

Question 1 (10 points)

In a perfectly efficient market, should investing in companies listed in the *Fortune* “100 Best Companies to Work For in America” AFTER it is published (i.e., invest in these firms starting the month after the January release) yield positive ALPHA on average? Answer “YES” or “NO”.

ANSWER:

Question 2 (24 points)

Using the spreadsheet, **Employee_Satisfaction>Returns.xlsx**, analyze the strategy of investing equally in all the publicly-traded members of the *Fortune* list released the past January (i.e., portfolio in Column B) using both a CAPM and 3-Factor Model by filling in the following table:

Q2: Employee satisfaction strategy

	Regression Results
Alpha from CAPM (monthly)	
Beta from CAPM	
R-squared	
Alpha from 3-Factor Model (monthly)	
Beta on Market Factor	
Beta on Size Factor	
Beta on Value Factor	
R-squared	

Question 3 (8 points)

Based on your CAPM regression results from Question 2, does the strategy of investing in firms in the *Fortune* list “outperform” or “underperform” its benchmark and by how much per month?

ANSWER:

Question 4 (8 points – 4 for each part)

Based on your 3-Factor Model regression results from Question 2, what are the characteristics of the firms in the *Fortune* list along both the size and value/growth dimensions (i.e., are portfolio firms tilted toward small-cap or large-cap size and are portfolio firms tilted toward value or growth)?

ANSWER:

Question 5 (10 points – 5 for each part)

What is the monthly CAPM alpha from the strategy of investing in firms listed in the *Fortune* “100 Best Companies to Work For in America” in months 13-24 after the original publication dates?

What is the monthly CAPM alpha from the strategy of investing in firms listed in the *Fortune* “100 Best Companies to Work For in America” in months 25-36 after the original publication dates?

ANSWER:

Question 6 (10 points)

Based on the results discussed in Question 5, is there any evidence that there is a price reversal for the portfolio stocks of the “invest in employee satisfaction” strategy? Answer “YES” or “NO”.

ANSWER:

Question 7 (5 points)

How do the stocks of companies perform the year after they are dropped from the *Fortune* list? Specifically, are they “outperforming” or “underperforming” their benchmark and by how much per month? Please use the CAPM to answer this question and do NOT worry about the statistical significance of result (just focus on its magnitude).

ANSWER:

Question 8 (25 points)

Alex Edmans from LBS (and you) did research on one portfolio strategy – invest in firms that are on a list of companies with high employee satisfaction.

Propose a DIFFERENT portfolio strategy based on some publicly-observable information at the time the strategy is to be implemented. Why do you think this strategy has the potential to earn ALPHA? In particular, why is this information good for the firm's stock AND why does the market not incorporate this information into stock prices right away?

Will your portfolio strategy have high or low trading costs – why do you think so?

Question 8, continued (25 points)

To be clear, in this question, you are supposed to come up with a NEW strategy that is based on publicly-observable information. This should NOT be a strategy that we have already discussed in class like value, momentum, employee satisfaction, etc. (or some variant of these, like proposing a value-momentum mix strategy).

ANSWER: