

## **ALEXI SAVOV**

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### **EDUCATION:**

**University of Chicago Booth School of Business** 2005—2010

Ph. D. Candidate in Finance, MBA

**Washington University in St. Louis** 2001—2005

Bachelor of Arts in Mathematics and Economics, *summa cum laude*

### **RESEARCH INTERESTS:**

- Asset pricing with asymmetric information; endogenous noise trading.
- Consumption-based asset pricing, especially non-market consumption.
- Empirical asset pricing.

### **JOB MARKET PAPER:**

#### **Free for a Fee: The Hidden Cost of Index Fund Investing**

I present and test a rational expectations model consistent with the empirical finding that on a buy-and-hold basis active funds underperform index funds by their fees.

Investors receive nontradable wealth shocks whose aggregate component is not publicly observed, which makes prices noisy. Index fund investors optimally respond to these shocks in a way that is systematically related to stock mispricing, mistiming the market. A set of informed active funds times the market correctly but charges active fees. To make investors indifferent between active and index funds, the net return on active funds is close to the index fund return after adjusting for the endogenous negative market timing of index fund investors. Since the active fees leave the system, both returns are below the benchmark, which is also the buy-and-hold index fund return.

The model predicts that after controlling for timing, index fund returns should fall relative to active fund returns, and the two should become roughly equal. Consistent with the model, in the data unusually high flows into index funds forecast both low returns and low index fund returns relative to active fund returns. This differential effect can account for most of the buy-and-hold advantage of index funds.

### **WORKING PAPERS:**

#### **Asset Pricing with Garbage** (Forthcoming, *The Journal of Finance*)

A new measure of consumption—garbage—is more volatile and more correlated with stocks than NIPA consumption expenditure. A garbage-based CCAPM matches the U.S. equity premium with risk aversion of 17 versus 81 and evades the joint equity premium-risk-free rate puzzle.

The Puzzle of Index Option Returns (With George Constantinides and Jens Jackwerth)  
The leverage-adjusted returns on S&P 500 index calls and puts are decreasing in their strike-to-price ratio over 1986-2007. A large set of factor models fail to explain the cross-section of option returns. Two option-specific factors, the change in the monthly out-of-the-money put volume and the change in the VIX index, have some explanatory power when their premia are estimated from the universe of options.

**HONORS AND AWARDS:**

- Sanford J. Grossman Fellowship in Honor of Arnold Zellner, 2009—2010
- WFA Travel Grant, 2008; AFA Travel Grant, 2007
- CRSP Summer Paper Award, 2006
- University of Chicago Booth School of Business Student Fellowship, 2005—2009
- Phi Beta Kappa honorary academic society, 2005
- Eliot Scholar, full tuition at Washington University, 2001—2005

**TEACHING AND RESEARCH EXPERIENCE:**

- TA for John Cochrane, *Asset Pricing*, a 2<sup>nd</sup> year Ph.D. course.
- RA and TA for George Constantinides, *Asset Pricing Theory*, a 2<sup>nd</sup> year Ph.D. course and *Financial Instruments*, an MBA course.
- RA and TA for Douglas Diamond, *Financial Markets and Institutions*, an MBA course.
- Taught Math Camp to incoming Ph.D. students, 2007—2008
- Presented at the 2008 Annual Meetings of the WFA.

**REFERENCES:**

George M. Constantinides  
Leo Melamed Professor of Finance  
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Douglas W. Diamond  
Merton H. Miller Distinguished Service  
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