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CIEN CENTRO DE INVESTIGACIÓN EMPÍRICA EN NEGOCIOS udp FACULTAD DE ECONOMÍA Y EMPRESA

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Individual Tontine Accounts

Richard Fullmer
Nuova Longevità Research, United States
richard.fullmer@nuovalongevita.com

Michael Sabin
Independent Consultant, United States
mike.sabin@att.net

Abstract

An individual tontine account (ITA) is an investment product similar to a conventional brokerage account, but with the added feature of mortality pooling through participation in an open-ended fair tontine. The ITA exploits the property that participants in a fair tontine need not be confined to a common investment portfolio or to a common payout method. Instead, participants are allowed to select and trade investments as they wish and to choose from a variety of payout methods, with each participant's results being largely unaffected by the investment and payout choices of others. We envision the ITA as being complementary to an individual retirement account (IRA), allowing retirees to derive extra income from savings without taking on additional investment risk and to obtain lifetime income at a lower cost than with comparable insurance products. The mortality-pooling features of ITAs compare favorably to those of insurance products. The cost per dollar of income is lower. The opportunity for individual choice is increased. Fees are transparent rather than opaque. Accounting is transparent and conveyed simply on account statements. The downside of ITAs is that income from mortality pooling is not guaranteed, and a participant might experience less income than hoped for if other participants live longer than expected. ITAs represent a new arrow in the quiver for addressing global retirement needs and may address the ?annuity puzzle? by giving retirees a more transparent, lower-cost alternative to insurance-based products.

Estimating The Information Component in Switching Costs: A Structural Approach

Santiago Truffa
Tulane University, United States
struffa@tulane.edu

Sheisha Kulkarni
University of Virginia, United States
kulkarni@berkeley.edu

Abstract

We exploit a unique natural experiment to structurally estimate the information frictions associated with switching costs. Specifically, we study a Chilean policy that simplified and standardized the presentation of loan characteristics in contracts and quotes. Using administrative data from the banking regulator, we exploit how this policy change affected the price-sensitivity in consumer decisions to identify the reduction in information frictions. We then incorporate this estimate into a dynamic structural model to explore the link between reduced informational frictions and welfare in long- term market equilibrium. We find that, after the policy, information frictions fell around 10 percent, which translated into an interest reduction of 180 basis points. We estimate a welfare improvement for consumers of 15 percent in the long run.

A Dimension-invariant Cascade Model for VIX Futures

Brice Dupoyet
Florida International University, United States
dupoyetb@fiu.edu

Zhiguang Wang
South Dakota State University, United States
Zhiguang.Wang@sdstate.edu

Abstract

We propose a new stochastic volatility model by allowing for a cascading structure of volatility components. The cascading feature is achieved through a structure of increasing speeds of mean reversion. The model, under a minor assumption, allows us to add as many components as desired with no additional parameters, e ectively defeating the curse of dimensionality often encountered in traditional models. The flexibility in choosing the number of components enables rich dynamics in the term structure of both spot VIX and VIX futures, without the need to introduce price jumps. We derive a semi-closed-form solution to the VIX futures price, and nd that our 6-factor model with only 6 parameters can closely t spot VIX and VIX futures data from 2004 to 2015 and produce out-of-sample pricing errors of magnitudes similar to those of in-sample errors.

Optimal financing of highly innovative projects under double moral hazard

Yolanda Portilla
Universidad de Chile, Chile
yportilla@fen.uchile.cl

Gino Loyola
Universidad de Chile, Chile
gloyola@fen.uchile.cl

Abstract

We model the investor-entrepreneurship relationship involved in the financing of highly innovative projects under a double moral hazard setup. We show that a wide family of financing contracts are optimal, which fits well with mixed security structures observed in real-world such as convertible preferred equity, warrants and call options. Schemes that reward risk (and failure) are also desirable, as extreme returns can be good indicators of highly innovative investments projects. Numerical simulations show conditions for credit rationing to emerge when straight debt is used, stressing the welfare-improving role played by hybrid securities. As our results replicate several stylized facts of innovative firms, we argue that the proposed setup is a suitable starting point to model venture capital financing.

Does Convertible Bond Issuance Sequence Influence Operating Performance?

Devrim Yaman
Western Michigan University, United States
devrim.yaman@wmich.edu

Onur Arugaslan
Western Michigan University, United States
onur.arugaslan@wmich.edu

Ajay Samant
Illinois State University, United States
asamant@ilstu.edu

Abstract

This paper studies the relationship between the sequence of convertible bond issues and the issuing firms? operating performance. The results show that firms that issue convertible bonds multiple times have higher operating performance compared to firms that issue these bonds once. The operating performance for the first issue of multiple issuers is also higher than the performance of single issuers. The results also indicate a negative relationship between convertible bond sequence and operating performance.

News Sentiment and Stock Market Volatility

Jimmy Yang
Oregon State University, United States
jimmy.yang@bus.oregonstate.edu

Yen-Ju Hsu
National Taiwan University, Taiwan
yenj.hsu@gmail.com

Abstract

This study investigates the effect of news sentiment on stock market volatility using the GARCH model and measures the asymmetric effect with the GJR- GARCH model. We adopt a linguistic analysis that considers the semantic orientation process to quantify financial news that may affect investor attention. We make a distinction between firm-specific news sentiment and macroeconomic effects. The evidence suggests that both contemporaneous and lagged news are determinants of volatility. The impact is stronger with the market aggregate news sentiment index (ANSI) and the negative ANSI. The news sentiment can improve the accuracy of in-sample and out-of-sample forecasting of volatility.

STOCHASTIC OPTION PRICING MODEL FOR INSURANCE DERIVATIVE MARKETS

Prabakaran Sellamuthu
Pontificia Universidad Javeriana Cali., Colombia
jopraba@gmail.com

Abstract

An insurance derivative is a financial instrument that derives its value from an underlying insurance index or the characteristics of an event related to insurance. Insurance derivatives are useful for insurance companies that want to hedge their exposure to catastrophic losses due to exceptional events, such as earthquakes or hurricanes. Unlike financial derivatives, which typically use marketable securities as their underlying assets, insurance derivatives base their value on a predetermined insurance-related statistic. For example, an insurance derivative could offer a cash payout to its owner if a specific index of hurricane losses reached a target level. This would protect an insurance company from catastrophic losses if an exceptional hurricane caused unforeseen amounts of damage. Our aim of this paper is to construct the stochastic mathematical model and option pricing for insurance derivative market. The main goal of this study is fivefold: 1) First, we begin our approach to explain the stochastic process for the catastrophe derivative. 2) Then we explore, how describe the insurance contract in a financial option context. 3) Finally, we extent our approach to construct and derive mathematical for the insurance option pricing model from Black Scholes Equation. In addition, this paper ends with conclusion.

Breakeven Inflation Rate Estimation: An Alternative Approach Considering Indexation Lag and Seasonality

Gustavo Araujo
Central Bank of Brazil, Brazil
00araujogs@gmail.com

Flavio Val
Central Bank of Brazil, Brazil
flavio.val@bcb.gov.br

Abstract

The breakeven inflation rate (BEIR) is the difference between nominal and real interest rates. This measure can be obtained from fixed-income and inflation-indexed government bonds. However, this task has two difficulties: a) inflation-indexed securities present indexation lag in respect to inflation; and b) the seasonality of inflation implies seasonality of the real rate. The objective of this paper is to propose an alternative method for BEIR estimation using only government bonds, as well as to determine if this measure contains information on future short-term inflation. A good measure of BEIR estimated directly from bonds is relevant since these are the inflation-linked instruments with the highest liquidity. The empirical results show that the Proposed BEIR is superior to the naïve BEIR and is statistically equal to or better than market survey forecasts and the future market BEIR when forecasting short-term inflation. Furthermore, the results show that the lag and seasonal adjustments are more important for the estimation of the BEIR in the short term. An advantage of the proposed BEIR in relation to market survey expectations is that it allows for real-time monitoring, since it is continually updated.

Breakthrough in financial markets: Low-cost strategies in finance industry

stephane dubreuille
neoma business school, France
stephane.dubreuille@neoma-bs.fr

stephane fourneaux
neoma business school, France
stephane.fourneaux@neoma-bs.fr

Abstract

The financial instruments markets directive has changed the face of stock markets and has accelerated the emergence of new Multilateral Trading Facilities (as low-cost financial service providers). The example of BATS Chi-X Europe shows that the low-cost strategy relies upon three main drivers: choice of securities to be traded, improvement of liquidity, and reduced trading costs. In this analysis we take a closer look at the stock exchange transformation process. However, a number of unintended consequences have created new risks.

Trajectory of political events and Economic Indices: Testing cycles within a cycle

SHARLYWEST UWABOR EBOIGBE
UNIVERSITY OF BENINE,PMB 1154,BENIN CITY ,EDO STATE,NIGERIA,
sharlywest.eboigbe@uniben.edu

Victor Usunobun IMAGBE
UNIVERSITY OF BENINE,PMB 1154,BENIN CITY ,EDO STATE,NIGERIA,
usunobun.imagbe@uniben.edu

Abstract

This paper seeks to validate the political business cycles with emphasis on countries presidential election years for 2000-2015. The dynamic system GMM estimation technique was adopted. The researcher confirm that the rate of changes in interest rate and inflation were lower months before the elections with sharp reversals within the same time frame after the electoral event. Index of industrial output was higher before and lower after elections in most countries though weak in France and Germany and higher in African countries studied. . Premised on these findings, the study recommend strong regional economic confederacies and independent national public institutions with constitutional mandate for policies articulation to undo individual nation?s political maneuverings.

A Study of ?Fossil Free? Equity Portfolio Performance

Ken Yook
Johns Hopkins Carey Business School, United States
kyook@jhu.edu

Jeff Hooke
Johns Hopkins Carey Business School, United States
jhooke1@jhu.edu

Abstract

A growing number of institutions are considering fossil free investing, a portfolio strategy that seeks to minimize exposure to companies that are sources of current and future carbon emissions, such as coal, oil and natural gas companies. The strategy is a subset of the broader social responsibility investment movement, which seeks to balance environmental, social and government (ESG) factors alongside traditional financial analysis. Before implementing a fossil free strategy, institutions may want to know the historical impact of eliminating carbon?oriented stocks from a conventional equity portfolio. We compared the two investment strategies over the period of 2004-2017 and found that going fossil free caused no undue harm to the investor. The fossil free portfolio performed worse than the conventional equity portfolio in the early years, but the trend was reversed in the later years. The long-term stock performance of Carbon Underground 200 firms also showed that firms added to the list in the later years experienced significantly negative abnormal returns for the three years subsequent to the month of addition.

Business Cycle: Uncertainty

Keun Lee
Northern State University, United States
keunlee@northern.edu

Abstract

Abstract It has long been observed that movements in output and income tend to be cyclical, and have been termed the ?trade cycle? or ?business cycle.? There is no shortage of explanations to shed light on the trade cycle. Examples include the Credit Cycle Theory by Erving Fisher, the Monetary Theory by Milton Friedman, and the Financial Evolution Theory by Hyman Minsky. John Maynard Keynes?s explanation based on a cyclical change in the marginal efficiency of capital is another. The cause for the trade cycle in the Credit Cycle Theory and in the Monetary Theory is monetary; it is the maladjustments in the rate of interest in the former and the quantity of money available in the latter. In the Financial Evolution Theory, the trade cycle is the result of the evolution of financing from ?hedge finance? to ?speculative finance? to ?Ponzi finance.? In Keynes?s theory, on the other hand, it is uncertainty, which leads to the cyclical change in the marginal efficiency of capital, and hence the trade cycle. Although Keynes?s theory in general has received a great deal of attention, his explanation of the trade cycle has received little, if any. This paper brings attention to Keynes?s explanation of the trade cycle. No economic theory has the final word on the cyclical movements in production and income but each can add an additional insight that could be useful.

The impact of intangible assets on the enterprise's share and identification of the sector where the intangible assets is located

Martin Kedron
Mendel Cniversity, Czech Republic
martin.kedron@mendelu.cz

Abstract

The current impact of information and technology forces society to favor the globalization of the economy and to compete in the global market. This makes innovation a key factor in success in global competition. This forces the entity to move from traditional accounting to modern accounting, which requires more information. Investments and growth in economies are increasingly motivated by knowledge-based capital. This shift reflects a number of long-term economic and institutional changes in the economies. This section identifies the sectors where there is a material impact of the reported intangible assets. The industry is being researched on companies listed on the London Stock Exchange. Regression analysis determines the effect of intangible assets on stock prices. The contribution of the article is the identification of the intangible assets sector that has an impact on the stock price of companies listed on the London Stock Exchange.

Media Corruption Perceptions and US Foreign Direct Investment

Mohammad Refakar
Université de Sherbrooke, Canada
Mohammad.Refakar@USherbrooke.ca

Jean-Pierre Gueyie
Université du Québec à Montréal, Canada
gueyie.jean-pierre@uqam.ca

Abstract

Media play an important role in shaping people's beliefs and ideas. More specifically, media have a great influence on what we think about foreign countries. The mass media influence the way a country?s citizens view the people and governments of other countries. All types of stories about foreign countries are covered in the media. Investors looking to invest abroad certainly pay attention to what is reported in the media about corruption in other countries. Since corruption plays a huge role in investment location decisions, this paper investigates the role of US media corruption perceptions on US foreign direct investment outflows. We find that an abundance of corruption stories about a specific country can demotivate investors and reduce the amount of foreign direct investment outflows to that country.

CSR Financial Performance and Long- term Investment in Japan

Yoko Shirasu
Aoyama Gakuin University, Japan
shirasu@cc.aoyama.ac.jp

Hidetaka Kawakita
Kyoto University, Japan
hidetaka.kawakita@gmail.com

Abstract

Corporate social responsibility (CSR) is gaining importance among governments, consumers, businesses, and academics. We empirically investigate CSR-related stock performance effects through the power of extended governance in Japan. In this regard, we apply a comprehensive and unique investigation to more than 10 years of recent data. Our results are as follows. First, we find that CSR activities create better stock performance in the labor-related and environmental (eco) categories for mid-term investments. This result is robust. Second, greater overseas sales and foreign investor ratios mean that firms can enjoy better stock performance in the labor-related and eco categories for mid-term investments. Additionally, the global sales field is an important means of progressing suitable CSR activities, especially in the community category. Third, increases in CSR performance improve firm-specific informativeness in the labor-related and governance categories. However, eco CSR activities reflect public information in stock prices. To manage CSR activities, stock performance and the stock price information structure must be understood. Overall, we find that CSR activities play an important role in extended governance, with some conditions. Our research and findings extend the related literature and provide practical guidance for policymakers and practitioners.

Effects of Credit risk and banking supervision on the access to credit in a dualistic economy: the case of Southern Italy

Antonio Lopes
Università di Napoli , Italy
alopes@unior.it

Cesare Imbriani
UniTelma Sapienza , Italy
Cesare.Imbriani@uniroma1.it

Abstract

In this paper the authors analyze the impact of recent banking european regulation on credit availability to southern Italy economy. In fact, the critical issues that Italian banks have shown over the last decade are largely related to the extremely negative performance of the production system in southern Italy especially; the consequent deterioration in credit quality leads financial institutions to adopt tighter loan policies. However, such behaviour is also the consequence of a model of Banking supervision that has been characterized ? due to the revision of the Basel agreements and the interventions of the ECB ? by the imposition of increasingly pressing and generalized constraints to all categories of banks regarding capitalization, liquidity and risk management; this occurs in order to allow, at a microeconomic level, greater resilience to adverse situations. On the other hand, at a macroeconomic level, this approach imposes constraints on banks, not allowing them to support the production system. Therefore, the consequent credit tightening fails to contribute to a significant level of business growth in the less developed areas of Southern Italy.

Market power and risk-taking of banks: New consolidating evidence from emerging economies

Bang Nam Jeon
Drexel University, United States
jeonbana@gmail.com

Ji Wu
Southwestern University of Finance and Economics, China
wuji@swufe.edu.cn

Abstract

This paper investigates the competition-stability puzzle in the banking market, and provides new consolidating evidence at the bank level. Using bank-level data from 35 emerging economies during the period of 2000-2014, we investigate the impact of market power of banks on their risk-taking behavior. We set up a semiparametric model of the market power-bank risk nexus, conduct estimation by applying the Bayesian inference, and provide consistent evidence that there is a significant nonlinear relationship between market power and risk-taking of banks. Bank stability is found to be bolstered with higher market power, but this relationship tends to weaken and even reverse as banks? market power grows over a threshold level. Our empirical findings support the ?competition-fragility? view of the relationship between market power and banks? risk-taking, until the ?competition-stability? view comes into effect when banks? market power increases to a very high level. We also discuss useful policy implications based on these empirical findings.

Early Warning System for the European insurance sector

Jakubik Petr Jakubik
Charles University in Prague, Czech Republic
petrjakubik@seznam.cz

Lorenzo Danieli
European Securities and Markets Authority, France
lorenzo.danieli@gmail.com

Abstract

This study proposes an Early Warning System model composed of macro-financial and company-specific indicators that could help to anticipate a potential market distress in the European insurance sector. A distress is defined as periods in which insurance companies? equity prices crash and CDS spreads spike simultaneously. The model is estimated using a sample of 43 insurance companies that are listed. Based on a panel binomial logit specification, empirical evidence shows that economic overheating that could be manifested by high economic growth and inflation as well as high interest rates have negative impact on insurance sector stability. At the company level, increasing operating expenses increase the likelihood of distress occurrence.

Influence of transaction atmosphere on the decision-making behavior of investors

Christa Hangl
University of Applied Sciences Upper Austria, Austria
christa.hangl@fh-steyr.at

Matthias Ortner
University of Applied Sciences Upper Austria, Austria
matthias-ortner@gmx.at

Abstract

The profitability of Impact Investments ranges from simple repatriation of the invested capital to market-standard returns. However, some investors are willing to forego some of the financial return if they can achieve social objectives. This contradicts the tenets of traditional finance theory, which defines individuals as rational decision-makers with the primary goal of maximizing profit. Consequently, investors would have to choose their investment from a purely financial point of view, which is not the case with Impact Investments. The paper attempts to explain the irrationality in the area of Social Finance / Impact Investing by applying Transaction Cost Theory as the trend-setting theory of the paper and, more precisely, by considering Transaction Atmosphere. TA defines the context of a transaction as a key determinant of decision making and primarily includes non-financial factors. Studies on these relationships are not yet available in the scientific literature. The underlying scientific question aims to analyze the influence of a socially-influenced transaction atmosphere on the decision-making of investors and is examined by means of a quantitative study in the form of an experiment with undergraduate students of the University of Applied Science Upper Austria, Campus Steyr. The subjects were divided into two groups. One group used targeted stimuli to create a social transactional atmosphere. Subsequently, both groups had to make an investment decision in an identical scenario. The experiment reveals that the use of stimuli greatly increases the share of impact investments in total investment. It can be deduced that a socially influenced transaction atmosphere significantly influences the decision-making of investors. The receptivity to the stimuli depends on the individual characteristics of the investor, such as the moral standard, the financial knowledge, or the previous experience with investment decisions. The financial component continues to be an important factor in the decision-making process of investors.

Financial literacy and retirement saving decisions

Gizelle Willows
University of Cape Town, South Africa
gizelle.willows@uct.ac.za

Abstract

This study sets out the relationship between financial literacy, financial behavior, financial attitude and retirement savings decisions. Members of a South African tertiary institution?s retirement fund were surveyed and a multi-stage multivariate regression analysis showed that an individual?s level of financial literacy positively influenced his/her retirement savings decisions, financial literacy and developing and conforming to a retirement plan. Furthermore, an endogenous relationship between financial literacy and thinking about retirement suggests that the more individuals think about their retirement, the better their financial literacy becomes. Lastly, formal tools, such as consulting a financial advisor increases the odds of successfully planning for retirement. These findings have implications for retirement policy. Improving financial literacy will assist individuals to behave better financially and to make better retirement savings decisions. Furthermore, given the diverse population in South Africa, the results highlight vulnerable individuals and address findings that are relevant to developing and diverse populations across the globe.

THE HOLDING COMPANIES IN THE SPANISH CORPORATE TAX LEGISLATION: a theoretical-empirical study

Gilberto Cardenas Cardenas
Universidad Autónoma de Madrid, Spain
gilberto.cardenas@uam.es

Sofía García Gamez
Universidad Autónoma de Madrid, Spain
sofia.garcia@uam.es

Alvaro Salas Suarez
Universidad Autónoma de Madrid, Spain
alavaro.salas@uam.es

Abstract

In the mid-nineties Spain included into its Corporate Tax Legislation a tax regime on holding companies ("Entidades de Tenencia de Valores Extranjeros") as a measure to incentivize corporations to set up their holding companies in Spain. The objective of this paper is to analyze the tax benefits this regime provides to holding companies, focusing mainly on one type of income: dividends. Likewise, under the hypothesis that taxation is a determining factor when deciding where a holding company is to be located geographically, this research develops an econometric model for Spain that integrates variables of fiscal and economic nature. Key variables evaluated include fiscal pressure and fiscal freedom as well as a variable of economic character referring to the ease of "Doing Business" This approach allows to statistically analyze the results achieved by Spain since the introduction of the tax regime for holding companies.

SIGNIFICANT CONTRIBUTION OF MACROECONOMIC INDICATORS TO THE GENERATION OF COMPETITIVENESS IN SMES

Luis Francisco Ramirez Diaz
Politecnico Colombiano Jaime Isaza Cadavid, Colombia
luisramirez@elpoli.edu.co

Abstract

Globalization demands competitiveness the achievement of better levels of competitiveness of organizations in the local and international areas, in this sense, becomes a reality, the fact of analyzing with some frequency the behavior of the Different levels of the economy reflecting the development of the internal processes of SMEs and the results obtained in their financial statements. The research that originates this article: weighting of the determinants of competitiveness in SMEs in the leather sector in Antioquia, analyses significant variables that are considered determinants that contribute to the generation of competitiveness, Inherent to the different levels in which the economy is developed development. By means of the application of an instrument that allows the lifting of information of primary source these indicators are characterized and the information is contrasted, to hierarchize the contribution of each one to the generation of competitiveness, according to the methodology of Klaus Esser and other investigators. In addition, the scope of the macroeconomic determinants and their contribution to the generation of value added in SMEs are quantified.

FIRM SURVIVAL ANALYSIS: CULTURAL DISTANCE, COUNTRY RISK AND ENTRY MODE

Chuang Wang
Royal Holloway University of London, United Kingdom
ixte003@live.rhul.ac.uk

Evangelos Giouvris
Royal Holloway University of London, United Kingdom
evangelos.giouvris@rhul.ac.uk

Abstract

Nowadays multinationals tend to expand their business all over the world but survival in a foreign market is not always the same as in home market. This study examines factors such as cultural distance, country risk, entry mode, firm age, investment location, market size and interactive effects between i) cultural distance and firm age; ii) cultural distance and country risk; iii) cultural distance and firm location; iv) cultural distance and market size; v) country risk and entry mode; vi) firm age and entry mode and vii) entry mode and market size. All of these factors influence the survival of multinationals in foreign market. The results show that low cultural distance is related to a high survival rate. Wholly owned subsidiaries have a higher survival rate than other types of entry mode. Country risk is negatively related to survival rate while market size can moderate this effect. Furthermore, the negative impact of country risk in Eastern China is lower than any other region of China and manufacturing firms suffer less negative impact of country risk and cultural distance than non-manufacturing firms.

Policy Uncertainty and Stock Liquidity

Chandrasekhar Krishnamurti
School of Commerce , Australia
chandra.krishnamurti@unisa.edu.au

Abstract

We document a strong, negative, and prolonged impact of policy uncertainty on stock liquidity. The effect is stronger for stocks whose returns are more sensitive to policy uncertainty, with higher level of political risk and are more dependent on government spending. Further analyses suggest three mechanisms for the effect, including information asymmetry, cash-flow risk, and funding constraints with the latter being the dominant channel. Policy uncertainty also increases the co-movement of stock liquidity. Overall, our findings highlight the importance of policy uncertainty on secondary market quality.

Do Top-Tier Investment Banks Suffer from Social Loafing?

Xiaofei Xing
University of Birmingham, United Kingdom
x.xing@bham.ac.uk

Michael Guo
Durham University, United Kingdom
jie.guo@durham.ac.uk

Abstract

The social loafing hypothesis suggests that individuals exercise less effort when they work collectively, leading to poor performance. This paper explores whether multiple top-tier investment banks can cooperate effectively to create value for their clients or suffer from social loafing. This study finds that acquirers advised by multiple top-tier banks gain greater long-term returns and pay lower bid premiums than acquirers advised by a single top-tier bank. The results suggest that top-tier banks care more about their reputational capital, and therefore do not suffer from social loafing. Instead, they can make concerted efforts to improve their clients? performance and bargaining power.

Investment strategy in Brazil's financial market: wide possibilities of choice between risk and return.

Ricardo Luis Chaves Feijo
University of São Paulo, Brazil
riccfeij@usp.br

Abstract

This essay offers several exercises with different risk and return strategies within the Brazilian financial market. Therefore, ten representative types of investors with different targets for the return of financial investments and, consequently, different aversions to risk are imagined. In the individual assembling of financial asset portfolios, one imagines that such return targets are programmed according to the returns observed in the present period, so that the more ambitious of the agents, in terms of target return, desires a portfolio return arbitrarily established in 90.9% of the return of the maximum return asset in the period, among those observed, and the least of them expect the portfolio reaches a return of only 16.7% of the maximum observed in the period in question. The rest are located in an intermediate range of desired returns. Investments are efficient in Markowitz's sense: they minimize portfolio variance for a given desired return level. The estimation of the composition of the portfolio is done by a Matlab program that appears in Appendix. It is expected that five very traditional Brazilian financial investments will be available, four of them in bonds and one in Itaú bank shares (Itau-Unibanco), the most traded stock in the São Paulo Stock Exchange - Bovespa (11.31% of the stock market index). On the basis of daily application earnings data from 1995 to the present, weekly financial returns are estimated because we suppose one week as the period in which recombination occurs in the investment portfolio. The structure of taxes and the costs of intermediation of the process are disregarded. The composition of the portfolios is calculated periodically, for the ten representative agents considered, also the quantity sold and purchased of each financial asset for each period and per agent, as well as the return of the individual portfolios, their cost and respective variances. In these hypothetical exercises, but done with real series, it is demonstrated by numerical simulation that, in fact, the agents who seek portfolios with higher returns will have to bear over time with greater variance of the portfolios, and therefore, with greater risk. It is also monitored the financial results on return of the portfolios and the monetary cost for each agent to maintain, over time, the same particular strategy proposed.

Loan to value caps and government-backed mortgage insurance: Loan-level evidence from Dutch residential mortgages

Leo de Haan
De Nederlandsche Bank, Netherlands
l.de.haan@dnb.nl

Mauro Mastrogiacomo
De Nederlandsche Bank, Netherlands
m.mastrogiacomo@dnb.nl

Abstract

Using loan level data on mortgage loans originated by Dutch banks during 1996 to 2015, we analyse the determinants of the incidence of non-performance. We find that both the originating loan-to-value ratio (OLTV) and the debt-service-to-income ratio (DSTI) are significantly positively associated with the probability of mortgage arrears. The results suggest that mortgages with government-loan-guarantees perform better. Moreover, several mortgage loan and borrower characteristics, such as the (interest-only) loan type and the underwater status of the borrower, increase credit risk. Our model predictions suggest that, in order to avoid an acceleration of non-performing loans, the LTV-limit should be lowered to about 60%-70% for uninsured mortgages.

Evaluating the Market efficiency using Asset Pricing Models ? A Case study of Indian State Owned Enterprises

Ram Kumar Mishra
Institute of Public Enterprise, Hyderabad, India
pawanavadhanam@gmail.com

Pawan Avadhanam
Institute of Public Enterprise, Hyderabad, India
pawanavadhanam@gmail.com

Abstract

This paper aims at testing the stock return predicting the ability of Capital Asset Pricing Model and French and Fama three-factor models for the State Owned Enterprises (SOEs) in India. CAPM uses market sensitivity Beta to describe the variation of stock returns whereas F&F model uses Size of the firm, Book to market equity and risk premium to explain the variation in returns. The CAPM model which was developed by Sharpe (1964), Lintner (1965), and Black (1972) was largely supported by Black, Jensen and Scholes (1972), Fama and Macbeth (1973) and Blume and Friend (1973). Later this method was questioned on various grounds. Fama and French in the 1990s developed the three-factor Model (TFM) or French and Fama (F&F) as an extension to CAPM. The paper focuses on the estimation of a SOEs returns applying the CAPM and F& F models. Further, this paper compares the CAPM returns and F & F returns with that of the Annual Market Returns (AMR). The scope of this study is limited to all the SOEs which are quoted in the BSE Stock Exchange in India for the period 1998-2017. It is concluded that the CAPM model and French and Fama model do not fully guide the investor to predict the market return and invest in the SOEs

Corporate Governance Practices in Listed State Owned Enterprises in India: An Empirical Research

KIRANMAI J
Institute of Public Enterprise, India
kiranmai@ipeindia.org

Ram Kumar Mishra
Institute of Public Enterprise, India
rkmishra@ipeindia.org

Abstract

Corporate Governance (CG) refers to a system in which corporations are directed and controlled. The governance structure specifies the distribution of rights and responsibilities among different participants in the corporation and specifies the rules and procedures for making decisions in corporate affairs. Governance provides the structure through which corporations set and pursue their objectives, while reflecting the context of the social, regulatory and market environment. Governance is a mechanism for monitoring the actions, policies and decisions of corporations. Governance involves the alignment of interests among the stakeholders. CG is an umbrella term. In its narrower sense, it describes the formal system of accountability of corporate directors to the owners of companies. In its broader sense, the concept includes the entire network of formal and informal relationships involving the corporate sector and the consequences of these relationships on society in general. The present paper discusses broadly the structure, framework, objectives, methodology and variables. The center objective of the paper is to create linkages between firm performance and governance practice in the listed SOEs in India. The present paper makes an attempt to compare the various CG variables of the listed SOEs for a period of five years ie 2012-13 to 2016-17. A detailed analysis of the 42 listed State Owned Enterprises (SOEs) in terms of board size, board meetings, board committees, board composition, independent directors, firm age, gender diversity has been compared. Finally conclusions are drawn from empirical analysis.

Ethical Finance Dimension of Corporate Social Responsibility: A Case study of Indian SOEs

Ram Kumar Mishra
Institute of Public Enterprise, India
rkmishra@ipeindia.org

Shulagna Sarkar
Institute of Public Enterprise, India
shulagnasarkar@ipeindia.org

Kiranmai J
Institute of Public Enterprise, India
kiranmai@ipeindia.org

Abstract

Addressing social issues is very crucial for government and thus government is primarily expected to create an enabling environment for raising awareness and stimulating public debate for the existing social challenges and issues. Indian government is proactive to encourage legal mandates in various dimensions enabling responsible business practices. What organizations do with their money is being increasingly caught on the public radar leading to bringing ethical issues to the forefront. The paper is an effort to understand how financial responsible effort is playing out in the State Owned Enterprise (SOEs), and also the efforts towards handling CSR across SOEs in India. The paper elaborates whether ethical financing is a form of social responsibility in organizations and elaborates the status of responsible financing of SOEs in India. The paper also discusses the practices encouraging ethical financing in SOEs in India.

Active management premium: switching between US stocks and treasuries

Jose P Dapena
UCEMA, Argentina
jd@cema.edu.ar

Juan Serur
UCEMA, Argentina
juanandresserur@gmail.com

Julian Siri
UCEMA, Argentina
jjulian.siri@gmail.com

Abstract

Unlike passive management, where investors almost do not buy and sell securities, active management involves a set of trading rules that govern investment decisions regarding mainly market timing. In this paper, we take the basics of active management and two fund separation, and test whether and investor can switch between the market portfolio and the risk free asset according to circumstances. Our purpose is to evaluate if there is an active management premium by testing performance with our own non-conventional multifactor model, constructed with a Hidden Markov Model which depending on the market states signaled by the level of volatility spread. We have documented that effectively, there is present a premium for actively manage the strategies, giving evidence against the idea that ?active managers? destroy capital. We then propose the volatility spread as the active management factor into the Carhart´s model used to evaluate trading strategies with respect to a benchmark portfolio.

Unraveling the value premium: a reward for risk or mispricing?

Claudio Serur
UCEMA, Argentina
jd@cema.edu.ar

Julian Siri
UCEMA, Argentina
jjulian.siri@gmail.com

Juan Serur
UCEMA, Argentina
juanandresserur@gmail.com

Jose P Dapena
UCEMA, Argentina
emilianoserur@gmail.com

Abstract

A value investing strategy consists of purchasing stocks relatively undervalued to their fundamental values and selling those relatively overvalued. Finding this kind of companies has been one of the most challenging goals for investors throughout the history. The main objective of this paper is to test the value factor, but not limited to the traditional Price-To-Book ratio, but exploring diverse alternatives constructed on different metrics in order to determine if alternative measures provide excess returns relative to the traditional one. In addition, these factors were blended different quality factors. First, we tested the so-called high mispricing portfolios, with long positions in value/high quality stocks and short positions in growth/low quality stocks. When blending these portfolios with quality factors, we observe quite an improvement in terms of Sharpe Ratio and maximum drawdowns relative to pure value portfolios. In this case, we see that excluding riskier low-quality stocks reduces the overall risk of the portfolio. Regarding the low mispricing portfolio, the results show that growth/high quality stocks outperform value/low quality stocks. This is consistent with the hypothesis of behavioral-behavioral based theories as we see that only undervalued and high-quality stocks generate excess returns. Finally, we test the results against the three-factor Fama-French models, achieving in some cases statistically and significant alphas.

The Revolving Door, State Connections, and Inequality of Influence in the Financial Sector

Elise Brezis
Bar-Ilan University, Israel
elise.brezis@biu.ac.il

Abstract

This paper explains why the revolving door generates inequality of influence between financial firms and creates economic distortions. We show that big financial companies, especially the ones denoted as too-big-to-fail, can afford to hire many previous regulators, denoted as ?revolvers?, and benefit from this strategy, while small firms in the same sector cannot afford it. We first develop a theoretical model, introducing the notion of ?bureaucratic capital? and stressing how the revolving door generates inequality in bureaucratic capital accumulation leading to inequality in profits. Then, the prediction that the bureaucratic capital is allocated towards the biggest firms is tested, using a new database tracking the revolving door process involving the 20 biggest US ?diversified banks?. We show that regulators who supply a large stock of bureaucratic capital are more likely to be hired by the top-five banks. We also develop indices of the inequality of influence between banks. We show that banks in the top revenue quintile concentrate around 80% of revolving door movements. Goldman Sachs appears as the prime beneficiary of this process, by concentrating approximately 30% of the total stock of bureaucratic capital, corresponding to 698 years of accumulated public sector experience.

Puzzles in the Argentinean Capital Market: Bonds beat Stocks

Guillermo Dumrauf
Universidad del CEMA, Argentina
guillermo@dumrauf.com.ar

Abstract

Some studies have documented how global and local factors have affected the stock and bond returns in emerging markets, pointing out differences that are possibly due to the degree of market integration. We propose a model to explain bonds and stocks returns for the Argentinean capital market which uses the S&P 500 stock index as a global factor, and two local factors, the country risk premium (CRP) and the real exchange rate (RER). Surprisingly, while in developed countries the stock market return has been higher than the bond returns measured in a long period, in Argentina it has been the opposite. We find evidence that both global and local factors are significant and suggest an explanation about the different performance of bonds and stocks.

PRICING INTEREST RATE OPTIONS UNDER NEGATIVE INTEREST RATES: A VANNA-VOLGA APPROACH

Nikolaos Milonas
National and Kapodistrian University of Athens - SARG, Greece
nmilonas@econ.uoa.gr

George Arvanitis
National Bank of Greece, Greece
arvanitis.geo@nbg.gr

Abstract

In this paper we use the Bachelier model to price interest rate options when strike prices are negative. In the realm of negative interest rates, the Black model, assuming lognormal distribution of asset returns, fails to price interest rate options correctly. The Bachelier model, assuming normal distribution of asset returns, is better suited to do that. This paper proposes the use of the Vanna-Volga (VV) method which provides the "Bachelier derived" theoretical option prices adjusted for the volatility asymmetry. To illustrate the VV method we use historical data on prices with high volume of trading to estimate the implied volatility curve for a multiple of strike prices. We obtain adjusted option prices by replacing the implied volatilities in the Bachelier model. Such estimated prices differ from observed option prices by only 0.00771 basis points. Overall, the validity tests performed suggest that the VV method on the Bachelier model because of its simplicity, ease-of-use and robustness best suits to price interest rate options under negative interest rates.

An Empirical Investigation of the Factors that affect Share Price Deviations: The Case of the FTSE-100 Index

Stella Spilioti Spilioti
Athens University of Economics and Business, Greece
spilioti@aueb.gr

Abstract

Barberis et al. (1998) present a parsimonious model of investor sentiment, consistent with the empirical findings in the literature of investor underreaction and overreaction to information. The implication is that, in the Barberis et al. (1998) model, price deviations from fundamental value are not treated as model estimation errors but rather as deviations that are due to psychological factors that affect investor reaction to information. In this paper, we use the valuation model proposed by Barberis (1998), in order to calculate the fundamental value of a stock and then examine whether the differences between predicted and real stock prices are explained by key macroeconomic and psychological factors that affect investor reaction to information, using data from the London Stock Exchange. On the whole the results show that these differences are explained by important macroeconomic variables as well by the sentiment of investors.

The Historical Record on Active vs. Passive Mutual Fund Performance

David Nanigian
Mihaylo College of Business and Economics at California State University, Fullerton, United States
dnanigian@fullerton.edu

Abstract

This study examines the risk-adjusted performance of actively managed mutual funds vs. passively managed mutual funds between 1991 and 2018 and finds that the statistical significance of the difference in performance between the two types of funds disappears when the passively managed funds are compared to competitively priced actively managed funds. The practical implication of this study is that, setting tax considerations aside, as long as investors are cost conscious in their fund selection process, investing in passively managed funds does not meaningfully improve investor outcomes.

Behavioral Finance: the influence of Loss Aversion and Nudges on investment decisions in REITs

Arlos Risden Jr
Universidade Estadual do Oeste do Paraná - UNIOESTE, Brazil
arlosrisdenjr@gmail.com

Claudio Rojo
Universidade Estadual do Oeste do Paraná - UNIOESTE, Brazil
rojo_1970@hotmail.com

Delci Dal Vesco
Universidade Estadual do Oeste do Paraná - UNIOESTE, Brazil
delcigrape@gmail.com

Osni Hoss
Universidade Tecnológica Federal do Paraná - UTFPR, Brazil
hoss@utfpr.edu.br

Abstract

This research aimed to verify the influence that the latent variable Loss Aversion, formed by the union of the constructs Endowment Effect and Status Quo Bias, generates in the perception of decision making on applications in Real Estate Investment Funds, with the categorical variable Nudges as mediator. REIT is an investment modality that has demonstrated, in Brazil, a strong growth in recent years, both in volume and number of investors. With rules that benefit the individual, such as exemption from taxes on dividends received, this theme is recurring in the academy. With the use of Behavioral Finance, more specifically Loss Aversion, a concept that represents the fear of losing, overcoming the joy of winning, a structural equations model with partial least squares (PLS-SEM) was conceived with the objective of measuring the influence that this anomaly has on the perception of decision making in investments, specifically in REITs, having the concept of Nudges as mediator. The definition of Nudges can be represented as a "push" in the right direction, which in this study is symbolized by the information. The research was applied in students of Administration and Accounting Sciences of three colleges of a city of the west of Paraná, Brazil, being one public and two private. Interviewees were randomly divided into two groups, the same questionnaire was applied to both groups, but only one group received information about the advantages of applications in REITs. In total, 145 valid answers were tabulated and their values calculated by the proposed model. One feature of the model deserves to be highlighted, all the constructs are formative, which was not found in any other resource by the authors. After the validation of the PLS-SEM model, the results supported the relationship between the first-order Endowment Effect and Status Quo Bias constructs with the second-order latent variable Loss Aversion. The effect found in the model between the latent variables Loss Aversion and Decisions on REITs, with the categorical variable Nudges as mediator, main objective of this research, was positive and highly significant, being supported by the model. In the group with information, the effect on the perception of decisions about REITs was more than

80 percentage points (pp) higher than in the group without Nudges, which corroborates with the studies in which this research is based, as much as the concepts that form the model, regarding the results found. Information, used as a "push in the right direction", influences the perception of the respondente about decisions made in investments in REITs. Because it is an exploratory model, one limitation is the impossibility of comparing the results found, besides the sample is formed by young people with an average age under 25 years, which are not the target public of the investment funds. As a possibility for future research, we highlight the deepening in the studies about the latent variables to identify a greater number of elements that influence the investment decisions, for application in a new model.

Moral hazard index for credit to SMEs

Jose A. Castillo
Pontificia Universidad Javeriana de Cali, Colombia
jacastillo@javerianacali.edu.co

Andrés Mora-Valencia
Universidad de los Andes, Colombia
a.mora262@uniandes.edu.co

Javier Perote
University of Salamanca (IME), Spain
perote@usal.es

Abstract

This article proposes a methodology to calculate the effect of moral hazard on credit to small and medium-sized enterprises (SMEs). To this end, the four categories of moral hazard ratio defined by Castillo et al. (2018) are employed to determine defaults probability based on a logit model. Moreover, a unique Colombian database is used to calculate a moral hazard index that considers the percentages of the odds ratios of the moral hazard variables for positive coefficients on the defaults probability. The results show an index in the defaults probability ratio base on underinvestment moral hazard category in the sample of companies analyzed for the period 2007-2014.

Unconventional Monetary Policy and the Shift in Corporate Bond Supply

andrea zaghini
European Central Bank, Germany
zaghini@yahoo.com

Abstract

We assess the impact of the corporate sector purchase programme (CSPP), the corporate arm of the ECB's quantitative easing, on the supply of bonds by euro-area corporations. Given the existence of several contemporaneous policy measures introduced in March 2016 by the ECB, in order to isolate the CSPP-induced shift in corporate bond supply, we make use of one key eligibility feature: the euro denomination of newly issued bonds. We implement a difference-in-differences analysis in which we identify the CSPP-induced supply effect by studying the differential effect of corporate bond issuance in euro (Eurobonds) relative to other currencies (non-Eurobonds) by comparing firms issuing CSPP-eligible bonds (the treatment group) and firms which cannot issue CSPP eligible bonds (the control group). We find a significant increase in Eurobond issuance by eligible firms relative to non-eligible firms that can be attributed to the launch of the CSPP programme.

A Dividend-Based Model to Explain the Cross Section of Equity Returns for both Financial and Non-Financial Stocks

James Foye Foye
University of Ljubljana, Slovenia
james.foye@ef.uni-lj.si

Abstract

Estimates of expected returns based upon the Fama-French and Carhart models typically exclude financial firms, including the latest FF five-factor model (Fama and French, 2015) or Gregory et al. (2013) for the UK. The presumed reason for this is that the book-price-based HML factor is not comparable between nonfinancial (predominantly historic-cost accounting) and financial firms (predominantly fair-value accounting). However, this approach excludes about 20% of FTSE 100 market capitalization. This paper proposes an alternative model of expected returns that can be applied to both sets of firms. To do this, we replace the HML factor with a dividend-yield-based factor which resolves the accounting issue present in the HML factor ? thereby obviating the need to remove financial firms. We construct the factor based on dividend yield sorts in the same way as Fama-French calculate the HML factor based on book-price sorts. Empirically, we base our analyses on the UK market because a large proportion of firms there pay out dividends. We find that: i) replacing HML with PMR (payers-minus-retainers) produces equivalent results for nonfinancial firms; ii) the PMR factor is able to explain returns for portfolios of financial services stocks; iii) the model can be used to combine financial and nonfinancial firms in the same sample in analyses that require the calculation of expected returns.

Organisational Structure of Financial Institutions and Customer Satisfaction in Australia

Dianne Thomson
Deakin University, Australia
dianne.thomson@deakin.edu.au

Abstract

The customer-owned banking sector provides a significant alternative to the traditional banks for providing financial services within the Australian financial system. Regular commercial polling by Roy Morgan Research measures customer satisfaction for the major financial institutions in Australia. This highlights significant difference in customer satisfaction scores for credit unions, building societies and mutual banks compared to the investor-owned banks. Utilising Roy Morgan monthly survey data of customer satisfaction with their main financial institution we investigate the relationship between customer satisfaction and financial institution ownership structure, respondent characteristics and financial institution performances characteristics. The contribution of the paper is provide an alternative path to measure the impact of firms governance structure on firm success in terms of their customer satisfaction score (CSS). We show that the mutual governance for financial institutions provides a superior model than the stock-listed bank governance model. The key finding is that ownership structure has a positive and significant impact on customer satisfaction. Respondent?s characteristics including age, education and income and were found to be unimportant for customer satisfaction scores. Financial institutions? characteristics include size, profitability, net interest income and return to shareholders (ROE). Size and profitability were not significant and had negative effect on CCS whereas net interest income had a significant and negative effect on CSS.

Financial conditions and monetary policy in Uruguay: an MS-VAR approach

Elizabeth Bucacos
Banco Central del Uruguay, Uruguay
ebucacos@bcu.gub.uy

Abstract

This study analyzes the effects of ?financial stress? on the Uruguayan macroeconomy in the 1998Q3-2016Q2 period with the underlying idea that financial shocks propagate differently during ?normal times? than during ?stress?. This behavior is captured in a multivariate framework through a Markov-switching vector autoregressive (MS-VAR) model. The evidence found so far supports the idea that financial conditions affect the macroeconomy for not only there are different private investment long-run average growth rates but also the behavior of monetary policy changes directly.

Bond sensitivities under large shifts of the interest rates

Yves Rakotondratsimba
ECE Graduate School of Engineering, France
w_yrakoto@yahoo.com

Souad LAJILI JARJIR
University Paris-Est, France
souad.lajili-jarjir@u-pec.fr

Abstract

There are very limited concepts and tools for the stress situations, though the new standards Fundamental Review of the Trading Book (FRTB), developed by the Basel Committee on Bank Supervision put especially an emphasis on the calculation of capital adequacy under stress. We provide sensitivities parameters allowing to approximate/replicate the future change of a Coupon Bearing Bond (CBB) under large relative changes for the whole curve of interest rates. In contrast with the MacAuley or Fisher Duration-Convexity (Dur-Conv) approach, we do not deal with the severe restriction about the (instantaneous) parallel and infinitesimal shift of the interest rates. As the common two order Dur-Conv approach is not enough to correctly approximate a bond portfolio change and the position aging matters, then high order sensitivities and the passage of time are also included in our analyses. Moreover, an upper bound of the error approximation/replication is provided. Actually, this bound allows us to determine the order approximation to use, in order to not exceed a maximal loss the holder of position can tolerate. Usually in a stress testing analysis, one has to be content on directly measuring the effect of some large shifts of the interest rates on the bond position, since the common Dur-Conv approximation does not apply. Here we contribute in providing the right sensitivities, corresponding to a view around a given stressed level. Not only these derived sensitivities are immediately useful for a risk measurement perspective, but they can be explored for hedging the position under the presupposed stress view. To allow the reader to check our numerical illustrations and to go further, we supply here R codes of our results.

Sovereign wealth funds on Japanese Equity Markets: Evidence from Saudi Arabia

Atsuji Ohara
University of Nagasaki, Japan
ohara2012@sun.ac.jp

Abstract

The Sovereign wealth funds (SWFs) have emerged as major institutional investors in the world. We analyze the equity investment on Asia-Pacific`s developed markets, in which are Japan, Australia, Hong Kong, Singapore and New Zealand, by the GCC's SWFs using ownership data of listed companies in 2010-2015 comparing with China?s SWFs. The paper finds that the GCC fund are relative positive with market capitalization but lower than equity investment of China?s SWFs. The GCC will be more active and bottom up investment style than China`s SWFs. We also find that ownership data of Japanese listed companies by Saudi Arabia is equivalent to 30 percent, China is 50 percent of IMF/Bank of Japan?s portfolio survey.

The Effects of Bankruptcy Reform: The Colombian Experience 1995 ? 2017 (Research Proposal)

Oscar Guevara Arias
Universidad Adolfo Ibáñez, Chile
oguevara@spm.uach.cl

Abstract

The effects of institutions on financial markets and economic development have been studied for several years (Laporta et al 1997, 1998; Levine, 1999; Djankov, 2008). One such institution is the corporate bankruptcy law, whose design is essential for providing the right incentives, not only for filing firms (firms that fall into insolvency), but healthy firms and other agents (credit suppliers, etc.). This study aims to provide new evidence of the effects of Bankruptcy Law reform on: i) the direct users of the law, in other words, firms that fall into insolvency proceedings (reorganization or liquidation); and ii) other agents in the economy, that is, financially healthy firms and credit suppliers, whose incentives are influenced by these laws. To this end, this study will review successive reforms to Colombia?s bankruptcy law from 1995-2017 that have modified relevant dimensions of insolvency proceedings. These reforms include, inter alia, the maximum time allowed to reach an agreement, the priority given to different creditor classes and to shareholders, voting requirements, the strengthening of creditors? rights and continuity of the manager. Preliminary results (specifically in the working paper I), show that the new law (pro creditor regime) is more efficient because it improves post-bankruptcy performance, reduces the (indirect) costs of bankruptcy and has better screening capacity.

Why Not Short ETFs? A Study of ETF Investment by Mutual Funds

Hsiu-lang Chen
University of Illinois at Chicago, United States
hsiulang@uic.edu

Abstract

Investing in exchange-traded funds (ETFs) instead of the underlying basket securities directly is costly for mutual funds. Why do mutual funds invest in ETFs? Actively managed open-end equity funds (OEFs) investing in ETFs tend to take a short position in securities, and short ETFs more than other securities if they short. By investigating the overlap in portfolio compositions between OEFs and ETFs held by the OEFs, this study is able to differentiate competing hypotheses in explaining why OEFs invest in ETFs. This study supports the assertion that hedging is the primary reason that equity funds invest in ETFs. Although equity funds cannot enhance the 4-factor information ratios by investing ETFs, they can reduce overall portfolio volatility relative to the market.

Corruption and governance in Latin America: estimation of a panel data model

ALVARO ANTONIO SALAS SUAREZ
UAM, Spain
alvaro.salas@uam.es

SOFIA GARCIA GAMEZ
UAM, Spain
sofia.garcia@uam.es

GILBERTO CARDENAS CARDENAS
UAM, Spain
gilberto.cardenas@uam.es

Abstract

Corruption and governance in Latin America: estimation of a panel data model The existence of high levels of corruption is attributed to the low quality of a country's institutional framework, among others factors. In general, it is associated with a weak legal framework in relation to penalties for corruption offenses. In addition, corruption is identified as an important cause of the loss of governmental legitimacy in the democracies of many countries, especially in the most vulnerable economies. Therefore, considering this vicious circle, this paper shows the results of an econometric model that, with the methodological of panel data, analyzes the impact of corruption, as well as a set of other variables associated with the economic freedoms, on the performance of the public sector in the Latin American region.

Deleveraging Large Funds under Market Impact: Model and Solution

Chanaka Edirisinghe Edirisinghe
Rensselaer Polytechnic Institute, United States
edirin@rpi.edu

Jaehwan Jeong
Radford University, United States
jjeong5@radford.edu

Abstract

We consider the problem of deleveraging a large long-short portfolio of risky assets in a relatively short trading period to satisfy specific leverage and margin policy constraints in the presence of liquidity impact on prices. Given the future uncertainty during the rebalancing period, the model is formulated to determine the impact of policy limits on mean-variance tradeoff frontier. Liquidity costs are considered due to both quantity and intensity of trading leading to temporary and permanent impact on asset prices. Utilizing a separable upper approximating risk metric on portfolio variance, we formulate the model as a quadratic separable, but nonconvex, optimization problem, which is extremely-difficult to solve using known techniques. We develop, first, a new dual cutting plane methodology to solve the non-convex Lagrangian dual problem efficiently. Starting from the Lagrangian solution, next, we develop a method to obtain a sequence of progressively-improving feasible deleveraged portfolios. Using real data on ETF assets, the methodology is empirically-tested, and the optimal deleveraging strategy sensitivity to leverage and margin limits is analyzed in order to develop managerial insight for setting policy parameters. Relative gain from our model in comparison to ignoring market liquidity is quantified using out-of-sample analysis.

Time-Varying Term Structure of Oil Risk Premiums

Gonzalo Cortazar
Pontificia Universidad Catolica de Chile, Chile
gcortaza@ing.puc.cl

Philip Liedtke
Pontificia Universidad Catolica de Chile, Chile
pliedtke@uc.cl

Hector Ortega
Pontificia Universidad Catolica de Chile, Chile
hiortega@uc.cl

Eduardo Schwartz
SFU-UCLA-NBER, Canada
eduardos@sfu.ca

Abstract

This paper proposes to extract time-varying commodity risk premiums from multi-factor models using futures prices and analyst´s forecasts of future prices. The model is calibrated for oil using a 3-factor stochastic commodity-pricing model with an affine risk-premium specification. WTI futures price data is from NYMEX and analyst´s forecasts from Bloomberg and the U.S Energy Information Administration. Weekly estimations for short, medium and long-term risk premiums between 2010 and 2017 are obtained. Results from the model calibration show that risk premiums are clearly stochastic, that short-term risk premiums tend to be higher than long-term ones and that risk premium volatility is much higher for short maturities. An empirical analysis is performed to explore the macroeconomic and oil market variables that may explain the stochastic behavior oil risk-premiums.

Global Minimum Variance Portfolio estimation using regularization methods: banding, tapering, and shrinkage

Nini Johana Marin Rodriguez
Universidad de Medellín, Colombia
njmarin@udem.edu.co

Abstract

We analyze the performance of banding and tapering estimators to calculate the high dimensional covariance in Global Minimum Variance (GMV) portfolio selection, using simulated data with natural ordering required for the application of banding and tapering methodologies. The aim is to obtain a better covariance matrix estimator which allows minimizing the risk. Results show that covariance estimation with fewer data obtains results of portfolio optimization similar to the complete sample obtaining estimators more precise in statistical analysis and portfolio performance evaluation. This result can help to reduce the transaction costs of relocating weights in the portfolio.

How Well Does Duration Measure Risk? Does Convexity Matter?

Joel Barber Barber
Florida International University, United States
prof.barber@yahoo.com

Abstract

This paper examines how well duration estimates the risk in bond portfolios and whether the convexity adjustment matters. Specifically, we duration match 14 convex barbells to zero coupon bonds, and then compare the price performance using 32 years of weekly and daily yield curve changes. The mean and median difference in performance between the barbell and the zero coupon bond is nearly zero, the interquartile range is small, and there is no bias in the difference. However, we find that the accuracy of the duration measure of interest rate risk is positively related to the convexity. Therefore, convexity does not improve the duration estimate of interest rate risk but does indicate the accuracy of the estimate.

Market-based Finance and Bank Efficiency: DEA Analysis of EU Banks

Galia Kondova
University of Applied Sciences and Arts Northwestern Switzerland, Switzerland
galia.kondova@fhnw.ch

Trishit Bandyopadhyay
TST Training and Research Services, India
tbandyo@gmail.com

Abstract

This paper applies a data envelopment analysis (DEA) to study bank efficiency developments in eight EU countries in the period 2014-2016. The efficiency analysis is conducted by applying a profit-based input-oriented DEA variable returns to scale model in a two-stage procedure. In the first stage, the average DEA efficiency scores are calculated. We find evidence that the average aggregate technical efficiency increased on average from 2014 to 2016. In the second stage, the impact of environmental factors like the FSB?s narrow shadow banking measure and macroeco-nomic factors is analyzed by conducting a Tobit regression. The results provide evidence of a negative relationship between the narrow shadow banking measure and average bank efficiency and a positive impact of GDP on average bank efficiency. These novel empirical findings con-tribute to the policy discussions on the effect of market-based finance on bank performance and thus on financial stability. Moreover, our analysis provides a unique initial evidence in favor of the hypothesis that increased market-based finance might result into a reduction of bank profita-bility due to more risk-taking that is also discussed in the joint CGFS/ FSB Report on FinTech Credit (BIS, 2017).

Optimal Timing and Tilting of Equity Factors

Wolfgang Drobetz
Hamburg University, Germany
wolfgang.drobetz@uni-hamburg.de

Hubert Dichtl
Hamburg University, Germany
dichtl@dichtl-rc.de

Harald Lohre
Lancaster University Management School, United Kingdom
harald.lohre@invesco.com

Carsten Rother
Hamburg University, Germany
carsten.rother@invesco.com

Patrick Vosskamp
Allianz Global Investors, Germany
patrick.vosskamp@allianzgi.com

Abstract

Equity factor investing centers around firm characteristics that have proven useful in explaining the cross-section of stock returns. A challenge is to combine such factors into a coherent portfolio capable of optimally harvesting associated factor premia. We consider parametric portfolio policies that allow for timing factors conditioned on time series predictors and tilting factors using cross-sectional factor characteristics. Both factor timing and factor tilting are statistically and economically relevant, with equity factors predictably related to fundamental and technical time-series indicators as well as factor characteristics such as factor momentum, valuation, or crowding. However, given the substantial turnover of the optimal factor allocations this predictability is hard to exploit. The evidence is slightly more favorable when smoothing the mean-variance factor allocations using transaction penalties or Black-Litterman shrinkage.

Repurchases and Dividend Smoothing: Evidence for Dividend Signaling?

Tamara Tigero
Universidad Adolfo Ibañez, Chile
tamaratigero@gmail.com

Abstract

This paper investigates the impact of stock repurchases on dividend smoothing. Using an international sample, I show that once stock buybacks are legalized, firms do more dividend smoothing. Tests on a cross-section of more than 2.500 firms in 8 countries show that, between dividend paying firms, differences in dividend smoothing are mainly explained by the existence of asymmetric information once the companies have the possibility of repurchasing their stocks. Our findings suggest that firms use repurchases to solve agency problems, so that persistence of dividends is primarily due to the necessity of signal the market and create reputation.

A DEA efficiency and productivity analysis on Colombian Hotels

Jaime Romero Perdomo
Universidad Piloto de Colombia , Colombia
ingjaimeromero@gmail.com

Amalia Rodrigo Gonzalez
Universidad de Valencia, Spain
Amalia.Rodrigo@uv.es

Abstract

This paper presents a study on efficiency and productivity of Colombia?s hotel sector in the 2013-2017 period. By applying the techniques of data envelopment analysis and malmquist productivity index on accounting data. The sample is composed by 159 hotels belonging to the Groups II and III, according to Colombian NIIF They are distributed among the 7 regions with major conbributions to the sector and located within group 1 according to the regional tourism competitiveness index. The government for the year 2003 complied with decree 2755 with expiration on December 31, 2018, exempting the payment of income tax and the investors that built new hotel projects, as well as the business impulse and the promotion of new jobs. Will be an input for the entrepreneur to make relative efficiency decisions that strengthen their organization, the sector and its benefits in the local, national and international environment. The results will be obtained from the productive process through the study of the decision making units and the study carried out among the hotels identified in the sample, applying the returns of variables to scale and the optimal efficiency through the BCC model.

Market Timing and Selectivity in Feedback Trading: Retail vs. Institutional Funds

Yong H. Kim
University of Cincinnati, United States
yong.kim@uc.edu

Miyoun Paek
University of Cincinnati, United States
paekmn@uc.edu

Abstract

This study examines different types of feedback trading of equity fund investors with respect to two components of investors? skill: market timing and selectivity. We compare the differences in equity fund investment between retail and institutional investors by developing a new empirical feedback model. First, we find that retail investors engage in positive feedback trading for market timing and selectivity. We also show empirical evidence that the trading behavior of institutional investors differs from that of retail investors in terms of feedback trading. Second, positive feedback trading for the market timing of retail investors is due to sell-side trades. However, for selectivity, positive feedback trading is a combined effect of both sell- and buy-side trades. Finally, attribution bias affects positive feedback trading of retail investors, who apply different feedback trading for market timing and selectivity according to market conditions.

Linguistic Complexity and Cost of Equity Capital

Aaron Gilbert
AUT University, New Zealand
agilbert@aut.ac.nz

Abstract

In this paper, we investigate how linguistic complexity relates to a company?s cost of equity capital. When management uses linguistic complexity to obfuscate information, we expect shareholders to require a greater return on equity due to their perception of greater firm risk. Our results show that, within a given firm, a decrease in the readability of the annual report is associated with an increase in the cost of equity capital. This finding remains even after we extensively control for firm complexity, demonstrating that investors do react to attempts to obfuscate by managers. Finally, we provide evidence that the effect of linguistic complexity is robust to controlling for intrinsic business complexity and the quantity of information disclosed.

Does corporate governance matter for stock returns? Estimating the volatility term structure in Brazilian Capital Market

Guilherme Cardoso
Federal University of Uberlândia, Brazil
guilhermefc05@gmail.com

Dannie Carr
Federal University of Uberlândia, Costa Rica
carr.dannie@gmail.com

Pablo Rogers
Federal University of Uberlândia, Brazil
pablo.rogers@hotmail.com

Abstract

This paper aimed to investigate in the Brazilian capital market the behavior and term structure of the volatility of two portfolios that, theoretically, the companies that comprise them have different degrees of idiosyncratic risk: one portfolio consists of firms? shares with good corporate governance practices and the other is comprised of firms? shares with poor corporate governance. The sample is comprised of Brazilian firms listed in the B3 and the period of the study was defined from the January 2008 to December 2017 and GARCH models were applied for the analysis of the information. We found that the index of firms with good practices of corporate governance presents the volatility more reactive and less persistent than the index of firms with poor governance, opposing the idea that the stocks with good practices of governance are better protected from the short-term movements, when taking the perspective of the punctual parameters. However, in the long-run, and considering the error measures, both portfolios are following the same pattern. That is, in the long-term perspective they converge to the same place. These findings may be related with the characteristics of the Brazilian market, as ownership concentration, ineffective boards and a stock market still being developed. These characteristics can be a barrier to an effective enforcement of the corporate governance practices despite of the Brazilian firms comply for the them. Thus, the practices of corporate governance are not one of the drivers of the volatility in the Brazilian stock market. The findings are potentially of interest of researches and practitioners for several reasons. First, this paper contributes to the growing literature on the relationship between the corporate governance mechanisms and volatility. Second, it informs that the volatility in the Brazilian context is not influenced by the practices of corporate governance. Third, in the long-run perspective the both indexes follow the same pattern and converging to the same place.

SMES IN ARGENTINA FINANCIAL INFORMATION AND FINANCING ALTERNATIVES

miguel siebens
UNIVERSIDAD DE FLORES, CENTRO DE EMPRENDEDORES, Argentina
miguel.siebens@gmail.com

Abstract

This work seeks to analyze the specific features of SMEs in Argentina facing the need for financial information and financing options

Detecting the impact of Earnings Management on the Value Relevance of Earnings amongst Brazilian Firms listed in Brazilian Stock Exchange (B3)

Natalia Alves
UFPE, Brazil
nataliamarquesalves@hotmail.com

Charles Carmona
UFPE, Brazil
charles.carmona@gmail.com

Mauricio Freitas
UFPE, Brazil
massuero@ig.com.br

Rommel Freire
UFPB, Brazil
rommelfreire@gmail.com

Abstract

This paper has the aim of detecting the value relevance of earnings in firms listed in the Brazilian Stock Exchange (B3) with lowest performances and comparing the results with the group of highest performances, from 2014 to 2017. Mostafa (2017), whose paper is the basis for the present research, used Net Operating Cash Flows to differentiate between firms with low (negative cash flows) and high performance (positive cash flows). He hypothesized that firms with lower performance have lower value relevance of earnings. Conversely, we used ROA (Return on Assets) as a benchmark to determine whether a firm is presenting good financial situation from the perspective of its external users. The next step was to detect if firms with lowest ROA practice earnings management more intensely (presenting low value relevance of earnings) than those with highest ROA, by using discretionary accruals in their financial accounting activities. If they do so, what impact would this firms? earnings management produce over their reported net income? In other words, what is the value relevance of firms? net income when they manage them and how this manipulation would affect the stocks? return of lowest and highest performance companies? Our results show that firms with lowest performance may not practice aggressive earnings management more intensely in comparison with firms with highest performance.

Unexpected Political Changes. State Owned Companies Versus Other Companies Listed on Warsaw Stock Exchange

Blazej Podgórski
Kozminski University, Poland
bpodgorski@alk.edu.pl

Abstract

The study presents an analysis of market reaction to the change in the position of prime minister in Poland. On 8 December, after the second vote of no confidence won by Prime Minister Beata Szyd?o, she resigned, and her place was taken by Mateusz Morawiecki, previously Minister of Finance and President of a large bank, who was perceived as more economically oriented. In the study four hypotheses were put forward, assuming an increase in prices of companies from individual research sub-samples. The results of the estimation of all models were explained on the basis of both classical and behavioural theory.

Ownership Concentration and Firm Performance in India

Amitabh Gupta
University of Delhi, India
amitabh_gpt@yahoo.co.in

Tripti Nashier
University of Delhi, India
tripti.nashier@gmail.com

Abstract

Ownership concentration is considered an important corporate governance mechanism because owners with concentrated shareholding influence the operations and management of a company. The ownership structure in developing countries is quite different from that in the developed markets, thus, we provide empirical evidence from an important emerging market like India. This study used panel data models and instrumental variables techniques using GMM on a large sample of 11,136 firm-year observations to get efficient and reliable results. The endogeneity of ownership concentration has not been examined in India before. In this paper, ownership concentration is measured by Herfindahl?s index as suggested by Demsetz and Lehn (1985); and Leach and Leahy (1991). Other Indian studies in this area have used promoter shareholding as a proxy of ownership concentration. After controlling for endogeneity, we find that ownership concentration affects both market and accounting performance of a company, positively. The results suggest that concentrated ownership reduces agency costs as blockholders actively monitor the management of the company, thereby leading to better firm performance.