JULY-2017: FEN-eJOURNALS

["Fintech Lending: Financial Inclusion, Risk Pricing, and Alternative Information"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3005260&partid=22912&did=349246&eid=981419) 
[FRB of Philadelphia Working Paper No. 17-17](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=901702&partid=22912&did=349246&eid=981419)

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Fintech has been playing an increasing role in shaping financial and banking landscapes. Banks have been concerned about the uneven playing field because fintech lenders are not subject to the same rigorous oversight. There have also been concerns about the use of alternative data sources by fintech lenders and the impact on financial inclusion. In this paper, we explore the advantages/disadvantages of loans made by a large fintech lender and similar loans that were originated through traditional banking channels. Specifically, we use account-level data from the Lending Club and Y-14M bank stress test data. We find that Lending Club’s consumer lending activities have penetrated areas that could benefit from additional credit supply, such as areas that lose bank branches and those in highly concentrated banking markets. We also find a high correlation with interest rate spreads, Lending Club rating grades, and loan performance. However, the rating grades have a decreasing correlation with FICO scores and debt to income ratios, indicating that alternative data is being used and performing well so far. Lending Club borrowers are, on average, more risky than traditional borrowers given the same FICO scores. The use of alternative information sources has allowed some borrowers who would be classified as subprime by traditional criteria to be slotted into “better” loan grades and therefore get lower priced credit. Also, for the same risk of default, consumers pay smaller spreads on loans from the Lending Club than from traditional lending channels.

["The Origin of Diversification: An Evolutionary Theory"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3004574&partid=22912&did=349218&eid=966325) 

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Diversification is a fundamental concept in economics, decision theory and finance. It also lies at the core of the Darwinian evolution argument, and diversifying behavior known as bet-hedging has been widely documented in other species. The central premise of this paper is that attitudes towards diversification are, at least in part, the evolutionary product of natural selection. The main contribution consists of an \emph{evolutionary choice model} relating diversifying behavior to evolutionary fitness, which is used to prove that diversification is advantageous from an evolutionary perspective. Two situations are distinguished: in the model under risk, when probabilities of future reproductive success are known, natural selection favours the traditional mean-variance diversification strategy, whereas in the model under uncertainty, when probabilities are unknown, the naive diversification heuristic and the related principle of insufficient reason emerge as maximizing evolutionary fitness. These insights into the potentially biological origins of diversifying behavior may have implications for how one can treat observed anomalies in practice.

["Do Buy-Side Institutions Supply Liquidity in Bond Markets? Evidence from Mutual Funds"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3003189&partid=22912&did=349056&eid=812888) 

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This study presents new evidence on buy-side institutions as a channel of liquidity supply in the corporate bond market. Using bond transactions data, we aggregate the inventory positions of bond dealers, and identify inventory cycles. We classify a bond fund’s trading style as liquidity supplying (demanding) if the changes in bond holdings exhibit a propensity to absorb (further strain) the aggregate dealer positions. Between 2003 and 2014, bond funds on average tend to demand liquidity; however, trading styles vary across bond funds and are persistent over time. Higher flexibility in portfolio holdings is associated with a liquidity supplying trading style. A liquidity supplying trading style earns higher future fund returns after controlling for portfolio attributes and factor risk exposures. These results suggest that trading style contains useful information for investors in selecting bond funds and that bond market liquidity can be enhanced by developing platforms that facilitate participation by buy-side institutions.

["The Correlation Structure of Anomaly Strategies"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3002797&partid=22912&did=349055&eid=812220) 

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We investigate the correlation structure of anomaly strategy returns. From an initial 434 anomalies, we select 116 anomalies that are significant in the mean and not highly correlated with other anomalies. Cluster analysis reveals 24 clusters and 29 singleton anomalies that can be grouped into 3 essentially uncorrelated blocks. Correlations between anomaly strategies exhibit some stability over time at both a pairwise and aggregate level. The exception is a correlation spike in 2001, possibly related to the aftermath of the dot-com crisis. In volatile markets correlations increase in magnitude while maintaining their sign. Short and long legs of the same anomaly are highly correlated but becomes largely uncorrelated once we use market excess returns, suggesting that the long and short legs of anomalies follow different dynamics once market-wide influences are compensated for. Correlations based on the residuals of benchmark models are substantially lower, with mean absolute correlation declining by up to half. The existence of 116 anomaly strategies that are not highly correlated echoes other findings in the literature that the return generating process for realised returns appears to be of a high dimension.

["Can (Downside-) Market-Beta Hedge Market Risk?"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3000824&partid=22912&did=348935&eid=725979) 

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A good ex-ante market beta predicts stock-market returns also during ex-post bear and crash markets. Thus, it remains a good ex-ante measure for the exposure of stocks to market risk, i.e., the efficacy of the hedge. Moreover, asymmetric up- and down-market ex-post betas were predicted better by the all-condition ex-ante market beta than by their own ex-ante counterparts. This qualifies the perspective advanced in Ang, Chen, and Xing (2006).

 ["Bank Capital Regulation of Trading Portfolios: An Assessment of the Basel Framework"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3001160&partid=22912&did=348934&eid=718624)
[Journal of Money, Credit, and Banking, Vol. 49, No. 4, pp. 603-634, June 2017](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=91489&partid=22912&did=348934&eid=718624)

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In setting minimum capital requirements for trading portfolios, the Basel Committee on Banking Supervision (1996, 2011a, 2013) initially used Value-at-Risk (VaR), then both VaR and stressed VaR (SVaR), and most recently, stressed Conditional VaR (SCVaR). Accordingly, we examine the use of SCVaR to measure risk and set these requirements. Assuming elliptically distributed asset returns, we show that portfolios on the mean-SCVaR frontier generally lie away from the mean-variance (M-V) frontier. In a plausible numerical example, we find that such portfolios tend to have considerably higher ratios of risk (measured by, e.g., standard deviation) to minimum capital requirement than those of portfolios on the M-V frontier. Also, we find that requirements based on SCVaR are smaller than those based on both VaR and SVaR but exceed those based on just VaR. Finally, we find that requirements based on SCVaR are less procyclical than those based on either VaR or both VaR and SVaR. Overall, our paper suggests that the use of SCVaR to measure risk and set requirements is not a panacea.

["EBITDA, EBITA, or EBIT?"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2999675&partid=22912&did=348783&eid=660917) 

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Over the last thirty years there has been a strong positive trend in the magnitude of amortization charges, due to both economic and accounting changes. This trend has accelerated since the financial crisis, a period coinciding with a revised accounting treatment for business combinations, which substantially increased the significance of amortization. Concurrent with this trend, companies and external users of financial statements increasingly discuss operating performance focusing on earnings metrics that exclude amortization but include depreciation. This study compares earnings before interest, taxes and amortization (EBITA) with its two more common alternatives—EBIT and EBITDA—in terms of their ability to explain market valuations and predict stock returns. Over the sample period (1987-2016), EBITDA performed better than EBITA, which in turn performed better than EBIT, both in explaining stock prices and predicting stock returns. However, EBITDA’s dominance over EBITA in explaining valuations has been declining over time, while the performance difference between EBITA and EBIT has been increasing. The improvement in the relative accuracy of EBITA-based valuations has been particularly large since the financial crisis and for companies from high amortization intensity industries. Still, focusing on EBITDA when conducting price multiple valuation, which is very common in practice, remains justifiable as this approach continues to generate more precise value estimates compared to EBIT and EBITA based valuations. In terms of ability to predict stock returns, it appears that a structural change has occurred after the financial crisis, as the three operating income measures have failed to consistently predict stock returns over the last seven years.

["Testing Excess Returns from Passive Options Investment Strategies"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2998787&partid=22912&did=348783&eid=660917) 
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When analyzing options returns, most papers tend to focus on the expected and realized return from strategies where the investors are long on those financial instruments. We conduct a test searching for excess returns on passive options investment strategies resorting to a four factor model, evaluating the case of an investor who launches options and evaluates returns to the light of capital invested in the form of margins requirement. The main point of our research work is to continue the line of research where we evaluate options returns using the metrics with respect to margin requirements.

We find that there are excess returns not explained by the four factor model, which in turn may indicate the strategy generates extra returns, or that the investor going short on options provides insurance to events not captured by the traditional models.

["Country Risk: Determinants, Measures and Implications – The 2017 Edition"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3000499&partid=22912&did=348781&eid=631430) 

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As companies and investors globalize, we are increasingly faced with estimation questions about the risk associated with this globalization. When investors invest in China Mobile, Infosys or Vale, they may be rewarded with higher returns but they are also exposed to additional risk. When Siemens and Apple push for growth in Asia and Latin America, they clearly are exposed to the political and economic turmoil that often characterize these markets. In practical terms, how, if at all, should we adjust for this additional risk? We will begin the paper with an overview of overall country risk, its sources and measures. We will continue with a discussion of sovereign default risk and examine sovereign ratings and credit default swaps (CDS) as measures of that risk. We will extend that discussion to look at country risk from the perspective of equity investors, by looking at equity risk premiums for different countries and consequences for valuation. In the final section, we will argue that a company’s exposure to country risk should not be determined by where it is incorporated and traded. By that measure, neither Coca Cola nor Nestle are exposed to country risk. Exposure to country risk should come from a company’s operations, making country risk a critical component of the valuation of almost every large multinational corporation. We will also look at how to move across currencies in valuation and capital budgeting, and how to avoid mismatching errors

["Crowding out Banks: Credit Substitution by Peer-To-Peer Lending"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3000593&partid=22912&did=348776&eid=627814) 

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We show that small (rural) commercial banks lose lending volume and take on riskier borrowers in response to peer-to-peer lending encroachment. Large (urban) bank loan volumes appear to be unaffected by the increase in competition. To identify the influence of peer-to-peer (P2P) lending, we utilize time varying, state level entry restrictions on the part of P2P borrowers and P2P investors. We estimate a substantial fraction (26.7%) of peer-to-peer loan volume substitutes for small commercial bank personal loan volume. Our results highlight the changing landscape of financial intermediation and the regulatory challenges faced by financial technology (FinTech) firms

["Replication Methods for Financial Indexes"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3000340&partid=22912&did=348686&eid=561792) 

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In this paper, we first present a review of statistical tools that can be used in asset management either to track financial indexes or to create synthetic ones. More precisely, we look at two important replication methods: the strong replication, where a portfolio of very liquid assets is created and the goal is to track an actual index with the portfolio, and weak replication, where a portfolio of very liquid assets is created and used to either replicate the statistical properties of an existing index, or to replicate the statistical properties of a custom asset. In addition, for weak replication, the target is not an index but a payoff, and the replication amounts to hedge the portfolio so it is as close as possible to the payoff at the end of each month. For strong replication, the main tools are predictive tools, so filtering techniques and regression play an important role. For weak replication, which is the main topic of this paper, in order to determine the target payoff, the investor has to find or choose the distribution function of the target index or custom index, as well as its dependence with other assets, and use a hedging technique. Therefore, the main tools for weak replication are modeling (estimation and goodness-of-fit) and optimal hedging. For example, an investor could wish to obtain Gaussian returns that are independent of some ETFs replicating the Nasdaq and S&P 500 indexes. In order to determine the dependence of the target and a given number of indexes, we introduce a new class of easily constructed models of conditional distributions called B-vines. We also propose to use a flexible model to fit the distribution of the assets composing the portfolio and then hedge the portfolio in an optimal way. Examples are given to illustrate all the important steps required for the implementation of this new asset management methodology.

["Debt Restructuring and Notions of Fairness"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3002115&partid=22912&did=348551&eid=435965) 
[The Modern Law Review, Vol. 80, Issue 4, pp. 600-623, 2017](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=221490&partid=22912&did=348551&eid=435965)

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This article examines concern for fairness in the way in which loss is distributed when a company or financial institution facing financial difficulties is restructured. It shows how this concern is often grounded in loose notions of fairness, or generalisations from one situation to another, rather than in detailed analysis. Adopting an interdisciplinary approach, it builds an analytical frame for the fairness debate in debt restructuring. It shows why rigour is important in identifying fairness concerns, in weighing them against other considerations, and in applying concerns which arise in one scenario to another, and illustrates the types of policy mistake or policy incoherence which can arise if this is not done.

["Shareholder Activism and Trust: Evidence from Shareholder Governance Proposals"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3002604&partid=22912&did=348551&eid=435965) 

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We examine whether shareholder trust in management reduces shareholders’ demand for corporate governance changes. Following Lins, Servaes and Tamayo (2017), we use corporate social responsibility (CSR) performance as a proxy for trust. We find a negative relation between CSR performance and the likelihood of shareholder governance proposals at annual meetings. This result is robust to controlling for firm- and CEO-fixed effects, using instruments for CSR performance, and using the passage of Right-to-Work laws as an exogenous shock to shareholder perceptions of CSR performance. We also find that for firms with better CSR performance, governance proposals increase firm value by a greater amount and are more likely to be implemented by management. Collectively, our results demonstrate the importance of trust for shareholder activism.

["Global Diversification with Local Stocks: A Road Less Traveled"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2997231&partid=22912&did=348552&eid=434866) 

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Utilizing approximately 51,000 sample firms from developed markets over 1995-2014, we document a stark heterogeneity in global integration at the firm-level and study its implications for diversification. Specifically, the adjusted R-square, our integration measure, is widely distributed across firms, within and across sample markets. A firm’s integration is significantly affected by its style, country, and industry attributes. Systematically identifying and holding “local stocks” that are minimally driven by the common global factors, investors can significantly benefit from diversification within developed markets. Thus, the diversification gains solely inferred from the market indices much understate the potential benefits that world markets can provide.

["Biases in Analysts' Multiyear Forecasted Income Statements, Balance Sheets, and Cash Flow Statements"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3003267&partid=22912&did=348545&eid=428578) 

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We evaluate sell-side equity analysts’ multiyear forecasted income statements, balance sheets and cash flow statements, and the profitability, efficiency and leverage ratios that they imply. Using both small- sample data extracted manually from Investext PDFs, and large-sample data taken from the I/B/E/S non-EPS archival detail history file, we find that analysts’ long-horizon financial statements contain many biases, many but not all of which are optimistic. Analysts make highly optimistic forecasts of long-horizon EPS, ROE, ROA, ROS and asset turnover, driven by overly bullish projections about revenues and all common-sized expenses except income tax, which they forecast pessimistically. Analysts are optimistic about both long-horizon operating cash flows and operating accruals, and while they are unbiased in their forecasts of long-horizon total assets, they underestimate long-horizon debt and overestimate long-horizon equity. Our regressions support the view that analysts strategically inflate their long-horizon forecasts of EPS the more intangible and hard-to-verify are the firm’s assets.

["Big Data Analytics in Economics: What Have We Learned So Far, and Where Should We Go from Here?"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2998299&partid=22912&did=348255&eid=194837) 

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Research into predictive accuracy testing remains at the forefront of the forecasting field. One
reason for this is that rankings of predictive accuracy across alternative models, which under misspecification are loss function dependent, are universally utilized to assess the usefulness of econometric models. A second reason, which corresponds to the objective of this paper, is that researchers are currently focusing considerable attention on so-called big data, and on new (and old) tools that are available for the analysis of this data. One of the objectives in this field is the assessment of whether big-data leads to improvement in forecast accuracy. In this survey paper, we discuss some of the latest (and most interesting) methods currently available for analyzing and utilizing big data when the objective is improved prediction. Our discussion includes a summary of various so-called dimension reduction, shrinkage, and machine learning methods, as well as a summary of recent tools that are useful for ranking prediction models associated with the implementation of these methods. We also provide a brief empirical illustration of big-data in action, in which we show that big data are indeed useful when predicting the term structure of interest rates.

["Stock Price Patterns When Overconfident Traders Overestimate Their Ability and Underestimate the Competition"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2997001&partid=22912&did=348250&eid=188537) 

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We analyze a model where agents receive information sequentially and are overconfident. In our model, overconfidence manifests itself as both an over-assessment of the quality of one's own signal and skepticism about the quality of other agents' signals. Specifically, agents who receive information late are skeptical about the precision of early informed signals and overconfident about the precision of their own signals. Momentum arises in this model because late informed investors provide too much liquidity to those informed early, so that the price underreacts to the trades of early informed. Overconfidence and risk aversion also cause long-term reversals. The magnitude of short term momentum is greater if the mass of early informed is smaller, the early informed are more over confident, or the late informed are more skeptical and more overconfident.

["The Need for Suitability and Appropriateness in Crowdfunding Regulation"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2997377&partid=22912&did=348090&eid=68314) 
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Fueled by the rapid development of innovative offerings designed to meet the needs of financial institutions, the FinTech sector witnessed a sharp increase over the past few years, thus requiring a constant update of financial regulation to keep pace with the evolution of the 21st century markets. In this context, raising arm’s length finance from dispersed investors thanks to crowdfunding undeniably represented one of the first and foremost complementary sources of funds for new companies which are preferred to traditional ones. In order to pursue their goals, thanks to the relevant technological improvement, funders are allowed to raise money in return for equity shares, interests, products, services, or even for the sake of donation.

After sketching the major points of crowdfunding regulations – focusing primarily on the pioneering, Italian system – and after considering the rules of conduct in the field of investment services both in theory and in practice, the present piece will explore how the rules of suitability and appropriateness combine with financial regulation 2.0 and, specifically, with crowdfunding. The aim of the study is to support the conclusion that (i) crowdfunding deserves attention in light of the growing importance it assumed at the international level and in light of the Markets in Financial Instruments Directive evolution in the field of investment services; (ii) although harmonization might seem bold in the current scenario, especially in light of the Report on Crowdfunding in the EU Capital Market Union, it would represent a valuable aim to be pursued by the legislator.

[How Soon is Now? Evidence of Present Bias from Convex Time Budget Experiments"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2999537&partid=22912&did=348070&eid=57347) 
[NBER Working Paper No. w23558](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=209249&partid=22912&did=348070&eid=57347)

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Empirically observed intertemporal choices about money have long been thought to exhibit present bias, i.e. higher short-term compared to long-term discount rates. Recently, this view has been called into question on both empirical and theoretical grounds, and a spate of recent findings suggest that present bias for money is minimal or non-existent when one allows for curvature in the utility function and transaction costs are tightly controlled. However, an alternative interpretation of many of these findings is that, in the interest of equalizing transaction costs across earlier and later payments, small delays were introduced between the time of the experiment and the soonest payment. We conduct a laboratory experiment in Kenya in which we elicit time and risk preference parameters from 494 participants, using convex time budgets and tightly controlling for transaction costs. We vary whether same-day payments are made immediately after the experimental session or at the close of the business day. Using the Kenyan mobile money system M-Pesa to make real-time transfers to subjects' phones allows us to make the soonest payments truly immediate. We find strong evidence of present bias, with estimates of the present bias parameter ranging from 0.902 to 0.924 — but only when same-day payments are ma

["A Century of Evidence on Trend-Following Investing"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2993026&partid=22912&did=348046&eid=39563) 

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In this article, the authors study the performance of trend-following investing across global markets since 1880, extending the existing evidence by more than 100 years using a novel data set. They find that in each decade since 1880, time series momentum has delivered positive average returns with low correlations to traditional asset classes. Further, time-series momentum has performed well in 8 out of 10 of the largest crisis periods over the century, defined as the largest drawdowns for a 60/40 stock/bond portfolio. Lastly, time series momentum has performed well across different macro environments, including recessions and booms, war and peacetime, high- and low-interest rate regimes, and high- and low-inflation periods.

["In the Red: The Effects of Color on Investment Behavior"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2992812&partid=22912&did=347944&eid=1566464) 

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Financial decisions in today's society are made in environments that involve color stimuli. In this paper, we perform an empirical analysis of the effects of color on investment behavior. First, we find that when investors are displayed potential losses in red, risk taking is reduced. Second, when investors are shown past negative stock price paths in red, expectations about future stock returns are reduced. Consistent with red causing "avoidance behavior," red color reduces investors' propensity to purchase stocks. The findings are robust to a series of checks involving colorblind investors and alternative colors to control for salience effects. Finally, the effects are muted in a cultural setting, e.g., China, where red is not used to visualize financial losses. A contribution of this study is to introduce hypotheses from color psychology and visual science to enhance our understanding of the behavior of individual investors. HUH!

["Covering the World: Global Evidence on Covered Calls"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2990522&partid=22912&did=347755&eid=1427186) 

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Typical covered call strategies may be decomposed, using a risk and performance attribution methodology, into three components: equity exposure, short volatility exposure, and equity timing. This paper applies that attribution methodology to covered calls on eleven global indexes. We find that, in our cross-section of indexes, the risk and return contributions of the three components are remarkably consistent. Across the board, the covered call’s equity exposure is responsible for most of the strategy’s risk and return, while the short volatility exposure has the highest Sharpe ratio of the strategy’s components. The returns from the equity timing exposure are statistically insignificant in all eleven indexes, yet this exposure contributes a relatively large amount of the strategy’s risk.

These results provide further evidence that managing equity exposure in covered calls provides superior risk-adjusted returns. Further, a globally-diversified portfolio of risk-managed covered calls may be viewed as a defensive alternative to global equity, providing similar returns with lower volatility and lower drawdowns.

["Stocks for the Long Run: New Monthly Indices of British Equities, 1869-1929"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2996666&partid=22912&did=347721&eid=1399734) 
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This paper presents new monthly capital gain, dividend yield, and total return indices for common equities quoted on British exchanges during 1869-1929. I construct indices for 25 domestic sectors, calculate capital asset pricing model betas for each sector, and construct a 30-stock blue chip index. I splice the new broad market index to Turner et al.'s (2009) pre-1870 index to create a century-long (1825-1929) monthly equity index. I use the new indices to examine the timing of British business cycles and compare the returns on home and foreign UK investment during 1870-1929.

["Theory and Practice of Portfolio Insurance"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2996965&partid=22912&did=347721&eid=1399734" \t "_blank) 
Risk & Reward, 2017, 2nd issue, pp. 4-9

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To limit the maximum loss of a portfolio, investment strategies can be enhanced by adding a portfolio insurance component. We have analyzed various portfolio insurance strategies – from the static stop-loss concept to option-based strategies and dynamic portfolio insurance strategies. The findings suggest that an active approach on the basis of dynamic risk forecasts is an effective alternative

["Which Index Options Should You Sell?"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2990542&partid=22912&did=347447&eid=1174988) 

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This paper explores historical return and risk properties of equity-hedged options across the S&P 500 option surface. We evaluate returns by estimating alpha to the S&P 500 index, and we quantify risk using three metrics: return volatility, losses under stress tests, and conditional value at risk. We show that analyzing option risk-adjusted alphas using different risk metrics leads to significantly different conclusions. We find that the most compensated options to sell on the S&P 500 surface per unit of stress-test loss are front-month options with strikes near-the-money and moderately below the index level. We apply these results to evaluate return expectations for short volatility strategies, potential added return from option selection, and implications for variance swaps.

["Famous Debacles in the Commodity Markets: Case Studies on Amaranth and MF Global"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2995533&partid=22912&did=347446&eid=1174408) 

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This article covers the trading blowups at the hedge fund, Amaranth, and at the Futures Commission Merchant, MF Global. Although the lessons from the Amaranth blowup can best be understood in terms of market-risk principles, the lessons from the MF Global bankruptcy are best understood in terms of due-diligence principles.

["Houses Across Time and Across Place"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2992533&partid=22912&did=347411&eid=1145293) 
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This paper develops a model of the evolution of housing and of housing costs over time and across locations. It aims to understand how housing wealth and the cost of housing have moved over the past and how they might evolve into the future. We use a framework that combines features of a Ramsey two-sector growth model with a model of the geography of residential development that tracks the change in location of the population over time. We use the model to cast light on several issues: Can we expect housing costs to continue rising relative to the price of other goods? Are there conditions where housing costs can be expected to persistently rise faster than incomes? What accounts for the tendency of housing costs in some countries to rise in real terms but at a rate slower than the rise in incomes while in other countries housing costs to income ratios have been on an upwards trend for decades? We find that taking account of the fixity of land supply, rising populations and the changing technology of transport are central to the different paths of housing costs and patterns of residential development across developed economies. We also find that the future path of housing costs is extremely sensitive to two parameters - elasticities of substitution between land and structure in creating housing services and substitutability between housing and consumption goods in utility. The interactions between factors that affect the geographic pattern of housing development and macroeconomic outcomes are explored and we draw out implications for policy.

["Cryptocurrency: A New Investment Opportunity?"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2994097&partid=22912&did=347410&eid=1143822) 

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Bitcoin was the first cryptocurrency using blockchain and has been the market leader since the first bitcoin was mined in 2009. After the birth of bitcoin in the Genesis Block, more than 1000 altcoins and crypto-tokens have been created with at least 919 trading actively on unregulated or registered exchanges. This entire class of cryptocurrency and tokens has been classified by some tax authorities as having the same status as commodities. If cryptocurrency is viewed in the same class as commodities, how different it is in terms of its risk and return structure? This paper sets out to help the readers to understand cryptocurrencies, and to explore the risk and return characteristics using a portfolio of cryptocurrency represented by the CRIX Index. Substantial discussions are centred on bitcoin and its close variants. Some questions are raised about the potential of cryptocurrencies as an investment class. Results show that the correlations between the cryptocurrencies and traditional assets are low, and incorporation of CRIX index will improve the performance of the portfolio that consists mainly of mainstream assets. Sentiment analysis also indicates the CRIX index has a relatively high Sharpe ratio. While we may view the results with care, a new form of financing for crypto and blockchain start-ups is born. The disruption brought about by bitcoin may be felt beyond payments through what is known as Initial Crypto-Token Offering (ICO) or Initial Token Sales (ITS).

["Central Bank Digital Currencies: A Framework for Assessing Why and How"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2994052&partid=22912&did=347410&eid=1143822) 

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Digital currencies have attracted strong interest in recent years and have the potential to become widely adopted for use in making payments. Public authorities and central banks around the world are closely monitoring developments in digital currencies and studying their implications for the economy, the financial system and central banks. One key policy question for public authorities such as a central bank is whether or not to issue its own digital currency that can be used by the general public to make payments. There are several public policy arguments for a central-bank-issued digital currency. This paper proposes a framework for assessing why a central bank should consider issuing a digital currency and how to implement it to improve the efficiency of the retail payment system.

["Green is Good: How Green Bonds Cultivated into Wall Street's Environmental Paradox"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2992926&partid=22912&did=347153&eid=939688) 
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When the European Investment Bank issued the first green bond in 2007, few imagined this debt instrument would attract mainstream investors. Designed to finance projects ranging from climate change prevention to clean transportation development, green bonds were geared for socially responsible investors concerned with our planet’s sustainability. However, by 2015, green bonds were issued by major corporations like Apple and municipalities like New York City at a record $40 billion. Major players on Wall Street have taken notice and look to cash in on the rapidly growing green bond market. With this new influx of investment and the bonds’ tax-exempt status, clear standards for what constitutes a “green” project are required to ensure investors’ money is actually being used to increase environmental protection and sustainable development.

This comment discusses how green bonds were first created, their original purposes, and how they grew into a mainstream investment tool. Since the demand for these bonds exploded, there remains very few regulations ensuring these investments will be used for “green” projects. The Securities and Exchange Commission (“SEC”), Environmental Protection Agency (“EPA”), and the Municipal Securities Rulemaking Board (“MSRB”) are best suited to provide clear definitions and disclosure laws for green bond projects, giving issuers clarity, and ensuring investors that their funds are being properly used for environmental and sustainable development.

["Law, Trust, and the Development of Crowdfunding"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2989056&partid=22912&did=346983&eid=847679) 

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I analyze the economic determinants of crowdfunding using a unique hand-collected sample of crowdfunding volume obtained by surveying over 1,300 crowdfunding platforms worldwide. Crowdfunding is a developed market phenomenon that largely involves fixed income instruments sold to investors driven by financial motives. Emerging markets do not display large crowdfunding volumes. The quality of regulation, the financial development of the market, and ease of access to the Internet by investors are all positively related to crowdfunding volume while the ease of doing business is negatively related to volume. The level of trust in strangers is the only factor that appears consistently significant in explaining the volume on reward- or donation-based platforms.

["Reforming FINRA"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2991753&partid=22912&did=346929&eid=813978) 
The Heritage Foundation, Backgrounder No. 3181, February 2017

[DAVID R BURTON](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=2134870&partid=22912&did=346929&eid=813978), The Heritage Foundation
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FINRA is a regulator of central importance to the functioning of U.S. capital markets. It is neither a true self-regulatory organization nor a government agency. It is largely unaccountable to the industry or to the public. Due process, transparency, and regulatory-review protections normally associated with regulators are not present, and its arbitration process is flawed. Reforms are necessary. FINRA itself, the SEC, and Congress should reform FINRA to improve its rule-making and arbitration process. This Heritage Foundation Backgrounder outlines alternative approaches that Congress and the regulators can take to improve FINRA, and provides specific recommended reforms.

["A Skeptical View of Financialized Corporate Governance"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2992751&partid=22912&did=346927&eid=813662) 
Journal of Economic Perspectives, 2017, Forthcoming
[Rock Center for Corporate Governance at Stanford University Working Paper No. 227](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=1325445&partid=22912&did=346927&eid=813662)
[Stanford University Graduate School of Business Research Paper No. 17-51](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=922483&partid=22912&did=346927&eid=813662)

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Financialized corporate governance as commonly practiced causes significant inefficiencies and harm. Corporations and governments routinely fail to design and enforce rules that reduce the opacity of corporations, create effective commitments that prevent harm, and ensure proper accountability. The financial sector provides extreme illustrations of these governance failures, which persist despite repeated scandals and crises. Misleading narratives that obscure reality enable individuals in the private and public sectors, even in well-developed democracies, to abuse power with impunity.

["Trading and Ordering Patterns of Market Participants in High Frequency Trading Environment - Empirical Study in the Japanese Stock Market"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2992964&partid=22912&did=347418&eid=1154016) 

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[HIROSHI TSUDA](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=2483385&partid=22912&did=347418&eid=1154016), Doshisha University
[NAOYUKI YOSHINO](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=2239207&partid=22912&did=347418&eid=1154016), Asian Development Bank Institute
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In this study, we investigate ordering patterns of different types of market participants in Tokyo Stock Exchange (TSE) by examining order records of the listed stocks. Firstly, we categorize the virtual servers in the trading system of TSE, each of which is linked to a single trading participant, by the ratio of cancellation and execution in the order placement as well as the number of executions at the opening of the afternoon session. Then, we analyze ordering patterns of the servers in the categories in short intervals for the top 10 highest trading volume stocks. By classifying the intervals into four cases by returns, we observe how different types of market participants submit or execute orders in the market situations. Moreover, we investigate the shares of the executed volumes for the different types of servers in the swings and roundabouts of the Nikkei 225 index, which were observed in July, August, and September in 2015. The main findings of this study are as follows: Server type A, which supposedly includes non-market making proprietary traders with high-speed algorithmic strategies, executes and places orders along with the direction of the market. The shares of the execution and order volumes along with the market direction increase when the stock price moves sharply. Server type B, which presumably includes servers employing a market making strategy with high cancellation and low execution ratio, shifts its market making price ranges in the rapid price movements. We observe that passive servers in Server type B have a large share and buy at low levels in the price falls. Also, Server type B, as well as Server type A, makes profit in the price falling days and particularly, the aggressive servers in the server type make most of the profit. Server type C, which is assumed to include servers receiving orders from small investors, constantly has a large share of execution and order volume.

["Explaining and Benchmarking Corporate Bond Returns"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2995626&partid=22912&did=347415&eid=1149526) 

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We evaluate how different betas and characteristics related to default, term, and liquidity risk fare against one another in explaining the cross-section of corporate bond returns. We find that characteristics – credit rating, duration, and Amihud illiquidity measure–fare better. Yields add incremental explanatory power. Consistent with yields providing a timelier assessment of default risk than ratings, bonds with higher yields but similar credit ratings, durations and Amihud measures experience more subsequent ratings downgrades, fewer upgrades, and a higher frequency of defaults. Based on our findings, we present characteristic portfolios that can be used to benchmark individual bond and portfolio returns.

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We construct measures of mutual fund uniqueness using cluster analysis of fund returns. We find that fund uniqueness persists over time, and is higher for more actively managed funds. More unique funds charge higher fees, but they do not deliver better net-of-fee performance. Fund uniqueness reduces the sensitivity of fund flows to past performance and increases performance persistence, especially when funds perform poorly. Non-unique funds exhibit neither convexity in the flow-performance relation nor performance persistence. Our results suggest that unique funds are better able to retain investors after poor performance, which may in turn increase the persistence of poor performance.

[Global Market Inefficiencies"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2990555&partid=22912&did=346890&eid=796661) 

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We study worldwide market efficiency using the mispricing measure of Bartram and Grinblatt (2017). The measure estimates fair stock prices worldwide using quantitative analysis of point-in-time accounting data on more than 25,000 firms from 36 countries over two decades. Trading on deviations from fair value yields statistically and economically significant risk-adjusted returns in most regions, with the largest returns in the Asia Pacific and emerging markets countries. Buy-and-hold variations of the strategy are also profitable. We also verify that the mispricing measure does not proxy for known anomalies. The results suggest that global equity markets are not efficient, but are relatively more efficient in developed financial markets, except for Japan, and that the degree of inefficiency is tied to quantifiable market frictions that deter arbitrage

["The Functions of the Stock Market and the Fallacies of Shareholder Value"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2993978&partid=22912&did=346892&eid=796060) 
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Conventional wisdom has it that the primary function of the stock market is to raise cash for companies for the purpose of investing in productive capabilities. The conventional wisdom is wrong. Academic research on sources of corporate finance shows that, compared with other sources of funds, stock markets in advanced countries have been insignificant suppliers of capital for corporations. The purpose of this essay is to build a rigorous and relevant conception of the evolving role of the stock market in the U.S. corporate economy. In fact, the functions of the stock market go well beyond “cash” to include four other functions, which can be summarized as “control,” “creation,” “combination,” and “compensation.” In this paper, I argue, based on historical evidence, that in the growth of the U.S. economy the key function of the stock market was control. Specifically, the stock market enabled the separation of managerial control over the allocation of corporate resources from the ownership of the company’s shares. Yet, assuming that the key function of the stock market is cash, economists known as agency theorists see this separation of control from ownership as the “original sin” of American capitalism, and argue that the evils of managerial control can be overcome by compelling corporate managers as “agents” to maximize the value of corporate shareholders as “principals.”

What is missing from the agency-theory argument is a theory of the value-creating firm, or what I call a “theory of innovative enterprise.” The value-creation process requires three social conditions of innovative enterprise: strategic control, organizational integration, and financial commitment. The functions of the stock market may support the types of strategic control, organizational integration, and financial commitment that can result in the generation of high-quality products at low unit costs—the economic definition of innovative enterprise. It is possible, however, that the functions of the stock market may undermine the types of strategic control, organizational integration, and financial commitment that the innovation process requires.

In this paper, I provide a brief overview of the role of the control function of the stock market in supporting innovative enterprise in the historical rise to dominance of U.S. managerial capitalism from the early decades of the twentieth century. Then I elaborate the five functions of the stock market—control, cash, creation, combination, and compensation—in terms of the ways in which, from the perspective of the theory of innovative enterprise, each function can support value creation or, alternatively, empower value extraction. I then turn to a discussion of the evolving roles of the five functions of the stock market in major U.S. business corporations over the past century. The concluding section draws on the history of the actual functions of U.S. stock markets to critique the dominant ideology that, for the sake of superior economic performance, a company should be run to “maximize shareholder value” (MSV). I indicate how MSV undermines the social conditions of innovative enterprise: strategic control, organizational integration, and financial commitment.

["Understanding Financialization: Standing on the Shoulders of Minsky"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2991096&partid=22912&did=346873&eid=772953) 
Levy Economics Institute, Working Papers Series No. 892

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Since the death of Hyman Minsky in 1996, much has been written about financialization. This paper explores the issues that Minsky examined in the last decade of his life and considers their relationship to that financialization literature. Part I addresses Minsky’s penetrating observations regarding what he called money manager capitalism. Part II outlines the powerful analytical framework that Minsky used to organize his thinking and that we can use to extend his work. Part III shows how Minsky’s observations and framework represent a major contribution to the study of financialization. Part IV highlights two keys to Minsky’s success: his treatment of economics as a grand adventure and his willingness to step beyond the world of theory. Part V concludes by providing a short recap, acknowledging formidable challenges facing scholars with a Minsky perspective, and calling attention to the glimmer of hope that offers a way forward

["Noisy Active Management"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2990787&partid=22912&did=346711&eid=643360) 

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Lower skill of the active management industry can imply greater fee revenue, value added, and investor performance. Such outcomes arise in a competitive equilibrium in which portfolio choices of active managers partially echo those of noise traders and also contain manager-specific noise. Both sources of noise reduce managers’ skill to identify mispriced securities and thereby produce alpha. However, lower skill also means a given amount of active management corrects prices less and thus competes away less alpha. The latter effect can outweigh managers’ poorer portfolio choices, so that investors rationally allocate more to active management when its skill is lower.

["Is Index Trading Benign?"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2990283&partid=22912&did=346711&eid=643360" \t "_blank) 

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Passive investors allocate their capital between the market portfolio and the risk-free asset, whereas active investors invest in individual assets. In a rational expectation model, we show that a CAPM risk-return relation holds. Active investors are indistinguishable from closet indexers, while the constraint of passive investors to the capital market line is binding. Passive investors are not free riders. As more active traders become passive, the proportion of an asset's idiosyncratic risk to total risk increases, comovement in prices increases, comovement in returns decreases, and for any portfolio other than the market portfolio, the Sharpe ratio decreases and the conditional variance of payoff increases.