Davidson Heath

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Employment

2015 –	Assistant Professor of Finance, University of Utah
2009 – 2010	Consultant: Compass Lexecon, Eagle Energy, Terra Verte Trading
2001– 2007	Vice President, Commodity Derivatives, BMO Capital Markets

Education

2010 – 2015	Ph.D. (Finance), USC Marshall School of Business
2007 – 2009	M.B.A. (Finance), U. Chicago Booth School of Business
2000 – 2002	M.Sc. (Math), Queen's University
1994 – 1999	B.Sc. (Biology & Math), University of British Columbia

Publications

The Strategic Effects of Trademark Protection with Chris Mace
Review of Financial Studies (2019)

We study the effects of trademark protection on firm profits, value and strategy. Using diff-in-diff and switching estimates around the passage and nullification of the Federal Trademark Dilution Act (FTDA) we find that from 1996 to 2002 the FTDA raised treated firms' operating margins by 12% and firm values by 9.5% on average. The FTDA's passage was followed by a spike in trademark lawsuits, lower entry, and higher concentration in more affected industries. Firms granted stronger trademark protection reduced both product quality and innovation, and extended protected brands into all-new product markets.

Bias-Corrected Estimation of Price Impact in Securities Litigation with Taylor Dove and J.B. Heaton
American Law and Economics Review (2019)

Price impacts in legal event studies are systematically overestimated, a problem that carries over into damages calculations and results in securities litigation being settled or

decided for excessive damages. We quantify and examine the bias using the empirical distribution of daily stock returns, and develop bias-corrected estimators of price impacts for single-event studies.

Macroeconomic Factors in Oil Futures Markets
Management Science (2018)

This paper documents new evidence against perfect risk spanning in crude oil futures, and develops an affine futures pricing model that allows for unspanned macroeconomic factors. Compared to previous estimates, the oil spot premium is more volatile and strongly procyclical, which suggests that previous models miss the majority of variation in oil risk premiums. The estimates reveal a dynamic two-way relationship between oil futures and economic activity: productivity shocks are associated with higher oil prices, while oil price shocks affect economic activity by lowering future consumption spending. Unspanned macro factors also affect the valuation of real options.

Working Papers

Reusing Natural Experiments with Matt Ringgenberg, Mehrdad Samadi and Ingrid Werner

Natural experiments are used in empirical research to make causal inferences. After a natural experiment is first used, other researchers often reuse the setting, examining different outcomes based on causal chain arguments. Using simulation evidence combined with two extensively studied natural experiments, business combination laws and the Regulation SHO pilot, we show that the repeated use of a natural experiment significantly increases the likelihood of false discoveries. To correct this, we propose multiple testing methods which account for dependence across tests and we show evidence of their efficacy.

Market Returns and Interim Risk in Mergers with Mark Mitchell

A primary concern in mergers and acquisitions is the risk the deal may be cancelled before it is completed. We document that this “interim risk” varies asymmetrically with the aggregate market return. Deals paid in cash tend to be renegotiated when the market rises but cancelled when the market crashes. There is no such effect for deals paid in stock, consistent with a mechanism of costly renegotiation. Variation in interim risk over time affects the market for corporate control, altering the method of payment and the firms that are targeted and acquired.

ETF Trading and the Bifurcation of Liquidity with Jonathan Brogaard and Da Huang

Passively managed exchange traded funds (ETFs) are a financial technology that has risen dramatically in the last two decades. Over the same period liquid stocks have become more liquid while illiquid stocks have not experienced a similar improvement. We model investors shifting from trading individual stocks to trading ETFs and generate predictions consistent with the documented bifurcation in liquidity. Using daily ETF creation and redemption activity, we provide empirical evidence that closely matches the model's predictions. The results show that the effects of ETFs on underlying asset markets are driven by their index replication strategy.

On Index Investing with Jeff Coles and Matt Ringgenberg

We quantify the impact of index investing on stock prices. Using a regression discontinuity analysis around yearly Russell index reconstitutions, we find that index investing introduces noise into stock prices, but does not impact long-term price efficiency or trading by arbitrageurs. Stocks with more index investors have prices that deviate more from a random walk and exhibit higher correlations with index price movements. However, these stocks have no difference in turnover, trading volume, or earnings response coefficients. In other words, index investing introduces noise but it does not impact the ability of arbitrageurs to impound information into prices.

Do Index Funds Monitor? with Daniele Macciochi, Roni Michaely and Matt Ringgenberg

Passively managed index funds now hold more than 25% of all U.S. mutual fund assets. Using a new regression discontinuity design, we study the governance implications of passive investing by directly examining the voice and exit mechanisms. We find that index funds are more likely to vote with a firm's management. Moreover, while they do regularly exit positions and omit holdings in their target benchmark, they do not use the exit mechanism to enforce good governance. Our results show that passive investing shifts power from investors to firm managers.

Not all profits are created equal: New evidence on the profits-leverage puzzle with Giorgo Sertsios

A robust and controversial finding in the capital structure literature is the inverse relation between profitability and leverage. We revisit this relation in light of a novel quasi-natural experiment that increases market power for a subset of firms and has product-market spillovers on their suppliers. We find that treated firms and their suppliers similarly increase their profitability, but only suppliers reduce their leverage in response. The different nature of profitability shocks explains the results: The profitability increase was permanent and riskless for treated firms, but transitory and risky for suppliers. Unobserved components of profitability variation seem to explain earlier findings.

Teaching

FIN 6022 -- Managerial Finance. Most Recent Average Evals = 5.8 / 6

Awards & Honors

2018 Distinguished Teaching Award, Eccles School of Business

Best Discussant – 2017 Front Range Finance Conference

USC Marshall Teaching Award 2015

Refereeing

Journal of Political Economy, Journal of Finance, Review of Financial Studies, Review of Asset Pricing Studies, Management Science, Journal of Business and Economic Statistics, American Journal of Agricultural Economics, Journal of Banking and Finance, Journal of Futures Markets, Quarterly Journal of Finance, Journal of Empirical Finance

Hobbies

Skiing, Running, Scotch