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DIPLOMARBEITEN / MASTER THESES IM FSS 2012

TOPIC R1: Active Share and Style Volatility

Advisor: Lena Jaroszek

TOPIC R2: Individualism and Momentum in the US

Advisor: Alexander Hillert

TOPIC R3: Announced and Realized Share Repurchases – An Empirical Analysis in the US

Advisor: Alexander Hillert

TOPIC R4: An Empirical Analysis of “Comeback IPOs”

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TOPIC R5: Private Investors’ Trading and the Weather

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Advisor: Florian Weigert



Topic R1: Active Share and Style Volatility

Facing investment decisions, investors would like to identify fund managers who are able to beat the fund's benchmark in future years. Such over-performance can only stem from the fund portfolio's deviation from its benchmark. A deviation from the benchmark is possible by stock picking or factor timing. Since tracking error turned out to be a rather useless indicator trying to identify superior manager skills, there have recently been introduced new performance measures: Active Share developed by Cremers and Petajisto (2009) determines the deviations of a fund's portfolio holdings from the benchmark. Funds with highest Active Share outperform their benchmarks and furthermore show performance persistence. Another holdings based performance measure - Style volatility by Brown, Harlow, Zhang (2011) – identifies those managers who are able to maintain steady style characteristics. These funds are also found to exhibit better performance.

Within the scope of the thesis the two measures are to be compared and examined. Furthermore, an examination of funds performing best in terms of a combination of the two measures is to be conducted.

Requirements:

We expect the candidate to show a sound knowledge in the theory of asset pricing and statistics. The empirical work requires the use of CRSP and/or Morningstar database (access will be provided). We recommend that the candidate should feel comfortable in the use of a statistical software program (such as Stata).

Literature:

Cremers, K. J. M.; Petajisto, A. (2009): How Active Is Your Fund Manager? A New Measure That Predicts Performance. *Review of Financial Studies*, 22, pp. 1-37

Petajisto, A. (2010): Active Share and Mutual Fund Performance, Working Paper, Yale University.

Brown, K. C.; Harlow, W. V. and H. Zhang (2011): Investment Style Volatility and Mutual Fund Performance, Working Paper, University of Texas, Austin.

Advisor: Lena Jaroszek



Topic R2: Individualism and Momentum in the US

Jegadeesh and Titman (1993) find that stocks with the highest performance over the last three to twelve months significantly outperform stocks with the poorest past performance for the next three to twelve months. This effect is called Momentum and it is considered as a pervasive phenomenon and one of the major anomalies in finance (cf. Fama and French (2008)). Besides rational explanations (e.g. Avramov et al. (2007)) there are behavioral models. One prominent model is Daniel et al. (1998) which explains Momentum by an overreaction of irrational investors. Chui et al. (2010) empirically test and confirm the model of Daniel et al. (1998) in an international context. They show that Momentum is larger in individualistic countries which is consistent with the model's prediction that momentum is positively related to the overconfidence level of investors. Individualism is measured by the Hofstede (2001) index.

The goal of this thesis is to use the individualism score by Vendello and Cohen (1999), which is available for each of the 50 US States, and to redo the analysis of Chui et al. for the US on a State-level.

The thesis should wrap up the theoretical and empirical literature on momentum with a focus to behavioral models linking investors' characteristics like overconfidence and individualism to momentum. In the empirical part it should be analyzed whether there are regional differences in momentum in the US. Secondly, factors which are able to explain these differences should be identified and interpreted economically. Thereby economic differences between the regions, e.g. different groups of industries, as well as differences in the characteristics of the investors, e.g. different level of overconfidence, have to be considered and distinguished from each other.

All relevant databases (Compustat, CRSP) are available at the University of Mannheim.

Preliminaries: Basic knowledge (or ability/willingness to acquire basic knowledge) in econometrics and STATA.

Introductory literature:

Chui, A. C. W., S. Titman, and K.C. J. Wei, 2010, Individualism and Momentum around the World, *Journal of Finance*, Vol. 65, No. 1, 361-392.

Daniel, K., D. Hirshleifer, and A. Subrahmanyam, 1998, Investor psychology and security market under- and overreactions, *Journal of Finance*, Vol. 53, 1839-1886.

Jegadeesh, N., and S. Titman, 1993, Returns to buying winners and selling losers: Implications for stock market efficiency, *Journal of Finance*, Vol. 48, 65-91.

Vandello, J. A., and D. Cohen, 1999, Patterns of Individualism and Collectivism Across the United States, *Journal of Personality and Social Psychology*, Vol. 77, No. 2, 279-292.

Advisor: Alexander Hillert



Topic R3: Announced and realized Share Repurchases – An empirical Analysis in the US

Over the last two decades, stock repurchases have become increasingly important in the United States (cf. Skinner (2008)). Today, share repurchases are conducted by the majority of firms on a regular basis and have about the same magnitude as dividends. The increasing importance of repurchases as a means of payout is primarily due to changes in the regulatory environment and the higher variability in earnings. Share repurchases provide more flexibility than dividends because open-market share repurchase programs do not precommit firms to actually acquire a specified number of shares, i.e. to pay out a fixed amount of cash to shareholders. Stephens and Weisbach (1998) find that firms acquire about 70 to 80 percent of the announced repurchase volume during the three years after the announcement of the program. The focus of this thesis is to analyze this gap between announced and realized repurchases as well as the speed of completion.

The first task in this thesis is to give a detailed literature overview of what drives actual share repurchases and which variables might explain the gap between announced and realized repurchases. Since 2004, the SEC requires US listed corporations to report monthly repurchases in their quarterly filings (10-Q/10-K). The change in reporting requirements allows for a more precise determination of the gap in recent date while prior studies use approximations of repurchases based on quarterly data about the number of shares outstanding which are likely to be biased (cf. Banyl et al. (2008)). Therefore, the empirical part should analyze the gap between announced and realized repurchases for the period from 2004 to 2010. Subsequently, the analysis should identify factors which are related to the magnitude of the gap as well as related to the speed of completion. Stephens and Weisbach (1998) offer two potential explanations, namely degree of undervaluation and level of cash-flow. These hypotheses should be tested.

A proprietary raw dataset of repurchase announcements and monthly repurchases is available at the University of Mannheim. A cross-checking and editing of the data will however be required. All further databases (CRSP, Compustat, Capital IQ, SDC M&A) are as well accessible at the University of Mannheim.

Preliminaries: Basic knowledge (or ability/willingness to acquire basic knowledge) in econometrics and STATA.

Introductory Literature:

Banyl, M. L., E. A. Dyl, and K. M. Kahle, 2008, Errors in estimating share repurchases, *Journal of Corporate Finance*, Vol. 14, 460-474.

Skinner, D. J., 2008, The evolving relation between earnings, dividends, and stock repurchases, *Journal of Financial Economics*, Vol. 87, 582-609.

Stephens, C., and M. Weisbach, 1998, Actual Share Reacquisitions in Open Market Repurchase Programs, *Journal of Finance*, Vol. 53, 313-333.

Advisor: Alexander Hillert



Topic R4: An Empirical Analysis of "Comeback IPOs"

One of the most significant decisions in a corporation's life is the decision to go public. There are various reasons for the transition from a private to a publicly traded firm; financing of new projects and giving the existing owners an opportunity of crystalizing their investment are two important ones, amongst others

In addition to examining the timing of going public, academic research also tries to identify the key factors of successful IPOs. After filing an IPO with the respective regulation authority (e.g. the SEC in the U.S.) a firm has the option of withdrawing the IPO and remaining private. Firms may use this option when they expect not to sell the entire offering and/or expect to sell at a low price due to unfavorable market conditions.

Dunbar and Foerster (JFE, 2008) examine firms that withdraw an IPO and return later for a successful offering, so-called "Comeback IPOs". They find that firms with venture capital backing and reputable investment bankers are more likely to return to the IPO market. In addition, they show that firms switch their underwriters in response to poor bank performance in withdrawn IPOs.

The goal of this thesis is to give an overview of the existing relevant literature on the timing of IPOs and the determinants of successful IPOs. In addition, an own empirical study should be conducted where the results of Dunbar and Foerster (JFE, 2008) are (in parts) replicated.

Requirements:

The candidate should have a sound knowledge of the theory of corporate finance. The empirical work requires the use of various financial databases. Additionally, the candidate should feel comfortable in the use of a statistical software program, such as STATA.

Introductory Literature:

Benveniste, L., Ljungqvist, A., Wilhelm, W., Yu, X. (2003): Evidence of information spillovers in the production of investment banking services, *Journal of Finance* 58, 577-608.

Dunbar, C. G. (1998): The choice between firm-commitment and best-efforts offering methods in IPOs: The effect of unsuccessful offers, *Journal of Financial Intermediation* 7, 60-90.

Dunbar, C. G., Foerster, S. R. (2008): Second time lucky? Withdrawn IPOs that return to the market, *Journal of Financial Economics* 87, 610-635.

Ljungqvist, A. (2007): IPO underpricing, *Handbook of Corporate Finance: Empirical Corporate Finance* edited by Eckbo, B. E., 375-442.

Ritter, J. R., Welch, I. (2002): A review of IPO activity, pricing, and allocations, *Journal of Finance* 57, 1795-1828.

Welch, I. (1992): Sequential sales, learning, and cascades, *Journal of Finance* 47, 695-732.

Advisor: Paris Tsotsonos



Topic R5: Private Investors' Trading and the Weather

Hirshleifer and Shumway (2003) examine the relationship between sunshine in the city of a country's leading stock exchange and daily market index returns across 26 countries. They find that sunshine is strongly significantly correlated with stock returns while rain and snow are uncorrelated to returns. Hirshleifer and Shumway (2003) argue that sunlight affects mood and people tend to evaluate future prospects more optimistically when they are in a good mood than when they are in a bad mood. Moreover, psychology has found that mood affects behavior. This thesis investigates whether sunshine, rain, or snow impacts private investors' trading behavior. In particular, we want to examine whether characteristics of trades on days with sunshine differ from characteristics of trades with rain or snow. Moreover, the performance of these trades should be evaluated.

Requirements:

The empirical work requires the use of a large, proprietary private investor database, a weather database, and the Thomson Datastream database (access will be provided). We recommend that the candidate should feel comfortable in the use of a statistical software program (such as Stata).

Literature:

Bassi, A., Colacito, R., Fulghieri, P., 2011, 'O sole mio: an experimental analysis of weather and risk attitudes, Working Paper, University of North Carolina.

Hirshleifer, D., Shumway, T., 2003, Good day sunshine: stock returns and the weather, *Journal of Finance*, 58, 1009-1032.

Kamstra, M.J., Kramer, L.A., Levi, M.D., 2003, Winter blues: a sad stock market cycle, *American Economic Review*, 93, 324-343.

Lo, K., Wu, S.S., 2010, The impact of seasonal affective disorder on financial analysts and equity market returns, Working Paper, University of British Columbia.

Saunders, E.M., 1993, Stock prices and Wall Street weather, *American Economic Review*, 83, 1337-1345.

Advisor: Nic Schaub

Topic R6: Do Private Investors Vote with their Feet?

Shareholders holding only a few shares in a company are typically not able to influence decisions at the annual general meeting except if they act in concert. However, they can sell their shares and thereby “vote with their feet” when dissatisfied with decisions taken by other shareholders. McCahery, Sautner, and Starks (2010) and Parrino, Sias, and Starks (2002) provide evidence of institutional investors voting with their feet.

This thesis investigates whether private investors vote with their feet after annual general meetings. In particular, we want to examine whether private investors sell their shares when decisions at annual general meetings were controversial.

Requirements:

The empirical work requires the use of a large, proprietary private investor database (access will be provided). Data on annual general meetings needs to be collected. We recommend that the candidate should feel comfortable in the use of a statistical software program (such as Stata).

Literature:

Admati, A., Pfleiderer, P., 2008, The “Wall Street Walk” and shareholder activism: exit as a form of voice, *Review of Financial Studies*, forthcoming.

Edmans, A., Manso, G., 2010, Governance through trading and intervention: a theory of multiple blockholders, *Review of Financial Studies*, forthcoming.

Gopalan, R., 2008, Institutional stock sales and takeovers: the disciplinary role of voting with your feet, Working Paper, Washington University.

Kandel, E., Massa, M., Simonov, A., 2010: Do small shareholders count?, Working Papers, Hebrew University.

McCahery, J.A., Sautner, Z., Starks, L.T., 2010, Behind the scenes: the corporate governance preferences of institutional investors, Working Papers, Tilburg University.

Parrino, R., Sias, R., Starks, L., 2003, Voting with their feet: institutional ownership changes around CEO turnovers, *Journal of Financial Economics* 68, 3-46.

Advisor: Nic Schaub

Topic R7: Asset Pricing with Downside Risk: International Evidence

Academic research in decision analysis and finance documents that agents care differently about downside losses than they care about upside gains. Investors who place greater weight on downside risk demand additional compensation for holding stocks with high sensitivities to market downside risk. Hence, assets with high sensitivities to downside market movements should have high average returns. Controlling for traditional risk factors, Ang / Chen / Xing (2006) find that the premium for downside risk in the cross-section of stock returns in the US from 1963 to 2001 is approximately 6% p.a.

This thesis investigates whether the downside risk premium is a global phenomenon and exists on stock markets around the world. In particular, we want to examine whether the premium can be related to country-specific cultural dimensions (as in Chui / Titman / Wei (2011)).

Requirements:

We expect the candidate to have a sound knowledge in the theory of asset pricing and statistics. The empirical work requires the use of CRSP and/or the Thomson Datastream database (access will be provided). We recommend that the candidate should feel comfortable in the use of a statistical software program (such as Stata).

Literature:

Ang, A.; Chen, J.; Xing, Y. (2006). Downside Risk. *Review of Financial Studies*, 19, pp. 1191-1239

Chui, A.; Titman, S.; Wei, K.C. (2011). Individualism and Momentum around the World. *Journal of Finance*, forthcoming

Harvey, C.R.; Siddique, A. (2000). Conditional Skewness in Asset Pricing Tests. *Journal of Finance*, 55, pp. 1263-1295

Hofstede, G. (2001). *Culture's Consequences: Comparing Values, Behaviors, Institutions, and Organizations across Nations*, Second Edition, Sage Publication, Beverly Hills, CA

Kraus, A.; Litzenberger, R.H. (1976). Skewness Preference and the Valuation of Risk Assets. *Journal of Finance*, 31, pp. 1085-1100

Ruenzi, S.; Weigert, F. (2011). Extreme Dependence Structures and the Cross-Section of Expected Stock Returns, Working Paper, University of Mannheim

Advisor: Florian Weigert