Discussion of "The Value of Value Investors" by M. O'Hara, A. C. Rapp, and A. Zhou

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Summary

- Insurance companies played an important stabilizing role in the COVID crisis sell-off: bought about half of the inventories sold by dealers
  - Insurers with lower variation in funding were more likely to be net buyers in the crisis period
  - Life insurers have the smallest variation in funding and act more as buyers
- Strong evidence of relationship trading
  - During the crisis, insurers bought more from (and sold less to) dealers with whom they had prior relationships
  - Dealers improve their liquidity provision when they have relationships with insurers with more stable funding

Summary

- The paper highlights the important role of long-term, stable-funded value investors in mitigating financial fragility concerns in bond markets
- Shows that insurers can act as "buyers of last resort", particularly in bonds facing fire sales by mutual funds
- Well written text, pretty convincing argument and analysis: a lot of robustness tests

Comment 1: Relationships

- The authors find that insurer-dealer trading relationships can positively affect execution quality for insurers
- Consistent with Jurkatis, Schrimpf, Todorov, Vause (2023) that relationships matter in the dealer-to-client trading of corporate bonds
  - Clients with stronger relationships receive better prices
  - Effect is particularly strong during the COVID turmoil
  - Two main drivers: liquidity provision by clients, and retaining high-value clients who generate bulk of dealers' profits
  - Not only insurers but also brokers and asset managers are top liquidity providers to dealers

Comment 1: Relationships

- In specification (6), instead of using the past volume between insurer and dealer, can use the past volume scaled by the total trading volume of the dealer. That captures how important the insurer is for the dealer

- Do dealers quote better prices to insurers post-crisis given their liquidity provision? The paper finds that dealers reward insurers for the liquidity provision by giving them larger primary market bond allocations in the aftermath of the crisis

Comment 2: Some Comments on the Empirics

- Could measure liquidity provision at the bond level: searching for bonds that were bought by a dealer and then immediately resold to the insurer (like in Choi et al., 2021), instead of looking at aggregate trading volume. Also for MF sales
- In what type of bonds were insurers more likely to be liquidity suppliers (split on ratings/maturity)?
- Why using MF holdings instead of changes in MF holdings? The latter shows which bonds MFs disposed off/acquired during a given month
- In Model 1, it might be good to control for bid-ask spreads or other liquidity measures. Might be better to use signed volume (like in (2)) instead of just volume

Minor comments

- Not sure the title is right. Makes one think about "Value" as the equity factor rather than about insurance companies and corporate bonds
- What about a shorter period to compute Variation in Insurance Funding instead of 5/3 years? To capture higher frequency of the variation in funding
- "$Net\ Cash\ from\ Financing_t$ is the net cash raised from debt and equity minus, if applicable, dividends to stockholders": what about coupons do bondholders?
- What is "t" in (4): year/quarter?
- Why superscript T in $Controls^{T}_{i,19:Q4}$ in (5)?
- It would be good to report stats on % of stale prices given that the benchmark price in (7) can be quite stale

Conclusion

- Interesting paper, documents the important role of long-term, stable-funded value investors in mitigating financial fragility concerns in bond markets
- A lot of new and interesting results about liquidity provision by insurers
- Great paper!