Should you worry if organized crime has infiltrated the boards of the companies you own? Can you learn anything about how your investments will perform based on movie theater receipts? Two recent research studies answer those questions.

While this research should have no bearing on how you manage your clients’ assets, the findings are nonetheless interesting.

The first study, *Is It Worth Having the Sopranos on Board? Corporate Governance Pollution and Organized Crime: The Case of Italy*, was published in August by four researchers: Pietro A. Bianchi from the University of Miami and Antonio Marra II, Donato Masciandaro and Nicola Pecchiari from Bocconi University.

The researchers looked at a database of Italian corporations from 2006 to 2013 and identified board members that had criminal records that indicated potential involvement with organized crime. They found that those corporations had lower cash holdings and lower profitability than their overall sample.

Two explanations are possible with regard to the cash holdings, according to the authors. Firms may be lowering their cash holdings to avoid being exploited by their “tainted” directors, or those directors have taken control of the companies and are using them to launder money, and have reduced cash to avoid detection.

The researchers hypothesized that the lower profitability is due to tainted directors siphoning off funds for their personal use.

This study was possible because of the availability of a confidential database of criminal activity. It allowed the researchers to identify people who were under criminal investigation on a historical basis, even though those individuals were not aware they were being investigated at the time. Such data is not available contemporaneously, much less for U.S. corporations, so this study has little relevance to U.S. investors.

The second study, *Is It Time for Popcorn? Daily Box Office Earnings and Aggregate Stock Returns*, was also published in August and was authored by Seda Oz of the University of Waterloo and Steve
The authors hypothesized that increased discretionary consumption would be predictive of stock market returns. Discretionary consumption was defined as the money spent on luxury items, travel, movies, consumer electronics, and all other non-essential goods and services. They used movie box office receipts as a proxy for and showed that it is correlated to the other measures of discretionary spending.

The linkage, according to the authors, is that discretionary expenditures capture changes to household wealth, which can also be used for investments in capital markets.

They found that there is a strong statistical relationship between box office receipts and stock market returns, but only over a two- to five-day period. There was no statistical significance for periods longer than seven days.

The authors went on to devise a trading strategy that took advantage of box office receipts. They constructed a model that predicted stock returns over a one-day horizon, using box office data; if the prediction was for a positive return, the index would be bought; otherwise it would be shorted. It had a statistically significant, annualized return of nearly 25%. They acknowledged, however, that transaction costs and taxes would erode those returns.

Given the short-term nature of the box office effect on stock prices, these findings have no relevance to advisors and their clients. Even if someone were to create a commercial product that sought to exploit the box office anomaly, it’s possible that the excess returns would be quickly arbitraged away.

If you’re looking for practical takeaways from this research, here it is: Don’t try to invest based on whether you think a company’s board of directors has been criminally infiltrated or whether movie box office receipts have surged.