Headlines August 04, 2016 5:03 PM EST

# How Asset Management Giants Cause Volatility

*Large trades made by the industry's biggest firms can translate into "substantial price pressure," according to research.*

America's largest asset managers can have an outsized impact on volatility and pricing in equity markets, research has suggested.

Given the sheer size of their holdings, trades made by these managers "leave a large footprint in the market," found NBER Research Associate Itzhak Ben-David, along with finance professors Francesco Franzoni, Rabih Moussawi, and John Sedunov.

"Ownership by large institutional investors increases the volatility in the prices of the portfolio securities," they wrote. "Institutions cause the increase in volatility through large trades, which translate into substantial price pressure."

Using ownership data from 13F filings from the first quarter of 1980 until the third quarter of 2015, the researchers found a significant positive relationship between ownership by large asset managers and stock volatility.

For example, a 1% increase in stock ownership by large managers led to an increase in volatility of 12 to 18 basis points.

The impact was even larger during financial crises, when asset managers often face high levels of withdrawals that require liquidations and rebalancing.

The researchers argued that a single large asset manager has a greater impact on market prices than a group of smaller managers totaling the same amount of assets because large institutions have a "'granular' nature that leads them to trade in a less diversified way than a random collection of independent entities."

"The presence of large institutions correlates with lower price efficiency," they concluded.

But while the research suggested asset management giants are "more likely to destabilize financial markets" than smaller managers, the authors acknowledged that larger managers have unique benefits as well.

"Any policy prescription cannot overlook the beneficial role played by large institutions in terms of economies of scale, information production, corporate governance, and liquidity provision," they wrote.

Read the full paper, "The Granular Nature of Large Institutional Investors."

**Related:** Managers Step Up Fight against Systemic Risk Proposals

**Amy Whyte** | awhyte@assetinternational.com | 646-308-2775

**More Info**

About CIO
Team
Magazine Subscription
Alert Subscription
Global Editorial Calendar
European Editorial Calendar
Global Media Kit
European Media Kit
CIO Alert Archive
News Archive
Contact
RSS

**Latest Issue**


GMO: Now is the Time for Hedge Funds
OCIO Hirtle Callaghan Names New CEO
Yale, MIT, NYU Sued Over DC Fees
FEG Bolsters OCIO with New Asset Owner Hire
LPs Not Fooled by Inflated PE Valuations
Harvard Endowment Hires Natural Resources Chief

CIO / FWW / Global Custodian / Investor Economics / LiquidMetrix / Market Metrics / Matrix Solutions / PLANADVISER / Plan For Life / PLANSPONSOR / Simfund / Strategic Insight / The Trade