The Journal of FINANCE
The Journal of THE AMERICAN FINANCE ASSOCIATION

The Journal of Finance®

G. William Schwert
Fellow of the American Finance Association for 2019

G. William Schwert

Bill Schwert was born in Durham North Carolina in 1950 and moved to Lexington Kentucky in 1959 when his father moved from Duke University to start the Biochemistry Department at the newly created Medical School at the University of Kentucky. He graduated from Trinity College in Hartford with honors in economics in 1971. Then, he attended the University of Chicago Graduate School of Business, where he earned an MBA in 1973 and a PhD in 1975. His dissertation committee included three subsequent winners of the Nobel Prize in Economics: Eugene Fama, Merton Miller, and Myron Scholes.

He served as an Assistant Professor at Chicago in 1975 to 1976 before moving to the University of Rochester, where he has taught for the last 43 years. In 1986, he was named the Gleason Professor of Finance, and in 1998, he was appointed as a Distinguished University Professor.

Bill has worked in several areas of finance, economics, and econometrics. His early work on inflation and asset returns included coauthored papers with Gene Fama, with Charles Nelson, and with Ken French and Rick Ruback. The 1977 paper "Asset Returns and Inflation" with Fama in the *Journal of Financial Economics (JFE)* is highly cited, in part because they documented a negative relation between stock returns and nominal interest rates. This result is some of the earliest evidence that expected returns to stocks vary over time. It is surprising because the commonly held thought that common stocks should provide a hedge against inflation risk implies a positive relation between inflation and stock returns.

Early in his career, Bill coauthored several papers with his graduate school friend and brother-in-law, Charles Plosser. A common theme of those papers is that time series regression models often used in economics involve variables with random-walk-like behavior (later referred to as "unit root" variables). Comparing regression estimates using both the levels and the first differences of the variables in the regression can provide important information about the relation among the variables.

Bill extended his interest in time series econometrics to study nonparametric unit root tests that had become popular in the macroeconomics literature. His 1987 paper in the *Journal of Business and Economic Statistics (JBES)* was selected as one of the best papers in the first 20 years of the *JBES*. The message in these papers is that many financial and economic variables, including consumer price index (CPI) inflation, seem to have a unit root component. When slow-moving unit root behavior is combined with more variable random variation, most popular unit root tests have low power to detect the unit root

DOI: 10.1111/jofi.12774

behavior. This unit root behavior means that there is no long-run mean to which the series will always revert.

Many of Bill's early papers extended the ideas underlying efficient market tests to a broad variety of economic questions. For example, his dissertation studied the reaction of stock exchange seat prices to information about stock market values, trading volume, and changes in the regulation of securities markets. He also used time series econometric techniques to identify the days during the month when stock prices react to information about the CPI inflation rate. A related paper in the 1985 *Journal of Political Economy*, coauthored with Gur Huberman, studied the reaction of daily Israeli indexed bond prices to announcements of the Israeli CPI.

Beginning in the late 1980s, Bill studied the behavior of stock market volatility. His coauthored paper with Ken French and Rob Stambaugh published in 1987 in the *JFE* showed how volatility is very persistent and that negative stock returns lead to subsequent increases in volatility. The literature on stock volatility grew dramatically, so this paper is highly cited. His paper "Why Does Stock Volatility Change Over Time?" published in the December 1989 *Journal of Finance* uses financial and macroeconomic data dating back to the early 1800s to study stock volatility. While many economic factors are related to stock volatility, the extremely high levels of volatility during the 1930s are difficult to explain. This paper won a Smith-Breeden Distinguished Paper Prize and is highly cited.

In the 1990s, Bill studied several aspects of the market for corporate control. His 1995 *JFE* paper with Bob Comment found that shareholder rights plans (poison pills) and state antitakeover amendments did not systematically deter takeovers. Rather, they were typically used by firms with these "takeover defenses" to bargain for higher premiums for stockholders. At the time, this argument was quite different from the perceived wisdom in the finance literature.

Bill's paper on "markup pricing" in the 1996 *JFE* shows that about half of the premium received by target shareholders occurs before the first public announcement of a potential bid, and that there is no correlation between the "pre–bid run-up" and the "post–bid markup" of the target firm's price. Thus, there is generally at most a small substitution between the increase in the price before the first public announcement and the behavior of the target's stock price after the bid is announced. Thus, the run-up increases the expected total premium received by target shareholders, measured as the total increase over both periods. This raises significant questions about the effects of information leakage or insider trading prior to takeover bids.

His 2000 *Journal of Finance* paper on "hostile" takeovers shows that most measures of hostility simply reflect choices made by either the target or bidder firm to publicize the existence of a takeover negotiation, presumably to improve their bargaining position. This view contrasts with the conventional treatment of "hostility" as a reflection of agency problems, usually on the part of target firm managers who resist takeover bids that would seem to benefit their shareholders.

During the 2000s, most of Bill's research with Michelle Lowry and Micah Officer studied the market for initial public offerings (IPOs). In their 2002 *Journal of Finance* paper, Bill and Michelle found that the strong autocorrelation of the average monthly underpricing of IPOs in U.S. markets is explained by two factors: (1) the fact that the length of the IPO registrations is typically at least two months long and (2) the strong cross correlation of IPO returns that are occurring at the same time. Thus, sequential learning from one IPO issue to the next (for another firm in the same calendar period) generates the strong apparent cycles in IPO returns.

In their 2010 *Journal of Finance* paper, Bill, Michelle, and Micah studied the variability of IPO initial returns (the difference between the IPO price and the subsequent market price in the secondary market). They found that when average underpricing is high, so is the dispersion of underpricing. In essence, issuing firms and their underwriters have a harder time estimating the aftermarket price during "hot" IPO markets. A comparison with a small sample of "auction" IPOs, where potential investors influence the IPO price through their bids, shows (not surprisingly) that letting firms and investment banks learn information from outside investors improves the process of setting the IPO prices to reduce the variability of outcomes.

Bill has served on the dissertation committees of 43 PhD students at Rochester, including 17 who hold named chairs at many distinguished universities, including Chicago, Dartmouth, Wharton, and Michigan.

Bill has served the finance profession in several ways. He was an Associate Editor for the *Journal of Finance* from 1983 to 2000, serving first Marty Gruber and Ned Elton and then René Stulz during their editorships. He was a Director of the AFA from 1987 to 1989. His largest service contribution is related to the *JFE*, where he has served as an editor since 1979. He has been the managing editor since 1995. Through 2018, Bill has been the editor for 2,048 of the 2,723 papers published in the *JFE*, and he has been responsible for at least 17,000 editorial decisions.

Bill is married to Patricia Schwert. He has three children, Lisa Pohlschroeder, Michael Schwert, and Andrew Schwert, and three step-children, John Nolan, Barbara Hoffman, and Kerry Winslow.