

Report Type

Mid Term Award Report

Full Name

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Faculty/Department

JBS

Project Title

Short Sales Constraints and the Diversification Puzzle

Project Abstract

We aim to explain the magnitude of the conglomerate discount, i.e. why diversified firms trade at a discount relative to focused ones. We build a model showing that investors disagree less about the valuation of a conglomerate than about its individual divisions. Disagreement, combined with the presence of short-sale constraints, increases asset prices and thereby implies a conglomerate discount. The model provides several testable implications about the incidence and size of the discount. Preliminary tests show that conglomerates face fewer short sales constraints and have less dispersion of opinion than focused firms, and the discount increases with short sales constraints and decreases with differences of opinion.

Activities and Achievement

I just received the award 1 month ago so, there isn't much to tell unfortunately beyond the abstract above. I have presented the paper in two conferences and been invited to present at three universities. We also have been asked by the Review of Financial Studies to submit it to the journal as part of a dual-submission system to the Texas Finance conference. Out of the more than 220 papers submitted to the dual submission, only 23 were invited to carry on, which is a great start for the project.

Dissemination

My co-authors and I are now working on revising the paper for sending it to the RFS as requested by the editor (Itay Goldstein).

The current version can be found here:

[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2636770](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2636770)

Outputs

The working paper can be downloaded here:

[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2636770](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2636770)

Presentations:

ICEF (Moscow)

Porto University (Porto, Portugal)

9th Financial Risks International Forum (Paris, France)

Corporate Finance Workshop (Lancaster, UK)

Tilburg University (Tilburg, Netherlands)

Major Difficulties and Any Other Issues

None so far. Too early to say.

Web Links

[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2636770](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2636770)

Additional Information

Declaration

This award has not yet produced any relevant outputs, but details of any future publications will be submitted to the CERF database as soon as they become available.

Signature - Main Award Holder

1