Stephen J. Brown and his impact on the research and practice of finance: a brief personal testimony and a short synopsis

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Stephen Brown is one of the true thought leaders in empirical finance. I am fortunate to be his student and co-author, and to follow him as the executive editor of the *Financial Analysts Journal*. His mentorship is the reason why I am in this profession.

It began in the 1980's with Stephen teaching me how to perform an event study with daily stock price data—which at that time my co-author and I had hand-collected in order to study the listing effect. It was subsequently published as a short article in the FAJ. Stephen introduced me to the statistical package S (R's precursor), and then showed me how, and more importantly why, to control for the market. Little did I know that, precisely at this time, he had just published his monumental paper with Jerry Warner, "Using Daily Stock Returns: The Case of Event Studies." This and their prior work on monthly returns now total more than 18,000 academic citations and became the bible for tests of efficient markets, insider trading, and anomalies.

But that is the tip of the iceberg. There is a largely unobserved domain of application of Stephen's event-study research in the fields of law and the practice of finance. Their methodology has been widely used in securities litigation, securities market regulation, and as a key tool to test new trading ideas. It is now the workhorse for testing the efficacy of AI models for security selection, microstructure effects, and high-frequency trading dynamics. Brown and Warner's work demonstrated what mattered and what did not in event studies, and how to actually use them for meaningful statistical inference.

Stephen is a deep thinker about statistical inference, with a particular interest in sample selection bias. Interestingly, this was sparked by the original event study by Fama, Fisher, Jensen, and Roll (1969). He pointed out that ex-post conditioning on a stock split can profoundly affect inference – for example, the apparent autocorrelation leading up to a split is consistent with sample selection bias, not a predictable price path.

There are many chapters in our intellectual journey together, most of which he took the lead in conception and development. We were fortunate to work closely with Stephen Ross on a paper exploring the broader implications of survival bias—both in time series and in cross-section. We applied these insights in a variety of settings: from the equity risk premium, to mutual fund performance persistence, and in the then-novel asset class of hedge funds—pointing out that including the fund graveyard was essential, and not really that easy.

With many, brilliant co-authors, Stephen and I explored a number of issues in hedge fund selection and performance: from style analysis, to funds-of-funds fees, to their role in the Asian currency crisis, to the detection of operational risk. Stephen has taken hedge fund research much further with other co-authors, exploring behavioral dimensions and latent factors in hedge fund returns. He is unquestionably one of the leading authorities in this field. He embodies the spirit of the Vertin Award in every possible dimension.

I could go much further on Stephen's impact on the world of finance. His influential work includes a landmark empirical test with Phillip Dybvig of the Chen, Roll and Ross bond pricing model, his elegant argument on the ambiguity about the number of factors in stock returns, his early work on estimation risk on portfolio optimization and much more.

It is important to also celebrate his leadership of the Financial Analysts Journal. His articulation of -- and adherence to -- the fundamental mission that distinguishes the FAJ from purely academic journal and purely practitioner-oriented publications set high standards and has given me and the entire editorial team a framework for identifying papers that are both academically rigorous and have important implications for the practice of professional investment management.

Three-Sentence Synopsis for Ceremony

Stephen J. Brown is a pioneering thought leader in empirical finance, his foundational work with Jerry Warner on event studies transformed how markets are analyzed, both in research and in practice. His mentorship and scholarship shaped generations of academics, advancing fields from mutual fund and hedge fund performance to the study of subtle biases in financial data. He exemplifies the highest standards of research, rigor, and impact, making him a most deserving recipient of the Vertin Award.
