What Drives Very Long-Run Cash Flow Expectations?

Décaire & Guenzel (2024)

Discussion by Aditya Chaudhry

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Overview

Novel dataset of long-term analyst cash flow growth expectations

- TGR: “Terminal growth rate” expectations

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Contribution: New facts to discipline macrofinance models

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Rich dataset allows investigation of many important questions

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Paper can do more to glean new insights to inform models

- More systematic discussion of new info provided by TGR over LTG
- Use text data to shed light on analyst, firm fixed effects
- Dig deeper into text data to shed more light on disagreement

TGR vs. LTG

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LTG expectations seem to explain asset pricing puzzles

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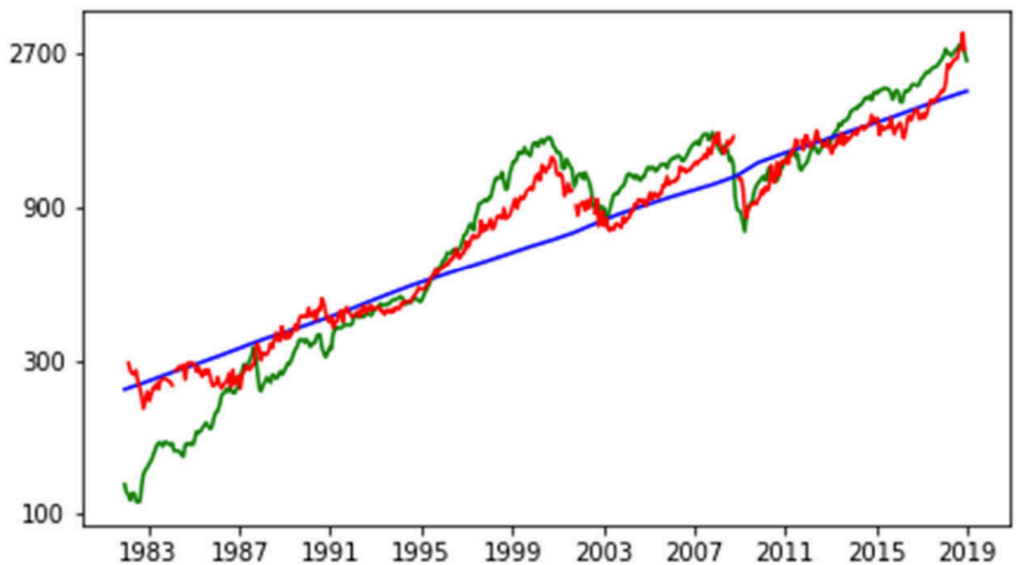

Bordalo, Gennaioli, LaPorta & Shleifer (2024): S&P 500 level (green) vs. dividend discount model with analyst LTG expectations (red) and rational benchmark (blue)

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These facts motivate models of overreaction

- Under assumption that investors share analysts' biased beliefs
- Bordalo et al. (2019); Nagel & Xu (2021); Bordalo et al. (2024)

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TGR weakly correlates with LTG

- Only 0.08

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Are TGR expectations biased?

- Do the feature predictable forecast errors?
  - De Bondt and Thaler (1990); La Porta (1996); Bordalo et al. (2019, 2024)
- Do they feature extrapolation from fundamental news?
  - Paper finds evidence of “local extrapolation” in international context, but can do more
- Do they feature (mis-)learning from prices?
  - Bastianello & Fontanier (2024), Chaudhry (2024)

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Do TGR expectations predict returns?

- In time series or cross section?
  - La Porta (1996); Bordalo et al. (2019, 2024); Nagel and Xu (2021)

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What is different here vs. LTG?

What are the implications for models?

Opening “Black Box” of Fixed Effects

Paper: Analyst and Firm Fixed Effects are Important

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Analyst demographics explain 20% to 30% on analyst FE variation

- More explanatory power than demographics have for beliefs in other settings

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Good opportunity to use text data to open "black box":

- What topics are associated with firms or analysts that have persistently high/low or overly optimistic/pessimistic TGR?

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Good opportunity to use text data to open "black box":

- What topics are associated with firms or analysts that have persistently high/low or overly optimistic/pessimistic TGR?
- Are certain agents of firms more prone to biased expectations?
- Are those firms more prone to mispricing?

Dig Deeper into Intensive Margin of Topic Disagreement

Paper: Disagreement from Intensive Margin of Topic Coverage

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1. They cover different sets of topics (extensive)?

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Paper finds more evidence of latter

- Stronger statistical relationship between firm-time TGR disagreement and intensive-margin coverage differences
- "Prioritizing overlapping topics differently" is main predictor of disagreement

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Can LLMs shed light on sources intensive margin disagreement?

- Do analysts interpret the same news differently (positively vs. negatively)?
- Or do they just disagree on how important different pieces of news are?
- Can topic coverage be “signed”?

Minor Comments

Is the low correlation of TGR, LTG robust to:

- Winsorization (what is correlation if winsorize LTG at 1% to 5%?)
- Fixed effects (what is correlation within time period, stock, etc?)

Why is coefficient in forecasting regression of future cash flows < 1?

- Could indicate overreaction or measurement error. Can these explanations be separated?

Figure 4: Use same scale for both y axes

Report within R^2 for default risk regressions

- How much variation in TGR is explained by default risk?

Is higher R^2 for for industry and country FEs for older firms due to smaller number of observations?

Conclusion

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Main comments

- Suggestions on how to glean new insights to inform models