AUCKLAND FINANCE MEETING

18 – 20 December 2014

Programme

CFA Institute

NEW ZEALAND SUPERANNUATION FUND

RESERVE BANK OF NEW ZEALAND

sirca

AUT UNIVERSITY FACULTY OF BUSINESS+LAW

KIA ORA AND WELCOME

Welcome to the Auckland University of Technology and the 2014 Auckland Finance Meeting. This is the fourth year that the Auckland Centre for Financial Research organises the Auckland Finance Meeting. The meeting aims to bring together researcher in the fields of empirical finance and financial econometrics to present and discuss high-quality and leading-edge research. The AFM is very discerning in the selection of accepted papers; this year 60 papers are included in the programme out of a total of 160 submissions. I am pleased to say that all of the accepted papers are of a very high quality.

Putting together a conference requires input and dedication of many people involved and I would like to offer a special thanks to our keynote speakers, Professor Eduardo Schwartz, Professor Robert Webb, and Professor Robert Whaley. Their contributions to this conference are invaluable and I am very grateful for this.

I would also like to acknowledge the members of the program selection committee. Their support and effort in producing high-quality and timely reviews is essential to the development of an outstanding conference programme.

A special thank you also goes to our valued sponsors for their continuing support: New Zealand Superannuation Fund, the Securities Industry Research Centre of Asia (SIRCA), CFA Institute, The Reserve Bank of New Zealand, and the AUT Business School. It is through their financial support and engagement that this event is possible.

I appreciate and welcome all participants to this event. Of course the quality of a conference such as this one depends on the quality of the papers submitted, and also the quality of the presentations and discussions during the conference.

Last but not least, I would like to thank Mrs Tracy Skolmen. She has done a magnificent job in putting many parts of this conference together. Her efforts have made the organisation and running of this event a very smooth process. Thank you so much Tracy!

I hope you will have a memorable time in Auckland, the City of Sails.

Bart Frijns
Professor of Finance, Auckland University of Technology
Director of the Auckland Centre for Financial Research

AFM MEETING PARTICIPANTS

PROGRAMME SELECTION COMMITTEE

Rainer Baule, University of Haagen
Geoffrey Booth, Michigan State University
Glen Boyle, University of Canterbury
Christine Brown, Monash University
Helena Címerova, Auckland University of Technology
José da Fonseca, Auckland University of Technology
Robert Durand, Curtin University
Aaron Gilbert, Auckland University of Technology
Janice How, Queensland University of Technology
Ben Jacobsen, University of Edinburgh Business School
Michael Keefe, Victoria University of Wellington
Stefanie Kleimeier, Maastricht University
Johan Knif, Hanken School of Economics
Roy Kouwenberg, Mahidol Universisty
Yuanto Kusnadi, Singapore Management University
Ming-Hua Liu, University of Macau
Jiang Luo, Nanyang Technological University
Terrance Odean, UC-Berkeley
Erik Schlogl, University of Technology Sydney
Ajai Singh, Lehigh University
Tom Smith, University of Queensland
Peter Swan, University of New South Wales
Alireza Tourani-Rad, Auckland University of Technology
Yiuman Tse, University of Missouri – St. Louis
Anand Vijh, University of Iowa
John Wald, University of Texas San Antonio
Peiming Wang, Auckland University of Technology
Robert Webb, University of Virginia
Christian Wolff, Luxembourg School of Finance
Eliza Wu, University of Technology, Sydney
Remco Zwinkels, Erasmus University Rotterdam

KEYNOTE SPEAKERS

Professor Eduardo S. Schwartz, UCLA, Los Angeles, USA
Professor Robert I. Webb, University of Virginia, Charlottesville, USA
Professor Robert E. Whaley, Vanderbilt University, Nashville, USA

MEETING ORGANIZERS

Professor Bart Frijns, Director of ACFR, Auckland University of Technology, New Zealand
Tracy Skolmen, Dept. Coordinator, Auckland University of Technology, New Zealand

KEYNOTE SPEAKERS

Professor Eduardo S. Schwartz, UCLA, Los Angeles, USA

Dr. Schwartz is the California Professor of Real Estate and Professor of Finance, Anderson Graduate School of Management at the University of California, Los Angeles. He has an Engineering degree from the University of Chile and a Masters and Ph.D. in Finance from the University of British Columbia. He has been in the faculty at the University of British Columbia and visiting at the London Business School, the University of California at Berkeley and the Universidad Carlos III in Madrid.

His wide-ranging research has focused on different dimensions in asset and securities pricing. Topics in recent years include interest rate models, asset allocation issues, evaluating natural resource investments, pricing Internet companies, the stochastic behaviour of commodity prices and valuing patent-protected R&D projects. His collected works include over one hundred articles in finance and economic journals, two monographs, an edited book, and a large number of monograph chapters, conference proceedings, and special reports. He is the winner of a number of awards for both teaching excellence and for the quality of his published work. He has been associate editor for around twenty journals, including the Journal of Finance, the Journal of Financial Economics and the Journal of Financial and Quantitative Analysis. He is past president of the Western Finance Association and the American Finance Association. He is a Fellow of the American Finance Association and the Financial Management Association International. He is a Research Associate of the National Bureau of Economic Research. He was awarded a Doctor Honoris Causa by the University of Alicante in Spain and by the Copenhagen Business School in Denmark, and a Catedra de Excelencia by the Universidad Carlos III in Madrid. He has also been a consultant to governmental agencies, banks, investment banks and industrial corporations.

KEYNOTE SPEAKERS

Professor Robert I Webb, University of Virginia, Charlottesville, USA

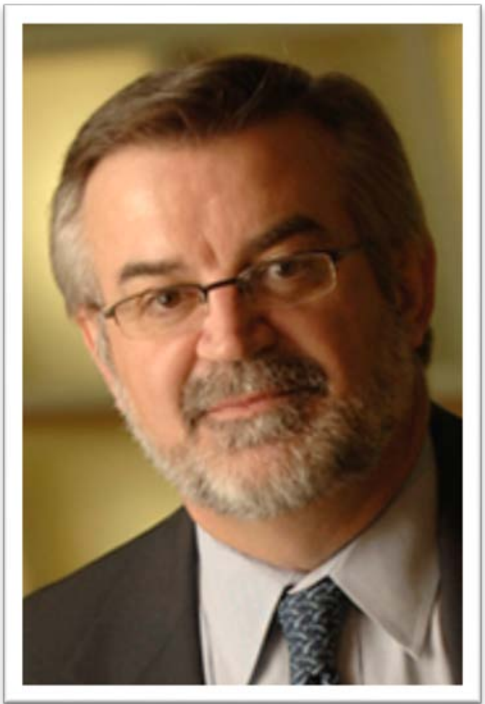
Bob Webb is the Paul Tudor Jones II Research Professor at the McIntire School of Commerce at the University of Virginia in Charlottesville, USA. Bob also held a joint appointment at the Korea Advanced Institute of Science and Technology business school for three years.

Bob serves as the Editor of the Journal of Futures Markets—a leading finance journal that specializes in academic articles on futures, options, and other derivative securities. His experience includes: trading fixed income securities for the Investment Department of the World Bank (Consultant); trading financial futures and options on the floor of the Chicago Mercantile Exchange (Member); designing new financial futures and option contracts for the Chicago Mercantile Exchange (Senior Financial Economist); analysing the effects of deregulating the financial services industry, among others, at the Executive Office of the President, Office of Management and Budget; (Senior Financial Economist) examining issues related to international futures markets at the U.S. Commodity Futures Trading Commission (Senior Financial Economist). Bob has also consulted on risk management issues for the Asian Development Bank in Manila. He formerly taught at the Graduate School of Business at the University of Southern California.

Bob earned his M.B.A. and Ph.D., degrees in finance from the University of Chicago and his B.B.A., degree from the University of Wisconsin at Eau Claire. Bob has published his research in a number of academic journals including the Journal of Econometrics, the Journal of Business and Economic Statistics, the Journal of Futures Markets, and the Southern Economic Journal among others. He has also published commentary on contemporary issues in the financial press including: The Wall Street Journal; Investor's Business Daily; the Nihon Keizai Shimbun; MK Economic Newspaper; and the Nikkei Weekly. He is the author or co-author of the books, Shock Markets: Trading Lessons for Volatile Times (FT [Financial Times] Press 2013); Trading Catalysts: How Events Move Markets and Create Trading Opportunities (FT Press 2007); and Macroeconomic Information and Financial Trading (Blackwell 1994).

KEYNOTE SPEAKERS

Professor Robert E. Whaley, Vanderbilt University, Nashville, USA



Robert E. Whaley is the Valere Blair Potter Professor of Management and Director of the Financial Markets Research Center at the Owen Graduate School of Management, Vanderbilt University. He received his BCom from the University of Alberta, and his MBA and PhD from the University of Toronto.

His current research interests are in the areas of relative performance indexes, exchange-traded funds, volatility index products, commodity index products, and derivatives contract design. He is an established expert in derivative contract valuation, risk management, and market operation.

He has been a consultant for many major investment houses, security (futures, option and stock) exchanges, governmental agencies, and accounting and law firms.

He developed the Market Volatility Index (i.e., the "VIX") for the Chicago Board Options Exchange in 1993, the NASDAQ Market Volatility Index (i.e., the "VXN") in 2000, and the BuyWrite Monthly Index (i.e., the "BXM") in 2001 and co-developed the NASDAQ-OMX Alpha Indexes in 2010.

BEST PAPER AWARDS

We would like to thank and acknowledge the sponsors of our Best Paper Awards:

Best Paper Award $2,000

Sponsored by:

NEW ZEALAND SUPERANNUATION FUND

Runner Up Award $1,000

Sponsored by:

NEW ZEALAND SUPERANNUATION FUND

CFA Asia Capital Markets Award US$1,000

Sponsored by:

CFA Institute

These awards will be presented at 5pm on 19th December 2014 after the Keynote Address

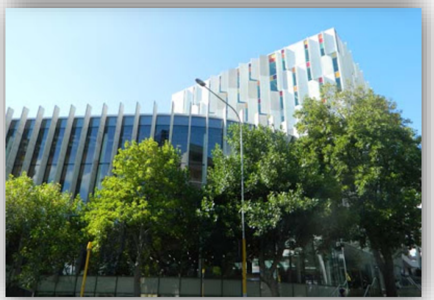
VENUE INFORMATION

2014 AUCKLAND FINANCE MEETING
18-20 December 2014
AUT University
Auckland, New Zealand

Powhiri at **Ngā Wai o Horotiu Marae**

A Powhiri recognises the coming together of two groups. Ngā Wai o Horotiu Marae (WP Building) is Located on the corner of Wellesley and St Paul's Street, the marae is also known as the gateway to AUT and the city of Auckland.

The welcome reception and **Registration** will be held in **Sir Paul Reeves Building** (Level 4 of WG Building) located at 1 Governor Fitzroy Plaza, Auckland City



All sessions and streams will be held at AUT University, City Campus in the **Sir Paul Reeves Building** (Level 8 of WG Building) located at 1 Governor Fitzroy Plaza, Auckland City

The Sky Lounge is situated 182 metres above Auckland City in the **Sky Tower**. When you arrive you come down the escalator in Sky City and through the second door on your right which is the reservations desk for Restaurants and they will have our information and provide access to Sky Lounge.

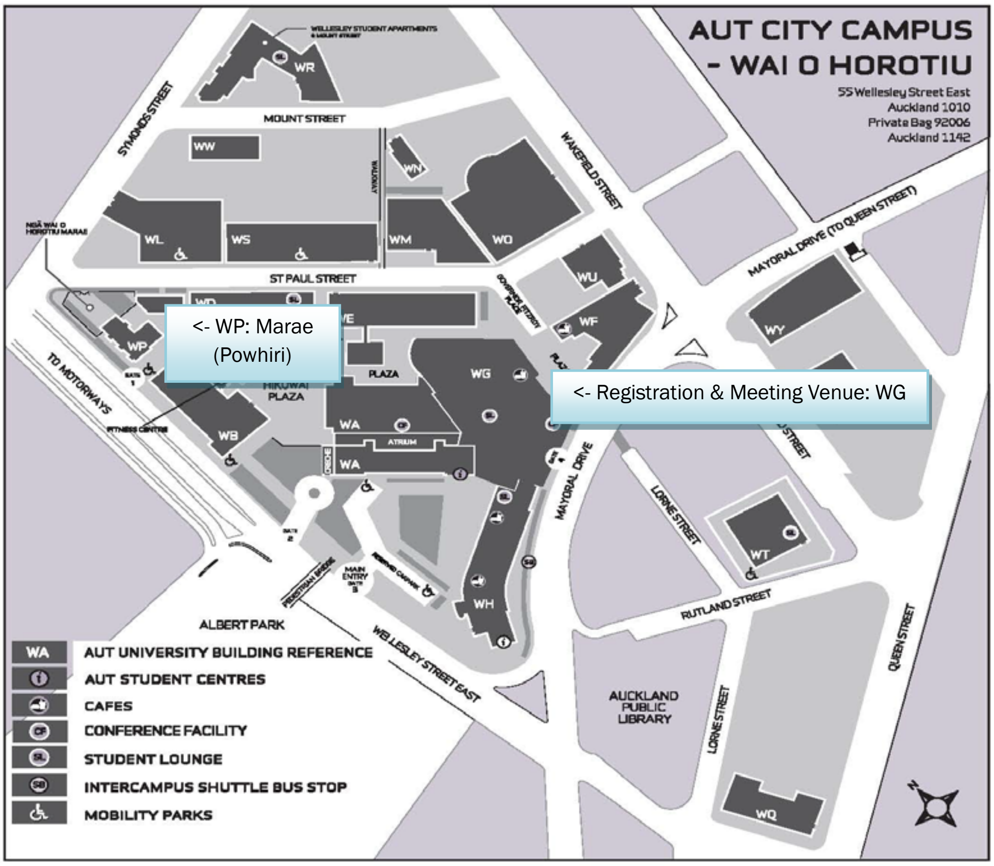
The AFM 2014 will conclude with a cruise around the Hauraki Gulf that ends on the beautiful **Waiheke Island**. Where we will disembark and proceed to a bus for a quick tour of the Island and a walk on the beach. We will then proceed to **Stonyridge Vineyard** for a wine tour and dinner, returning to Auckland City by Ferry at 21h30, arriving around 10pm.

Dinner is sponsored by: sirca

MEETING VENUE MAP

2014 AUCKLAND FINANCE MEETING
18-20 December 2014
AUT University
Auckland, New Zealand

AUT University, City Campus Map



SCHOOLS

APPLIED SCIENCES - Level 3, WS Building
ART AND DESIGN - Level 3, WE Building
BUSINESS - Level 1, WF Building
COMMUNICATION STUDIES - Level 12, WG Building
COMPUTING AND MATHEMATICAL SCIENCES - Level 1, WT Building
ENGINEERING - Level 3, WS Building
HOSPITALITY AND TOURISM - Level 3, WH Building
LANGUAGE AND CULTURE - Level 8, WT Building
LAW - Level 6, WY Building
SOCIAL SCIENCES - Level 14, WT Building
TE ARA POUTAMA - Level 3, WB Building

SERVICES AND FACILITIES

AUT STUDENT CENTRES - Level 2, WA Building & Level 1, WH Building
STUDENT SERVICES RECEPTION - Level 1, WB Building
LIBRARY - Level 4, WA Building
EARLY CHILDHOOD CENTRE - Level 2, WA Building via Gate 2
AUT INTERNATIONAL CENTRE - Ground Floor, WY Building
AuSM - Level 2, WC Building
SAFETY & SECURITY - Corner St Paul & Wakefield St, WO Building
HEALTH, COUNSELLING AND WELLBEING - WB219, Level 2, WB Building
PRINTSPRINT Customer Service Branch - Level 3, WA Building
UNIVERSITY BOOKSHOP - WC122, WC Building

AUT STUDENT CENTRE

Level 2, WA Building,
Phone: 0800 AUT UNI
Web: www.aut.ac.nz

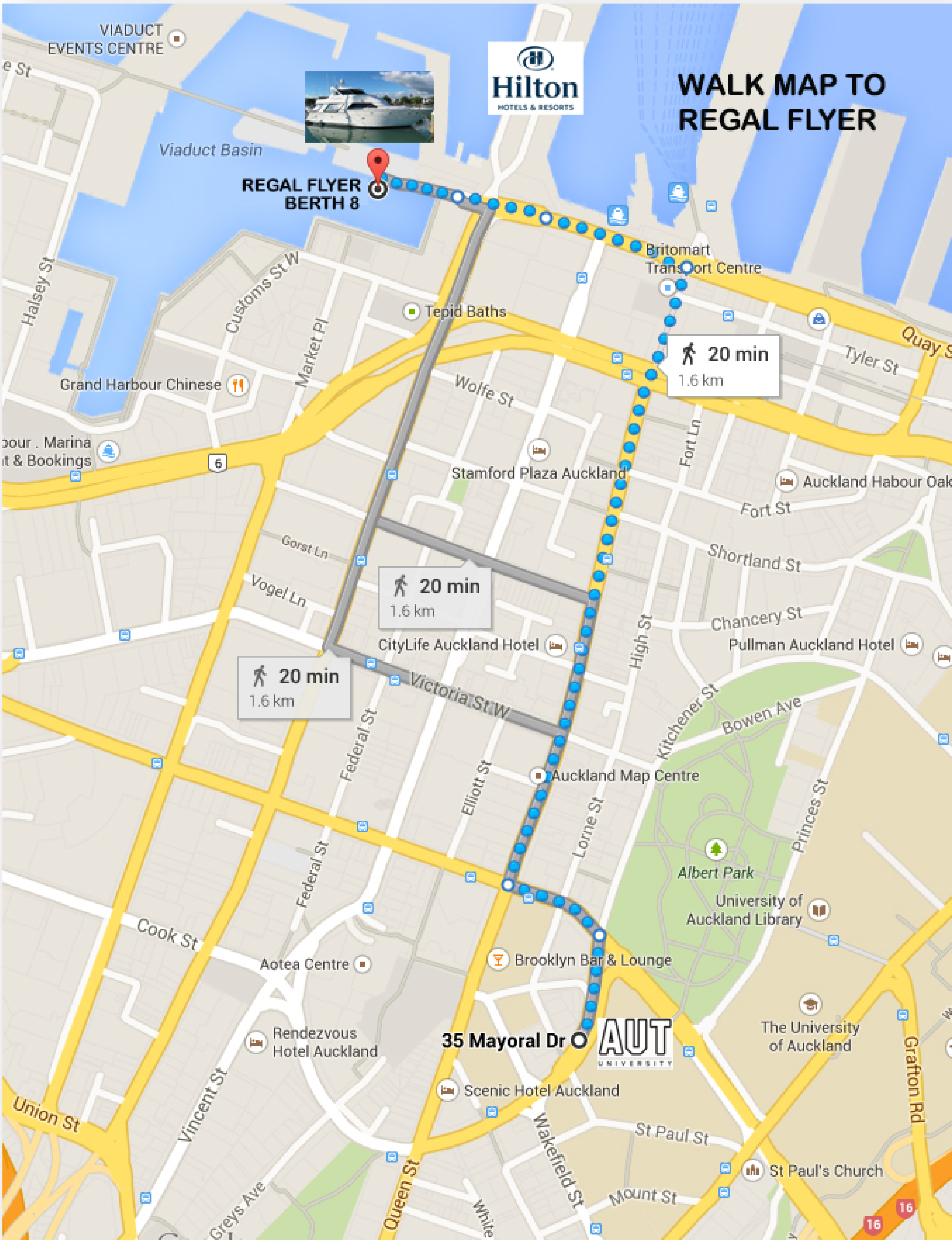
JOIN A CAMPUS TOUR

Fridays at 2.00pm
AUT Student Centre

AUT UNIVERSITY

LOCATION MAP FOR CRUISE TO WAIHEKE ISLAND

- The Regal Flyer is located in the Eastern Viaduct Marina on Berth 8.
- Entrance to the boat is via a gated walkway with gates located near the vessel.



PROGRAMME OVERVIEW – DOCTORAL SYMPOSIUM

2014 DOCTORAL SYMPOSIUM ORGANISERS:
Olga Dodd (Auckland University of Technology)
Bart Frijns (Auckland University of Technology)

Thursday, 18th December 2014	Doctoral Symposium	
09h00 to 09h30	Registration & Coffee	WG8
09h30 to 12h00	**DOCTORAL SYMPOSIUM**	**WORKSHOPS**
	Corporate Governance during the Global Financial Crisis by **Alireza Tourani-Rad**	
	Pitching Research by **Robert Faff**	
	Current Research in International Corporate Debt Markets by **Madhu Kalimpalli**	
12h00 to 13h00	Lunch Break	WG 4 Atrium
13h00 to 16h00	**DOCTORAL SYMPOSIUM**	**BREAK-OUT SESSIONS**
	Session 1 – Corporate Finance	
	The influence of cash flow volatility on capital structure and zero leverage by maturity – **Mona Yaghoubi** The impact of post-IPO changes in corporate governance mechanisms on firm performance: Evidence from young Australian firms – **Biplob Chowdhury** New model and evidence of cash tunnelling in Chinese firms - **Yi Wei**	
	Session 2 – Financial Econometrics	
	Stock market interdependence and trade linkage: Evidence in the context of Australia and Asia - **Sudharshan Reddy Paramati** Contemporaneous spillover effects between the US and the UK - **Marinela Finta** Normality of stock returns with event time clocks - **Xin Ling**	
	Session 3 – Financial Markets	
	Price discovery dynamics of cross-listed stocks - **Ivan Indriawan** A state preference approach to jump risk under the Merton Jump-Diffusion framework – **Hannah Nguyen** Financial flexibility: A new risk factor? - **Suresh Rajput**	

PROGRAMME OVERVIEW

Thursday, 18th December 2014	AFM 2014	
17h00 to 19h30	Powhiri Registration Welcome Drinks Sponsored by CFA Institute	Marae: WP Building WG 308 WG 308
Friday, 19th December 2014	DAY 1	
07h30 to 08h00	Registration	WG306
08h00 to 09h45	**SESSION ONE**	
Stream A.1	Corporate Finance 1	Room: WG 801
Stream A.2	Empirical Asset Pricing	Room: WG 803
Stream A.3	Stock Market Dynamics	Room: WG 808
Stream A.4	International Corporate Finance	Room: WG 809
09h45 to 10h15	Coffee/Tea Break	WG306
10h15 to 12h00	**SESSION TWO**	
Stream B.1	Corporate Boards	Room: WG 801
Stream B.2	Sentiment	Room: WG 803
Stream B.3	Banking	Room: WG 808
Stream B.4	Quantitative Finance	Room: WG 809
12h15 to 13h15	**Keynote Speaker: Prof. Robert Whaley** **Trading Volatility: At What Cost?**	Room: WG 404
13h15 to 14h00	Lunch Break	WG306
14h00 to 15h45	**SESSION THREE**	
Stream C.1	Corporate Finance 2	Room: WG 801
Stream C.2	Liquidity and Price Discovery	Room: WG 803
Stream C.3	Volatility 1	Room: WG 808
Stream C.4	Asset Pricing	Room: WG 809
16h00 to 17h00	**Keynote Speaker: Prof. Eduardo Schwartz** **The Real Options Approach to Valuation: Challenges and Opportunities**	Room: WG 404
18h30 to 20h00	Drinks & Snacks @ Sky Lounge	Sky Tower

Saturday 20th December 2014	DAY 2	
08h30 to 10h15	**SESSION ONE**	
Stream D.1	CFA Institute Session	Room: WG 801
Stream D.2	Volatility 2	Room: WG 803
Stream D.3	Corporate Finance 3	Room: WG 808
Stream D.4	Behavioral Finance	Room: WG 809
10h15 to 10h45	Coffee/Tea Break	WG306
10h45 to 12h30	**SESSION TWO**	
Stream E.1	Investment Strategies	Room: WG 801
Stream E.2	Corporate Investment and IPOs	Room: WG 803
Stream E.3	Governance	Room: WG 808
Stream E.4	Portfolio Management and Investment	Room: WG 809
12h45 to 13h45	**Keynote Speaker: Prof. Robert I. Webb** **The Market Test**	Room: WG 404
13h45 to 14h30	Lunch Break	WG306
14h30 onwards	14h30 Walk to Wharf 15h00 Cruise to Waiheke Island 16h30 Arrive at Matiatia Wharf 16h45 Waiheke Island Bus Tour 17h30 Stonyridge Vineyard Tour and Dinner Sponsored by SIRCA 22h00 ETA back in Downtown Auckland	

DETAILED PROGRAMME

Thursday, 18th December 2014		
17h00 to 19h00	Powhiri Registration & Welcome	WP Marae WG 308

Friday, 19th December 2014 8h00 to 09h45		
Stream A.1 – Corporate Finance 1 - Room WG 801 Session Chair: Jerry Cao, Singapore Management University		
08h00 to 08h35	08h35 to 09h10	09h10 to 09h45
Not the Token Woman **Hue Hwa Au Yong**, Monash University Maria Strydom, Monash University Discussant: Helena Címerova, Auckland University of Technology	Help or Hinderance? Boardroom Network Connectivity and Firm Performance **Aaron Gilbert,** Auckland University of Technology Angela Andersen, Auckland University of Technology Discussant: Hans Jeppsson, University of Gothenburg	Political Turnover, Ownership, and Corporate Investment **Jerry Cao**, Singapore Management University Brandon Julio, Singapore Management University Sili Zhou, Singapore Management University Discussant: Alireza Tourani-Rad, Auckland University of Technology
Stream A.2 – Empirical Asset Pricing – WG 803 Session Chair: George W. Blazenko, Simon Fraser University		
08h00 to 08h35	08h35 to 09h10	09h10 to 09h45
Conditional Asset Pricing and Momentum **Thanh Huynh**, Auckland University of Technology Daniel R. Smith, Queensland University of Technology Discussant: Konark Saxena, University of New South Wales	The Impact of Uncertainty in the Oil and Gold Market on the Cross-Section of Stock Returns **Iman Honarvar**, Maastricht University Dennis Bams, Maastricht University Gildas Blanchard, Maastricht University Thorsten Lehnert, University of Luxembourg Discussant: Adrian Fernandez-Perez, Auckland University of Technology	Equity Allocation without Estimation Risk **George W. Blazenko**, Simon Fraser University Yufen Fu, Tunghai University Discussant: Juan Yao, University of Sydney
Stream A.3 – Stock Market Dynamics – WG 808 Session Chair: Remco C. J. Zwinkels, VU University Amsterdam		
08h00 to 08h35	08h35 to 09h10	09h10 to 09h45
Simple Measures of Market Efficiency: A Study in Foreign Exchange Markets **Yoshihiro Kitamura,** Waseda University Discussant: Ivan Indriawan, Auckland University of Technology	Time varying volatility indexes and their determinants: Evidence from developed & emerging stock markets Nalin Prasad, University of Sydney Andrew Grant, University of Sydney **Suk-Joong Kim**, University of Sydney Discussant: Yoshihiro Kitamura, Waseda University	Forecasting Crashes: Correlated Fund Flows and the Skewness in Stock Returns **Remco C. J. Zwinkels**, VU University Amsterdam Chunmei Lin, Erasmus University Xun Gong, Tilburg University Discussant: Robert Durand, Curtin University

Stream A.4 – International Corporate Finance – WG 809 Session Chair: Yuanto Kusnadi, Singapore Management University		
08h00 to 08h35 Geographic Proximity of Institutional Investors and Payout Policy **Nhung Le**, La Trobe University Darren Henry, La Trobe University Huong Giang (Lily) Nguyen, La Trobe University Discussant: Yuanto Kusnadi, Singapore Management University	08h35 to 09h10 The Impact of Cross-listing on the Home Market's Information Environment and Stock Price Efficiency **Olga Dodd**, Auckland University of Technology Aaron Gilbert, Auckland University of Technology Discussant: Nhung Le, La Trobe University	09h10 to 09h45 Cross-Listings and Corporate Cash Savings: International Evidence **Yuanto Kusnadi**, Singapore Management University Discussant: Olga Dodd, Auckland University of Technology
09h45 to 10h15	Coffee/Tea Break	WG306
10h15 to 12h00		
Stream B.1 – Corporate Boards – WG 801 Session Chair: Bart Frijns, Auckland University of Technology		
10h15 to 10h50 How does executive gender affect the corporate reaction to competitive shocks? **Mario Daniele Amore,** Bocconi University Orsola Garofalo, Copenhagen Business School Discussant: Hue Hwa Au Yong, Monash University	10h50 to 11h25 Does Board "Independence" Destroy Corporate Value? **Peter L. Swan**, UNSW Business School David Forsberg, UNSW Business School Discussant: Jerry Cao, Singapore Management University	11h25 to 12h00 The Impact of Cultural Diversity in Corporate Boards on Firm Performance **Helena Címerova**, Auckland University of Technology Olga Dodd, Auckland University of Technology Bart Frijns, Auckland University of Technology Discussant: Mario Daniele Amore, Bocconi University
Stream B.2 – Sentiment - WG 803 Session Chair: Stephen X. Gong, Hong Kong Polytechnic University		
10h15 to 10h50 Investor Sentiment and Employment **Remco C. J. Zwinkels**, VU University Amsterdam Maurizio Montone, Erasmus University Rotterdam Discussant: Stephen X. Gong, Hong Kong Polytechnic University	10h50 to 11h25 Superstition and Prices in Residential Real Estate Transactions **Danika Wright**, University of Sydney Discussant: Remco C. J. Zwinkels, VU University Amsterdam	11h25 to 12h00 The Informational Role of Individual Investors in Stock Pricing: Evidence from Large Individual and Small Retail Investors **Cheng-Yi Shiu**, National Central University Hung-Ling Chen, Shih Chien University Edward H. Chow, National Chengchi University Discussant: Danika Wright, University of Sydney

Stream B.3 – Banking- WG 808 Session Chair: Francis In, Monash University		
10h15 to 10h50 Assessing Systemic Risk Based on Interbank Exposures in the Japanese Banking System **Masayasu Kanno,** Kanagawa University Discussant: Suk-Joong Kim, University of Sydney	10h50 to 11h25 The effects of ratings-contingent regulation on international bank lending behaviour: Evidence from the Basel 2 Accord **Suk-Joong Kim**, University of Sydney Iftekhar Hasan, Fordham University and Bank of Finland Eliza Wu, University of Technology Sydney Discussant: Anella Munro, Reserve Bank	Systemic Risk in the European Sovereign and Banking System Simon Xu, Monash University **Francis In**, Monash University Catherine Forbes, Monash University Inchang Hwange, Leonard N. Stern School of Business, New York University Discussant: Masayasu Kanno, Kanagawa University

Stream B.4 –Quantitative Finance - WG 809 Session Chair: Jorge A. Cruz Lopez, Bank of Canada		
10h15 to 10h50 Managing Mortality Risk in Life Annuities: An Application of Longevity Derivatives **Katja Ignatieva**, University of New South Wales Man Chung Fung, University of New South Wales Michael Sherris, University of New South Wales Discussant: José da Fonseca, Auckland University of Technology	10h50 to 11h25 The α-Hypergeometric Stochastic Volatility Model **José da Fonseca,** Auckland University of Technology Claude Martini, University of Waikato Discussant: Katja Ignatieva, University of New South Wales	11h25 to 12h00 CoMargin **Jorge A. Cruz Lopez**, Bank of Canada Jeffrey H. Harris, American University Washington D.C Christophe Hurlin, University of Orléans Christophe Pérignon, HEC Paris Discussant: George W. Blazenko, Simon Fraser University

12h15 to 13h15

Keynote Address I – WG404

Trading Volatility: At What Cost?
Keynote Speaker: Prof. Robert Whaley, Vanderbilt University, Nashville, US

Launched in January 2009, exchange-traded products (ETPs) linked to the CBOE Market Volatility Index (VIX) have enamoured no small number of traders judging by the billions of dollars invested in these new products. Why exactly is unclear. The most popular VIX ETPs are not suitable buy-and-hold investments and are virtually guaranteed to lose money through time. Indeed, since product launch, ETPs linked to the S&P 500 VIX short-term futures indexes have chalked up losses of nearly $4 billion. Yet the market continues to grow. The purpose of this address is to describe these products, explaining how and why they lose money.

13h15 to 14h00 | Lunch Break | WG306

14h00 to 15h45

Stream C.1 – Corporate Finance 2 – WG801 Session Chair: Yanju Liu, Singapore Management University		
14h00 to 14h35 Real Effects of International Tax Planning Incentives: Evidence from Domestic Acquisitions **Travis Chow,** Singapore Management University Discussant: Stephen X. Gong, Hong Kong Polytechnic University	14h35 to 15h10 Innovation in Founder-run Firms: Evidence from S&P 5001 **MD Emdadul Islam,** University of New South Wales Discussant: Mona Yaghoubi, Victoria University of Wellington	15h10 to 15h45 Shareholder Wealth Effects of Anticipated Tax Aggressiveness Transfers **Yanju Liu**, Singapore Management University Discussant: Nhung Le, La Trobe Business School
Stream C.2 – Liquidity and Price Discovery – WG803 Session Chair: Hung Wan Kot, Hong Kong Baptist University		
14h00 to 14h35 Quote Dynamics of Dually-listed Stocks Bart Frijns, Auckland University of Technology **Ivan Indriawan**, Auckland University of Technology Alireza Tourani-Rad, Auckland University of Technology Discussant: Madhu Kalimipalli, Wilfrid Laurier University	14h35 to 15h10 Stock Liquidity: a Virtue or a Vice? Firm-Level Evidence from Stock Price Crash Risk **Yangyang Chen**, Monash University Leon Zolotoy, University of Melbourne Discussant: Iman Honarvar Gheysary, Maastricht University	15h10 to 15h45 The Determinants of Increased Short-Selling Activity **Hung Wan Kot**, Hong Kong Baptist University Discussant: Yafeng Qin, Massey University
Stream C.3 – Volatility 1 - WG808 Session Chair: Jin Zhang, University of Otago		
14h00 to 14h35 Tail Risk and the Returns of Fund of Hedge Funds Wei Cui, University of Sydney **Juan Yao,** University of Sydney Discussant: Katja Ignatieva, University of New South Wales	14h35 to 15h10 Instantaneous Squared VIX and VIX Derivatives **Jin E. Zhang,** University of Otago Xingguo Luo, Zhejiang University Discussant: José da Fonseca, Auckland University of Technology	15h10 to 15h45 Equilibrium-Based Volatility Models of the Market Portfolio Rate of Return **David Feldman,** University of New South Wales Xin Xu, Commonwealth Bank of Australia Discussant: Jin Zhang, University of Otago

Stream C.4 – Asset Pricing – WG809 Session Chair: Redouane Elkamhi, University of Toronto		
14h00 to 14h35 Optimal Contracting, Ownership Structure and Asset Pricing **Hae Won (Henny) Jung**, University of Melbourne Qi Zeng, University of Melbourne Ajay Subramanian, Georgia State University Discussant: David Feldman, University of New South Wales	14h35 to 15h10 Exchange rates, expected returns and risk: UIP unbound **Anella Munro**, Reserve Bank of New Zealand Discussant: Jorge Cruz Lopez, Bank of Canada	15h10 to 15h45 When factors don't span their basis portfolios **Konark Saxena,** University of New South Wales Discussant: Redouane Elkamhi, University of Toronto

16h00 to 17h00

Keynote Address II – WG404

The Real Options Approach to Valuation: Challenges and Opportunities

Keynote Speaker: Prof. Eduardo Schwartz

This address provides an overview of the real options approach to valuation mainly from the point of view of the author who has worked in this area for over 30 years. After a general introduction to the subject, numerical procedures to value real options are discussed. Recent developments on the valuation of complex American options has allowed progress in the solution of many interesting real option problems. Two applications of the real options approach are discussed in more detail: the valuation of natural resource investments, and the valuation of research and development investments.

18h30 to 20h00	Drinks & Snacks	The Sky Lounge, Sky Tower

Saturday, 20th December 2014
8h30 to 10h15

Stream D.1 – CFA Institute Session – WG801

CFA Institute

08h30 to 10h15

Globalising business programmes through industry partnerships

Presenter: Charles E. Appeadu, CFA Institute

A perennial challenge of business schools for the last several decades has been creating an industry-relevant, international experience that attracts high-quality students and faculty. This session will explore how engaging or partnership with industry leaders, such as CFA Institute, can create a global network that business schools can leverage to globalise and validate their degree programmes, enhancing both student and faculty experience.

Stream D.2 – Volatility 2 – WG 803 Session Chair: Robert Whaley, Vanderbilt University		
08h30 to 09h05 Modeling VXX **Sebastian A. Gehricke**, University of Otago Jin E. Zhang, University of Otago Discussant: Vladimir Volkov, Queensland University of Technology	09h05 to 09h40 Common trends in volatility and news in the global equity market **Vladimir Volkov,** Queensland University of Technology A.E. Clements, Queensland University of Technology A.S. Hurn, Queensland University of Technology Discussant: Suk-Joong Kim, The University of Sydney	09h40 to 10h15 The Impact of FOMC Announcements on the VIX and its Futures **Adrian Fernandez-Perez,** Auckland University of Technology Bart Frijns, Auckland University of Technology Alireza Tourani-Rad, Auckland University of Technology Discussant: Robert Whaley, Vanderbilt University
Stream D.3 – Corporate Finance 3 – WG 808 Session Chair: Madhu Kalimipalli, Wilfrid Laurier University		
08h30 to 09h05 Does cash flow volatility affect firm capital structure? **Mona Yaghoubi,** Victoria University of WellingtonMichael O'Connor Keefe, Victoria University of Wellington Discussant: Travis Chow, Singapore Management University	09h05 to 09h40 Non-Transferable Non-Hedgeable Executive Stock Option Pricing David B. Colwell, University of New South Wales **David Feldman,** University of New South Wales Wei Hu, Curtin University Discussant: Hae Won (Henny) Jung, University of Melbourne	09h40 to 10h15 Pricing of International Private Debt: Evidence from the US 144A Secondary Bond Market **Madhu Kalimipalli,** Wilfrid Laurier University Alan G. Huang, University of Waterloo Subhankar Nayak, Wilfrid Laurier University Latha Ramchand, University of Houston Discussant: Yanju Liu, Singapore Management University
Stream D.4 – Behavioral Finance - WG 809 Session Chair: Robert B. Durand, Curtin University		
08h30 to 09h05 State Ownership of Acquirers and results of Mergers and Acquisitions Evidence from Vietnam **Nga Pham**, La Trobe University KB Oh, La Trobe University Discussant: Ji Wu, Xiamen University	09h05 to 09h40 Star Analysts' Rankings and Strategic Announcements: The Case of Battleground Stocks **Joshua Shemesh,** University of Melbourne Gil Aharoni, University of Melbourne Fernando Zapatero, University of Southern California Discussant: Cheng-Yi Shiu, National Central University	09h40 to 10h15 Sell-Side Analyst Herding: Confidence, Limited Attention, Selective Attention and Distraction **Robert B. Durand**, Curtin University Manapon Limkriangkrai, Monash University Lucia Fung, Hong Kong Baptist University Discussant: Joshua Shemesh
10h15 to 10h45	**Coffee/Tea Break**	**WG306**

10h45 to 12h30

Stream E.1 – Investment Strategies – WG801
Session Chair: Ji Wu, Xiamen University

10h45 to 11h20	11h20 to 11h55	11h55 to 12h30
Popularity versus Profitability: Evidence from Bollinger Bands	Global Equity Correlation in Carry and Momentum Trades	Do extreme returns matter in emerging markets? Evidence from the Chinese stock market
Yafeng Qin, Massey University Jiali Fang, Massey University Ben Jacobsen, University of Edinburgh Business School	**Redouane Elkamhi**, University of Toronto Joon Woo Bae, University of Toronto	**Ji Wu,** Xiamen University Gilbert V. Nartea, Lincoln University
Discussant: Yangyang Chen, Monash University	Discussant: Hung Wan Kot, Hong Kong Baptist University	Discussant: Thanh Huynh, Auckland University of Technology

Stream E.2 – Corporate Investment and IPOs – WG803
Session Chair: Jonathan Jona, University of Melbourne

10h45 to 11h20	11h20 to 11h55	11h55 to 12h30
Asymmetric information, disclosures of R&D and the choice of equity-selling mechanisms	Why Do U.S. Firms Invest Less and Less Over Time?	Illiquidity Dynamics of Newly Listed Stocks: Evidence from Foreign IPOs in the US
Hans Jeppsson, University of Gothenburg	**Rong Wang,** Singapore Management University Fangjian Fu, Singapore Management University Sheng Huang, Singapore Management University	**Jonathan Jona,** University of Melbourne Chiara Banti, University of Essex
Discussant: Rong Wang, Singapore Management University	Discussant: Jonathan Jona, University of Melbourne	Discussant: Aaron Gilbert, Auckland University of Technology

Stream E.3 – Governance – WG808
Session Chair: Hanna Westman, Bank of Finland

10h45 to 11h20	11h20 to 11h55	11h55 to 12h30
Institutional Holdings and Payout Policy – From the Perspective of Lifecycle Theory	Voluntary Non-financial Disclosure, Corporate Governance, and Investment Efficiency	Crisis performance of European banks – does management ownership matter?
Nhung Le, La Trobe University Darren Henry, La Trobe University Huong Giang (Lily) Nguyen, La Trobe University	**Stephen X. Gong,** Hong Kong Polytechnic University Jean J. Chen, University of Southampton Xinsheng Cheng, Nankai University Youchao Tan, Southwestern University of Finance and Economics	**Hanna Westman,** Bank of Finland
Discussant: MD Emdadul Islam, University of New South Wales	Discussant: Hanna Westman, Bank of Finland	Discussant: Remco Zwinkels, Erasmus University Rotterdam

Stream E.4 –Portfolio Management and Investment – WG809 **Session Chair: Alireza Tourani-Rad, Auckland University of Technology**		
10h45 to 11h20	11h20 to 11h55	11h55 to 12h30
To Rebalance or Not to Rebalance: Portfolio risk may be larger than you think!	Passive Investing: The Role of Securities Lending	Institutional Trading and Asset Pricing
Katja Ignatieva, University of New South Wales Vitali Alexeev, University of Tasmania	Jesse Blocher, Vanderbilt University **Robert Whaley**, Vanderbilt University	Bart Frijns, Auckland University of Technology Thanh D. Huynh, Auckland University of Technology **Alireza Tourani-Rad,** Auckland University of Technology P. Joakim Westerholm, Sydney University
Discussant: David Feldman, University of New South Wales	Discussant: Peter Swan, University of New South Wales	Discussant: Francis In, Monash University

Keynote Address II – WG404
12h45 to 13h45
The Market Test
Keynote Speaker: Prof. Robert I. Webb, University of Virginia

Market prices usually provide a better assessment of the likely outcome of uncertain events and the validity of controversial beliefs than opinion polls or "expert opinion." Similarly, trading volume also provides a test of what market participants really want in terms of security design or market organization. Yet, this information often fails to inform policy actions or debates in the financial economic literature. Numerous examples are used to illustrate the importance of the market test in judging the validity of widely held beliefs ranging from the "peak oil hypothesis" to the notion that "market are rigged" in favour of certain traders.

13h45 to 14h30	**Lunch Break**	**WG306**
14h30 onwards	14h30	Walk to Wharf
	15h00	Cruise to Waiheke Island
	16h30	Arrive at Matiatia Wharf
	16h45	Waiheke Island Bus Tour
	17h30	Stonyridge Vineyard Tour and Dinner Sponsored by SIRCA
	10h00	ETA back in Downtown Auckland

ABSTRACTS

Stream A.1 – Paper 1

Not the Token Woman

Hue Hwa Au Yong, Monash University
Maria Strydom, Monash University

We examine gender diversity and its impact on earnings quality and firm performance and specifically whether a "token" woman benefits firms. We show firms with at least two female directors or two women in the top management team have significantly better earnings quality. No relation is documented with top management team diversity and performance but boards with two or more women have higher cash flow from operations; those with a token woman have lower cash flow from operations. Boards with higher percentages women have higher return on equity. Overall, gender diversity is associated with improved performance and earnings quality; tokenism is not.

Stream A.1 – Paper 2

Help or Hinderance? Boardroom Network Connectivity and Firm Performance

Aaron Gilbert, Auckland University of Technology
Angela Andersen, Auckland University of Technology

While boardroom networks should act as a conduit for resource sharing between firms, and so improve firm performance, recent evidence on the value of connected boards is limited and inconclusive. This study aims to provide additional evidence on the impact of board connectivity on firm performance by exploring Australian listed firms between 2001 and 2011. We employ four dimensions of connectivity; measuring the quantity, speed and quality of information flow and resource sharing, and a firms access to the best-connected boards. Additionally, we construct and test a factor of the four connectivity dimensions. Our findings show more connected boards have a negative impact on firm performance. The results remain consistent after controlling for different time periods, alternative model specifications and the inclusion of lagged variables. The results suggest that boardroom networks are not a value-enhancing tool for boards.

Stream A.1 – Paper 3

Political Turnover, Ownership, and Corporate Investment

Jerry Cao, Singapore Management University
Brandon Julio, London Business School
Tiecheng Leng, Singapore Management University
Sili Zhou, Singapore Management University

We examine the impact of political influence and ownership on corporate investment by exploiting the unique way provincial leaders are selected and promoted in China. The tournament-style promotion system creates incentives for new provincial governors to exert their influence over capital allocation, particularly during the early years of their term. Using a neighbouring-province difference-in-differences estimation approach, we find that there is a divergence in investment rates between state owned enterprises, SOEs and non-state owned enterprises, non-SOEs following political turnover. SOEs experience an abnormal increase in investment by 6.0% in the year following the turnover, consistent with the incentives of a new governor to stimulate investment. In contrast, investment rates for non-SOEs decline significantly post-turnover, suggesting that the political influence exerted over SOEs crowds out private investment. The effects of political turnover on investment are mainly driven by turnovers with less-educated or local-born successors. Finally, we provide evidence that the political incentives around the turnover of provincial governors represent a misallocation of capital as measures of investment efficiency decline post-turnover.

Stream A.2 – Paper 1

Conditional Asset Pricing and Momentum

Thanh D. Huynh, Auckland University of Technology
Daniel R. Smith, Queensland University of Technology

We find that winner stocks have higher risk exposure to Fama and French, 1993 three factors, FF3F than loser stocks during good economic times, and therefore should earn higher expected returns. Employing the conditional FF3F model to risk adjust returns on winner and loser stocks can reduce the average momentum alpha by 50% compared to the conventional portfolio-level estimate. We point out a bias in the existing methodology of component-level risk adjustment. After correcting for this bias, asset pricing models examined in this study still cannot fully explain momentum returns.

Stream A.2 – Paper 2

The Impact of Uncertainty in the Oil and Gold Market on the Cross-Section of Stock Returns

Iman Honarvar, Maastricht University
Dennis Bams, Maastricht University
Gildas Blanchard, Maastricht University
Thorsten Lehnert, University of Luxembourg

We find that uncertainty in the oil and gold market affects the cross-section of stock returns. We compare and benchmark the role of these alternative asset market uncertainties vis à vis the more traditional equity market uncertainty. Inspired by recent empirical evidence, uncertainty in those asset markets is proxied by the variance risk premia derived from futures and options traded on the S&P500, oil and gold. We find evidence of both systematic and asset-specific uncertainty. We document a negative relationship between the various types of uncertainty and firm's stock returns. An independent increase in S&P, oil and gold market uncertainty coincides with lower returns for an important proportion of the stock universe. On the opposite, we show that only S&P uncertainty is a market-wide priced factor in the cross-section of expected stock returns. The other uncertainty factors are sector-specific and are only priced within certain industries. Market industry segmentation explains why a specific factor such as oil uncertainty is only priced for a subset of the stocks.

Stream A.2 – Paper 3

Equity Allocation without Estimation Risk

George W. Blazenko, Simon Fraser University
Yufen Fu, Tunghai University

In this paper, we propose two equity allocation methods that moderate or eliminate estimation risk. We moderate estimation risk with equilibrium weights equal the normalized ratio of ex ante excess return to unsystematic risk. In an industry application with Blazenko and Fu's, 2013 ex ante returns, we find the equilibrium portfolio has higher returns and a higher Sharpe ratio than the market portfolio. In a non-equilibrium search for maximum Sharpe ratios, we find a portfolio with ex-ante-return weights, without estimation risk, and fewer than eight of forty-nine industries maximizes the Sharpe ratio. We also study the number of common shares to diversify a portfolio. Portfolios without estimation risk and roughly one-hundred highest ex-ante-return common shares have the highest Sharpe ratio above the 1/N'th investment strategy.

Stream A.3 – Paper 1

Simple Measures of Market Efficiency: A Study in Foreign Exchange Markets

Yoshihiro Kitamura, Waseda University

Previous studies on the stock market consider the degree of market efficiency to be an inverse of the predictive power of order flow. Following this notion, I propose simple market efficiency measures in foreign exchange, FX markets. The first measure considers the market to be inefficient when positive, negative order flows predict the appreciation, depreciation of a base currency. The second measure considers whether predictions using order flow result in tangible gains. These measures are related to liquidity levels and information factors in FX markets, unlike the measures in previous studies.

Stream A.3 – Paper 2

Time varying volatility indexes and their determinants: Evidence from developed & emerging stock markets

Nalin Prasada, University of Sydney
Andrew Grant, University of Sydney
Suk-Joong Kim, University of Sydney

This paper investigates spillovers across 16 major stock markets based on the high frequency data based Realized volatility estimator (Andersen et al, 2003) using the spillover index methodology put forward by Diebold and Yilmaz (2012). These are compared with spillovers based on the Garman and Klass (1980) and the univariate GARCH estimators (Bollerslev, 1986) used in many previous studies. We find that the time series of total spillovers is similar regardless of the volatility proxy used and spillovers increased dramatically during the 2008 global financial crisis and the European sovereign debt crisis that followed. More differences arise when comparing directional spillovers for individual stock markets, particularly using GARCH based estimations. We find that the larger stock markets from the advanced western economies, particularly the US, dominate volatility transmission to other markets. Emerging markets such as China, India and Brazil are still relatively isolated, though their contribution to global volatility spillovers has increased considerably after 2006. We also investigate potential determinants of net spillovers between markets and find that the level of volatility in one market relative to that in other markets is the most important factor in increasing spillovers transmitted.

Stream A.3 – Paper 3

Forecasting Crashes: Correlated Fund Flows and the Skewness in Stock Returns

Remco C. J. Zwinkels, Erasmus University
Chunmei Lin, Erasmus University
Xun Gong, Tilburg University

This paper uses the correlation of money flow among mutual funds to forecast the skewness of stock returns. We show that asset returns are highly negatively skewed when their mutual fund owners experience correlated liquidity shocks. In addition, stocks with high mutual fund ownership are more “crash prone”, whereas the returns of stocks with concentrated ownership tend to display more positive skewness.

Stream A.4 – Paper 1

Geographic Proximity of Institutional Investors and Payout Policy

Nhung Le, La Trobe University, La Trobe Business School
Darren Henry, La Trobe University, La Trobe Business School
Huong Giang, Lily Nguyen, La Trobe University, La Trobe Business School

This paper studies the role of the geographic proximity of institutional investors on corporate payout policy within the U.S. context. We find that local and non-local institutional investors have different preferences for payout policy. The evidence shows that dividend payout is important for non-local institutions, but not for local institutions. Furthermore, from the firm perspective, local institutional ownership is found to be used as an alternative quality and performance signal rather than the payment of costly dividends.

When using the number of states that a firm is doing business in to classify samples firm into truly-local or geographically-dispersed firm categories, we find that local institutions prefer the former while non-local institutions have a preference for the latter firm category. This finding is consistent with the notion that local institutions have more information advantage in firms that are located in the same state as their headquarters and are not geographically dispersed, and non-local institutions invest more in geographically dispersed firms in order to reduce the level of information asymmetry and maintain a better diversified investment portfolio.

After the information shock created by the passage of the 2000 Fair Disclosure Regulation, we find that non-local institutions reduce their preference for dispersed firms paying relatively higher dividends. Dispersed firms with higher non-local institutional holdings are also identified as paying lower dividends after this regulatory change to the information environment. In contrast, local institutions prefer dispersed firms to pay higher dividends. This suggests that firms paying relatively higher dividends and/or geographically dispersed firms are selected by non-local institutions to reduce information asymmetry; while local institutions have information advantage in relation to truly local firm investment and they choose dividends as a compensation for the higher cost of monitoring when invest in geographically dispersed firms.

Stream A.4 – Paper 2

The Impact of Cross-listing on the Home Market's Information Environment and Stock Price Efficiency

Olga Dodd, Auckland University of Technology
Aaron Gilbert, Auckland University of Technology

An improvement in a firm's information environment is one of the potential benefits of cross-listing internationally. In this study, we empirically examine the changes in the level of information asymmetry and informational efficiency of prices of cross-listed stocks in their home markets around a firm's cross-listing in the US. Using intraday stock trading data we estimate market microstructure measures of information asymmetry, including the effective spread, the information asymmetry components of the spread and price impact, and intraday stock return autocorrelation as a measure of price efficiency. Our results suggest that a cross-listing in the US is associated with a significant improvement in the quality of the cross-listed firm's information environment and stock price efficiency, possibly, as a results of strict disclosure and listing requirements in the US. We find little evidence that an increase in analysts' coverage and monitoring by institutional investors after the cross-listing can explain the improvement in a cross-listed firm's information environment and stock price efficiency. Overall, our results support the argument that legal bonding to the US rules and regulation is a benefit of cross-listing in the US.

Stream A.4 – Paper 3

Cross-Listings and Corporate Cash Savings: International Evidence

Yuanto Kusnadi, Singapore Management University

This paper examines foreign firms that are cross-listed on the U.S. stock exchanges and finds that they exhibit higher cash savings sensitivity to stock price than their non-cross-listed counterparts. This finding is robust even after controlling for alternative regression specifications and samples, country-level institutional infrastructures, different listing types, and the endogeneity of the cross-listing decision. Further cross-sectional tests reveal that the increase in cash savings sensitivity to stock price is more pronounced for cross-listed firms with stock prices that are more informative, which is consistent with the influence of the managerial learning channel. The empirical evidence sheds more light on the implications of the cross-listing decision for international firms' corporate cash management policies.

Stream B.1 – Paper 1

How does executive gender affect the corporate reaction to competitive shocks?

Mario Daniele Amore, Bocconi University
Orsola Garofalo, Copenhagen Business School

We investigate executive gender shapes a bank's reaction to competitive pressures. Our empirical identification is based on the staggered adoption of barriers to interstate branching, which varied the exposure to competitive pressures in the US banking sector during the mid-1990s - early 2000s. Results suggest that banks with female executives experience higher performance than all-male banks when competition is low, but underperform when competitive pressures increase. Furthermore, we find that female leadership mitigates the potential exacerbating effect of competition on risk-taking.

Stream B.1 – Paper 2

Does Board "Independence" Destroy Corporate Value?

Peter L. Swan, University of New South Wales
David Forsberg, University of New South Wales

The Australian Securities Exchange, ASX Corporate Governance Council, CGC has required all listed firms to either adopt a majority of "independent" board members without links either to management or to substantial shareholders or explain "if not, why not". While this close to a global standard, it is the opposite to US exchanges who also require "independence from management" but are explicit in stating that significant shareholding need be no barrier to independence. Within a framework of both fixed firm and combined industry-year effects such that each firm is compared with itself, we show that firm performance declines significantly as affected outside directors depart the firm to make way for "Independents". Regular Gray directors make better acquisition decisions, increase the proportion of incentives in CEO pay, and raise dividend payouts. The presence of more executives on the board significantly reduces the CEOs pay, while combining the role of CEO and chair adds to firm value.

Stream B.1 – Paper 3

The Impact of Cultural Diversity in Corporate Boards on Firm Performance

Helena Címerova, Auckland University of Technology
Olga Dodd, Auckland University of Technology
Bart Frijns, Auckland University of Technology

We examine the impact of cultural diversity in corporate boards of directors on firm performance. We construct a measure of cultural diversity by calculating the centroid of cultural distances between each board member using Hofstede's cultural framework. Our findings indicate that cultural diversity in boards negatively affects firm performance measured with Tobin's Q and ROA. These results hold after controlling for potential endogeneity using a non-contemporaneous specification and instrumental variables. The results are further robust to a wide range of board and firm characteristics, including various measures of 'foreignness' of a firm, and alternative culture frameworks. Further analysis reveals that the impact of cultural diversity is mitigated by the complexity of the firm and the size of foreign sales and operations. In addition, we find that not all aspects of cultural differences are equally important and that it is mainly the diversity in individualism and masculinity that affect effectiveness of boards of directors.

Stream B.2 – Paper 1

Investor Sentiment and Employment

Remco C. J. Zwinkels, Erasmus School of Economics
Maurizio Montone, Erasmus School of Economics

We find that investor sentiment should affect a firm's employment policy in a world with moral hazard and noise traders. Consistent with the model's predictions, we show that higher US sentiment leads to:, 1 higher employment growth worldwide;, 2 lower labour productivity, as it hardly affects real value added growth;, 3 higher, lower real wage growth in countries with high, low human capital;, 4 greater labour instability during financial crises, especially in industries that are more dependent on external finance. The results suggest that sentiment has real effects and also lend support to the view that finance has a 'dark side'.

Stream B.2 – Paper 2

Superstition and Prices in Residential Real Estate Transactions

Danika Wright, University of Sydney

Superstition surrounding lucky numbers has been observed to affect behaviour in consumer goods and investment markets alike. Arguing superstition represents a cognitive bias, this paper examines the effect of the number 8 and the number 4 on residential real estate prices in Sydney, Australia. These numbers are considered exceptionally lucky and unlucky, respectively, in Chinese culture. The results presented here support previous evidence from Asian housing markets of a premium, discount to properties with lucky, unlucky addresses in areas of Sydney with high populations of Chinese immigrants. Interestingly, this result is stronger for houses than units. There is evidence that Western superstitions around the number 13 can also lead to lower property prices.

Stream B.2 – Paper 3

The Informational Role of Individual Investors in Stock Pricing: Evidence from Large Individual and Small Retail Investors

Cheng-Yi Shiu, National Central University
Hung-Ling Chen, Shih Chien University
Edward H. Chow, National Chengchi University

Using a unique data set of complete trade records, we find that large individual investors are successful at picking stocks. Large individual investors' correlated trades not only can move synchronous stock prices but also can positively predict future returns. More importantly, large individual investors tend to trade before major earnings announcements and large price changes, suggesting that they are able to exploit value-relevant information. In contrast to large individual investors, small retail investors' correlated trades are inversely associated with synchronous and future stock returns, indicating that small retail investors are uninformed and naïve. The differential information content between large individual and small retail investors highlights the need to classify individual investors according to their investment amount when examining their role in stock pricing.

Stream B.3 – Paper 1

Assessing Systemic Risk Based on Interbank Exposures in the Japanese Banking System

Masayasu Kanno, Kanagawa University

This paper contributes to the systemic risk literature by assessing the network structure of bilateral exposures in the Japanese interbank market. The Japanese interbank market is composed of call and bankers' acceptance markets, and the market participants are restricted to financial institutions domiciled in Japan. We analyse the systemic risk implied in Japanese interbank networks based on various network measures such as directed graphs, centrality measures, degree distributions, and susceptible-infected-removable, SIR models. The main findings show that the degree distributions of the Japanese interbank network follows a power law, and three mega-bank groups currently designated as globally systemically important banks, G-SIBs overwhelm others in terms of size, interconnectedness, and substitutability.

Stream B.3 – Paper 2

The effects of ratings-contingent regulation on international bank lending behaviour: Evidence from the Basel 2 Accord

Suk-Joong Kim, University of Sydney
Iftekhar Hasan, Fordham University and Bank of Finland
Eliza Wu, University of Technology Sydney

We investigate the effects of credit ratings-contingent financial regulation on foreign bank lending behaviour. We examine the sensitivity of international bank flows to debtor countries' sovereign credit rating changes before and after the implementation of the Basel 2 risk-based capital regulatory rules. We study the quarterly bilateral flows from G-10 creditor banking systems to 77 recipient countries over the period Q4:1999 to Q2:2013. We find direct evidence that sovereign credit re-ratings that lead to changes in risk-weights for capital adequacy requirements have become more significant since the implementation of Basel 2 rules for assessing banks' credit risk under the standardized approach. This evidence is consistent with global banks acting via their international lending decisions to minimize required capital charges associated with the use of ratings-contingent regulation. We find evidence that banking regulation induced foreign lending has also heightened the perceived sovereign risk levels of recipient countries, especially those with investment grade status.

Stream B.3 – Paper 3

Systemic Risk in the European Sovereign and Banking System

Simon Xu, Monash University
Francis In, Monash University
Catherine Forbes, Monash University
Inchang Hwange, New York University

This paper investigates the systemic risk of the European sovereign and banking system during 2008 - 2013. Our systemic risk measure can be intuitively interpreted as the conditional joint probability of default of an entity, given the hypothetical default of other entities. Our measure not only reflects individual default risk characteristics but also captures the underlying interdependent relations between sovereigns and banks in a true multivariate setting. Our results reveal significant time variation in distress dependence and systemic risk spillover effects for the sovereign and banking system. In particular, we show that peripheral sovereigns and banks have greatly increased in systemic importance, leading to intensified systemic relations between the peripheral and the core. Based on our measure, the systemic risk of the combined sovereign and banking system reached historical highs of 32% during the sovereign debt crisis. We find that this heightened risk is mainly driven by the default risk premium and the sovereign risk premium coupled with a steady increase in physical default risk.

Stream B.4 – Paper 1

Managing Mortality Risk in Life Annuities: An Application of Longevity Derivatives

Katja Ignatieva, University of New South Wales
Man Chung Fung, University of New South Wales
Michael Sherris, University of New South Wales

Developing a liquid longevity market requires reliable and well-designed financial instruments. An index-based longevity swap and cap are analysed in this paper under a tractable stochastic mortality model. The model is calibrated using Australian mortality data and analytical formulas for prices of longevity derivatives are derived. Hedge effectiveness is examined under a hypothetical life annuity portfolio subjected to longevity risk. The paper presents various hedging features exhibited by a longevity swap and a cap based on different assumptions underlying the market price of longevity risk, the term to maturity of the hedging instruments, and the size of the underlying annuity portfolio. The results have implications for the optimal use of longevity hedging instruments with linear and nonlinear payoff structures under different scenarios.

Stream B.4 – Paper 2

The α − Hypergeometric Stochastic Volatility Model

José Da Fonseca, Auckland University of Technology
Claude Martini, University of Waikato

The aim of this work is to introduce a new stochastic volatility model for equity derivatives. To overcome some of the well-known problems of the Heston model, and more generally of the affine models, we define a new specification for the dynamics of the stock and its volatility. Within this framework we develop all the key elements to perform the pricing of vanilla European options as well as of volatility derivatives. We clarify the conditions under which the stock price is a martingale and illustrate how the model can be implemented.

Stream B.4 – Paper 3

CoMargin

Jorge A. Cruz Lopez, Bank of Canada
Jeffrey H. Harris, American University Washington D.C
Christophe Hurlin, University of Orléans
Christophe Pérignon, HEC Paris

We present CoMargin, a new methodology to estimate collateral requirements in derivatives central counterparties, CCPs. CoMargin depends on both the tail risk of a given market participant and its interdependence with other participants. Our approach internalizes trading externalities and enhances the stability of CCPs, thus, reducing systemic risk concerns. We assess our methodology using proprietary data from the Canadian Derivatives Clearing Corporation that includes daily observations of the actual trading positions of all of its members from 2003 to 2011. We show that CoMargin outperforms existing margining systems by stabilizing the probability and minimizing the shortfall of simultaneous margin-exceeding losses.

Stream C.1 – Paper 1

Real Effects of International Tax Planning Incentives: Evidence from Domestic Acquisitions

Travis Chow, Singapore Management University

This paper examines whether the tax haven subsidiary profiles of U.S. acquirers and targets affect M&A pairing. Using disclosed material subsidiary data, we develop two measures of tax haven subsidiary relatedness between the acquirer and its target. Examining the associations of these measures with the probability of merger pair formation, the results suggest that acquirers are more likely to select targets whose subsidiaries are located in tax havens similar to their own, consistent with economies of scale in tax planning. This relation suggests that firms' past tax planning decisions have significant effects on their future real corporate decisions.

Stream C.1 – Paper 2

Innovation in Founder-run Firms: Evidence from S&P 5001

Md Emdadul Islam, University of New South Wales

One important element of a firm's organizational environment that may influence innovation is whether the CEO of the firm is its founder. Popular perception is that the inherent venturous spirit of the founders creates an environment that fosters innovation. This study investigates whether founder-CEOs are more innovative than non-founder CEOs. Using a sample of S&P 500 firms from 1995-2005 and the NBER patent database for measuring innovation output, the study's baseline results suggest that founder-CEOs are actually associated with fewer patents, quantity of innovation and fewer citations, quality of innovations, a finding that is contrary to popular perception. However, to reveal the true picture of the innovativeness of founders, evaluating the effect of innovation output on overall firm valuation is necessary. Thus, the study considers the effect of innovation output on firm valuation and suggests that founder-CEOs add more value by innovation. The market greets the innovation output of founder-run firms more favourably than the innovation output of non-founder-run firms. This value addition holds even after controlling for strategic investments such as R&D. This finding helps to identify a probable channel-innovation that bridges, at least partially, the gap in the literature that shows that there is a 'founder-premium'.

Stream C.1 – Paper 3

Shareholder Wealth Effects of Anticipated Tax Aggressiveness Transfers

Yanju Liu, Singapore Management University

This paper investigates whether and how the relative tax aggressiveness of the acquirer and target affects value creation in corporate M&A. We find that acquisitions of more tax aggressive targets by less tax aggressive acquirers reduce M&A transaction value, on average. We also find that acquisitions of less tax aggressive targets by more tax aggressive acquirers create values only when the acquirer is well governed. The value-reducing effects of negative tax aggressiveness transfers are primarily accrued to acquirer shareholders. This paper contributes to the literature by using a strong setting to examine the value of tax aggressiveness to shareholders.

Stream C.2 – Paper 1

Quote Dynamics of Dually-Listed Stocks

Bart Frijns, Auckland University of Technology
Ivan Indriawan, Auckland University of Technology
Alireza Tourani-Rad, Auckland University of Technology

This study investigates the quote dynamics of stocks listed and traded in two international fully-synchronized markets. We model how quotes in a dual-market setting react to liquidity shocks and trade-related information. We further develop this model to extract the implied vector autoregression for the spreads, the efficient price, and the relative premium between the two markets. Applying our model to a sample of 64 Canadian stocks listed both in the U.S. and Canada, we observe a strong evidence of the error-correcting mechanism of spread on the bid and ask quotes, indicating that liquidity in the form of bid-ask spread affects quotes across market. We further find that even though prices in the two markets are cointegrated, trade-related information does not directly affect quotes in another market. Overall, our findings suggest that quotes of dually-listed stocks are directly linked to liquidity, but indirectly linked to trade-related information. Microstructure fundamentals such as changes in the efficient price and the relative premium between markets, however, are driven by liquidity and trade-related information from each of the two markets.

Stream C.2 – Paper 2

Stock Liquidity: a Virtue or a Vice? Firm-Level Evidence from Stock Price Crash Risk

Yangyang Chen, Monash University
Leon Zolotoy, University of Melbourne

Using a large sample of U.S. firms for the period 1993 – 2010, we document a positive association between a firm's stock liquidity and its future stock price crash risk. The liquidity effect is stronger for the firms with a higher proportion of short-horizon investors, greater information asymmetry, and higher levels of short-sale constraints. Collectively, our findings suggest that higher stock liquidity exacerbates bad news hoarding by facilitating the threat of exit by short-horizon investors. This leads to a stock price crash when the accumulated volume of unfavourable

Stream C.2 – Paper 3

The Determinants of Increased Short-Selling Activity

Hung Wan Kot, Hong Kong Baptist University

Using hedge fund assets and institutional ownership, IO as proxies for short-selling demand and supply, this paper investigates the determinants of increased short-selling activity on the NYSE/Amex and Nasdaq from 1988 to 2011. Hedge fund assets, IO and liquidity are significantly related to short-selling activity, and the relationships are stronger in the 2001-2011 period than in the 1988-2000 period. The ownership of short-term hold institutions has a stronger relationship with short-selling activity than ownership of long-term hold institutions. Further, both the expected and unexpected components of short selling have stronger relationships with short-term IO than with long-term IO.

Stream C.3 – Paper 1

Tail Risk and the Returns of Fund of Hedge Funds

Wei Cui, University of Sydney

Juan Yao, University of Sydney

We examine the tail risk exposure of Fund of Hedge Funds (FOHFs) from 1995 to 2010. We show that most of the hedge funds and FOHFS have significant tail risk exposure during the sample period. On average, the tail risk exposure of FOHF is at a similar level to the normal hedge fund. Our research provides direct evidence that FOHFs cannot effectively diversify tail risk. In addition, we find that younger funds charging higher management fees, requiring shorter lockup periods and using leverages tend to have higher exposures to tail risk events. Moreover, we document an insignificant return of the portfolio taking short position on the lowest tail beta FOHFs and long position on the highest tail beta FOHFs. This leads to the view that the FOHFs writing tail risk insurances do not receive enough compensation for their extra loading on tail risk.

Stream C.3 – Paper 2

Instantaneous Squared VIX and VIX Derivatives

Jin E. Zhang, University of Otago

Xingguo Luo, Zhejiang University

In this paper, we provide a unified theoretical framework to price VIX derivatives, including futures and options written on both VIX and VXST. Our theory is built on Luo and Zhang's, 2012 concept of instantaneous squared VIX, ISVIX that is the sum of instantaneous Brownian and jump variances of SPX return. Modelling ISVIX as a mean-reverting jump-diffusion process with a stochastic long-term mean, we obtain analytical formulas for the prices of VIX options and futures. Calibration with the market data of VIX option implied volatility surface shows that our theory provides an efficient way of extracting the complete information from VIX derivatives market for the dynamics of underlying SPX.

Stream C.3 – Paper 3

Equilibrium-Based Volatility Models of the Market Portfolio Rate of Return

David Feldman, University of New South Wales
Xin Xu, Commonwealth Bank of Australia

Volatility models of the market portfolio's return are central to financial risk management. Within an equilibrium framework, we introduce an implementation method and study two families of such models. One is deterministic volatility, represented by current popular models. Another is in the "constant elasticity of variance" family, in which we propose new models. Theoretically, we show that, together with constant expected returns, the latter family tends to have better ability to forecast. Empirically, our proposed models, while as easy to implement as the popular ones, outperform them in three out-of-sample forecast evaluations of different time periods, by standard predictability criteria. This is true particularly during high-volatility periods, whether the market rises or falls.

Stream C.4 – Paper 1

Optimal Contracting, Ownership Structure and Asset Pricing

Hae Won (Henny) Jung, University of Melbourne
Qi Zeng, University of Melbourne
Ajay Subramanian, Georgia State University

This paper studies a continuous-time equilibrium model of asset pricing and executive compensation. A representative, all-equity firm is owned by two types of risk-averse investors - a large shareholder (blockholder) and a continuum of small shareholders. The large shareholder holds a long-term view and trades the firm's shares infrequently. From her controlling equity stake in the firm, she plays a dominant role in hiring a risk-averse manager and implementing an optimal compensation scheme to incentivise the manager to exert effort. Small dispersed and competitive shareholders, however, trade the firm's shares continuously, from which its equilibrium stock price is determined. We explore the endogenous determination of three key variables in equilibrium – the ownership structure of the firm, managerial incentive contracts and its stock returns. We show that (i) In the presence of moral hazard, the manager must be provided with greater incentives, and due to the risk-reducing effects of those incentives, the firm's expected stock return and stock return volatility are lower than in the first-best case than in the owner-manager case with no contracting; (ii) The lower stock return volatility in the second-best case therefore induces the large shareholder to hold a higher equity stake in the firm; (iii) A change in the risk-aversion of each of the three players (the manager and two groups of shareholders) effects the equilibrium variables differently; (iv) Mirroring mixed empirical evidence, our comparative statics analysis shows that the equilibrium relationship between the controlling shareholder's ownership stake and managerial incentives can be increasing or decreasing depending on which parameter value changes; (v) Both managerial incentives and large shareholder ownership can positively or negatively correlate with the firm's expected stock return.

Stream C.4 – Paper 2

Exchange rates, expected returns and risk

Anella Munro, Reserve Bank of New Zealand

The standard test of uncovered interest parity, UIP assumes expectations and risk to be exogenous. When expectations are accounted for, using an asset price framework or surveyed expectations, the link between exchange rates and expected returns tends to be closer to theory. This paper seeks to account for both expectations and risk. Sign restrictions implied by a risk-augmented asset price model are used to identify the component risk common to expected payoffs and exchange rates. Empirically, that common component is found to be large enough to severely bias single-equation estimates. When accounting for both expectations and risk, the relationship between exchange rates and expected returns is considerably closer to theory for a set of eight advanced country USD currency pairs. Innovations in the unobserved risk-free component of expected payoffs are correlated with 'monetary policy'. Innovations in unobserved currency premia are correlated with measures of `speculative flows' and, for non-reserve currencies, with changes in VIX 'risk aversion'.

Stream C.4 – Paper 3

When factors don't span their basis portfolios

Konark Saxena, University of New South Wales

It is common practice to construct factors by combining basis portfolios using prespecified simple weights, such as differencing the returns of two characteristic-sorted portfolios. I provide necessary conditions for such factors to produce unbiased alpha estimates: the rank of the basis portfolios' covariance matrix should be equal to the number of factors constructed. As this condition is rarely satisfied, I offer a method to combine basis portfolios into adjusted factors that correct for this bias. This adjustment significantly improves the root-mean-squared-error of anomalous trading strategy alphas, and cross-sectional tests yield estimates that are closer to theoretically predicted values. In addition, performance estimates of the aggregate mutual fund industry are sensitive to the adjustment.

Stream D.1 – CFA Institute Session

Globalising business programmes through industry partnerships

Presenter: Charles E. Appeadu, CFA Institute

A perennial challenge of business schools for the last several decades has been creating an industry-relevant, international experience that attracts high-quality students and faculty. This session will explore how engaging or partnership with industry leaders, such as CFA Institute, can create a global network that business schools can leverage to globalise and validate their degree programmes, enhancing both student and faculty experience.

Stream D.2 – Paper 1

Modeling VXX

Sebastian A. Gehricke, University of Otago
Jin E. Zhang, University of Otago

We study the VXX Exchange Traded Note, ETN that has been actively traded in the New York Stock Exchange in recent years. We propose a simple model for the VXX and derive an analytical expression for the VXX roll yield. The roll yield of any futures position is the return not due to movements of the underlying, in commodity futures it is often called the cost of carry. Using our model we confirm that the phenomena of the large negative returns of the VXX, as first documented by Whaley, 2013, which we call the VXX return puzzle, is due to the predominantly negative roll yield as proposed but never quantified in the literature. We provide a simple and robust estimation of the market price of variance risk which uses historical VXX returns. Our VXX price model can be used to study the price of options written on the VXX.

Stream D.2 – Paper 2

Common trends in volatility and news in the global equity market

Vladimir Volkov, Queensland University of Technology
A.E. Clements, Queensland University of Technology
A.S. Hurn, Queensland University of Technology

This paper extends the long standing literature on the news volatility relationship. It proposes a fractionally cointegrated vector autoregression model which reveals a long-run equilibrium relation between news and volatility in the global equity market. The coherence between news from different countries is strongest at low frequencies, which establishes the existence of a global news stream. Such a global news stream is approximated well by news flow from the United States. Both volatility and news spillovers are significant implying strong integration between equity markets in Australia, Europe, and the United States.

Stream D.2 – Paper 3

When No News is Good News –
The decrease in Investor Fear after the FOMC announcement

Adrian Fernandez-Perez, Auckland University of Technology
Bart Frijns, Auckland University of Technology
Alireza Tourani-Rad, Auckland University of Technology

This paper examines the impact of FOMC announcements on the intraday behavior of the VIX and VIX futures. We find that the VIX and the VIX futures start to decline immediately after the FOMC announcement, and this decline persists for about 45 minutes after the announcement. The VIX declines by about 3% on announcement days, whereas the nearest term VIX futures contract declines by about 1.25% around the announcement. We further note that the decline in the VIX and VIX futures is inversely related to the increase in realized volatility around the FOMC announcement. We show that on days with an FOMC announcement, a trading strategy, going short on the VIX futures at the start of the day and closing the position at the end of the same day, yields a return of about 10% p.a.

Stream D.3 – Paper 1

Does cash flow volatility affect firm capital structure?

Mona Yaghoubi, Victoria University of Wellington
Michael O'Connor Keefe, Victoria University of Wellington

The empirical literature on the relationship between capital structure and firm cash flow volatility is inconclusive. Using a conditional cash flow volatility measure along with considering the fact that proportional capital structure measures have nonlinear relationships with explanatory factors, we find firms with high cash flow volatility, i use less debt,, ii are more likely to use zero debt, and, iii use shorter maturity debt.

Stream D.3 – Paper 2

Non-Transferable Non-Hedgeable Executive Stock Option Pricing

David Feldman, University of New South Wales
David B. Colwell, University of New South Wales
Wei Huc, Curtin University

We introduce a method of valuing non-transferable non-hedgeable, NTNH contingent claims and use it to price executive stock options, ESOs. We use NTNH constraints to break local co-linearity, caused by derivative assets, that renders common portfolio optimization methods ineffective. We are, thus, able to translate portfolios that include NTNH derivatives into portfolios of primary assets, only. We achieve this by replicating derivatives using primary assets, and then integrating NTNH constraints into a single rectangular constraint. Solving the constrained portfolio optimization facilitates the identification of stochastic discount factors that price any contingent claim in such portfolios. Implementing our method, we find subjective prices of NTNH European and American ESOs, both for block exercise and for a continuum of exercise ratios. We identify executives' optimal exercise policies. We use these to find the objective price/cost of ESOs to firms. We run a simulation study of price sensitivities and changes to optimal exercise policies with respect to model parameters and obtain policy implications regarding ESOs incentivizing efficiency.

Stream D.3 – Paper 3

Pricing of International Private Debt: Evidence from the US 144A Secondary Bond Market

Madhu Kalimipalli, Wilfrid Laurier University
Alan G. Huang, University of Waterloo
Subhankar Nayak, Wilfrid Laurier University
Latha Ramchand, University of Houston

We study the secondary market pricing of foreign 144A debt issues and assess the unique information role of the implicit market players, known as qualified institutional buyers, QIBs. Using an exhaustive sample of bond issuances and secondary market trades of over 260 international issuers from 40 countries during the period from 1994 to 2010, we find results consistent with the explanation that the presence of QIBs can resolve information asymmetries and hence lower borrowing costs for issuers using this market.

Stream D.4 – Paper 1

State Ownership of Acquirers and results of Mergers and Acquisitions ***Evidence from Vietnam***

Nga Pham, La Trobe University
KB Oh, La Trobe University

This paper addresses the call for fundamental research that examines the impacts of typical institutional features of emerging markets on corporate development. The corporate structures of an economy partly stem from the structures with which its economy started, among which is the initial structure of state ownership. Rooted from a centrally planned economy, Vietnam is similar to China with regards to the presence of the State in the economy and its impacts on firms' strategic decisions such as mergers and acquisitions (M&A). Our findings suggest that the state owned firms are less efficient compared to non-state owned firms with regards to M&A, in terms of announcement returns and change in post deal growth. We also document the non-linear impact of state ownership on announcement returns. Additionally, M&A performance by firms with state ownership are sensitive to CEO related factors. The negative value created from M&A by state-owned firms could be explained by the problem of low efficiency and the fact that M&A activity carried out by state-owned enterprises may be politically or socially motivated, thus, deviating from the principle of shareholders' wealth maximisation.

Stream D.4 – Paper 2

Star Analysts' Rankings and Strategic Announcements: The Case of Battleground Stocks

Joshua Shemesh, University of Melbourne
Gil Aharoni, University of Melbourne
Fernando Zapatero, University of Southern California

We find that direct competition among star analysts plays a key role in the annual rankings of the Institutional Investor magazine that selects them. When two or more star analysts cover the same stock, battleground stock, the most accurate star analyst is more likely to improve her ranking, which has substantial effects on income. We also find that the forecast error of star analysts is substantially lower in battleground stocks. Overall, our findings are consistent with star analysts optimally allocating more effort to battleground stocks than to stocks that are not covered by other star analysts.

Stream D.4 – Paper 3

Sell-Side Analyst Herding: Confidence, Limited Attention, Selective Attention and Distraction

Robert B. Durand, Curtin University
Manapon Limkriangkrai, Monash University
Lucia Fung, Hong Kong Baptist University

The propensity of groups of sell-side financial analysts to herd, or "disperse" is a function of their bounded cognitive capacity and confidence. When returns are negative, selective attention - a static measure of analysts' endogenous attention at a particular point of time - has a positive association with herding. Limited attention - a relatively involuntary dynamic process of exogenous attentional shift driven by external changes in the market over time - reduces the propensity to herd. Distracted analysts tend to herd when returns are falling. There is a negative association with confidence and, or, social interaction, and herding.

Stream E.1 – Paper 1

Popularity versus Profitability: Evidence from Bollinger Bands

Yafeng Qin, Massey University
Jiali Fang, Massey University
Ben Jacobsen, University of Edinburgh

This paper uses the correlation of money flow among mutual funds to forecast the skewness of stock returns. We show that asset returns are highly negatively skewed when their mutual fund owners experience correlated liquidity shocks. In addition, stocks with high mutual fund ownership are more "crash prone", whereas the returns of stocks with concentrated ownership tend to display more positive skewness.

Stream E.1 – Paper 2

Global Equity Correlation in Carry and Momentum Trades

Redouane Elkamhi, Joseph L. Rotman School of Management, University of Toronto
Joon Woo Bae, Joseph L. Rotman School of Management, University of Toronto

We provide a risk-based explanation for the excess returns of two widely known currency speculation strategies: carry and momentum trades. We construct a global equity correlation factor and show that differences in exposure to our factor explain simultaneously the variation in average excess returns of these strategies. We find that the global correlation factor has a robust negative price of beta risk in the FX market. We also present a multi-currency model to explain why different exposures to the correlation factor drive the excess returns for these two currency strategies. We show that the cross-sectional differences in loading on the correlation factor depend on two terms, portfolio average risk aversion coefficient and the interaction between risk aversion coefficient and country-specific correlation. We demonstrate that carry portfolios are closely related to the former term, whereas momentum portfolios are closely related to the latter term. Taking both terms together, we show that the payoffs from both carry and momentum trades positively co-move with our global correlation innovation.

Stream E.1 – Paper 3

Do extreme returns matter in emerging markets? Evidence from the Chinese stock market

Ji Wu, Xiamen University
Gilbert V. Nartea, Lincoln University

Recent evidence in the U.S. indicates that stocks with high maximum daily returns in the previous month, perform poorly in the current month. We investigate the presence of a similar effect in the Chinese stock markets with portfolio-level analysis and firm-level Fama-MacBeth cross-sectional regressions. Unlike Bali et al's, 2011 findings, we find no evidence of a MAX effect if we hold portfolios for just one month. However, we find evidence of a negative relationship between extreme positive returns, MAX and stock returns in the Chinese stock market if we extend the holding period to three and six months. Interpreted together with the strong evidence of risk-seeking behaviour among Chinese investors, our results are consistent with the suggestion that the negative MAX effect is driven by investor preference for stocks with lottery-like features. Our results underscore the importance of in-country verification, especially in emerging markets, of apparent anomalies initially discovered in developed stock markets.

Stream E.2 – Paper 1

Asymmetric information, disclosures of R&D and the choice of equity-selling mechanisms

Hans Jeppsson, University of Gothenburg

This study examines the impact of information asymmetry and corporate management monitoring on the choice among different mechanisms for selling equity. More specifically, I study the link between R&D disclosures and other measures of information asymmetry, in addition to ownership measures and firms' choices among various types of rights offerings and private placements. Using a hand-collected sample of mandatory and non-discretionary R&D disclosures from publically listed biotechnology firms, I find that firms tend to issue equity publicly rather than privately following credible R&D disclosures, i.e., when information asymmetry is low. By contrast, I find no support for the monitoring hypothesis. A detailed analysis by investor type confirms that monitoring does not seem to be an important determinant in the choice between private and public financing.

Stream E.2 – Paper 2

Why Do U.S. Firms Invest Less and Less Over Time?

Fangjian Fu, Singapore Management University
Sheng Huang, Singapore Management University
Rong Wang, Singapore Management University

Relative to their assets, capital expenditure of U.S. firms decreases by a half from 1973 to 2012. The decline in corporate investment is pervasive; it occurs for firms in almost every industry and is robust to firms of different sizes, investment opportunities, profitability, accesses to external financing, and expenses on R&Ds/acquisitions. The decline is not explained by time variation in firm characteristics, industry composition, corporate lifecycle, or public listing cohorts. Our further evidence suggests that organization capital has become an increasingly important factor in enhancing productivity and helps to explain the decline in fixed assets investment.

Stream E.2 – Paper 3

Illiquidity Dynamics of Newly Listed Stocks: Evidence from Foreign IPOs in the US

Jonathan Jona, University of Melbourne
Chiara Banti, University of Essex

Through a unique dataset of foreign IPOs to the US for the past two decades, we investigate the illiquidity dynamics of the newly listed stocks and their determinants. We find that foreign stocks are systematically less liquid that comparable domestic ones, providing supportive evidence for the disadvantage of foreign firms to access international capital markets. With respect to the determinants of the observed liquidity differentials, we do not find support for institutional differences. However, we cannot exclude a role of higher information asymmetries associated with foreign IPOs.

Stream E.3 – Paper 1

Institutional Holdings and Payout Policy – From the Perspective of Lifecycle Theory

Nhung Le, La Trobe University
Darren Henry, La Trobe University
Huong Giang, La Trobe University
Lily Nguyen, La Trobe University

This paper examines the role of financial lifecycle on the relation between payout policy and institutional ownership using a data set of US listed firms over the 1986-2013 period. We find that a firm's financial lifecycle plays a significant role in its decision to distribute earnings both in the form of cash dividends and share-repurchase. However, financial lifecycle has the positive impact only on the dividend payout ratio but not on magnitude of share-repurchase activity. We also find that the relation between institutional holdings and payout policy varies with different stages of firm financial lifecycle. Payout policy appears to follow lifecycle theory, where firms do not pay or pay less during growth phases, and more firms make distribution to shareholders or have higher payout ratios in the mature lifecycle phase. Institutional investors, on the other hand, prefer to invest in firms at growth stages of their lifecycle. This helps explain the findings of Grinstein and Michaely, 2005 that institutional investors prefer firms which pay dividends but, among them, prefer firms that pay fewer dividends. Overall, our findings are consistent with the lifecycle theory and reveal some novel evidence on institutional investors' payout preferences and monitoring roles.

Stream E.3 – Paper 2

Voluntary Non-financial Disclosure, Corporate Governance, and Investment Efficiency

Stephen X. Gong, Hong Kong Polytechnic University
Jean J. Chen, University of Southampton
Xinsheng Cheng, Nankai University
Youchao Tan, Southwestern University of Finance and Economics

Different from prior studies that typically use rough proxies for accounting information quality, we construct a direct measure of voluntary disclosure of non-financial information pertaining specifically to firm's current and planned investments. We then study the effects of voluntary non-financial disclosure, NF on investment efficiency. Based on a sample of 10 29 China - listed firms during 2007-2011, we find that NF is not associated with investment efficiency for weak corporate governance firms. However, for strong corporate governance firms we find that NF can mitigate over- and under-investment. Cross-sectional analysis indicates that while the impact of NF on investment efficiency is higher for state-owned enterprises, SOEs than non-SOEs, corporate governance has a stronger moderating effect on the association between NF and investment efficiency for non-SOEs than SOEs. The moderating role of corporate governance in the association between NF and investment efficiency is similar between firms headquartered in high-marketization regions and those in low-marketization regions. These results are robust to controls for potential endogeneity and alternative measurement of the key variables. Our evidence suggests that good corporate governance enhances the credibility of voluntary non-financial disclosure, and, by doing so, contributes to investment efficiency.

Stream E.3 – Paper 3

Crisis performance of European banks – does management ownership matter?

Hanna Westman, Bank of Finland

Failure in bank corporate governance has been seen as a contributing factor to excessive risk-taking pre-crisis with devastating implications as risks realised during the financial crisis. Unfortunately, the empirical evidence on the impact of managerial incentives on bank crisis performance is scarce. Moreover, bank strategy has not previously been accounted for. Hence, this paper presents novel findings on drivers for risk-taking and crisis performance. Specifically, I find a positive impact of management ownership in small diversified banks and non-traditional banks, the monitoring of which is challenging due to their opacity. The impact is negative in traditional banks and large diversified banks, indicating that shareholders induce managers to take risk where the safety net creates incentives for risk-shifting to debt holders and taxpayers. These findings have implications for both academic research as well as policy making in the domain of corporate governance.

Stream E.4 – Paper 1

To Rebalance or Not to Rebalance: Portfolio risk may be larger than you think!

Katja Ignatieva, University of New South Wales
Vitali Alexeev, University of Tasmania

We show that significant portfolio return and variance biases arise when adopting a rebalancing strategy rather than using a buy-and-hold approach in dealing with portfolios spanning across multiple periods. We extend the result in Liu and Strong [2008] for bias in average portfolio returns, and derive bias in variance of portfolios. We show that the magnitude of portfolio variance bias defined as a difference between the variance of portfolio constructed using rebalanced returns and the decomposed buy-and-hold returns depends on average portfolio returns and average returns of its constituents as well as autocovariances of the portfolio and its individual stocks. Empirical evidence based on S&P500 constituents for the period 2003-2011 confirms that bias in variance of portfolios can become significant. In particular, we observe significant negative bias during 2003, 2005 and 2010 and significantly positive bias in more turbulent 2008 and 2011. The existence of portfolio variance biases have important implications not only in evaluating the risk of such portfolios, but also in measuring their performance, e.g., when using Sharpe ratio. We vary the frequency of price quotations and estimated average return and variance biases for 5-minute, daily, weekly and monthly data. Our findings indicate that one should exercise caution when assuming multiperiod rebalanced portfolio returns, as resulting biases can lead to spurious results when analysing investment strategies or testing asset pricing models.

Stream E.4 – Paper 2

Passive Investing: The Role of Securities Lending

Jesse Blocher, Vanderbilt University
Robert E. Whaley, Vanderbilt University

Financial economists have long touted the benefits of passive versus active investing. Transaction cost savings, the avoidance of management fees, and tax efficiency are among the claimed virtues. This study examines another important advantage—securities lending. We show that exchange traded funds (ETFs) can earn significant revenue from securities lending, on order of the size of the ETF's expense ratio. Findings for passive index mutual funds (IMFs) are similar, albeit slightly less. We also show that ETF managers respond to the securities lending incentives by slanting their holdings toward stocks with higher lending fees.

Stream E.4 – Paper 3

Institutional Trading and Asset Pricing

Bart Frijns, Auckland University of Technology
Thanh D. Huynh, Auckland University of Technology
Alireza Tourani-Rad, Auckland University of Technology
P. Joakim Westerholm, Sydney University

The relation between beta and average return is strong and positive on days with high institutional trading activity. In contrast, on normal days, this relation is negative and statistically significant. Days with interest rate announcements also exhibit the positive relation. However, we show that the effect of institutional trading is the primary driver of the upward sloping security market line on announcement days. We explore potential explanations and find that our findings are most consistent with the leverage-constraints hypothesis.

MEETING PARTICIPANTS

NAME	SURNAME	AFFILIATION	SESSION (S)
Mario Daniele	Amore	Bocconi University	B.1
Charles	Appeadu	Head of Uni Relations, CFA	D.1
Hue Hwa	Au Yong	Monash University	A.1 & B.1
George	Blazenko	Simon Fraser University	A.2 & B.4
Jerry	Cao	Singapore Management University	A.1 & B.1
Larry	Cao	Content Director, CFA	D.1
Yangyang	Chen	Monash University	C.2 & E.1
Travis	Chow	Singapore Management University	C.1 & D.3
Biplob	Chowdhury	University of Tasmania	DS
Helena	Cimerova	Auckland University of Technology	B.1 & A.1
Jorge	Cruz Lopez	Bank of Canada	B.4 & C.4
Jose	Da Fonseca	Auckland University of Technology	B.4 & C.3
Olga	Dodd	Auckland University of Technology	A.4
Robert	Durand	Curtin University	D.4 & A.3
Redouane	Elkamhi	University of Toronto	E.1 & C.4
Robert	Faff	University of Queensland	DS
David	Feldman	University of New South Wales	C.3, C.4, E.4 & D.3
Adrian	Fernandez-Perez	Auckland University of Technology	D.2 & A.2
Marinela	Finta	Auckland University of Technology	DS
Bart	Frijns	Auckland University of Technology	B.1
Sebastian	Gehricke	University of Otago	D.2
Aaron	Gilbert	Auckland University of Technology	A.1 & D.4
Stuart	Gillan	University of Georgia	
Stephen Xhie	Gong	Hong Kong Polytechnic University	B.2, C.1 & E.3
Iman	Honarvar Gheysary	Maastricht University	A.2 & C.2
Thanh	Huynh	Auckland University of Technology	A.2 & E1
Katja	Ignatieva	University of New South Wales	B.4, C.3 & E.4
Francis	In	Monash University	B.3 & E.4
Ivan	Indriawan	Auckland University of Technology	C.2, A.3 & DS
MD Emdadul	Islam	University of New South Wales	C.1 & E.3
Hans	Jeppsson	University of Gothenburg	E.2 & A.1
Jonathan	Jona	University of Melbourne	E.2
Hae Won (Henny)	Jung	University of Melbourne	C.4 & D.3
Madhu	Kalimipalli	Wilfrid Laurier University	D.3 & C.2
Masayasu	Kanno	Kanagawa University	B.3
Suk-Joong	Kim	University of Sydney Business School	A.3, B.3 & D.2
Yoshihiro	Kitamura	Waseda university	A.3
Inui	Koji	Meiji University	
Hung Wan	Kot	Hong Kong Baptist University	C.2 & E.1
Yuanto	Kusnadi	Singapore Management University	A.4
Nhung	Le	La Trobe Business School	A.4, C.1 & E.3
Xin	Ling	University of Queensland	DS

NAME	SURNAME	AFFILIATION	SESSION (S)
Yanju	Liu	Singapore Management University	C.1 & D.3
Anella	Munro	Reserve Bank	C.4 & B.3
Thu-Ha (Hannah)	Nguyen	University of Queensland	DS
Michael	O'Neill	Investors Mutual Limited, Sydney	
Sudharshan Reddy	Paramati	Griffith University	DS
Nga	Pham	La Trobe University	D.4
Yafeng	Qin	Massey University	E.1 & C.2
Suresh	Rajput	Massey University	DS
Mehdi	Sadeghi	Macquarie University	
Konark	Saxena	University of New South Wales	C.4 & A.2
Eduardo	Schwartz	University of California, Los Angeles	K.2
Joshua	Shemesh	University of Melbourne	D.4
Cheng-Yi	Shiu	National Central University	B.2 & D.4
Peter	Swan	University of New South Wales	B.1 & E.4
Alireza	Tourani-Rad	Auckland University of Technology	E.4 & A.1
Vladimir	Volkov	Queensland University of Technology	D.2
Rong	Wang	Singapore Management University	E.2
Robert	Webb	University of Virginia	K.3
Yi	Wei	Massey University	DS
Hanna	Westman	Bank of Finland	E.3
Robert	Whaley	Vanderbilt University	E.4, D.2 & K.1
Danika	Wright	University of Sydney	B.2
Ji	Wu	Xiamen University	E.1 & D.4
Simon	Xu	Monash University	B.3
Mona	Yaghoubi	Victoria University of Wellington	DS, D.3 & C.1
Juan	Yao	University of Sydney	C.3 & A.2
Jin	Zhang	Otago Business School	C.3
Remco	Zwinkels	Erasmus University Rotterdam	A.3, E.3 & B.2

AUCKLAND CENTRE FOR FINANCIAL RESEARCH
AUT BUSINESS SCHOOL

AUT UNIVERSITY

Travel safely

Season's Greetings