[Macroeconomic Implications of Financial Imperfections: A Survey"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3079428&partid=22912&did=365408&eid=1222506" \t "_blank) [CEPR Discussion Paper No. DP12461](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=223793&partid=22912&did=365408&eid=1222506)

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This paper surveys the theoretical and empirical literature on the macroeconomic implications of financial imperfections. It focuses on two major channels through which financial imperfections can affect macroeconomic outcomes. The first channel, which operates through the demand side of finance and is captured by financial accelerator-type mechanisms, describes how changes in borrowers' balance sheets can affect their access to finance and thereby amplify and propagate economic and financial shocks. The second channel, which is associated with the supply side of finance, emphasizes the implications of changes in financial intermediaries' balance sheets for the supply of credit, liquidity and asset prices, and, consequently, for macroeconomic outcomes. These channels have been shown to be important in explaining the linkages between the real economy and the financial sector. That said, many questions remain.

[Gambling, Risk Appetite and Asset Pricing"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3077859&partid=22912&did=365144&eid=1005058)

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Email: [eduzilberman@gmail.com](mailto:eduzilberman@gmail.com)

A measure of the propensity to gamble in casinos provides relevant information for asset pricing. This simple measure of risk appetite, which is independent of market prices and trading activity, explains cross-sectional differences in future returns for portfolios sorted on various characteristics. Our measure improves the fit of conditional asset pricing models such as the conditional CAPM, and also helps forecast market and portfolio excess returns out of sample. The relation between risk appetite and asset prices appears to be mainly explained by simultaneous changes in risk and risk premium, but our results suggest that investor sentiment may also play a role.

["Trading is Hazardous to Your Wealth: Evidence from Mutual Funds Around the World"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3078535&partid=22912&did=365144&eid=1005058)

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Email: [t.dyakov@vu.nl](mailto:t.dyakov@vu.nl)  
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We study the trading performance of actively-managed mutual funds from 16 domicile countries investing in 42 equity markets over the period 2001-2014. In the aggregate, funds achieve particularly poor returns in U.S. equity: after adjusting for style, the stocks they buy underperform those they sell by 0.61% per quarter. In non-U.S. equity, mutual fund trades achieve a gross quarterly return of only 0.19%, which appears small relative to trading costs in international markets. The relative size of the active mutual fund industry and the tendency of mutual funds to trade in herds contribute to their poor trading performance. Using the U.S. market as an important case with a longer time series and richer information, we find further supporting evidence.

["The Deteriorating Usefulness of Financial Report Information and How to Reverse It"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3080608&partid=22912&did=365419&eid=1232976)

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There is a wide-spread and growing dissatisfaction with the relevance and usefulness of financial report information, particularly among investors and corporate executives. Such dissatisfaction is supported by extensive research which consistently documents a growing gap between capital market indicators and financial information, particularly so for reported earnings. I trace the deterioration of the usefulness of financial information to: (1) the abandonment by accounting standard-setters of the traditional income statement (matching) model in favor of the balance sheet (asset valuation) model, and (2) the failure to adjust asset recognition rules to the fundamental shift in corporate value-creating resources from tangible to intangible assets. I conclude this paper with change proposals to restore the usefulness of financial information to investors.

["False (and Missed) Discoveries in Financial Economics"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3073799&partid=22912&did=365330&eid=1143719)

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Investors make two types of mistakes. First, they erroneously allocate to an asset manager (or a “smart” beta) that underperforms because the asset manager lacks skill. Second, investors might miss out allocating to a good manager. The first mistake is difficult to deal with given there are thousands of managers and many look good purely by luck. We introduce a new technique that optimizes the threshold for a prespecified false discovery rate (i.e., chance of the first mistake), at say 5%. Our method also allows for heterogeneous false discoveries – we should not treat all bad managers the same because some are really, really bad. Next, we focus on the second type of error where investors miss out on good managers. It is routine to ignore this type of mistake. Our results show that current research methods have little or no power to detect good managers. Finally, our method allows for the asymmetric treatment of false discoveries and misses – generally, investing in a bad manager is more costly than missing a good manager. We also offer a way to select managers whereby the investor can prespecify the ratio of false discoveries to misses to accommodate these differential costs. For instance, we can accommodate a decision rule whereby the investor is willing to miss ten good managers to avoid the mistake of selecting a bad manager.

[To Hedge or Not to Hedge: Assessing Currency Management Solutions for International Equity Portfolios"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3075962&partid=22912&did=364703&eid=749703)

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The decision to manage currencies in international equity portfolios is a complex one, and is intrinsically related to the final objective of the investor, whether it is risk reduction, or improvement in risk adjusted returns. In the absence of a confident view on the direction of foreign currency, a risk averse investor might choose to just hedge the currency exposure of her portfolios. On the other hand, there are well documented risk premia within the broader currency market that offer positive expected returns. An active investor can benefit from such risk premia and use currencies as a source of portable alpha to generate additional source of risk adjusted returns, above and beyond what a hedged equity portfolio could provide.

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[ASHWIN K THAPAR](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=1463361&partid=22912&did=364962&eid=790501), AQR Capital Management, LLC, Email: [ashwin.thapar@aqr.com](mailto:ashwin.thapar@aqr.com)

We define “deep value” as episodes where the valuation spread between cheap and expensive securities is wide relative to its history. Examining deep value across global individual equities, equity index futures, currencies, and global bonds provides new evidence on competing theories for the value premium.   
  
Following these episodes, the value strategy has:  
  
(1) high average returns;   
(2) low market betas, but high betas to a global value factor;   
(3) deteriorating fundamentals;  
(4) negative news sentiment;   
(5) selling pressure;   
(6) increased limits to arbitrage; and   
(7) increased arbitrage activity.   
  
Lastly, we find that deep value episodes tend to cluster and a deep value trading strategy generates excess returns not explained by traditional risk factors.

[The Flash Crash: A Review"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3076563&partid=22912&did=364811&eid=690095) , [ALI AKANSU](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=1091167&partid=22912&did=364811&eid=690095), New Jersey Institute of Technology, Email: [akansu@njit.edu](mailto:akansu@njit.edu)

Currently, there is a consensus among practitioners, industry veterans and academic researchers that the use of the state-of-the-art technology in financial sector including trading is inevitable, and HFT is generally beneficial. On the other hand, our collective memory reminds us that any intentional or unintentional misuse of HFT has the risk of market collapse as experienced during the Flash Crash of May 6, 2010. This paper provides an overview of what happened in the financial markets within a few minutes on that day and the collapse happened with its historically unmatched impact. Although the underlying reasons that triggered the Flash Crash are well understood by traders, regulators and researchers and tangible progress has been achieved since then, but still there are crucially significant open issues requiring more sophisticated policies, procedures and regulations to build more robust, fair and transparent financial markets.

["Trading in Style: Retail Investors vs. Institutions"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3079429&partid=22912&did=364363&eid=270350) [CEPR Discussion Paper No. DP12462](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=223793&partid=22912&did=364363&eid=270350)

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We examine the comparative trading performance of retail investors using an exhaustive sample of trades made by all investors in a stock market. Retail investors trade systematically at better prices than institutions, especially domestic institutions. We also find evidence of retail investors having a comparative advantage when trading stocks in their preferred trading style. These findings are consistent with retail investors rationally utilizing their trading flexibility and information made available to them. Based on a population of retail trades, our findings challenge the stereotype arising from earlier studies that retail investors are noise traders.

["Microfinance and Economic Development"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3076231&partid=22912&did=364358&eid=266316) ,[World Bank Policy Research Working Paper No. 8252](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=561341&partid=22912&did=364358&eid=266316)

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Microfinance is generally seen as a way to fix credit markets and unleash the productive capacities of poor people who are dependent on self-employment. The microfinance sector has grown quickly since the 1990s, paving the way for other forms of social enterprise and social investment. But recent evidence shows only modest average impacts on customers, generating a backlash against microfinance. This paper reconsiders the claims about microfinance, highlighting the diversity in evidence on impacts and the important (but limited) role of subsidies. The paper concludes by describing an evolution of thinking: from microfinance as narrowly construed entrepreneurial finance toward microfinance as broadly construed household finance. In this vision, microfinance yields benefits by providing liquidity for a wide range of needs rather than solely by boosting business income.

["Reexamining CEO Duality: The Surprisingly Problematic Issues of Conceptualization and Measurement"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3074814&partid=22912&did=364192&eid=174182) Fee Download   
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Manuscript Type. Empirical. Research Question/Issue. While corporate governance research is the beneficiary of advances in research methodologies and statistical techniques, less attention has been placed on variable measurement. This paper draws into question the conceptualization and measurement of CEO duality by highlighting its largely unrecognized instability and the challenges instability imposes on measuring dichotomous variables. CEO duality is widely used in corporate governance research and frequently operationalized dichotomously as a dummy variable. We present examples of the frequent changes in duality within organizations which challenge our current view of CEO duality. Research Findings/Insights. We find that the instability of CEO duality in practice varies considerably at both the national and within‐firm levels. We find that a mismatch exists between the current conceptualization of CEO duality, actual patterns of data, and the measures used by governance researchers. The paper draws attention to the limits of conceptualizing and measuring what is seemingly dichotomous data, reviews these in research and in practice, and provides examples, recommendations and assessments of alternate ways existing data can be used. Theoretical/Academic Implications. Our results draw into question the reliance on a simple dichotomous conceptualization and operationalization of CEO duality in governance research. Data limitations of corporate governance research may be alleviated by directly assessing stability of duality within firms and reimagining concepts in ways that can be measured using existing data. Practitioner/Policy Implications. CEO duality, a legal but discouraged governance structure, may be changed intentionally or result from a variety of temporary firm‐level factors. Assessing the longitudinal patterns in duality and underlying causes for temporary changes in duality should be incorporated into evaluations of firm governance structures.

["Methodological Issues in Governance Research: An Editor's Perspective"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3074836&partid=22912&did=364192&eid=174182" \t "_blank)   
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Manuscript type. Review. Research Question/Issue. What can be learnt with regard to methods in corporate governance research from editorial experience in handling corporate governance manuscripts? We draw on our experience as editors and guest editors of various journals in highlighting some of the methodological challenges in corporate governance research. We consider methodological issues relating to both quantitative and qualitative studies. Within these broad approaches, we discuss implications of theorizing, ownership and types of firms, governance and institutional contexts, omission of governance variables, human and social capital of board members, endogeneity/causality issues, executive remuneration, configurations and interactions of governance constructs, other governance mechanisms, and data sources. Discussion of these issues also highlights the need for more theoretical and empirical consideration of contingent factors influencing governance relationships. We identify possible ways forward and future research avenues. Research Findings/Insights. There is a need for corporate governance studies to devote greater recognition to the heterogeneity of various governance factors such as ownership types and director expertise. Studies have generally paid insufficient attention to the configurations of corporate governance. Theoretical/Academic Implications. Future research needs to address the connections between the methodological recognition of heterogeneity and configurations and the implications for theorizing. Practitioner/Policy Implications. Failure to address these methodological issues implies that conclusions drawn from corporate governance research for practice and policy could well be misleading.

["Corporate Governance Indices and Construct Validity"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3074837&partid=22912&did=364192&eid=174182" \t "_blank) Fee Download   
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Manuscript Type. Conceptual and empirical. Research Question/Issue. Many studies of firm‐level corporate governance rely on aggregate “indices” to measure underlying, unobserved governance. But we are not confident that we know how to build these indices. Often we are unsure both as to what is “good” governance, and how one can proxy for this vague concept using observable measures. We conduct an exploratory analysis of how researchers can address the “construct validity” of firm‐level governance indices, which poses a major challenge to all studies that rely on these indices. Research Findings/Insights. We assess the construct validity of governance indices for four major emerging markets (Brazil, India, Korea, and Turkey), developed in prior work. In that work, we built country‐specific indices, using country‐specific governance elements that reflect local norms, institutions, and data availability, and showed that these indices predict firm market value in each country. The use of country‐specific indices puts great stress on the construct validity challenge of assessing how well a governance measure matches the underlying concept. We address here how well these four country‐specific indices, and subindices for aspects of governance such as board structure or disclosure, coherently measure unobserved, underlying actual governance. Theoretical/Academic Implications. We provide guidance on how researchers can address the construct validity of corporate governance indices. Practitioner/Policy Implications. The uncertain construct validity of most corporate governance indices suggests caution in relying on research using these indices as a basis for firm‐level governance changes, or country‐level legal reforms

["A Simple Test of the Value of Artificial Intelligence (AI) for Investments."](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3071052&partid=22912&did=363626&eid=1269701)

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This simple test of the value of Artificial Intelligence (AI) for investments is about the IBM’s Watson ETF's approach to picking stocks (ticker NYSE: AIEQ). This ETF is actively managed and it is based on the results of a proprietary, quantitative model (the "Equbot Model") developed by Equbot LLC ("Equbot") with Watson. This ETF has been launched on October 18, 2017 and is relatively new, so there's no performance data to go by. However, since the Artificial Intelligence is able to constantly learn based on new financial information it should theoretically improve as time goes on. Hence the interest of objectively following the evolution of AIEQ as a simple test of the value of AI for investments. Let’s call this "online real time research". We also present a referential that should guide AI specialists in developing AI for investments if we do not want the development of AI for investments to be Superficial Intelligence (SI) for investments.

["Human vs. High-Frequency Traders, Penny Jumping, and Tick Size"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3082682&partid=22912&did=366432&eid=337656)   
[Journal of Banking and Finance, Vol. 85, 2017](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=231154&partid=22912&did=366432&eid=337656)

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[RAMAZAN GENCAY](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=115248&partid=22912&did=366432&eid=337656), Simon Fraser University, Email: [gencay@sfu.ca](mailto:gencay@sfu.ca)

This paper examines changes in market quality resulting from the smaller tick size of the interbank foreign exchange market. Coupled with the lower tick size, the special composition of traders and their order placement strategies created a suitable environment for high- frequency traders (HFT’s) to implement sub-penny jumping strategy to front-run human traders. We show that the spread declined following the introduction of decimal pip pricing. However, benefits of spread reduction were mostly absorbed by the HFT’s. Market depths were also significantly reduced with the occupation of the top of the order book by HFT’s. This new environment changed the market maker-market taker composition between different traders and altered price impacts of the order flows.

[Is There Smart Money? How Information in the Futures Market Gets Priced into the Cross-Section of Stock Returns with Delay"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3077802&partid=22912&did=366431&eid=336159)

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We document a new empirical phenomenon in which the positions of the Managed Money (MM), who are sophisticated speculators in the commodity futures market, as disclosed by the CFTC Disaggregated Commitment of Traders (DCOT) reports, can predict the stock returns of commodity producers in subsequent weeks. Specifically, if the DCOT reports there is increase in long position, or decrease in short position, or increase in net position, or increase in the ratio of long over short position of MM, then the stock price of producers of the same commodity would subsequently increase. This finding is robust to a variety of choices of measures and weighting schemes, and is more pronounced during non-NBER recession periods. The results are also more pronounced in firms with higher information asymmetry, that is, those with higher analyst dispersion and higher stock volatility. A trading strategy based on this finding can generate a significant alpha of around 38% per annum. Our finding further challenges the efficient market hypothesis.

["Monthly Art Market Returns"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3080464&partid=22912&did=366431&eid=336159)

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We provide an innovative methodological contribution to the measurement of returns on infrequently traded assets using a novel approach to repeat-sales regression estimation. The model for price indices we propose allows for correlation with other markets, typically with higher liquidity and high frequency trading. Using the new econometric approach, we propose a monthly art market index, as well as sub-indices for Impressionist, Modern, Post-War, and Contemporary paintings based on repeated sales at a monthly frequency. The correlations enable us to update the art index via observed transactions in other markets that have a link with the art market. In terms of Sharpe ratio we find that Contemporary art appears to perform almost as well as the S&P 500. Nevertheless, Art and Luxury goods companies show better performance numbers than any of the art indices. Interestingly, real estate is not as attractive as Contemporary and Post War art in terms of Sharpe ratios. None of the art index returns load significantly on momentum or liquidity factors, let alone the Fama-French factors. The most remarkable result pertains to the Contemporary art market index. In a sample up to the financial crisis the alpha and beta of the index feature the performance of a respectable hedge fund.

["Do Public Firms Respond to Investment Opportunities More than Private Firms? The Impact of Initial Firm Quality,"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3085718&partid=22912&did=366775&eid=647861)  [NBER Working Paper No. w24104](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=209249&partid=22912&did=366775&eid=647861)

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[LIU YANG](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=338709&partid=22912&did=366775&eid=647861), University of Maryland, R. H. Smith School of Business, Email: [lyang@rhsmith.umd.edu](mailto:lyang@rhsmith.umd.edu)

Using U.S. Census data, we track firms at birth and compare the growth pattern of IPO firms and their matched always-private counterparts over their life cycle. Firms that are larger at birth with faster initial growth are more likely to attain a larger size and to subsequently go public. We estimate a model to predict the propensity to become public (“public quality”) using initial conditions. Firms in the top percentile of public quality grow 29 times larger than the remaining firms fifteen years later if they actually become public and 14 times larger if they stay private, showing a large selection effect for IPO status. Public firms respond more to demand shocks after their IPO and are more productive than their matched private counterparts. This effect is stronger in industries that are capital intensive and dependent on external financing. Overall, initial conditions predict firm growth trajectories, selection into public status and responsiveness to demand shocks. We find no evidence of public market myopia when matching by initial conditions.

[Behavioral Efficient Markets,](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3083527&partid=22912&did=366771&eid=642385)  [MEIR STATMAN](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=143350&partid=22912&did=366771&eid=642385), Santa Clara University, Email: [mstatman@scu.edu](mailto:mstatman@scu.edu)

Discussions about market efficiency in finance are unfocused when they fail to distinguish between the price-equals-value market hypothesis and the hard-to-beat market hypothesis. And discussions are further lacking when they fail to explain why so many investors believe that markets are easy to beat when, in truth, they are hard to beat.   
  
As described in Finance for Normal People and this article, behavioral finance contributes positively to these discussions by making the distinction between the price-equals-value market hypothesis and the hard-to-beat market hypothesis and by explaining why so many investors believe that markets are easy to beat when, in truth, that is hard to do.   
  
Behavioral finance concludes that markets are not price-equals-value markets but they are rather hard-to-beat for investors lacking exclusively or narrowly-available information. And behavioral finance elucidates the cognitive and emotional errors that mislead investors with nothing but widely-available information into the belief that markets are easy to beat.

[Implementing Momentum: What Have We Learned?"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3081165&partid=22912&did=366770&eid=637511)

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An abundance of academic evidence and theory exists on the efficacy and intuition behind momentum investing, yet a limited number of studies discuss the feasibility of running momentum portfolios in practice. And no study to date has directly analyzed implementation costs for a live momentum portfolio.  
  
As a result, many are still quick to dismiss momentum as difficult or costly to implement because of its high turnover. In this paper, we use seven years of live data to evaluate the implementability of momentum investing. We show that live momentum portfolios are capable of capturing the momentum premium, even after accounting for expenses, estimated trading costs, taxes, and other frictions associated with real-life portfolios

["Positive Impact Investing"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2967238&partid=22912&did=366791&eid=654718)

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Integrating environmental, social and governance impacts into investment and financial decision making and especially focussing on the upside of ESG (positive) impact investing is a nascent field of research. At the moment, it is mostly practitioners that are driving the impact assessment process and its integration into investment and finance. This has various reasons from managing risks effectively to protecting reputation and addressing stakeholder requirements. The process is most obvious on the lending side where collaborations between the Worldbank, International Finance Corporations, other multilaterals and the private banking sector have contributed to the development of relatively consistent ESG standards which are often referred to as "Global Administrative Law". It has become increasingly the norm for international development banking institutions, including multilateral development banks (MDBs), and many private sector lenders, to adopt comprehensive environmental, social and governance (ESG) safeguard policies and standards to circumscribe the projects and activities they finance. This is particularly the case in the financing of major infrastructure projects in developing countries or economies in transition. For Internationals Banks it is today good practice to integrate environmental, social and governance considerations into the lending process. For project and structure finance, the Equator Principles offer a financial industry benchmark for determining, assessing and managing environmental and social risk in international finance activities. For lenders such as the EBRD or IFC that focus on private sector lending, the performance standards of environmental and social governance are imposed upon private corporate entities, against which most requirements of international law could never be formally applied. The Equator Principles Association website recognises growing 'convergence around common environmental and social standards', as well as the 'development of other responsible environmental and social management practices in the financial sector and banking industry', such as the Carbon Principles or the Cross-Sector Biodiversity Initiative. Also the export credit agencies, through the 2012 OECD Common Approaches, are increasingly drawing on the same standards as the EPs'.

[Environmental, Social, and Governance Criteria: Why Investors are Paying Attention,"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3082225&partid=22912&did=366845&eid=697033) [NBER Working Paper No. w24063](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=209249&partid=22912&did=366845&eid=697033)

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We find that money managers could reduce portfolio risk by incorporating Environmental, Social, and Governance (ESG) criteria into their investment process. ESG-related issues can cause sudden regulatory changes and shifts in consumer tastes, resulting in large asset price swings which leave investors limited time to react. By incorporating ESG criteria in their investment strategy, money managers can tilt their holdings towards firms which are well prepared to deal with these changes, thereby managing exposure to these rare but potentially large risks.

["It Only Takes a Few Moments to Hedge"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3086538&partid=22912&did=366937&eid=781576)

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Traders hedge the risks carried by options and other securities using the so-called Greeks, with the delta and the vega being the most prominent. In this paper, we propose a novel non-structural method for hedging European options, relying on two model-independent results: First, under suitable regularity conditions on the risk-neutral density, an option price can be disentangled into a linear combination of risk-neutral moments. Second, there exists an explicit functional form linking the risk-neutral moments to the price of the underlying asset and the related variance swap contracts. We show that, historically, S&P 500 call prices are mainly explained by two factors that are related to level and volatility of the underlying index. Based on this, we devise and empirically compare the hedging performance of two strategies where the vega exposure is adjusted either by taking a direct position in variance swap contracts or, indirectly, through an ATM call option. While both strategies ensure effective immunization in periods of market turmoil, taking direct exposure on volatility might not be optimal during extended periods of subdued market volatility. We argue that this result is related to the phenomenon known as the "low VIX puzzle".

[Who Falls Prey to the Wolf of Wall Street? Investor Participation in Market Manipulation"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3082266&partid=22912&did=366654&eid=525499)    
[NBER Working Paper No. w24083](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=209249&partid=22912&did=366654&eid=525499)

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Manipulative communications touting stocks are common in capital markets around the world. Although the price distortions created by so-called “pump-and-dump” schemes are well known, little is known about the investors in these frauds. By examining 421 “pump-and-dump” schemes between 2002 and 2015 and a proprietary set of trading records for over 110,000 individual investors from a major German bank, we provide evidence on the participation rate, magnitude of the investments, losses, and the characteristics of the individuals who invest in such schemes. Our evidence suggests that participation is quite common and involves sizable losses, with nearly 6% of active investors participating in at least one “pump-and-dump” and an average loss of nearly 30%. Moreover, we identify several distinct types of investors, some of which should not be viewed as falling prey to these frauds. We also show that portfolio composition and past trading behavior can better explain participation in touted stocks than demographics. Our analysis offers insights into the challenges associated with designing effective investor protection against market manipulation.

["Macroeconomic Implications of Financial Imperfections: A Survey"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3076410&partid=22912&did=366649&eid=521403) [BIS Working Paper No. 677](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=685688&partid=22912&did=366649&eid=521403)

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This paper surveys the theoretical and empirical literature on the macroeconomic implications of financial imperfections. It focuses on two major channels through which financial imperfections can affect macroeconomic outcomes. The first channel, which operates through the demand side of finance and is captured by financial accelerator-type mechanisms, describes how changes in borrowers' balance sheets can affect their access to finance and thereby amplify and propagate economic and financial shocks. The second channel, which is associated with the supply side of finance, emphasises the implications of changes in financial intermediaries' balance sheets for the supply of credit, liquidity and asset prices, and, consequently, for macroeconomic outcomes. These channels have been shown to be important in explaining the linkages between the real economy and the financial sector. That said, many questions remain.

["Unequal Returns: Using the Atkinson Index to Measure Financial Risk"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3078580&partid=22912&did=366649&eid=521403" \t "_blank)

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We apply the Atkinson (1970) inequality index to an arbitrary time series of asset returns to offer a novel measure of financial risk consistent with expected-utility theory. This measure is easily converted to a certainty-equivalent return to serve as a performance measure. We extend the Atkinson index to HARA utility and show that the corresponding performance measure nests the Morningstar index as a special case (Morningstar, 2016). We also derive closed-form solutions to our measures for a large number of combinations of preferences and return distributions. Further, we establish relationships between risk aversion and the weights assigned to the cumulants of the return distribution: higher risk aversion corresponds to larger weights on higher-order risk. Applying our measures to hedge-fund data, we find that our performance measure — designed to capture higher-order risk — provides additional information as compared to established measures.

["Fama-French Factors and Business Cycles"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3082577&partid=22912&did=366568&eid=466774)

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We examine the behavior of Fama-French factors across business cycles measured in various ways. We first split up the business cycles into four stages and examine the cumulative returns of factors in each of those stages. We then look at the behavior of the factors after a yield curve inversion starts and ends, as the relationship between yield curve inversions and recessions has been well-explored. We finally run a logistic regression to test the predictive power of the term spread on the NBER recession indicator. Our results show that there is an effect on the factors of each of our four stages, and there is limited predictive power from the recession probabilities. We believe this is of practical importance to portfolio managers who are factor-oriented in their approach.

[Twin Peaks: South Africa's Financial Sector Regulatory Framework"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3080732&partid=22912&did=366340&eid=292418)   
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The National Assembly of South Africa has passed a Bill adopting the ‘twin-peaks’ model of financial regulation, which sees regulation split into two broad functions: market conduct regulation and prudential regulation. This article compares the structure of the twin-peaks model in South Africa with the structure in other jurisdictions. In doing so, it identifies the strengths and possible weaknesses of the model in South Africa, and the extent to which it reflects international experience. The evolution of the legislation reveals that South Africa has drawn increasingly on the international experience, particularly the experience in the UK. However, it also reveals characteristics that might be regarded as unique to South Africa. Two areas are particularly noteworthy in this regard. First, the regulatory framework attempts to achieve a balance between the need to ensure operational independence on the part of the regulators, and the need to recognise the role and involvement of the executive government. Second, by comparison with the international experience (even that in the UK) the design of the regulatory co-ordination framework appears to involve a high level of potential overlap between the co-ordinating bodies, and also a highly prescriptive approach to achieving effective co-ordination

The Rate of Return on Everything, 1870–2015

Òscar Jordà, Katharina Knoll, Dmitry Kuvshinov, Moritz Schularick, and Alan M. Taylor NBER Working Paper No. 24112 December 2017 JEL No. D31,E10,E44,G10,G12,N10

This paper answers fundamental questions that have preoccupied modern economic thought since the 18th century. What is the aggregate real rate of return in the economy? Is it higher than the growth rate of the economy and, if so, by how much? Is there a tendency for returns to fall in the long-run?Which particular assets have the highest long-run returns? We answer these questions on the basis of a new and comprehensive dataset for all major asset classes, including—for the first time—total returns to the largest, but oft ignored, component of household wealth, housing. The annual data on total returns for equity, housing, bonds, and bills cover 16 advanced economies from 1870 to 2015, and our new evidence reveals many new insights and puzzles.