

Overconfidence and Early-Life Experiences: The Effect of Managerial Traits on Corporate Financial Policies

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ABSTRACT

We show that measurable managerial characteristics have significant explanatory power for corporate financing decisions. First, managers who believe that their firm is undervalued view external financing as overpriced, especially equity financing. Such overconfident managers use less external finance and, conditional on accessing external capital, issue less equity than their peers. Second, CEOs who grew up during the Great Depression are averse to debt and lean excessively on internal finance. Third, CEOs with military experience pursue more aggressive policies, including heightened leverage. Complementary measures of CEO traits based on press portrayals confirm the results.

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