TOOMAS LAARITS

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Academic Appointments

New York University Stern School of Business — New York, NY
Assistant Professor of Finance — July 2019–present

Education

Yale University — New Haven, CT
Ph.D., Financial Economics — May 2019
Committee: Gary Gorton (chair), Stefano Giglio, Andrew Metrick, Alan Moreira
M.Phil., Financial Economics — May 2017
M.A., Financial Economics — May 2016

Harvard University — Cambridge, MA
A.B., Mathematics — May 2010

Research Interests

Asset pricing, financial intermediation, monetary policy transmission, retail investors, safe assets

Working Papers

"When do Treasuries Earn the Convenience Yield? – A Hedging Perspective" with Viral Acharya, *R&R*.

We document that the convenience yield of U.S. Treasuries exhibits properties that are consistent with a hedging perspective of safe assets, i.e., Treasuries are valued highly if they appreciate with poor aggregate shocks. In particular, the convenience yield tends to be low when the covariance of Treasury returns with the aggregate stock market returns is high. A decomposition of the aggregate stock-bond covariance into terms corresponding to the convenience yield, the frictionless risk-free rate, and default risk reveals that the covariance between stock returns and the convenience yield itself drives the effect in a substantive capacity. We show the convenience yield is reduced with heightened inflation expectations that erode the hedging properties of U.S. Treasuries and other fixed-income money-like assets, inducing a switch to alternatives such as gold; it is also reduced immediately prior to debt-ceiling standoffs and with increases in Treasury supply.

"Discounting Timing Strategies"

Prior work has documented a number of timing strategies that obtain superior Sharpe ratios and alphas relative to underlying buy-and-hold portfolios. I establish a novel fact: the risk-return tradeoff of such strategies deteriorates substantially as the investment horizon lengthens, providing a rationale for the seemingly good returns. The documented effect is large: multifactor alphas are more than halved going from a one-month to a 10-year horizon, emphasizing the importance of establishing portfolio performance at different horizons. I show that such return dynamics arise in an equilibrium model with seasonalities in the volatility of price of risk and expected cash-flow shocks and present a connection with the pricing of dividend strips.

"The Retail Habitat" with Marco Sammon.

Retail investors trade hard-to-value stocks. We document a large spread in the stock-level intensity of retail trading, even allowing for known biases in the attribution of retail trades. Stocks with a high share of retail-initiated trades are composed of more intangible capital, have longer duration cash-flows and a higher likelihood of being

mispriced. We document that such stocks are less sensitive to earnings news, more sensitive to retail order flow and are expensive to trade around earnings announcements. Overall, our findings document a new dimension of investor heterogeneity and suggest a comparative advantage of retail in trading hard-to-value stocks.

"Pre-Announcement Risk"

I propose and test a new explanation for the pre-FOMC announcement drift puzzle. I show that such a drift arises in a model where investors interpret a given FOMC action based on recent news. If recent news has been good, FOMC announcements are seen as signals about economic conditions; if recent news has been poor, they are seen as signals about the Fed's own policy stance. The pre-FOMC drift represents a risk premium associated with the resolution of uncertainty about announcement type. Consistent with the model, I demonstrate that the market return pre-announcement predicts the interpretation of Fed action. The model does not require informational leaks or biased beliefs and can account for the seasonality of aggregate returns over the FOMC calendar.

"Precautionary Savings and the Stock-Bond Covariance", *R&R.*

I show that the precautionary savings motive can account for high-frequency variation in the stock-bond covariance. An increase in the price of risk lowers risky asset prices on account of an increase in risk premia; it lowers bond yields on account of the precautionary savings component. Consequently, a price of risk shock moves risky and safe asset prices in the opposite direction. Times when the price of risk is *volatile* see a more negative stock-bond covariance. I demonstrate that a model calibrated to match the equity risk premium fits well the recent evidence on stock-bond covariance. Empirically, I show that stock-bond covariance co-moves with credit spreads and can predict excess returns, issuance, and sectoral holdings of safe assets.

"Announcement Risk Premium Reconsidered"

Ai and Bansal (2018) claim that a non-zero risk premium earned in a tight window around macroeconomic announcements is inconsistent with expected utility preferences if aggregate consumption cannot respond to news at a high frequency. I demonstrate that the claim results from a misapplication of the Envelope Theorem. I calculate asset prices in their model and show that an announcement risk premium is consistent with expected utility preferences, even if aggregate consumption takes arbitrarily long to adjust to the news. I provide examples from well-studied settings.

PUBLICATIONS

"1930: First Modern Crisis" with Gary Gorton and Tyler Muir, *Financial History Review*, 30.3 (2023).

"Stock Market Stimulus" with Robin Greenwood and Jeff Wurgler. *Review of Financial Studies*, 36.10 (2023).

"Mobile Collateral versus Immobile Collateral" with Gary Gorton and Tyler Muir. *Journal of Money Credit, and Banking,* 54.6 (2022).

"The Run on Repo and the Fed's Response" with Gary Gorton and Andrew Metrick. *Journal of Financial Stability,* 48 (2020).

Work in Progress

"The Information Set of Individual Investors" with Jeff Wurgler.

Other Publications

"Collateral Damage" with Gary Gorton
Financial Stability Review, 22 (2018): 73-81.

"Genes under weaker stabilizing selection increase network evolvability and rapid regulatory adaptation to an environmental shift" with Pedro Bordalo and Bernardo Lemos
Journal of Evolutionary Biology 29.8 (2016): 1602-1616.

Presentations

2024:
AFA meetings, Baruch College, MFA meetings, NBER Spring Asset Pricing, NBER Behavioral Finance, Chicago Booth Treasury Markets Conference, 10th International Conference on Sovereign Bond Markets, 3rd Annual Valuation Workshop, HEC Paris (scheduled), SUNY Binghamton (scheduled), Chicago Booth Asset Pricing Conference (scheduled).

2023:
New York University, Baltic Economic Association, KUBS-KAIST Finance Seminar, Federal Reserve Board.

2022:
MFA meetings, UNC Kenan-Flagler, NBER Summer Institute Asset Pricing, Helsinki Finance Summit, Stanford SITE, FMA Annual Conference, USC Darla Moore FIFI Conference, Dartmouth Tuck, New York University.

2021:
AFA meetings, New York University (2x), Arrowstreet Capital, MFA meetings, TalTech, NBER Fall Asset Pricing.

2020:
Bank of Estonia, Hong Kong University, Econometric Society World Congress, European Finance Association meetings.

2019:
University of Rochester, Boston College, London Business School, Arizona State University, University of Maryland, University of Toronto, New York University (2x).

Conference Discussions

Indexing and the Incorporation of Exogenous Information Shocks to Stock Prices by Morck and Yavuz. NFA 2024 (scheduled).

Political Risk Everywhere by Gala, Pagliardi, Shaliastovich, and Zenios. SFS Cavalcade 2024.

Information-Driven Volatility by Ai, Han, and Xu. 22nd MFS Workshop, 2023.

Intermediary Balance Sheets and the Treasury Yield Curve by Du, Hébert, and Li. SFS Cavalcade 2023.

Equity Term Structures without Dividend Strips Data by Giglio, Kelly, and Kozak. NYU Martin J. Gruber Five-Star Conference 2022.

Compounding Money and Nominal-Price Illusions by Caglayan, Duarte, and Lu. FMA 2022.

Uncovering Retail Trading in Bitcoin: The Impact of COVID-19 Stimulus Checks by

Divakaruni and Zimmerman. NYU Stern Microstructure Meeting 2022.

Investor Misreaction, Biased Beliefs, and the Mispricing Cycles by Ben-Rephael, Hitzemann, and Xiao. MFA 2022.

Demand for Safety, Risky Loans: a Model of Securitization by Segura and Villacorta. MFA 2020.

Safe Asset Shortage and Collateral Reuse by Jank and Moench. SFS Cavalcade 2020.

Priceless Consumption by Belo and Donangelo. AFA 2020.

Premium for Heightened Uncertainty: Solving the FOMC Puzzle by Hu, Pan, Wang, and Zhu. AFA 2020.

The Effect of Managers on Systematic Risk by Schoar, Yeung, and Zuo. CFEA Confrence 2019.

Teaching

Foundations of Finance (Undergraduate) — NYU Stern, Fall 2019, Spring 2021-23

Teaching Assistance

Hedging and Speculation in Financial Markets (MBA) — Yale SOM
Professor Stefano Giglio — Spring 2018

Corporate Finance (MBA) — Yale SOM
Professor Heather Tookes — Fall 2016, Fall 2017

Financial Economics II (PhD) — Yale SOM
Professor Alan Moreira — Spring 2015, Spring 2017

Financial Markets (Undergraduate) — Yale College
Professor Robert Shiller — Spring 2016

Capital Markets (MBA) — Yale SOM
Professor Gary Gorton — Fall 2014, Fall 2015

Service

Ph.D. Advising: Dissertation committee member: Sebastian Hillenbrand (2022, HBS); Youngmin Kim (2022, Purdue Krannert); Nicholas Zarra (in progress); Stefano Pastore (in progress); Courtney Wiegand (in progress).

Undergraduate Advising: Honors thesis adviser: Sanemi Nair (2024, Jane Street).

Referee: Journal of Economic Theory, Journal of Finance, Journal of Financial and Quantitative Analysis, Journal of Financial Economics, Financial Markets Institutions & Instruments, Management Science, Review of Asset Pricing Studies, Review of Finance, Review of Financial Studies.

Conference Program Committee: EFA (2021, 2022, 2024), FMA (2021), MFA (2021, 2022), SFS Cavalcade (2021, 2022, 2023, 2024), WFA (2024).

NYU Stern, Junior Recruiting Committee member — 2022-23

NYU Stern, Ph.D. Admissions Committee member 2020, 2022

Yale SOM Ph.D. Program, Co-Social Chair 2016-18

Yale Graduate Student Assembly, Representative 2015-17

Work Experience

Harvard Business School Boston, MA
Research Associate August 2010-December 2012
Worked for professors David Scharfstein and Juan Alcacer

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