

# AUSTIN STARKWEATHER

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## CURRENT POSITION

Vanderbilt University, Postdoctoral Research Fellow

2018-

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## EDUCATION

University of Maryland, Ph.D. in Finance

2010 - 2016

Princeton University, B.A. in Economics

2000 - 2004

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## RESEARCH INTERESTS

Analyst forecasts, managerial guidance, corporate governance, law and corporate decision-making

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## WORKING PAPERS

**Do Analysts Chase Prices When Prices Have No Information?** (Solo-authored)

*Job Market Paper*

In a recent survey of analysts, 96% claim that stock returns are not very useful as earnings forecast model inputs. I find, though, that analysts actually do incorporate returns into their corporate earnings forecasts, even if those returns have no underlying earnings information. This leads to forecast error, which is worse among inexperienced analysts and those with reduced attention. Finally, I show that the market is unable to anticipate this error, leading to mispricing that is not resolved until the earnings announcement date. The literature has so far been unable to explore these issues causally. However, I am able to do so by developing a novel identification strategy that isolates the non-earnings component of the Federal Open Market Committee (FOMC) announcement and separates out concurrent information using intraday and instrumented returns.

**Spinning the CEO Pay Ratio Disclosure** (with Audra Boone and Joshua White)

We examine firms' disclosure of the SEC's recently-mandated CEO pay ratio rule, which reports the compensation of the CEO relative to the median employee. Proponents of the rule argue that disclosing the ratio will shed light on pay disparity. Opponents claim the ratio is uninformative due to organizational differences within industries and flexibility in the SEC's disclosure rule. We find that higher pay ratios attract negative media attention, increase shareholder voting dissent on executive compensation, and diminish labor productivity gains. Using textual analysis, we show that firms with higher pay ratios tend to spin the disclosure in an attempt to influence the perception of the ratio, but these efforts fail to attenuate (and sometimes exacerbate) negative stakeholder outcomes. Our results shed light on the effects of disclosing information about pay disparity between executives and employees.

**Is the Bottom Line the Top Priority? Revenue Versus Earnings Guidance** (with Audra Boone, Craig Lewis, and Joshua White)

We study the decision by corporate managers to provide quarterly earnings or revenue guidance and market reactions to its provision. While much of the prior work focuses on earnings forecasts, more firms provide revenue than earnings guidance in recent periods. We model the optimal choice of guidance type, including the decision to not provide any, using a random effects multinomial logit model. A key finding is presence of industry herding around guidance policies for firms that choose to provide guidance. Using an instrumental variables approach that also corrects for selection bias, we then study the market response to optimal versus non-optimal guidance provision and the time it takes to correct non-optimal guidance choices. Our paper provides new insights on the managerial choice to provide quarterly forecasts of revenue or earnings and its implications for price discovery.

### **Carcinogen Exposure and Firm Response to Cash Flow Risk** (Solo-authored)

Two competing theories guide how researchers think about firm response to potential bankruptcy caused by cash flow risk. Asset substitution encourages firm equity holders to increase the riskiness of assets to extract value from creditors, while principal agent theory suggests managers consider career concerns and reduce bankruptcy risk, either by reducing cash flow volatility or increasing the size of the firm. I test these two theories using a natural experiment of a chemical used in the production process being identified as carcinogenic, thereby introducing the firm to future cash flow risk in the form of litigation and regulations. Consistent with asset substitution, I find evidence that moderately-exposed firms decrease their exposure, while highly-exposed firms increase their exposure. I find that moderately exposed firms are more likely to invest abroad in the same industry and in countries with lower labor regulation standards, suggesting they consider labor regulations when investing abroad. Finally, I examine the interaction of financial distress and carcinogen exposure. Consistent with asset substitution, I find that financially distressed firms are less likely reduce their carcinogen exposure.

## **WORKS IN PROGRESS**

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### **10-K Language Similarity and Analyst Forecasts** (with Jing Wang and Richard Willis)

We explore the interaction of language similarity in a firm's 10-Ks and analyst annual earnings forecast accuracy. We use Python to scrape the text and generate language similarity scores, and we find that analyst forecast errors increase following 10-Ks with language similar to that in the prior year's 10-K. This is consistent with firms revealing little incremental information that might be used to aide analyst forecasts. We observe that analyst experience partially overcomes the effect. However, the negative forecasting effect of similar 10-Ks is exacerbated when firm size changes dramatically, suggesting a failure on the part of managers to adequately disclose changes within the firm.

### **Language Used in Management Guidance** (Solo-authored)

I develop a Python program to scrape and examine the language used by managers when issuing EPS and Sales guidance to the market. Whereas current research using I/B/E/S guidance forecasts is only able to examine point estimates and ranges of guidance, I find that the language used in concert with numeric guidance projections matters and conveys additional meaning for investors. I find that certain words denote the expectation of higher EPS and Sales than others, with other words suggesting a greater degree of uncertainty. Moreover, I find that both analysts and the market systematically underreact to language that conveys the most meaning. I compile a managerial language index, which will allow scholars and practitioners to develop a more refined understanding of the guidance managers provide to the market.

### **Accounting Consistency and Firm Investment Efficiency** (with Yongbo Li and Jing Wang)

Earnings are affected not only by changes in the fundamental economics of the firm but also by changes in its accounting measurement system. We examine the effect of changes in the accounting measurement system on a firm's investment efficiency. Using a Python code, we scrape the text of accounting policies in firm 10-Ks and measure their language similarity from one year to the next. We find that accounting language consistency reduces firm underinvestment compared to firms with greater changes in language. We argue this is due to information asymmetry. When earnings change and investors cannot determine whether this is due to changes in the firm's economics or to its accounting measurement system, investors will assign at least some weight to firm economics being the cause, even if that is not the case.

## **TEACHING**

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<b>Vanderbilt University</b> Econometrics (3 sections, Masters of Finance)	2018, 2019
<b>University of Maryland</b> International Finance (2 sections, Undergraduate)	2013

## RELEVANT PROFESSIONAL EXPERIENCE

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### Cornerstone Research, Washington, D.C.

2015-2018

*Associate, Economic Litigation Consulting*

- Performed accounting and financial analysis on issues arising in business litigation
- Communicated findings to client (lawyers) as well as experts (typically professors)
- Managed case teams and organized work flow
- Sample casework included assessing impact of: analyst forecasts on firm stock price, a federal accounting regulation on publicly-traded company valuations, allegedly-missing information from the S-1 filings during the IPO process, and fund selection in a 401(k) plan on market participant portfolios

### Oxford Resources

2008-2009

*Manager, Financial Planning and Analysis*

- Responsible for integrating accounting output into corporate financial forecasts
- Responsible for communication with creditors and bankers during IPO process

### American Commercial Lines

2007-2008

*Analyst, Corporate Finance*

- Conducted financial analysis of target firms

### Consulting Projects

The World Bank

2013

Broadridge Financial Services

2013

## CONFERENCES AND PRESENTATIONS

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**2019** (including scheduled): City University of Hong Kong<sup>†</sup>, Hong Kong Polytechnic University<sup>†</sup>, Midwest Finance Association\*, Peking University<sup>†</sup>, Texas Christian University, University of Kansas<sup>†</sup>, University of Maryland, University of Memphis, University of Mississippi<sup>†</sup>, University of South Carolina, University of Wisconsin-Milwaukee<sup>†</sup>, University of Wyoming<sup>†</sup>, Vanderbilt University  
(\*: as discussant, †: co-author)

## SERVICE

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**Vanderbilt:** Masters of Finance Program Advisory Committee Member

2019-

**Program Committee:** American Accounting Association Annual Meeting (2019); American Accounting Association FARS Midyear Conference (2019); Eastern Finance Association Annual Meeting (2020); FMA Asia/Pacific Conference (2020); Midwest Finance Association Annual Meeting (2020)

**Referee:** Finance Research Letters; Journal of Business, Finance, and Accounting

## HONORS AND AWARDS

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Cornerstone Quality Initiative Focus Group

2018

CIBER Award for International Research

2013

Graduate Fellowship, University of Maryland

2010-2015

John Glover Wilson Memorial Award for best international social science senior thesis

2004

Editor-in-Chief of The Daily Princetonian

2003-2004

## COMPUTATIONAL SKILLS

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Stata, SAS, Python, Latex

## LANGUAGES

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English (Native), Spanish (Conversational), Mandarin (Conversational)

## REFERENCES

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## PERSONAL

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U.S. Citizen