CHARLES CLARKE

345F Gatton College of Business & Economics ⋄ Lexington, KY 40506
(214) · 886 · 7675 ⋄ Charlie.Clarke@uky.edu

ACADEMIC EXPERIENCE

University of Kentucky *2016-*
Assistant Professor of Finance

EDUCATION

University of Connecticut *2016*
PhD in Finance

University of Texas, Austin *2008*
M.S. in Economics

College of William and Mary *2005*
B.A. in Economics

RESEARCH INTERESTS

Investments, Empirical Asset Pricing, Macro Finance, Factor Models

PUBLISHED PAPERS

The Level, Slope and Curve Factor Model for Stocks
Forthcoming Journal of Financial Economics
AFA 2016, EFA (Vienna) 2015, FMA Best Paper Award in Investments 2015

I develop a method to extract only the priced factors from stock returns. The first step estimates expected returns based on firm characteristics. The second step uses the estimated expected returns to form portfolios. The last step uses principal component analysis to extract factors from the portfolio returns. The procedure isolates and emphasizes the comovement across assets that is related to expected returns as opposed to firm characteristics. It produces three factors–level, slope and curve–which perform as well or better than other leading models. The methodology performs well in out-of-sample tests. The new factors have macroeconomic risk interpretations.

Discussed by John Cochrane (2014)
http://johnhcochrane.blogspot.com/2014/12/level-slope-and-curve-for-stocks.html

WORKING PAPERS

Characteristics and the Cross-Section of Covariances (Joint with Matthew Linn)
FMA 2019, NFA 2018

We show that stock return covariances can be modelled as a stable function of firm characteristics. Our univariate results document a variety of patterns across firm characteristics and covariation across stocks. For instance, the covariation in book to market sorted stocks is isolated to the growth leg, two value stocks covary less than two average stocks. Our multivariate results call into question whether some prominent characteristics, like book to market and asset growth, convey any marginal predictive power for firm comovement in the presence of more powerful predictors. In truly out of sample tests, we

show that predictive modeling of these firm-level covariances has important implications for risk management and asset pricing. For example, in out of sample tests, using characteristic derived predictions of stock covariances to optimize our sample of 300 stocks on average leads to a 53% decrease in portfolio volatility and a 61% increase in portfolio Sharpe ratios relative to equal weighting. In stark contrast, leading factor models under perform naive equal weighting. Lastly, optimizing traded factors using predicted covariances significantly increases the factor Sharpe ratios of leading asset pricing models.

Reevaluating the CCAPM
Texas A&M Young Scholars Finance Consortium, FMA 2017, MFA 2017

This paper reevaluates the Consumption Capital Asset Pricing Model's ability to price the cross-section of stocks. With a few adjustments that generate more informative tests by increasing test power, I find that the simple linearized CCAPM often matches key features of the cross-section: the consumption risk premium is positive and significant, the zero beta rate is near zero and insignificant, and the CCAPM captures much of the variation across average portfolio returns. I show that tests featuring industry portfolios or size and book to market portfolios have very low test power and, even in simulations where the CCAPM holds with a population R-squared of 1, these tests only reject the (false) null hypothesis 20-45% of the time.

Testing Asset Pricing Models on Individual Stocks (Joint with Morteza Momeni)

This paper tests asset pricing models using individual stocks as test assets, rather than sorted portfolios. Sorted portfolios have the severe limitation that the researcher must know, in advance, reliable predictors of expected returns. We show how to generate appropriately sized tests and verify that our tests have considerable test power. In simulations when the CAPM describes the population, our tests (correctly) reject the Fama and French (2015) six factor model 97.5% of the time, while our tests (incorrectly) reject the CAPM less than 5%. We apply our tests to seven leading factor models. We reject six of the seven leading models we test. The instrumented factor model of Kelly, Pruitt, and Su (2019) stands out as the most successful.

TEACHING EXPERIENCE

Instructor of Record (Evaluations)

University of Kentucky
Fall 2019: FIN 700 - Asset Pricing
Fall 2019: FIN 650 - Investments (3.9)/5)
Fall 2018: FIN 410 - Investment Analysis (4.6/5)
Fall 2018: FIN 410 - Investment Analysis (4.6/5)
Fall 2018: FIN 650 - Investments (3.6)/5)
Fall 2017: FIN 700 - Asset Pricing
Fall 2017: FIN 650 - Investments (4.93/5)
Fall 2016: FIN 410 - Investment Analysis (4.45/5)
Fall 2016: FIN 410 - Investment Analysis (4.19/5)
Fall 2016: FIN 410 - Investment Analysis (4.12/5)

University of Connecticut
Fall 2014: FNCE 3302 - Investments and Security Analysis (5.00/5)
Fall 2014: FNCE 3302 - Investments and Security Analysis (4.54/5)
Fall 2013: FNCE 3101 - Financial Management (4.85/5)
Fall 2013: FNCE 3101 - Financial Management (4.92/5)
Spring 2013: FNCE 3101 - Financial Management (4.96/5)

Fall 2013: BADM 3730 - Financial Management (8.50/10)

AWARDS AND HONORS

Best Paper Award in Investments Category at FMA Annual Meetings (2015)
Finance Department Outstanding PhD Teaching Award (2015)
Outstanding Scholar Fellowship - University of Connecticut (2015 - 2016)
Financial Management Association Doctoral Student Consortium (2015)
Outstanding Scholar Award - University of Connecticut (2011 - 2015)

SERVICE

Referee - Review of Financial Studies
Discussant - American Finance Association Annual Conference (2020) Program Committee - Midwest Finance Association Conference
Program Committee - FIRN
UK Recruiting Committee (2016 - 2019)
PhD Student Speaker Series - Organizer (2013 - 2015)
U21 Conference - Program Committee
U21 Conference - Doctoral Student Ambassador
Club Advisor - Mock Wall Street