3-23-2009

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Taking on 'Mad Money'

03.23.2009 | Business

University of Dayton finance professor Carl Chen doesn't mind all the attention Comedy Central's Jon Stewart is getting for taking on Jim Cramer — even though Chen, in a quieter way, took on Cramer himself last year.

Cramer, the flamboyant host of CNBC's *Mad Money* show, was the subject of a widely viewed March 12 interview on Stewart's program that accused the network of failing to adequately report issues leading up to the financial crisis.

Chen's research revealed last year that betting against Cramer's recommended stock picks could earn investors more money.

His research, presented at several U.S. and international conferences in October, November and December, caught the attention of *Barron's* financial magazine. *Barron's* cited the research in a Feb. 9 story about how Cramer's *Mad Money* recommendations were underperforming most measures of the stock market.

*Barron's* reporter Bill Alpert wrote: "Chen found signs that the smart money bets against Cramer's buy recommendations by using short-term in-the-money puts. Those bets could earn over 25 percent in a month, Chen concludes, at the expense of Cramer's fans."

Chen explained that he investigated stock and option markets reaction after Cramer made recommendations. He said he found that depending on the size of the company, especially for smaller companies, after the Cramer recommendation, the stock price did go up, but then after three to four weeks, it headed into negative territory.

"Based on his recommendation, people who bought those stocks and held them for a month would lose money," Chen said, explaining that it's called a price pressure effect.

"It doesn't mean the stock has increased in value. It's what happens when what we call 'uninformed investors' push the stock price higher," he said. "The stock price reverses eventually."

Chen said his research found indications that some traders were watching Cramer's advice carefully.

"There is some evidence that the option markets took advantage of the recommendations and bet against Jim Cramer's advice. There was trading against his recommendations using put options," Chen said. "That means they bought options expecting the price to go down."

Chen says he's working on an update of his initial research and hopes to publish it later this year. He said he's finding that the price pressure effect was stronger in the early years of the show.

"Investors became more cautious and skeptical about his recommendations," Chen said.

Chen said he thought Cramer could have done a better job in the now-infamous *Daily Show* interview with Stewart.

"I agree with most of what Jon Stewart was saying, but not all. I thought there were some points where Cramer could have done a better job of defending himself," Chen said. "It surprised me that Jim was so passive."