Discussion of:
"Green or Brown? Choosing an Overpriced Stock to Short Sell"

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July 30th , 2023

Motivation and findings

- **Motivation:** Whether short sellers show varying preferences for (overpriced) firms with different levels of ESG performance?

- **Main findings:**
- Causal effect:
  - negative effect of ESG score on short sell among overpriced stocks
- Mechanism:
  - Synchronization risk
  - Short squeeze risk
  - ESG reputation risk
- Asset pricing implication
  - Insufficient short sell => more negative return in the future

Comment-1: Short-squeeze risk and DGSVI

- Short-squeeze risk: a temporary price increase on the stock being shorted
- DGSVI: change of Google Search Volume Index on ESG topic
- **To validate that DGSVI can proxy for the short squeeze risk**
- **To include DGSVI in the regression**

Panel A: The impact of Google Search Volume

	On Loan		Utilization Ratio	
	(1)	(2)	(3)	(4)
Overprice x ESG Score x DGSVI	-1.084***	-0.706**	-3.607***	-3.478***
	(-2.86)	(-2.39)	(-2.91)	(-2.58)
Overprice x ESG Score	-0.554	-1.233***	-3.914**	-5.360***
	(-1.00)	(-2.72)	(-2.37)	(-3.75)
Overprice x DGSVI	0.561**	0.211	2.398***	2.030**
	(2.42)	(0.80)	(3.09)	(2.37)
ESG Score x DGSVI	0.293**	0.235*	-0.225	-0.201
	(2.15)	(1.68)	(-0.58)	(-0.48)
Overprice	1.483***	1.506***	5.807***	5.455***
	(4.29)	(5.23)	(5.36)	(5.84)
ESG Score	-0.718	0.065	-2.659**	-0.638
	(-1.49)	(0.16)	(-2.09)	(-0.55)
DGSVI				
Controls	No	Yes	No	Yes

Comment-2: Fama-MacBeth results

- No enough short sell for overpriced stocks => more negative future return
- The coefficient of Overprice×Short Sell should be significant positive.

Panel B. Controlling for short selling demand

	(1)	(2)	(3)	(4)
Overprice x ESG	-0.586**	-0.924***	-0.447	-0.757*
	(-1.98)	(-2.86)	(-1.14)	(-1.93)
Overprice	-0.055	0.243	-0.202	0.037
	(-0.27)	(1.15)	(-0.93)	(0.15)
ESG Score	-0.122	0.433*	-0.170	0.393*
	(-0.71)	(1.85)	(-1.08)	(1.82)
Overprice x On Loan			0.021	0.036**
			(1.23)	(2.22)
On Loan			-0.014	-0.025**
			(-1.07)	(-2.19)
Overprice x UT				
UT				
Controls	No	Yes	No	Yes
Adj R-squared	0.012	0.060	0.025	0.070
Observations	105,986	95,104	105,986	95,104

Comment-3: Other driving force

- "insufficient short selling demand may not be the only reason for the return predictability"
- **Any other driving force?**

Panel B. Controlling for short selling demand

	(1)	(2)	(3)	(4)	(5)	(6)
Overprice x ESG	-0.586**	-0.924***	-0.447	-0.757*	-0.466	-0.652*
	(-1.98)	(-2.86)	(-1.14)	(-1.93)	(-1.09)	(-1.70)
Overprice	-0.055	0.243	-0.202	0.037	-0.180	0.006
	(-0.27)	(1.15)	(-0.93)	(0.15)	(-0.78)	(0.02)
ESG Score	-0.122	0.433*	-0.170	0.393*	-0.176	0.381*
	(-0.71)	(1.85)	(-1.08)	(1.82)	(-1.09)	(1.72)
Overprice x On Loan			0.021	0.036**		
			(1.23)	(2.22)		
On Loan			-0.014	-0.025**		
			(-1.07)	(-2.19)		
Overprice x UT					0.008	0.014**
					(1.35)	(2.31)
UT					-0.006	-0.007**
					(-1.33)	(-1.99)
Controls	No	Yes	No	Yes	No	Yes
Adj R-squared	0.012	0.060	0.025	0.070	0.024	0.070
Observations	105,986	95,104	105,986	95,104	105,986	95,104

Comment-3: Other driving force

- Borrow some ideas from the mechanism analysis
- A risk-based explanation on the return predictability

- Testable hypothesis:
- Cross-section, for synchronization risk
  - The predictability should be stronger among stocks with greater socially responsible institutional ownership
- Time-series, for short-squeeze risk
  - The predictability should be stronger in the period with greater ESG attention

Minor comments

- Overpriced variable:
  - Dummy vs continuous

- Small typo:
  - Page 3: Short squeeze” => “Short squeeze”

Conclusion

- An interesting paper with clear and intuitive motivation
    - The first to investigate the effect of ESG on short selling
    - Causal effect + mechanism + asset pricing implication
    - Well-written and well-executed

- Look forward to its publication in top journals

- Good luck!