CHARLES CLARKE

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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

PUBLICATIONS

The Level, Slope and Curve Factor Model for Stocks, 2022
Journal of Financial Economics 143, 159-187.

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.

AFA 2016, EFA (Vienna) 2015, FMA 2015 - Best Paper Award in Investments
Discussed by John Cochrane at *The Grumpy Economist*

WORKING PAPERS

Characteristics and the Cross-Section of Covariances (Joint with Matthew Linn)
AFA 2023, FMA 2019, NFA 2018

We directly estimate firm-level, pairwise, stock return covariances as a function of firm characteristics. We use a flexible, minimally parameterized panel regression approach that allows us to estimate the marginal predictive power associated with each characteristic. We show overlapping characteristics across firms confounds the typical relationships between characteristics and covariances. By estimating the underlying risk structure as it relates to characteristics, we are able to identify characteristics proxying for priced factors, unpriced factors, and near-arbitrages. Using time-varying covariance models, we show that a number of characteristics proxy for exposure to business cycle risk while few proxy for market sentiment.

Testing Asset Pricing Models on Individual Stocks (Joint with Morteza Momeni)
AFA 2023

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 several leading factor models and reject nine of the eleven models tested. The instrumented factor model of Kelly, Pruitt, and Su (2019) stands out as the most successful.

Biased Expectations and the Time-Series of Anomaly Returns (Joint with Russell Jame)

Recent evidence indicates that the returns on anomaly strategies are diminishing over time. We argue that time-varying biases in cash-flow expectations explains much of this decline. Specifically, analyst optimism for stocks in the short leg of anomalies relative to the long leg has fallen by more than 50% in the last third of the sample, and this trend accounts for nearly 50% of the decline in anomaly returns. We develop an ex-ante measure of biased expectations and show that this measure explains most of the time-series variation in anomaly valuation ratios and strongly predicts future anomaly returns.

Consumption Shocks and Stock Returns

This paper shows quarterly NIPA consumption growth is a poor proxy for unexpected consumption growth. I use the Survey of Professional Forecasters to disentangle expected consumption and unexpected consumption. A one standard deviation positive shock to quarterly consumption is associated with a 3.10% (t = 4.49) higher stock market return. Quarterly consumption surprises explain 19% of the variation in stock prices and rises to 28% when longer term forecast updates are included. In the cross-section, Value and Momentum are significantly correlated with consumption surprises but not traditional consumption. Anomalies differ in their exposure to shorter- and longer-term consumption surprises.

TEACHING EXPERIENCE

Instructor of Record (Evaluations)

University of Kentucky
Fall 2021: FIN 700 - Asset Pricing
Fall 2021: FIN 650 - Investments (4.2)/5)
Fall 2020: FIN 410 - Investment Analysis (4.5/5)
Fall 2020: FIN 410 - Investment Analysis (3.8/5)
Fall 2020: FIN 650 - Investments (4.5)/5)
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 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 (2020), European Finance Association (2022)
Program Committee - Midwest Finance Association Conference, FIRN
UK Recruiting Committee (2016 - 2020)
PhD Student Speaker Series - Organizer (2013 - 2015)
U21 Conference - Program Committee
U21 Conference - Doctoral Student Ambassador
Club Advisor - Mock Wall Street