CEO’s home may foretell stock price

Study finds the bigger the mansion, the worse the shares do

From Wire Reports

NEW YORK — Investors looking for stock-picking tips might find the answer right at home — not their own, but where CEOs live.

A new study makes the case that there is a strong correlation between executives’ home-buying behavior and stock performance. The bigger the CEO home, the worse the company’s stock fares, according to two academic researchers.

They also found that companies with CEOs living in more modest abodes often see their shares outperform.

Arizona State University’s Crocker Liu and New York University’s David Yermack contend that a supersized home purchase shows entrenchment. A CEO might feel secure in his position and therefore isn’t concerned that he is going to have to leave soon.

Those living really large are the 12 percent of S&P 500 CEOs with homes topping 10,000 square feet or on a minimum of 10 acres. But their occupying the biggest house on their block doesn’t make you a winner on Wall Street.

Their companies’ stocks lagged the S&P 500 about 25 percent over the three years after the CEOs’ home purchases. In contrast, those buying more modestly saw their companies’ stocks beat the market benchmark by about the same amount.

Of course, entrenched CEOs can win in the corporate world, and the time and money involved in buying lavish properties could be a sign they are making a long-term commitment to their companies and communities.

But the professors concluded that the purchase of a megamansion could also symbolize that CEOs view their homes as being more important than their companies and that many sell company stock just before it peaks to buy and furnish their expensive new digs.

Mr. Liu and Mr. Yermack culled data on 488 principal residences from CEOs of companies in the Standard & Poor’s 500 stock index at the end of 2004 for their study, entitled “Where Are the Shareholders’ Mansions?”

The median CEO home was valued at $2.7 million — more than 10 times the median sales price for all U.S. homes in 2004. It included 11 rooms plus 4.5 bathrooms, with a floor area of more than 5,600 square feet and a median land area of 1.25 acres.

Twelve percent of CEOs’ homes are on waterfronts, and 8.5 percent are next to or on the grounds of golf courses. The median CEO lives 12.5 miles away from corporate headquarters.

CEOs often buy new homes the year they get the “big” job, with 164 S&P 500 executives doing that in this survey.

Former Home Depot Inc. CEO Robert Nardelli’s nearly 30,000-square-foot mansion was among the largest in the study. It was purchased after Mr. Nardelli took over the home improvement chain and underwent big renovations, according to Mr. Yermack.

But that kind of space didn’t give him enough room to come up with a strategy for Home Depot that investors necessarily liked. The company’s shares fell more than 3 percent on a split-adjusted basis from Mr. Nardelli’s arrival in December 2000 to when he resigned at the start of this year under a cloud over his outsized pay.

Of course, not everyone owning big homes is destined to disappoint their company’s stock investors. Mr. Yermack notes there are plenty with trophy properties that have done right by their shareholders, including Oracle Corp.’s leader Larry Ellison and Sun Microsystems Inc. former CEO and current chairman Scott McNealy.

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