WSJ Articles

§1. Efficient Markets and Behavioral Finance

AI Can Write a Song, but It Can't Beat the Market (April 12, 2023)

Key takeaways

Wall Street has used algorithmic trading and machine learning for placing trades and managing risk for decades. Yet noisy data and the dynamic nature of markets make predictions difficult, limiting these models' success. There are implications for research and sales roles in the near term.

Terms and topics

- Noisy data
- Reinforcement learning
- Investing is "adversarial"

Quote

"Most quants still take a "theory-first" approach where they first establish a hypothesis of why a certain anomaly might exist, and they form a model around that."

Notes

Meet the Investors Trying Quantitative Trading at Home (January 20, 2024)

Key takeaways

Retail (or non-professional) investors are using online tutorials, message boards, and platforms like Composer, Alpaca, and QuantConnect to develop their own trading algorithms with no coding experience or formal training. An absence of good risk-management tools can put investors at significant risk.

Terms and topics

- Quant revolution
- Wash sales
- ETFs and leveraged ETFs
- Stop loss

Quote

"Now retail investors can act just like their quant idols: build overly complicated models that look unbeatable until the day they go live."

Notes

§2. Markets and Indices

Cava Stock Soars 99% in Stock Market Debut (June 12, 2023)

Key takeaways

The IPO market and investor demand for fast growing (but unprofitable) companies perked up with Cava's IPO. Two investors anchored the offering by committing over $100 million of the over $300 million raised. This gives hope to other similar firms planning to go public.

Terms and topics

- Priced at a premium to peers
- Priced at a discount to peers

Quote

"[This] bodes well for what has been a historically quiet period for new listings, since such companies traditionally form a crucial segment of the IPO market."

Notes

SPAC Mania is Dead (January 24, 2024)

Key takeaways

SPACs exploded in popularity in the post-Covid boom. However, of the 401 SPACs that have acquired firms since 2021, only 27 have had their share price rise. The SEC, led by Gary Gensler, adopted rules to increase SPAC transparency, requiring they disclose the bases for their forward-looking projects and how the sponsors benefit from a deal.

Terms and topics

- Sponsors
- SPAC Mafia
- Diluted cash

Quote

"'Nearly two years after the commission proposed this rulemaking, the SPAC market is a shell of its former self,' said Uyeda, one of the SEC's GOP commissioners. 'The commission intends to never let them return.'"

Notes

Why Free Trading Will Never Be Free (September 17, 2021)

Key takeaways

Brokers often allow commission-free trading by using the payment for order flow model: sending their customers' orders directly to wholesale market makers that pay for those orders. Brokers argue that wholesale market makers offer better prices and quick trade execution, while the SEC argues better prices might be possible if more orders go to exchanges. Alternative revenue sources may be available for brokers, but traders will always bear implicit costs.

Terms and topics

- PFOF
- Wholesale market makers
- Internalization
- Rebates
- Lending stock as revenue source
- Dark prices

Quote

"A totally level market playing field is what many small traders might want to see. But there are a range of views on what constitutes an ideal market structure."

Notes

§3. Equity Securities

Votes for Sale! (January 21, 2024)

Key takeaways

A marketplace has emerged that lets shareholders legally sell the voting rights tied to their shares. This can generate passive income for investors but has the potential to lead to abuses.

Terms and topics

- Proxy voting
- Voting rights as an "asset"
- Quorum
- Takeovers and mergers

Quote

"Some have argued that creating a market for proxy votes would enhance shareholder democracy and ultimately make companies better-run. Others say it is risky to decouple the right to vote from ownership of the shares because the votes could end up in the hands of someone who doesn't want the company to succeed."

Notes

Bed Bath & Beyond Shares Have Finally Been Extinguished (September 29, 2023)

Key takeaways

Many retail investors ignored warnings regarding Bed Bath & Beyond's (BBBY) bankruptcy, buying up shares in hopes of a miraculous recovery. BBBY's assets were $4.4 billion, with liabilities of $5.2 billion. BBBY shares were extinguished and have no value as debt holders attempt to collect.

Terms and topics

- Residual claim
- Speculative frenzy
- Meme stock
- Equity offering
- Dilution

Quote

"Bed Bath & Beyond-focused social media threads on Reddit and X, formerly known as Twitter, pulsated with memes and posts by bullish investors expressing their conviction that a miracle was nigh and the company stood to be rescued."

Notes

§4. Fixed Income

Why Treasury Auctions Have Wall Street on Edge (December 10, 2023)

Key takeaways

The primary market Treasury auction occurs as follows: (1) the government wishes to raise a certain amount, (2) they solicit bids for bonds, starting with investors willing to accept the *lowest* yield (i.e., investors willing to pay the highest price for the bonds), (3) accepts the bids with *higher* and higher yields (i.e., investors willing to pay lower and lower prices for the bonds) until it raises the amount of capital it needs, and (4) all winning bidders pay the price corresponding to the highest yield (i.e., lowest price) acceptable to the government.

Terms and topics

- Tail: higher yield (lower price and demand) than expected is accepted by the government in the auction
- Stop-through: lower yield (higher price and demand) than expected is accepted by the government in the auction
- On the screws: auction meets expectations

Quote

"An auction is considered weak when the government ends up having to offer investors much higher yields than the market expected, or when primary dealers have to buy a lot. If yields come in below expectations, Wall Street is encouraged by the strong demand...T-bills are effectively treated like cash, absorbing bills rather than bonds gives investors more room to buy riskier assets such as stocks. Many worry the flood of long-term bonds is outstripping demand for them."

Notes

Investors Are Almost Always Wrong About the Fed (February 8, 2024)

Key takeaways

Investors are convinced that the Fed will cut interest rates this year, but there is a poor record of being able to correctly predict what the Fed will do. When the Fed cuts rates, borrowing costs fall which tends to lift stock prices and increase growth. Yet the economy keeps beating expectations, with labor markets and consumer spending doing well, limiting the need for the Fed to cut rates. Analysts worry that without rate cuts, the stock market may not continue to rise.

Terms and topics

- Anchoring
- Real rates

Quote

"Investors use futures markets to bet on the direction of central-bank policy. Right now, those show traders betting that the Fed will cut rates by more than a percentage point this year, much more than Fed officials are projecting."

Notes

Earn 4.5% With No Taxes? How to Invest in Municipal Bonds (October 19, 2023)

Key takeaways

Federal tax-exempt muni bonds are offering their highest yields in more than a decade. Investors can purchase general obligation and revenue bonds alike through brokers. Socially conscious investors may find munis that serve the community attractive.

Terms and topics

- General obligation bonds
- Revenue bonds
- Social bonds

Quote

"The yield on munis was 4.56% this month, according to the S&P Municipal Bond Index, the highest in more than a decade. That is up from 1.40% in October 2020."

Notes

§5. Options and Derivatives

The Adrenaline-Fueled Trades Sweeping the Market (December 10, 2023)

Key takeaways

The options market is booming. Risky bets on contracts that expire the same day fuels big returns – and big losses. The return to holding an option on a stock can far exceed that of the stock itself in both the positive and negative direction.

Terms and topics

- One-day options
- #0dte

Quote

"Four of the five top trading days for one-day S&P 500 options through November featured economic data such as the monthly inflation or jobs report. That unease about the economy, and the stock market, morphed into a fear of missing out on big market gains as the year wore on."

Notes