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SHARE REPURCHASE, INFORMATION ASYMMETRY, AND MANAGERIAL MARKET TIMING: *A Cross Country Analysis*

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Abstract

A number of recent studies have found evidence on the predictive power of aggregate managerial financing such as equity share on aggregate U.S. market returns. This paper extends the literature by investigating the predictive effect of aggregate share repurchases on future stock market returns for a broader cross-section of 41 countries. In particular, we focus on the country-level cross-sectional variations in legal protections and disclosure standards as they are important proxies for the degree of information asymmetry in a financial market.

In general, managers have the propensity to repurchase more shares when they perceive the stock price is undervalued and to avoid share repurchases in a boom market. Therefore, we expect to observe more share repurchases prior to market upturns and less repurchases preceding market downturns. We hypothesize a positive relation between share repurchases and aggregate market returns in the global market index. Our results suggest that the predictive effect of aggregate share repurchase does exist in the global stock market. The magnitude of the predictive effect is significantly associated with the level of information asymmetry in a capital market. Our results suggest that managers' possession of private information mainly explains their market timing ability with their financial decisions. This evidence supports the semi-strong form of market efficiency.

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ACTIVE *VERSUS* PASSIVE MANAGEMENT: THE GREEK CASE

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Abstract

This paper compares the performance and risk attributes of the Greek passively and actively managed equity funds and assesses the selection and market timing skills of Greek mutual fund managers. The findings indicate that the raw return of passive funds is inferior to the return of active funds while passive funds are found to be more risky than active funds. Comparing the funds' return with the market returns we first find that the funds deliver higher return than the market and secondly that the outperformance (in raw return terms) of passive funds in inferior to that of active funds. In addition, active funds are less risky than the market indices while the findings about passive funds are mixed. Considering the risk-adjusted returns expressed via the Sharpe, Sortino and Treynor ratios, passive funds beat the active ones while both the passive and active funds basically outperform the market. Finally, regression analysis on the stock selection and market timing ability of managers reveal that the managers are basically lacking in such skills. This finding applies both to the passive and active funds with some exceptions concerning the active funds.

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DETECTION OF INFORMATION FLOW IN MAJOR INTERNATIONAL FINANCIAL MARKETS: *Graphical Models*

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Abstract

This study investigates the dynamic connection structure of ten major stock markets using partial directed coherence (PDC) and graphical models. Recently, PDC has been introduced for a frequency domain analysis of linear Granger-causality based on modelling the underlying dynamics by vector autoregressive processes. It constitutes powerful tool to explore the causal influence between complex multivariate processes in neuroscience area. The paper proposes using this tool to study the information flow and causal influence between international financial markets. Applying PDC to ten opening and closing major stock index data allows the discrimination between directed and induced causality connections between financial markets. The graphical model summarizing the PDC results and instantaneous causality analysis shows the US, UK, Germany and Hong Kong have a consistently strong causality impact on price movements in major financial markets.

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REGIME-DEPENDENT NONLINEAR ANALYSIS OF HEDGE FUNDS

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Abstract

In this paper, we introduce a regime-dependent nonlinear (RDN) model to explain the nonlinear return and risk characteristics of hedge funds. The explanatory power of our RDN model is substantially higher than the explanatory power of simple linear regression models. Instead of applying self-constructed or option-based asset-based style (ABS) factors, we use readily observable market factors to attribute the returns of merger arbitrage hedge funds to three common sources of risk. Combining econometric methods for phase identification with regime-switching regressions to build an RDN model is much less time-consuming and less arbitrary in nature than the use of ABS factor models.

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THE IMPACT OF INFLATION TARGETING ON THE RELATIONSHIP BETWEEN STOCK RETURNS AND INFLATION: *International Evidence*

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Abstract

Twenty six (26) industrialized and emerging countries have adopted inflation targeting monetary policy since 1990 to combat persistently high inflation rate. This policy accords either the government and/or the central bank the authority to assign an explicit numerical target for inflation rate and implement an appropriate monetary policy to achieve its goal. This study investigates whether the adoption of inflation targeting strategy has affected the relationship between stock returns and inflation rate. Specifically, this study tests a hypothesis that, in an economy where inflation targeting has been adopted as a new monetary policy strategy, real stock returns should be sensitive to the change in inflation rate relative to its target. Both monthly and quarterly data for Australia, Canada. Chile, Israel, New Zealand, Sweden and United Kingdom are utilized in this study. The results are found to be somewhat mixed. A change in inflation rate relative to its target rate has had a negative and statistically significant impact on real monthly stock returns for Chile, Israel, and Sweden and on real quarterly stock returns for only Chile and Israel.

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SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT SYSTEM:
Multi Objective Chance Constrained Programming Approach

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Abstract

This paper presents an efficient portfolio model for security analysis and investment decisions using multi objective chance constrained programming. In developing the model, the annual rate of return, dividend, measure of risk, amount of money invested, minimum acceptable quality index and company's financial performance are considered as random variables. The Portfolio's price earnings ratio, analysts rating, and investment diversification constraints are constructed as chance constraints. In developing a deterministic model, we assume that the random variables associated with the model are normally distributed with known mean and variance. The process of developing model and constructing an efficient portfolio has been examined through a case example by considering a sample of twenty five stocks from the Dow Jones Industrial Average.

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INVESTOR SENTIMENT AND THE PERCEIVED PRICE OF STOCKS

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Abstract

To compute the fundamental price of a stock, we generally calculate the present value of the firm's future dividends or free cash flows using an appropriate discount rate which is usually computed using the capital asset pricing model (CAPM). In this paper, postulating that the selection of a particular value of beta of the firm from among various publicly available values of beta is a function of investor sentiment, we show that investor with high favorable sentiment (low favorable sentiment) will overprice (underprice) the low risk stocks. In order to somewhat ameliorate this problem, we argue that one should use the highest (lowest) value of beta from available beta values for low (high) risk security.

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INTERNATIONAL EQUITY PORTFOLIOS: DIVERSIFICATION AND THE DISCONNECT

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Abstract

The theoretical constructs of diversification are first articulated and then executed to detect any diversification lee-way for developed and emerging equity markets. The empirical evidence suggests the presence of diversifiable risk in the risk 'composition of troth sets of countries. The returns on developed equity markets are in consonance with each other and moot the conduciveness of diversification outside the coterie. There is an absence of any long-term relationship between the emerging and developed equity markets. A judicious mix of dissimilar equity markets proves beneficial in terms of elevating the return and trimming the risk.

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THE ASYMMETRIC IMPACT OF FINANCIAL INTERMEDIARIES DEVELOPMENT ON ECONOMIC GROWTH

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Abstract

This paper investigates the role of financial intermediaries development in stimulating economic growth for 71 countries. Using conventional models and various indicators of financial development. we confirm the positive impact of financial development on economic growth. We further analyze the asymmetric effect of financial intermediary development on the range of growth distribution using quantile regression model developed by Koenker and Basset (1978) and instrumental variables quintile regression model developed by Chernozhukov and Hansen (2004b, 2005). We find that financial development does not have an uniform effect across the range of growth quintiles. The benefits are markedly higher for countries at higher levels of growth. The findings emphasize the important role of financial development in promoting economic growth. Nonetheless, acceleration of financial development is not the panacea for less developed countries. Financial reforms have to be complemented with social, economic and political reforms to place these countries on the path of rapid economic growth and prosperity.

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THE COST AND PROFIT EFFICIENCIES AND SCOPE ECONOMIES OF COMMERCIAL BANKS: *Evidence from Taiwan and China*

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Abstract

This paper establishes a three-stage procedure to examine the dynamic and stochastic behavior of commercial banks in terms of cost and profit efficiencies, scope economies, and Tobit regressions. Given a flourishing literature on the banking industries in many countries and the lack of research devoted to the same industries in Taiwan and China. it is needed to use the relevant data from Taiwan and China to address a wide range of important issues including how the outputs of a bank impact its total costs and profits; how to evaluate the bank's performance as judged by the cost efficiency, the profit efficiency, and the economy of scope; and how cost and profit efficiencies are related to scope economies and other.

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TARGET MANAGERIAL OWNERSHIP, PAYMENT METHOD, AND BIDDER RETURNS

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Abstract

We examine the effects of target managerial ownership on payment method and bidder returns in completed takeovers from 1981 to 2003. We find that cash is more likely to be used to finance the acquisition when target management ownership is high. This result is consistent with the reduced monitoring hypothesis which states that bidding firm management prefers to keep ownership structure widely dispersed by preventing formation of large blockholders. We also find that bidder announcement-period abnormal returns are positively related to the level of target managerial ownership when stock is used to finance the acquisition.

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Abstract

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FACTORS DETERMINING ISSUANCE OF COMMERCIAL PAPERS:

A Case of Manufacturing Sector In India

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Abstract

Commercial paper has become one of the regularly used financing instruments for the working capital in the corporate. The overall growth in the market in India suggests that there is growth of the market in all. With reference to utility of this instrument, what are the factors affecting the issue of the commercial papers (CP) by the corporate in Indian market is studied. The sample for the study taken was BSE 500 companies and excluded non-manufacturing firms, which came up to 466 enterprises from the year 1992-2005 (14 years). Seven factors have been used for the study. Out of the seven variables it is found that four factors are significantly impacting the issue of CP in India. One of the factors impacting the issuance of CP in the manufacturing sector in India is interest on short-term loans.

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THE COST AND PROFIT EFFICIENCIES AND SCOPE ECONOMIES OF COMMERCIAL BANKS: *Evidence from Taiwan and China*

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Abstract

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DETERMINING CEO COMPENSATION STRUCTURE

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Abstract

We construct a model based on the analytic hierarchy process (AHP) to determine the mix between CEOs' cash and equity-based compensation that maximizes shareholder wealth. The AHP makes it possible to examine a large number of variables and their interactions within the firm, as well as to use variables for which empirical proxies do not exist. Inputs for pair-wise comparisons of the variables in the model are based on survey of the theoretical and empirical literature on corporate control and executive compensation as well as a survey of 31 members of compensation committees who serve on 74 boards. Using the literature, we find the *mean* wealth-maximizing compensation package includes 62.01 % cash, 27.99% equity-based compensation, and 10% in other compensation forms. Results based on boards' opinions are similar. These findings are consistent with the observed compensation structure.

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PRICE FORECASTING AND ANALYSIS OF EXCHANGE TRADED FUNDS

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Abstract

Exchange Traded Funds (ETFs) are basket of securities designed to track the performance of an index. They are designed to provide exposure to broad-based indexes at a lower cost. We first analyze why ETF should be the choice for an investment. We provide a brief history of this segment, key attributes of ETFs, and the investment strategies and implementation with ETFs. This work then presents data analysis and a series of forecasting methods with data analysis techniques to evaluate the performance of each method. The data analysis and the forecast evaluation is to determine the best forecasting model for a single ETF:SPY. The different techniques considered include single exponential smoothing. Holt's exponential smoothing, simple linear regression, multiple regression and various versions of Box-Jenkins (ARIMA) models. Based on the evaluation of a decade of past historical data, we provide a guidance for the price of our ETF (SPY) using multiple regression technique (with an R-square of 98.4%), which produces promising results (with low forecast errors of 1% across several forecast metrics), among the different techniques evaluated. Promising results were also obtained using the multiple regression technique on several other popularly traded ETFs.

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TRADING VOLUME, PRICE MOMENTUM, AND THE 52-WEEK HIGH PRICE MOMENTUM STRATEGY IN THE SAUDI STOCK MARKET

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Abstract

This paper investigates the existence of a pure momentum strategy in the Saudi stock market (SSM), the largest market in the Middle East and one of the fastest growing markets in the world. Price momentum profitability in the SSM is very similar in magnitude and significance to these found in developed market. We also find that trading volume affects the profitability of a momentum strategy. Stocks possessing momentum combined with a high volume during the previous 3, 6, 9, and 12 months continue to perform better in the following 3, 6, 9, and 12 months than stocks with a low trading volume. The 52-week high price momentum strategy for the SSM contradicts the empirical result of George and Hwang (2004) for the US market. We find a reversal in stocks that have reached their 52-week high. George and Hwang argue that when a stock reaches it 52-week high price, investors are reluctant to bid the price higher even if the information warrants it. The information of good new eventually prevails and pushes the stock prices higher. We do not find this for the SSM. One possible explanation of the different result obtained here for the SSM compared to the results for well developed financial markets such as US can be attributed to the diffusion of information and investors overreaction.

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DO CORPORATE GOVERNANCE CHARACTERS HAVE INFLUENCE ON CORPORATE EQUITY VALUE?

An Evidence of Taiwan Electronic Industry

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Abstract

The main purpose of this study is to discuss whether corporate governance features variables have influence on equity value by using listed electronic companies in OTC as samples. We propose six hypotheses to test and our empirical result shows that among independent variables, two variables have significant influence: holding share ratio of directors and supervisors is negatively significantly correlated with equity value, which is not in support of hypothesis 1. The holding share ratio of first and second stockholders is positively significantly correlated with equity value, which is in support of hypothesis 4.1. In addition, this paper applies the increasing amount explanatory capability analysis and finds that after adding these corporate governance indicators, adjusted R^2 of the valuation model with corporate governance variables is up to 56.6% to 51%. The finding implies that corporate governance variables have better explanatory power of equity value. Also, we can improve validity of the Ohlson (1995) equity valuation model.