

On college, BlackRock, America's army, Parliament, Europe, James Bond

Letters



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The BlackRock/BGI merger

[Two's a crowd \(http://www.economist.com/news/finance-and-economics/21672339-new-paper-suggests-big-asset-managers-could-warp-markets-twos-crowd\)](http://www.economist.com/news/finance-and-economics/21672339-new-paper-suggests-big-asset-managers-could-warp-markets-twos-crowd) (October 10th) reported on an academic study that attempts to use the BlackRock/BGI merger to show that large asset-management firms can affect the behaviour of other investors. The study falls short on several fronts, the most egregious of which is the authors' failure to control for any external factor affecting markets at the time. The period of the study, 2008-10, was a particularly turbulent time: think global financial crisis, great recession, quantitative easing and European debt crisis. Instead of accounting for the effects of these or any other highly disruptive events, the authors attribute investor behaviour solely to the BlackRock/BGI merger. This fails the most basic smell test. In this type of study, it is important to hold all else equal. That is difficult to do in practice, especially during a turbulent period in markets, but clearly these other world events affected asset managers in different ways.

As the authors document, the stocks owned by BGI prior to the merger were in significantly larger-than-average companies. This makes it very difficult to compare performance of like-for-like assets, potentially confounding the causal statements made by the authors. Additionally, smaller asset-managers facing redemption requests during this period would have needed to sell shares, and to the extent stocks held by BGI were larger, more liquid and easier to liquidate, that would appear as though other investors were migrating away from stocks held by BlackRock/BGI.

The authors' failure to consider these facts, or at least try to account for them in their analysis, is a lack of understanding of asset management, or at worst, an intentional oversight to skew the results in support of their thesis.

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