NIELS JOACHIM GORMSEN

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Graduate Studies:

Copenhagen Business School, PhD candidate in financial economics, 2014-2018 (expected)
Harvard University, Department of Economics, Visiting PhD student, 2015-2016

References:

Professor Lasse Heje Pedersen (main advisor)
Copenhagen Business School and NYU
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Professor Robin Greenwood
Harvard Business School
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Professor John Y. Campbell
Harvard University
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Other Education:

2014	M.Sc. in Advanced Economics and Finance, Copenhagen Business School
2013	Columbia University, Visiting Graduate Student
2012	B.Sc. in International Business, Copenhagen Business School

Teaching Experience:

Spring, 2017	Lecturer, Corporate Finance (rating: 4.7/5)
Fall, 2014	Teaching assistant, Investments

Research Experience and Other Employment:

2014-present	Research assistant for Professor Lasse Heje Pedersen

Professional Activites:

Referee:	Review of Financial Studies
Presentations:	Harvard Business School (2016); Bernstein's Quantitative Finance Conference, Boston (2017); Nordic Finance Network (2017)

Personal:

Danish citizen
Youth World Sailing Champion 2011 in the Olympic 49er (under 23 years)

Honors, Scholarships, and Fellowships:

Augustinus Fonden; GTN fonden; Jorcks Foundation Travel Scholarship; Oticon fonden; Otto Mønsteds Fond; Rudolph Als Fondet; Vera og Carl Johan Michaelsens Legat

Job Market Papers:

"*Time Variation in the Equity Term Structure*" (Job Market Paper)

I document that the term structure of holding-period equity returns is counter-cyclical: it is downward sloping in good times, but upward sloping in bad times. This new stylized fact implies that long-maturity risk plays a central role in asset price fluctuations, consistent with theories of long-run risk and habit, but these theories cannot explain the average downward slope. At the same time, the cyclical variation is inconsistent with recent models constructed to match the average downward slope. I present the theoretical source of the puzzle and suggest a new model as a resolution. My model also shows that the counter-cyclical term structure has implications for real activity, which I verify empirically: in bad times, long-duration firms decrease their investment and capital-to-labor ratio relative to short-duration firms.

"*Conditional Risk*" (Second Job Market Paper) with Christian Skov Jensen

We present a new direct methodology to study conditional risk, that is, the extra return compensation for time-variation in risk. We show theoretically that the conditional part of the CAPM can be captured by augmenting the standard market model with a conditional-risk factor, which is a specific market timing strategy. Both in the U.S. and global sample covering 23 countries, all major equity risk factors load on our conditional-risk factor, implying that each factor has a higher conditional market beta when the market risk premium is high or the market variance is low. Accordingly, these factor returns can be partly explained by conditional risk. Studying the economic drivers of these results, we find evidence that conditional risk arises from variation in discount rate betas (not cash flow betas) due to the endogenous effects of arbitrage trading.

Other Research Papers:

"*Betting Against Correlation: Testing Theories of the Low-Risk Effect*" with Cliff Asness, Andrea Frazzini, and Lasse Heje Pedersen
R&R Journal of Financial Economics

We test whether the low-risk effect is driven by (a) leverage constraints and thus risk should be measured using beta vs. (b) behavioral effects and thus risk should be measured by idiosyncratic risk. Beta depends on volatility and correlation, where only volatility is related to idiosyncratic risk. Hence, the new factor betting against correlation (BAC) is particularly suited to differentiating between leverage constraints vs. lottery explanations. BAC produces strong performance in the US and internationally, supporting leverage constraint theories. Similarly, we construct the new factor SMAX to isolate lottery demand, which also produces positive returns. Consistent with both leverage and lottery theories contributing to the low-risk effect, we find that BAC is related to margin debt while idiosyncratic risk factors are related to sentiment and casino profits.

"*Higher Moment Risk*" with Christian Skov Jensen

We show how the market's higher order moments can be estimated ex ante using methods based on Martin (2017). These ex ante higher order moments predict future realized higher order moments, whereas trailing realized moments have little predictive power. Higher-moment risks move together in the sense that skewness becomes more negative when kurtosis becomes more positive. In addition, higher-moment risk is high when volatility is low, suggesting that risk doesn't go away – it hides in the tails. Higher-moment risk has significant implications for investors; for example, the tail loss probability of a volatility-targeting investor varies from 3.6% to 9.7%, entirely driven by changes in higher-moment risk. We empirically analyze the economic drivers of these risks, such as financial intermediary leverage, market and funding illiquidity, and potential bubbles.

"*Rainy Day Stocks*" with Robin Greenwood

We study the good- and bad-times performance of equity portfolios formed on characteristics. Many characteristics associated with good performance during bad times – value, profitability, small size, safety, and total volatility – also perform well during good times. Stocks with characteristics signifying high liquidity, such as high turnover and low bid ask spreads, perform well during bad times but otherwise underperform. We develop a simple but flexible procedure to recover a "risk neutral alpha" that recognizes a 1% return experienced during bad times as being more valuable than a 1% return generated during good times. We also show how an investor can build a "rainy day" portfolio that minimizes underperformance during bad times.

"*Betting Against Loadings*" with Andrea Frazzini and Lasse Heje Pedersen

We study the effect of margin constraints on expected stock returns in a multifactor setting. We find empirical evidence for the central predictions of our model in the U.S. and in 23 international markets: (1) Because constrained investors bid up stocks with high loading on factors such as SMB, HML, and UMD, these stocks have lower risk-adjusted returns; (2) a betting against loadings factor that bets against risk factors by shorting high-loading stocks and going long low-loading stocks has a positive and statistically significant risk-adjusted return, but (3) requires more leverage than the risk factors. The economic effect of betting against loadings is substantial, with historical Sharpe ratios as high as 1.16 in the U.S. sample and 1.30 in our Global sample.

Work in progress:

"Market Complacency" with Robin Greenwood and Andrei Shleifer