

**SIXTH WINTER CONFERENCE  
OF THE MULTINATIONAL FINANCE SOCIETY**  
(As of December 27, 2018)

**January 6-8, 2019  
Graduate School of Business  
University of Puerto Rico  
Rio Piedras Campus  
Plaza Universitaria Building  
Torre Norte, 6th Floor  
San Juan, Puerto Rico**

**OPENING REMARKS**

**Monday 1:00 - 1:30 p.m.                      Room: 6037N**

**Dean Dr. Myrna Lopez de Pinto  
The University of Puerto Rico, Puerto Rico**

**SESSION 1                                      Monday 1:30 - 3:00 p.m.                      Room: 6035N**

---

**MERGERS AND ACQUISITIONS**

*Session Chair:* Chongyang Chen - Pacific Lutheran University, USA

**"Analysis of Survival and M&A Exit Outcomes Among Franchise and Independent Startups"**

Carmen Cotei - University of Hartford, USA

Joseph Farhat - Central Connecticut State University, USA

*Discussant:* Nabil El Meslmani - American University of Beirut, Lebanon

Small business owners choosing to become franchisees have high expectations about business survival since “franchise is a proven business model that carries less risk”. Using the Kauffman Firm Survey we examine the survival patterns and M&A exit outcomes of a large sample of independent and franchise businesses started in 2004 and tracked over time for eight years. Our study provides unique results on the likelihood of survival and M&A exit of franchises relative to other startups. Although franchise businesses start larger, are very well capitalized and are led by highly educated owners, we find no significant difference in the survival rate between franchises and independent businesses. However, our results that there is a significant difference between the survival rate of franchises and those businesses started by purchasing “existing” firms. When the outcome is a M&A exit, the results show that franchises are 2.88 times more likely to exit via M&A compared to independent businesses, whereas “existing” businesses are 1.92 times more likely to exit via M&A compared to independent business. Overall, this study sheds more light on the controversial evidence on the survival and exit prospects of a large cohort of U.S. franchises, independent new businesses and “existing” businesses.

**"The Effect of Investor Sentiment on Merger and Acquisition Motivation"**

Sandra Betton - Concordia University, Canada

Nabil El Meslmani - American University of Beirut, Lebanon

*Discussant:* Yvonne Huertas - University of Puerto Rico, USA

The paper investigates whether investor sentiment affects the motivation of bidder firms in mergers and acquisitions. We find support for hubris and synergy rather than agency in periods of higher market

sentiment. We find that bidder firms use more (less) stock (cash) as method of payment in higher sentiment periods which is consistent with Baker and Wu's (2012) finding that periods of higher market sentiment are associated with higher levels of overpricing in the aggregate market. While overpricing seems to be associated with mergers and acquisitions activities in periods in of high sentiment – as seen in the more frequent use of stock as medium of exchange in mergers and acquisitions, we also find that overconfidence – as seen by the evidence of hubris – also appears an important contributor to merger and acquisition behaviour in this periods.

### **"Ambiguity in Mergers and Acquisitions"**

Sandra Betton - Concordia University, Canada

Nabil El Meslmani - American University of Beirut, Lebanon

Lorne Switzer - Concordia University, Canada

*Discussant:* Carmen Cotei - University of Hartford, USA

In this paper, we examine how ambiguity affects mergers and acquisitions activities. We use the volatility of the implied volatility estimated during the run-up period as a proxy for ambiguity. We show that for high risk bidder firms, the probability of a cash offer is negatively associated with ambiguity. For such firms, bidder firms' announcement returns for cash offers are also negatively associated with ambiguity. However, for low risk firms, ambiguity is negatively associated with s. In addition, we illustrate that an increase in high risk bidder firms' ambiguity lead to higher offer price revision in case of stock (mixed) offers and lower offer price revision in case of cash-only offers.

**SESSION 2**

**Monday 1:30 - 3:00 p.m.**

**Room: 6037N**

---

### **BANKING ISSUES**

*Session Chair:* Michael LaCour-Little - Fannie Mae, USA

### **"Which Types of Foreign Institutional Investors Promote the Performance Effects of Bank M&As?"**

Yoko Shirasu - Aoyama Gakuin University, Japan

Yukihiro Yasuda - Hitotsubashi University, Japan

*Discussant:* Wassim Dbouk - American University of Beirut, Lebanon

We empirically investigate the performance effects of M&As on acquirer banks focusing on their ownership structure. We use a comprehensive sample of banks' M&As in Asia and European countries from 2000 to 2014. We find that when foreign financial institutional investors hold significant stakes in the acquirer banks, then it makes the probability of completion of M&As higher in European countries, whereas the opposite results are found in Asian countries. The higher fraction held by Fund financial foreign investors prevents acquirer banks from completing the M&A deals. Then, we investigate the performance improvement differences by the type of foreign institutional investors from the view of their M&A strategies. Any kind of foreign institutional investors both in Asia and European countries promote the reducing NPLs. In Asia countries, the investment foreign institutional investors rise the ROA, instead of fall the ROA by traditional foreign institutional investors, and the fund foreign institutional investors introduce cost efficiency. In European, the TOP10 shareholding fund investors and the same fund investors between acquirers and targets reduce the NPLs more, and the fund foreign institutional investors rise the ROA. However, the traditional foreign institutional investors are cost-inefficient.

### **"Keeping up with the Joneses? Evidence from peer performance in the banking industry"**

Wassim Dbouk - American University of Beirut, Lebanon

*Discussant:* Herminio Romero-Perez - University of Puerto Rico - Rio Piedras, Puerto Rico

Using a vector autoregressive regression model, this paper provides an empirical analysis of the reaction

of US banks to failure to meet the Return on Equity (ROE) of peers. A complementary analysis that reexamines the determinants of bank profitability using dynamic panel regressions suggests that new variables such as on-balance sheet and off-balance liquidity creation and discretionary loan loss provisions are important determinants of profitability. Results suggest that banks react differently across size groups. More specifically, banks tend to cut their liquidity creation exposure following underperformance, except for large banks that seem unfazed by underperformance in terms of liquidity creation. All banks, however, do account for risk following underperformance and opt to become more risk averse by increasing their non-discretionary loan loss provisions. The ability of small banks to build up their capital seems to be affected by the deterioration of earnings. Except large banks that are most likely subject to great scrutiny as a consequence of their systematic risk, small and medium-sized banks tend to rely on earnings management following underperformance to mitigate their return through discretionary loan loss provision.

### **"Factors Related to the Failure of FDIC-Insured U.S. Banks"**

Herminio Romero-Perez - University of Puerto Rico - Rio Piedras, Puerto Rico

Mario Maura - University of Puerto Rico, Puerto Rico

*Discussant:* Yoko Shirasu - Aoyama Gakuin University, Japan

This research studies the significant factors related to the failure of 535 FDIC-Insured U.S banks in conjunction with the 2008 financial crisis. The research consists of an analysis of three five-year partitions: pre-crisis (2002-2006); crisis (2007-2011); and post-crisis (2012-2016). Although the factors related to bank failures has been examined earlier in the literature, previous studies correspond to separate analyses, analyses for pre-crisis years or for the crisis years and did not include post-crisis years. Using a panel data logistic regression analysis, we extend the academic literature by studying the factors related to the bank failures before, during, and after the worst financial crisis since the Great Depression.

**Refreshments (Room: 6038)**

**3:00 - 3:15 p.m.**

### **SESSION 3**

**Monday 3:15 - 5:00 p.m.**

**Room: 6035N**

---

#### **CORPORATE FINANCE**

*Session Chair:* Sandra Betton - Concordia University, Canada

### **"The Impact of CEO Pay Duration on Corporate Investment: Evidence from FAS 123R"**

Adam Welker - Tulane University, USA

*Discussant:* Lorne Switzer - Concordia University, Canada

I investigate the relationship between the duration (i.e. the weighted average vesting horizon) of CEO pay and firm investment behavior. To do so, I exploit a change in the accounting treatment of option compensation under FAS 123R, which represents a change in the accounting cost of option compensation while having no effect on the efficacy of options for providing managerial incentives. I begin by documenting that following the adoption of FAS 123R in 2005, firms decrease the average maturity and vesting period of stock option grants, resulting in shorter CEO pay durations. An overall decrease in option compensation, documented previously in the literature and which I confirm, further compounds the decrease in CEO pay durations. I find that this change in compensation, which reduced incentives to maximize long-term shareholder value, induces managers to act more conservatively; firms of affected CEOs reduce investment and adopt a more conservative financing policy.

### **"Bounty or Blight by Birthright: Cervantes, Shakespeare and the Evolution of Corporate Governance in the Entertainment Industry"**

Kenneth Atchity - School of Comparative Literature, Occidental College, USA

Scott Brown - The University of Puerto Rico, Puerto Rico

Daniel Hall - The University of Puerto Rico, Puerto Rico  
Eric Powers - University of South Carolina, USA  
Yvonne Huertas - University of Puerto Rico, USA

*Discussant:* Stephen Christophe - George Mason University, USA

Miguel de Cervantes Saavedra and William Shakespeare were contemporary literary geniuses widely recognized in their day. Cervantes died poor one day before the affluent William Shakespeare. We compare civil and common law legal and financial institutions that created barriers to wealth creation in Spain relative to England. We extend to modern day Europe to illustrate how events distant in time have had a profound impact on corporate governance in the entertainment industry in The United States, England, and Spain.

### **"Corporate Sustainability and the Financial Performance of IPOs"**

Stephen Christophe - George Mason University, USA  
Hun Lee - George Mason University, USA

*Discussant:* Xuying Cao - Seattle University, USA

As newly public companies, IPOs begin encountering the short-term market demands of shareholders. Consequently, when IPOs invest in corporate sustainability, shareholders may not value that investment as favorably as some of the other stakeholders in the firm. In addition, shareholders may view some types (or categories) of sustainability activities more positively (and value-relevant) than others. Given the tension among the various stakeholders and the vast number of sustainability activities that IPOs can pursue, our study examines the sustainability investments of IPOs relative to industry peers. Most important, we investigate whether IPOs invest in strategically relevant (i.e., material) or irrelevant (immaterial) sustainability issues and how those investments are associated with post-IPO performance. We utilize a recently constructed SASB dataset that identifies material ESG issues on an industry level, and employ a KLD sub-category mapping that matches KLD sub-categories to SASB's material ESG issues.

### **"Product Market Competition and Firm Trade Credit"**

Xuying Cao - Seattle University, USA  
Chongyang Chen - Pacific Lutheran University, USA

*Discussant:* Adam Welker - Tulane University, USA

We study the relation between product market competition intensity and trade credit practice. We use large U.S. import tariff reductions to proxy for sharp exogenous shifts in the competitive environment. We document that at aggregate level, firms that are affected by large tariff reductions use less trade credit than firms in unaffected industries. Our further analysis shows that such negative association is driven by the trade credit practice in financially-constrained firms. We find that for firms without financial constraints, an exogenous increase in product market competition leads to more use of trade credit among these firms. However, the results are the opposite for financially-constrained. Our evidence is broadly consistent with incentive motive and liquidation motive argument for trade credit use in Fabbri and Menichini (2010).

**QUANTITATIVE FINANCE**

*Session Chair:* Yoko Shirasu - Aoyama Gakuin University, Japan

**"A Generalized Algorithm for Duration and Convexity of Option Embedded Bonds"**

Ghassem Homaifar - Middle Tennessee state University, USA

Frank Michello - Middle Tennessee State University, USA

*Discussant:* Christophe Muller - Aix-Marseille University, France

This article derives a generalized algorithm for duration and convexity of option embedded bonds that provides a convenient way of estimating the dollar value of 1 basis point change in yield known as DV01, an important metric in the bond market. As delta approaches 1, duration of callable bonds approaches zero once the bond is called. However, when the delta is zero, the short call is worthless and duration of callable will be equal to that of a straight bond. On the other hand, the convexity of a callable bond follows the same behavior when the delta is 1 as shown in Dunetz and Mahoney (1988) as well as in Mehran and Homaifar's (1993) derivations. However, in the case when delta is zero, the convexity of a callable bond approaches zero as well, which is in stark contrast to the non-zero convexity derived in Dunetz and Mahoney's paper. Our generalized algorithm shows that duration and convexity nearly symmetrically underestimate (overestimate) the actual price change by 11/10 basis points for +/- 100 basis points change in yield. Furthermore, our algorithm reduces to that of MH for convertible bonds assuming the convertible bond is not callable.

**"Social Shock Sharing and Stochastic Dominance"**

Christophe Muller - Aix-Marseille University, France

*Discussant:* Peter Lerner - Wenzhou Kean University, China

Since the seminal paper of Atkinson and Bourguignon (1982), little substantial progress has been achieved in developing empirically efficient stochastic dominance criteria for multidimensional social welfare analysis. By proposing new axioms of Social Shock Sharing, this paper provides new intuitive justifications to imposing sign restrictions on partial derivatives of individual von Neumann-Morgenstern utility functions. These new findings are exploited to derive necessary and sufficient stochastic dominance criteria for empirically powerful multidimensional social welfare comparisons, at the fourth order and beyond. Equivalent results are derived in terms of multidimensional poverty conditions. An application to Egypt at the beginning of the XXIst century demonstrates the practical discriminating power of the approach by revealing an unambiguous continual improvement in bivariate income-education social welfare over the studied period.

**"The Fellowship of LIBOR: A Study of Spurious Interbank Correlations by the Method of Wigner-Ville Function"**

Peter Lerner - Wenzhou Kean University, China

*Discussant:* Chongyang Chen - Pacific Lutheran University, USA

The method of the Wigner-Ville function proposed by Wigner, (1932) and Ville (1947) is widely used in quantum statistical mechanics and signal processing and historically preceded the continuous-time wavelets. (Gabor, 1946) Here it is proposed for the studies of the financial time series. One of the advantages of the Wigner-Ville function is the possibility to easily visualize the results and use image analysis software to analyze the time series, especially pertinent in the modern era of "big data." In the current paper, we use the Wigner-Ville function for the "toy" problem of the suspected manipulation of the LIBOR quotes by the member banks.

## **"Corporate Cash Holdings, Stock Returns, and Firm Expected Uncertainty"**

Xuying Cao - Seattle University, USA

Chongyang Chen - Pacific Lutheran University, USA

Jot Yau - Seattle University, USA

*Discussant:* Ghassem Homaifar - Middle Tennessee state University, USA

The paper examines the anomaly of the positive relation between stock returns and cash holdings. We hypothesize that the relation is driven by endogenous cash policy when firms face expected uncertainty. We show that the positive cash-return relation disappears after controlling for fundamental sources of firm risks: cash flow volatility, financial constraints, and firm R&D activities. Our findings remain robust over both periods with high- and low-investor sentiment. Our study highlights the importance of taking into account the endogeneity of corporate policy in asset pricing studies.

**Refreshments (Room: 6038)**

**5:00 - 5:15 p.m.**

## **PANEL SESSION**

**5:15 - 6:45 p.m.**

**Room: 6037N**

**Panel Session Members:**

**Panayiotis Theodosiou, Hon. Antonio Colorado, Scott Brown, Dave Watkins and Ganesh Rajappan**

## **THE ECONOMIC HISTORY OF PUERTO RICO**

## **RECEPTION**

**6:45 - 7:45 p.m.**

**Room: 6035**

## **SESSION 5**

**Tuesday 10:30 - 12:30 p.m.**

**Room: 6035N**

---

## **INVESTMENT AND PORTFOLIO MANAGEMENT**

*Session Chair:* Gregory Koutmos - Fairfield University, USA

## **"Effect of Statutory and Regulatory Protection in Investment Decision"**

Nuria Fernández Pérez - University of Alicante,

Mónica Martí Sempere - University of Alicante, Spain

Dan French - Lamar University, USA

Gevorg Sargsyan - Lamar University, USA

*Discussant:* Joel Barber - Florida International University, USA

The objective of this study was to discover the effect of legal security in investment decision by comparing and analysing the legal environment of investments. The two steps to achieve this objective were: Analyse and compare the legislation and securities market regulation international, national and institutional framework. Survey: On a national level, we focused on three markets - Spain, the USA and Russia. On an institutional level, we concentrated on state agencies with regulatory power over securities markets of the above mentioned countries.

## **"Downside Risk and the Performance of Equal-Weighted Portfolios"**

Joel Barber - Florida International University, USA

*Discussant:* Scott Brown - University of Puerto Rico, USA

Equal-weighted portfolios typically outperform value-weighted portfolios. The superior performance has been attributed to size, liquidity, idiosyncratic volatility, and rebalancing. Equal-weighted portfolios typically have significantly higher volatility, kurtosis, drawdown, and downside risk compared to value-weighted portfolios. We investigate if higher downside risk is an explanation for the superior performance of equal-weighted portfolios. Is the better performance compensation for downside risk? To accomplish this, we develop a new approach that controls for risk when making comparisons between active and passive benchmark portfolios. The objective is to choose a passive benchmark strategy that has the highest possible correlation with the active strategy subject to the constraint that the risks of the two portfolios are the same. In this paper, the active strategy consists of an equal-weighted portfolio of 11 sector S&P 500 equal-weighted index funds matched to a portfolio of 11 value-weighted funds with the highest correlation subject to a risk constraint. The risk constraints considered are the standard deviation of return, downside risk of return, standard deviation of excess return, downside risk of excess return. We find that the equal-weighted index outperforms the risk-adjusted benchmarks based on all four methods. We conclude that compensation for downside risk does not explain the superior performance of equal-weighted indexes.

## **"Lotto as Options"**

Scott Brown - University of Puerto Rico, USA

Jose Cao-Alvira - Lehman College, USA

Eric Powers - University of South Carolina Moore School of Business, USA

Bill Ziemba - University of British Columbia Sauder School of Business, Canada

*Discussant:* Gevorg Sargsyan - Lamar University, USA

We present a rational framework where lotto tickets are incorporated into bond and equity retirement portfolios. This is possible because of periods in which lotto tickets have a positive expected value. A single massive jackpot payoff allows a lotto ticket to be compared to a deep-out-of-the-money call. The cost of the strategy is compared to contributing to the most common defined contribution plans in the United States. Actual data shows that a significant fraction of lotto ticket cost is recovered through small cash prizes. We also discover that the slope of change in the value of a state lottery pari-mutuel jackpot is linked to economic disaster and recovery.

**SESSION 6**

**Tuesday 10:30 - 12:30 p.m.**

**Room: 6037N**

---

### **ACCOUNTING ISSUES**

*Session Chair:* Nicholas Hirschey - London Business School, UK

## **"Earnings Quality, Public Debt, and Ownership Structure: Listed Versus Unlisted Public Companies"**

Hyonok Kim - Tokyo Keizai University, Japan

Yukihiro Yasuda - Hitotsubashi University, Japan

*Discussant:* Mary Becker - Canisius College, USA

We empirically compare accrual quality between listed and unlisted large companies in Japan. Both types of Japanese firms are generally considered as public firms with mandatory requirement for filing audited financial statements. We find that the accrual quality of listed firms is, on the whole, lower than unlisted firms, which is consistent with the "opportunistic" behavior hypothesis. We also find that the result does not hold when we restrict to the firms that have issued bonds. This result indicates that the "demand" hypothesis holds for the listed firms with public debt. Finally, we find that ownership structure matters, i.e., the higher shareholdings by managers or stable shareholders in listed firms offset the opportunistic

behavior for earnings manipulation. The result indicates that the high equity stakes by managers or stable shareholders can resist the short-term pressure by investors.

### **"Financial Constraints, Audit Fees, and External Financing"**

Mary Becker - Canisius College, USA

Rani Hoitash - Bentley University, USA

Udi Hoitash - Northeastern University, USA

Ahmet Kurt - Suffolk University, USA

*Discussant:* Joseph Farhat - Central Connecticut State University, USA

Although audit and non-audit fees are important investments for many firms in the U.S., little is known regarding the role of financial constraints in firms' demand for audit and non-audit services. Using a text-based measure of financial constraints and a large sample of U.S. firms for the period 2003-2015, we find that financially constrained firms spend more on audit fees, buy less non-audit services, and have their audit reports completed sooner than financially unconstrained firms. These results are robust to controlling for various measures of financial report readability and financial reporting quality as well as firm fixed effects. Greater demand for external audit assurance by financially constrained firms can help facilitate their access to capital markets. Supporting this view, we find that equity-seeking constrained firms raise more equity financing when they pay higher versus lower audit fees. Further, supporting the information signaling role of audit fees in equity markets, we document that investors' reaction to the announcement of seasoned equity offerings is positively associated with pre-offering audit fees of constrained, but not unconstrained, firms. We conclude that although financially constrained firms need to ration cash, investing more in external auditing appears to have positive implications for constrained firms' future financing capacity.

### **"Professional Development Workshop : The Kauffman Firm Survey Database"**

Joseph Farhat - Central Connecticut State University, USA

*Discussant:* -

The Kauffman Firm Survey (KFS) - the largest longitudinal study of newly formed businesses - has received considerable attention from researchers in the field of entrepreneurship. Capitalizing on the richest longitudinal study of new businesses, hundreds of researchers (Economics/Finance/Management..) are using the data on topics spanning several disciplines. The KFS was constructed using complex survey sample designs where the population of interest was stratified, both explicit and implicit, based on industrial technology level and gender and oversampled within high- and medium- tech industries. Recently, the Kauffman Foundation released the KFS Logically Imputed Data, the KFS Multiply Imputed Data and merged the KFS with other databases. Working with complex survey sample design and multiply imputed data is the most challenging part of any research project. This hands-on panel / workshop aims to cover the following: 1) how researchers in the field of Economics/Finance/Management and Entrepreneurship can use the KFS data in their research; 2) description of the KFS sampling process and the proper use of weights; 3) the KFS data structure; 4) Longitudinal data analysis; 5) Accessing the Data

### **"New Technologies and Accounting: The Effects of Big Data"**

Dimitrios Kousenidis - Aristotle University of Thessaloniki, Greece

Anestis Ladas - University of Macedonia, Greece

Christos Negkakis - University of Macedonia, Greece

*Discussant:* Panayiotis Theodossiou - Cyprus University of Technology, Cyprus

Through the last years there has been tremendous changes in the information technology. New technologies like the blockchain technology and big data analytics provide a number of useful tools that can be used in accounting practice. The present study attempts to provide a thorough review of big data analytics and how this technology will impact accounting and auditing in the future. In this respect, we



examine the special characteristics of big data, the sources of big data in the firm and the advantages of using big data analytics. Moreover, we also focus on the effects of the big data analysis on accounting and auditing profession and the new roles that accountants and auditors must serve.

## LUNCHEON

12:30 - 1:45 p.m. (Room: 6035)

## SESSION 7

Tuesday 1:45 - 3:15 p.m.

Room: 6035N

### RISK FACTORS & MEASURES

*Session Chair:* Timo Rothovius - University of Vaasa, Finland

#### **"Measuring the Relative Return Contribution of Risk Factors"**

Johan Knif - Hanken School of Economics, Finland

James Kolari - Texas A&M University, USA

Gregory Koutmos - Fairfield University, USA

Seppo Pynnönen - University of Vaasa, Finland

*Discussant:* Anandi Banerjee - Queens University of Charlotte, USA

This paper proposes a simple method to measure and compare the average relative return contribution of proposed risk factors. The method is applied to six common risk factors, including market, size, value, momentum, profitability, and investment, using 49 U.S. industry portfolios in the period 1969 to 2014. We find that the average relative return contributions of the market factor and mispricing alpha are highest in all models and sample periods. If multifactors are included, their main effect is to reduce the contribution of the average market factor return with some reduction in the contribution of mispricing alpha also.

#### **"Pricing of Idiosyncratic Volatility: Levels or Jumps"**

Anandi Banerjee - Queens University of Charlotte, USA

*Discussant:* Yukihiro Yasuda - Hitotsubashi University, Japan

This paper explores the relation between idiosyncratic volatility and the cross-section of expected returns. I use an EGARCH model to estimate the forecasted idiosyncratic volatility (FIVOL) and find that this estimate is not affected by the microstructure biases embodied by bid-ask spreads and the percentage of zero returns. I document a positive relation between FIVOL and expected returns. However, contrary to the models in the existing literature (such as Merton (1987)), I prove that the cross-sectional differences in levels of idiosyncratic volatility are not priced. The positive relation is mainly driven by stocks that rise in their FIVOL quintile ranking. These transitions in FIVOL ranking are a consequence of return shocks that result in the sudden changes in FIVOL. I explore earnings surprises as a potential explanation for these return shocks and document that standardized unexpected earnings cannot completely explain the pricing ability of these transitions in FIVOL. Even after controlling for earnings surprises, I find that the stocks that jump from a low FIVOL quintile to a higher quintile earn high returns.

#### **"Risk Measures for Investment Values and Returns Based on Skewed-Heavy Tailed Distributions: Analytical Derivations and Comparison"**

Panayiotis Theodossiou - Cyprus University of Technology, Cyprus

*Discussant:* Gregory Koutmos - Fairfield University, USA

The skewed generalized t (SGT) displays an exceptional ability in modelling the tails of the empirical

distributions of returns of financial and other assets. This feature makes it an appealing candidate for the computation of value at risk and expected shortfall measures, used by regulators, investors, portfolio managers and actuaries to measure and manage the risk exposure of their assets. This paper makes a specific contribution by deriving the analytical equations for the computation of value at risk, expected shortfall and downside risk measures for asset values and returns based on the SGT distribution. An assessment using simulations and estimation show that risk measures based on returns overestimate risk exposure.

**SESSION 8**

**Tuesday 1:45 - 3:15 p.m.**

**Room: 6037N**

---

## **LITIGATION RISK**

*Session Chair:* Stephen Christophe - George Mason University, USA

### **"Firm Ownership and Litigation Risk"**

Yuka Nishikawa - Florida International University, USA

Edward Lawrence - Florida International University, USA

*Discussant:* Mohammad Hashemi Joo - Florida International University, USA

In this paper we investigate if firms led by founder as Chief Executive Officer (CEO) experience different litigation risk as compared to those led by a non-founder as CEO. Prior literature establishes that founder-CEOs have distinct characteristics as compared to non-founder professional CEOs. Based on these differences in characteristics we hypothesize that firms led by founder CEOs should have lower litigation risk than firms led by non-founder CEOs. Our results confirm the hypothesis as we find lower risk of litigation for founder-CEO firms as compared to the litigation risk for firms led by outside CEOs.

### **"Firm's Complexity and Litigation Risk"**

Mohammad Hashemi Joo - Florida International University, USA

Ali Parhizgari - Florida International University, USA

*Discussant:* Bina Sharma - University of Texas Rio Grande Valley, USA

We investigate the impact of characteristics of board of directors and firm's complexity on litigation risk. Our empirical results show that CEO Duality and Board Independence has a positive impact on litigation risk. Moreover, this study finds some empirical evidence on the negative effect of Operational Internationalization on litigation risk.

### **"Does Litigation Risk Deter Opportunistic Insider Trading? Evidence from Universal Demand Laws"**

Bina Sharma - University of Texas Rio Grande Valley, USA

*Discussant:* Yuka Nishikawa - Florida International University, USA

This study examines the effect of litigation risk on opportunistic insider trading by exploiting US states' staggered adoption of Universal Demand (UD) laws, which weakened shareholders' ability to file derivative lawsuits against corporate insiders. I find that UD laws lead to significantly more profitable insider trades, especially sales. My difference-in-differences estimates suggest that after the adoption of UD laws, insiders' sales on average avoid an additional loss of about 2 percent (\$24,000) per month in buy-and-hold abnormal returns. The benefit of UD laws is greater for insiders of firms where information asymmetry is high and where monitoring by institutional blockholders is low. Further, my battery of tests suggests that the greater profitability of insiders' trades after UD laws comes from more opportunistic timing of trades. For instance, after the adoption of UD laws, insiders make more profitable trades, both sales and purchases, before quarterly earnings announcements. Overall, this study suggests that a decrease in the risk of shareholder-initiated lawsuits encourages corporate insiders to engage in more profitable and serious types of insider trading.

**Refreshments (Room: 6038)**

**3:15 - 3:30 p.m.**

**SESSION 9**

**Tuesday 3:30 - 5:00 p.m.**

**Room: 6035N**

---

**MACROFINANCE & POLITICS**

*Session Chair:* Joel Barber - Florida International University, USA

**"The Marginal Effect of Brazil's Private Sector on its Economic Growth"**

Samique March-Dallas - Florida A&M University, USA

Roscoe Hightower - Florida A&M University, USA

Jameel Brannon - Florida A&M University, USA

*Discussant:* Monir Hossain - Eastern Mediterranean University, Cyprus

The purpose of this study is to examine the private sectors' marginal effect on Gross Domestic Product (GDP). This study uses data from the Federal Reserve of St. Louis and The World Bank to produce a log-log model with Gross Domestic Product as the endogenous variable and the exogenous variables as services, agriculture, and industry. After running the regression, we're able to determine from our output that the elasticities of the coefficients were noteworthy with a 1% change in services resulting in a .58 percentage change in GDP, a 1% change in agriculture resulted in a .024 percentage change in GDP, and a 1% change in industry resulted in a .37 percentage change in GDP. The summation of the elasticities is greater than one, indicating returns to scale, a phenomenon where if all inputs increase by a certain percentage, output grows more than that percentage. Furthermore, services had the greatest effect on GDP with a T statistic of 20.9.

**"An Empirical Analysis of SME Finance in Turkey: Identifying the Macroeconomic and Firm Based Factors Affecting SMEs' Access to Finance"**

Monir Hossain - Eastern Mediterranean University, Cyprus

*Discussant:* Kenneth Tah - Mercer University, USA

This thesis provides a complete conceptual and empirical insight of SMEs' access to financial services and credit in Turkey. It identifies crucial macroeconomic and firm specific factors that affect the supply of funds and the usage (demand) of financial services and credit. Supply side analysis confirmed the conceptual hypothesis that banks' lending to SMEs is fuelled by economic growth and stability, financial market efficiency and competitiveness but hampered by the extent of government borrowing from domestic creditors. This finding offers a better understanding of the economic and financial environment conducive for commercial banks to provide sustainable finance to SMEs. Firm level analysis provided evidence that in recent years SMEs found it easier to access to bank loan however, their overall demand for external financing has been decreased. As evidence, in the 2015 WBES survey in Turkey, only 20% of SMEs had applied for a loan among which the rejection rate was as low as 7% and over 70% of SMEs did not required external financing. However, there were significant regional differences in the usage of credit and non-credit financial services. SMEs in less developed regions were significantly excluding from using financial services. Nevertheless, they were found to be largely reliant on bank loans for financing fixed assets.

**"Mortgage Loan Rates and Federal Fund Rate: An ARDL Bound Testing Approach"**

Kenneth Tah - Mercer University, USA

*Discussant:* Samique March-Dallas - Florida A&M University, USA

This study test long-run convergence and the ripple effects between the cost of fund measure by effective federal fund rate and the price of fund measure by mortgage loan rates. The study employs the auto-regressive distributed lag (ARDL) bound testing approach on monthly data spanning forty seven years. The results support the presence of a cointegrating relationship in which shocks are transmitted to

both mortgage loan rate and federal fund rate. We find a short-run bidirectional Granger causality between federal fund rate and mortgage loan rate, in support of the structuralist rather the horizontalist view of money supply endogeneity. However, this causality is not potent as we find no long-term causality from federal fund rate to mortgage loan rate. Moreover, mortgage loan rate negatively Granger-cause federal fund rate. Our findings underscore the use of monetary move (federal fund rate) to the maintenance of price (mortgage loan rate). Several variables play an important role in determining both federal fund rate and mortgage loan rate.

**SESSION 10**

**Tuesday 3:30 - 5:00 p.m.**

**Room: 6037N**

---

### **MARKET MICROSTRUCTURE**

*Session Chair:* Joseph Farhat - Central Connecticut State University, USA

#### **"Diverse Investors and HFT's: Effect of Human Enthusiasm on Trading Behavior"**

Jussi Nikkinen - University of Vaasa, Finland

Timo Rothovius - University of Vaasa, Finland

Jaakko Tyynelä - University of Vaasa, Finland

*Discussant:* Nicholas Hirschey - London Business School, UK

The clustering of stocks' trade prices is driven by a distinctly human bias, as documented by Davis, Van Ness and Van Ness (2014). Following this, we provide novel evidence on the clustering by four different clienteles, which are uniquely available in our data set from the Nasdaq OMX Nordic stock exchange. Specifically, we examine the clustering of trade prices when small investors and a peer group of other human investors trade against the HFTs. Further, we examine how human investors' enthusiasm affects their clustering behavior. Our empirical analysis, using 9,730,195 trade prices, provides strong support for the hypothesis that trades of small investors are more clustered than those of a human peer group. We also find that the price clustering of human investors is significantly affected by their enthusiasm to trade. The results of our paper imply that clustering is a dynamic phenomenon, which is affected by the behavior and enthusiasm of different investor clientele.

#### **"How Well Do Traders Condition on the Uniqueness of Their Signals?"**

Nicholas Hirschey - London Business School, UK

Chishen Wei - Singapore Management University, Singapore

*Discussant:* Michael LaCour-Little - Fannie Mae, USA

This paper shows that hedge funds and mutual funds do not reduce their trading demand sufficiently when their signal about an earnings announcement is similar to those of other institutions. We use past holdings to identify fund-specific preferences for earnings news. These preferences are a persistent trait that varies widely among funds and predicts future discretionary trading out of sample. Funds should recognize that when their signal is common rather than unique, they should reduce their trading demand to prevent prices from overshooting fundamental value. Instead, consistent with them overestimating the uniqueness of their signal, we find that when the funds owning a stock would all typically want to buy or sell conditional on the earnings news, their predicted trading demand is negatively correlated with future returns. Our findings are important for understanding how heterogeneous holdings preferences can affect both a stock price's response to information and investors' optimal trading policies.

#### **"Seeking Alpha in the Housing Market"**

Michael LaCour-Little - Fannie Mae, USA

Jing Yang - California State University at Fullerton, USA

*Discussant:* Timo Rothovius - University of Vaasa, Finland

We examine short term trades in the housing market over the period 2000-2013 using nationally

representative data across multiple U.S. housing markets. Such trades, often characterized as “house flipping”, have gained currency in recent years with reality television shows depicting success and failure. We find evidence of returns in excess of market house price index growth (which we call alpha) during certain time periods with results that also vary across distressed versus non-distressed acquisition strategies.

## **KEYNOTE SPEECH**

**7:30 - 8:30 p.m.                      Antonio's Restaurant**

**Professor Sheridan Titman  
University of Texas at Austin, USA**

## **THE PREDICTABILITY OF CHARACTERISTIC-SORTED PORTFOLIO RETURNS**

Firm sizes and book-to-market ratios are both highly correlated with the average returns of common stocks. Eugene F. Fama and Kenneth R. French (1993) argue that the association between these characteristics and returns arise because the characteristics are proxies for nondiversifiable factor risk. In contrast, the evidence in this article indicates that the return premia on small capitalization and high book-to-market stocks does not arise because of the comovements of these stocks with pervasive factors. It is the characteristics rather than the covariance structure of returns that appear to explain the cross-sectional variation in stock returns.

## **GALA DINNER**

**8:30 - 10:30 p.m.                      Antonio's Restaurant**