crowding*, Chincarini (2012)
2. "Dimensions of Popularity," Ibbotson and Idsorek (2014).
3. Many investment bank publications, including
    a. Goldman Sachs has a concentration measure;
    b. Sanford Bernstein quant group has measures and shows this
    c. Credit Suisse
    d. Bank of America

Note: If you don't have the investment bank publications, I can send you some of them.

Summary

I think this is a well-written paper that adds to our knowledge in systemic risk, dynamic alpha, and crowding.

Thank you

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