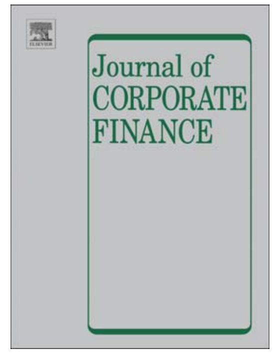


# CEO Age and the Riskiness of Corporate Policies

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# CEO Age and the Riskiness of Corporate Policies

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**Abstract**

Prior theoretical work generates conflicting predictions with respect to how CEO age impacts risk-taking behavior. Consistent with the prediction that risk-taking behavior decreases as CEOs become older, I document a negative relation between CEO age and stock return volatility. Further analyses reveal that older CEOs reduce firm risk through less risky investment policies. Specifically, older CEOs invest less in research and development, make more diversifying acquisitions, manage firms with more diversified operations, and maintain lower operating leverage. Further, firm risk and the riskiness of corporate policies are lowest when both the CEO and the next most influential executive are older and highest when both of these managers are younger. Although older CEOs prefer less risky investment policies, I document results suggesting that CEO and firm risk preferences tend to be aligned. Lastly, I find that a trading strategy that goes long in a portfolio of stocks consisting of firms managed by younger CEOs and short in a portfolio of stocks comprised of firms led by older CEOs would generate positive risk-adjusted returns. Overall, my results imply that CEO age can have a significant impact on risk-taking behavior and firm performance.

Keywords: Chief Executive Officer; CEO Age; Risk; Behavior; Corporate Investment
JEL Classifications: G31, G32, G34