29th Australasian Finance and Banking Conference

PHD FORUM PROGRAM

Tuesday 13 December 2016

Shangri-La Hotel, Sydney

PhD Forum Program

Tuesday 13 December 2016
Ballroom II, Shangri-La Hotel, Sydney
9:30am – 4:50pm

REGISTRATION Coffee and Tea Ballroom Lobby 8:30am – 9:30am

Welcoming Remarks: Fariborz Moshirian, University of New South Wales

Session 1 Chair: Bohui Zhang, University of New South Wales

9:30am	**Asset Prices, Local Prospects and the Geography of Housing Dynamics** Preetesh Kantak, University of North Carolina at Chapel Hill *Discussant: Aurel Hizmo, New York University*
10:05am	**Capital Immobility, Recovery Rate Dynamics, and Financial Contagion** Hyunsoo Doh, University of Chicago *Discussant: Stephen Schaefer, London Business School*
MORNING TEA Ballroom Lobby 10:40am – 11:10am	

Session 2 Chair: Peter Pham, University of New South Wales

11:10am	**Institutional Investors and Cross-Border Mergers and Acquisitions: the 2000-2012 Period** Jinsuk Yang, University of Texas at Arlington *Discussant: Peter Pham, University of New South Wales*
11:45am	**Relationship Lending in Shadow Banking: Impact of Financial Firms' Cross Holding Relation in Money Market Funds** Ai He, Emory University *Discussant: Raunaq Pungaliya, Sungkyunkwan University*

Keynote Presentation

Factors Contributing to a Successful Academic Career Tarun Chordia, Emory University 12:20pm – 1:00pm

LUNCH Ballroom Lobby 1:00pm – 2:00pm

Session 3 Chair: Jason Zein, University of New South Wales

2:00pm	**Days to Cover and Stock Returns** Frank Weikai Li, Hong Kong University of Science and Technology *Discussant: Tarun Chordia, Emory University*
2:35pm	**Synthetic Shorting with ETFs** Qifei Zhu, University of Texas at Austin *Discussant: Alexander Ljungqvist, New York University*
AFTERNOON TEA Ballroom Lobby 3:10pm – 3:40pm	

Session 4 Chair: Pedro Barosso, University of New South Wales

3:40pm	**Why Do Distressed Firms Acquire?** Quxian Zhang, Erasmus University *Discussant: Buhui Qui, University of Sydney*
4:15pm	**A Model-Free Tail Index and Its Return Predictability** Jinji Hao, Washington University in St. Louis *Discussant: Paul Karehnke, University of New South Wales*

Asset Prices, Local Prospects and the Geography of Housing Dynamics

Preetesh Kantak, University of North Carolina at Chapel Hill

I uncover a novel link between economic fundamentals and real estate returns. First, using a measure of “local” (i.e. MSA) growth prospects from both industry level employment and financial data, I am able to explain a substantial portion of variability in excess real estate returns and price-to-rent ratios. A one standard deviation decline in local growth prospects is associated with a 120bp drop in the housing risk premia and a 500bp increase in the price to rent ratio. Second, I establish the underlying dynamics of relative, housing versus non-housing, consumption in the MSA-level cross section of economic agents. I document that a one standard deviation decline in local growth prospects is associated with a 1000bp rise in level and 700bp decrease in variance of relative consumption. In contrast, a one standard deviation increase in local growth prospects is also associated with a rise in relative consumption. This suggests that housing acts as a hedge against long-run economic growth. I then investigate these empirical facts through the lens of a consumption based, asset pricing model. I combine a persistent component in consumption, Epstein and Zin (1989) preferences, and nonseparable consumption of non-housing goods and housing services. Consumption of housing services provides a hedge to long-run growth prospects. The model is able to replicate the excess returns and price to rent ratio regression results from the data.

Capital Immobility, Recovery Rate Dynamics, and Financial Contagion

Hyunsoo Doh, University of Chicago

This paper provides a model in which slow capital inflows to a secondary credit market causes rollover-risk spillovers across financial firms (or banks) issuing collateralized short-term debt. In this economy, due to sluggish capital arrivals, asset liquidation of defaulted banks creates a price impact on the recovery rate for other banks' collaterals. Anticipating this price pressure, creditors of each bank choose to withdraw their funding earlier when other banks start deteriorating. The paper proves the existence of a Pareto-worst equilibrium, in which both the time-varying recovery rate and rollover threshold are endogenously determined. To analyse the spillover effect of a local shock more concretely, we generate a one-time unanticipated negative shock to some subset of the banks and examine the equilibrium transition path. The result shows that (i) the recovery rate declines in the beginning period of the disruption, but bounces back afterwards as new capital arrives, and (ii) the debt prices of both damaged and undamaged banks tend to move together. Lastly, the paper evaluates the effectiveness of certain monetary policies such as direct asset purchases and liquidity provisions.

Institutional Investors and Cross-Border Mergers and Acquisitions: the 2000-2012 Period

Jinsuk Yang, University of Texas at Arlington

Using a sample of 1,689 completed cross-border mergers and acquisitions (M&As) from 26 countries between 2000 and 2012, I examine the role of foreign and domestic institutional ownerships in cross-border M&As. I apply zero-inflated Poisson regression, which has not been used in the M&A literature. The new method can overcome the problem resulting from excessive zeros in the dependent variable, a problem which may exist in Tobit or ordinary least squares (OLS) regressions. I have several findings. First, both foreign and domestic institutional ownerships have increased significantly during the period 2000-2012. Second, foreign institutional investors facilitate cross-border M&As mainly in countries with weak investor protection. Third, domestic (foreign) institutional investors exert more (less) positive influence on the cross-border M&As during the later period 2006-2012 than the earlier period 2000-2005. Fourth, I find a positive relationship between domestic institutional ownership and domestic M&As, especially during 2000-2006, which contributes to the finding in Ferreira et al. (2010) that domestic institutional ownership is negatively associated with the intensity of cross-border M&A activities. My findings are robust to the inclusion of withdrawn deals in the sample.

Relationship Lending in Shadow Banking: Impact of Financial Firms' Cross Holding Relation in Money Market Funds

Ai He, Emory University

I document relationship lending in shadow banks by analyzing a bilateral-connected relation between financial firms who crossly hold each other's debts through affiliated money market funds (MMFs). Using novel security-level holdings data, I show that non-European financial firms increased their MMFs' stakes on bilateral-connected European financial firms after Moody's down-grade review of European banks in mid-2011, a special period when MMFs generally reduced weights on European borrowers to avoid further redemption. I provide evidences that this change is not driven by privileged information but represents an implicit guarantee between bilateral-connected financial firms. In return, the European financial firms, through their affiliated MMFs, accept more insecure debts than secure ones from their non-European partners during the same period. Issuer-or fund-characteristics do not explain the results. A further investigation shows the cross-holding relation even affects issuers unconnected with MMFs, because they cannot get money from new funds in a short time if their old lenders cut off the financing.

Days to Cover and Stock Returns

Frank Weikai Li, Hong Kong University of Science and Technology

Co-authored by Harrison Hong, Columbia University and NBER, Sophie X. Ni, Hong Kong University of Science and Technology, José A. Scheinkman, Columbia University, Princeton University and NBER, and Philip Yan, Goldman Sachs.

A crowded trade emerges when speculators' positions are large relative to the asset's liquidity, making exit difficult. We study this problem of recent regulatory concern by focusing on short-selling. We show that days to cover (DTC), the ratio of short interest to trading volume, measures the costliness of exiting crowded trades. Crowding is an important concern as short-sellers avoid illiquid stocks, which we establish using an instrumental-variables strategy involving staggered stock market decimalization reforms. Arbitrageurs require a premium to enter into such trades as a strategy shorting high DTC stocks and buying low DTC stocks generates a 1.2% monthly return. A smaller days-to-cover effect also exists on the long positions of levered hedge funds.

Synthetic Shorting with ETFs

Qifei Zhu, University of Texas at Austin

Co-authored by Frank Weikai Li, Hong Kong University of Science and Technology

We provide novel evidence that arbitrageurs use exchange-traded funds (ETFs) as an avenue to circumvent short-sale constraints at the stock level. Using a large sample of U.S. equity ETF holdings, we document that shorting activity on ETFs rises with the difficulty of shorting the underlying stocks. Stocks that are heavily shorted via their holding ETFs underperform those lightly shorted by 94 basis points per month. The return predictability of ETF short selling on individual stocks is distinct from stock-level shorting measures, and is concentrated among stocks that face the most severe arbitrage constraints. Across a broad set of capital market anomalies, we find that anomaly returns are significantly attenuated when ETF ownership is high. Our evidence suggests that ETFs contribute to a more informationally efficient market by allowing arbitrageurs to target overpriced stocks that are otherwise difficult to short.

Why Do Distressed Firms Acquire?

Quxian Zhang (Eden), Erasmus University

This study documents a recent trend of diversifying acquisitions made by financially distressed firms and investigates the motivation for such acquisitions. Firms in financial distress engage in M&As as much as non-distressed firms between 2010 and 2014. Exploiting an exogenous shock in bankruptcy risk for financially distressed firms, I find that distressed firms reduce acquisition activities upon a reduction of bankruptcy probabilities. Specifically, distressed firms become more focused by cutting acquisition spending by 53% and by doubling divestitures. The results support the diversifying motivation of acquisitions by distressed firms, rather than the growth opportunity motivation that firms are capturing external growth opportunities. These findings indicate another distortion of financial distress in investment that when firms are under the pressure to meet debt obligations, it creates an incentive for firms to diversify and drives the investment style to external expansions.

A Model-Free Tail Index and Its Return Predictability

Jinji Hao, Washington University in St. Louis

This paper provides a novel framework -- the cumulant generating function (cgf) of the market risk on the positive half real line -- for studying the market risk which can be replicated by cross sections of index option prices in a model-free manner. Within this unifying framework, independent of the underlying price process, the VIX index measures the height of the cgf at one while the SVIX index proposed by Martin (2016) measures the convexity of the cgf over the interval [0, 2]. A tail index of the market risk, TIX, is proposed based on this framework which measures the tail decay rate of the distribution of market risk revealing the market perceptions of extreme risk. The innovation in TIX strongly predicts market returns both in and out of sample, with monthly R^2 statistics of 3.33% and 6.15%, respectively, outperforming the popular return predictors in the literature.