



## *Finance Speaker Series*

Alberta School of Business  
Department of Finance

Presents:

**Lauren Cohen**

Harvard University

Topic:

## **Hidden Alpha**

Friday, September 16, 2022  
1:30pm – 3:00pm

Zoom details located in the calendar invitation and below.

If you are not a member of the Finance department and would like to be added to our mailing list, please contact Beth Boison

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Zoom Link:

<https://ualberta-ca.zoom.us/j/91778122813?pwd=TkxwUFRRVWhDdlIqY0R1dXZleXlwUT09>

## **ABSTRACT**

Using the setting of financial agents, we explore the importance of hidden connections relative to all other network connections. We find that hidden connections are those associated with the largest and most significant abnormal returns accruing to fund managers—on average 135 basis points per month (over 16% alpha per year,  $t$ -stat = 3.54) across the universe of mutual funds and public firms. This is relative to insignificant abnormal returns accruing on average to all other trades, including those to trades of “visible” connections. The hidden connection premium does not appear to be driven by endogenous selection or familiarity, as fund managers seem to be correctly timing when to hold (and when to avoid) stocks of firm officers to whom they are tied. Further, the more

hidden the connection is, the more valuable the information that appears to be associated with the trading across it. This hidden connection premium exists across industries, styles, time periods, and firm types; remaining strong and significant through the present day. More broadly, our findings highlight the importance of missing nodes and hidden edges when attempting to understand the true nature of shock propagation in complex network systems.