FAKULTÄT FÜR BETRIEBSWIRTSCHAFTSLEHRE
Lehrstuhl für Internationale Finanzierung
Prof. Dr. Stefan Ruenzi

UNIVERSITÄT MANNHEIM

Universität Mannheim
Lehrstuhl für Internationale Finanzierung
68131 Mannheim

Besucheradresse:
L9, 1-2
68161 Mannheim
Telefon 0621/181-1669
Telefax 0621/181-1664

Anja Kunzmann
kunzmann@bwl.uni-mannheim.de
http://intfin.bwl.uni-mannheim.de
25.11.200925.11.2009

Seminar

TOPIC R1: **Stock Returns and the Cross-Section of Investor Attention**
Advisor: Michael Ungeheuer

TOPIC R2: **Market Returns and the Time Series of Investor Attention**
Advisor: Michael Ungeheuer

TOPIC R3: **Are Daily Winners and Losers Overpriced?**
Advisor: Michael Ungeheuer

TOPIC R4: **Carry**
Advisor: Zorka Simon

TOPIC R5: **Safe haven CDS premia**
Advisor: Zorka Simon

TOPIC R6: **Investor inattention and merger announcements**
Advisor: Anja Kunzmann

TOPIC R7: **March madness: Investor inattention and earnings announcements**
Advisor: Anja Kunzmann

TOPIC R1: Stock Returns and the Cross-Section of Investor Attention

Classification: Empirical topic
Advisor: Michael Ungeheuer

Barber and Odean (2008) suggest that investor attention to certain stocks causes net buying of these stocks by retail investors, and consequently a temporary positive price impact of investor attention. They find evidence in support of increased buy-sell-imbalances for high-attention stocks. As a proxy for high attention, they use extreme returns (amongst other proxies), assuming that extreme returns cause investor attention. Da et al. (2011) measure investor attention directly, using Google search volume for tickers (e.g. AAPL for Apple). They find evidence in support of the price impact and reversal pattern suggested by Barber and Odean (2008). Hence, it seems that investor attention has an effect on stock returns. What about the reverse effect of stock returns on investor attention? It seems plausible that --- as suggested by Barber and Odean (2008) --- more extreme stock returns should lead to higher investor attention, so that there would be a v-shape in the relation of investor attention and stock returns. However, the exact shape of this relation has not been analyzed yet.

The goal of this seminar thesis is to analyze the effect of stock returns on the cross-section of investor attention. As a measure of investor attention, we will provide daily page view counts from firms' Wikipedia pages. What patterns, other than a simple v-shape of the attention-return relation, could be expected? Hartzmark (2014) uses individual trading data to show that only the most extreme winners and losers of a portfolio are traded. Is there a similar rank-effect of overall investor attention --- a u-shape of the attention-return relation --- where only the winner and loser stocks receive an attention boost, whereas non-winner/loser stocks with strong returns do not receive higher levels of attention?

Requirements:
The empirical work for this topic requires the use of statistical software (e.g. Stata), manipulation of data and the application of econometric methods. Some experience in this area would be helpful.
We are going to provide Wikipedia page view data.

Introductory Literature:

- Barber, B.; Odean, T. (2008): All That Glitters: The Effect of Attention and News on the Buying Behavior of Individual and Institutional Investors, The Review of Financial Studies 21 (2), pp. 785-818.
- Da, Z.; Engelberg, J.E.; Gao, P. (2011): In Search Of Attention, The Journal of Finance 66 (5), pp. 1461-1499.
- Hartzmark, S.M. (2014): The Worst, the Best, Ignoring All the Rest: The Rank Effect and Trading Behavior, The Review of Financial Studies 28 (4), pp. 1024-1059.

TOPIC R2: Market Returns and the Time Series of Investor Attention

Classification: Empirical topic
Advisor: Michael Ungeheuer

Barber and Odean (2008) suggest that investor attention to certain stocks causes net buying of these stocks by retail investors, and consequently a temporary positive price impact of investor attention. They find evidence in support of increased buy-sell-imbalances for high-attention stocks. As a proxy for high attention, they use extreme returns (amongst other proxies), assuming that extreme returns cause investor attention. Thus they assume a v-shape of the relation between returns and investor attention. Sicherman et al. (2016) find a different pattern for aggregate attention towards financial markets. They use online account log-ins of investors as a measure of financial attention. Their analysis suggests that market declines lead to a reduction in aggregate attention, instead of an increase. Thus investors seem to avoid looking at bad news, while paying more attention after good news (the 'ostrich effect'). Another factor related to aggregate investor attention might be fears (or extreme negative sentiment) during market crashes. Da et al. (2014) analyze the relation between a fear index (Google searches for terms like 'gold') and market returns, and find that high levels of their fear index predict higher future returns, consistent with a price impact of fear-driven selling. It seems plausible that --- while moderate negative news lead to decreased attention (Sicherman et al., 2016) --- negative sentiment due to extreme negative market returns may lead to increased attention.

The goal of this seminar thesis is to analyze the effect of market returns on aggregate investor attention towards financial markets. As a measure of investor attention, we will provide daily page view counts for Wikipedia pages related to financial markets. How does this measure of investor attention change when market returns are negative or positive? How does the relation between investor attention and market returns change during market crashes?

Requirements:
The empirical work for this topic requires the use of statistical software (e.g. Stata), manipulation of data and the application of econometric methods. Some experience in this area would be helpful.
We are going to provide Wikipedia page view data.

Introductory Literature:

- Barber, B.; Odean, T. (2008): All That Glitters: The Effect of Attention and News on the Buying Behavior of Individual and Institutional Investors, The Review of Financial Studies 21 (2), pp. 785-818.
- Sicherman, N.; Loewenstein, G.; Seppi, D.J.; Utkus, S.P. (2016): Financial Attention, The Review of Financial Studies 29 (4), pp. 863-897.
- Da, Z.; Engelberg, J.E.; Gao, P. (2014): The Sum of All FEARS Investor Sentiment and Asset Prices, The Review of Financial Studies 28 (1), pp. 1-32.

TOPIC R3: Are Daily Winners and Losers Overpriced?

Classification: Empirical topic
Advisor: Michael Ungeheuer

Barber and Odean (2008) suggest that investor attention to certain stocks causes net buying of these stocks by retail investors, and consequently a temporary positive price impact of investor attention. They find evidence in support of increased buy-sell-imbalances for high-attention stocks. As a proxy for high attention, they use extreme returns, trading volume, and news coverage. Da et al. (2011) measure investor attention more directly, using Google search volume for tickers (e.g. AAPL for Apple). They find evidence in support of the price impact and reversal pattern suggested by Barber and Odean (2008). Hence, it seems that investor attention has an effect on stock returns. One potential attention-causing event is the inclusion of a stock in the daily winners and losers (the top/bottom 10 to 100 stocks). These stocks are easy to identify, since webpages provide lists:
http://finance.yahoo.com/market-overview/
http://boersen.manager-magazin.de/spon/aktien_topflop.htn
Newspapers like the Wall Street Journal or the New York Times also provide lists of these stocks (the 'Percentage Gainers and Losers').

The goal of this seminar thesis is to analyze potential price impact and reversal patterns caused by a stock's winner or loser status. Are these stocks overpriced due to the attention caused by being a winner or loser? How is this effect related to the idiosyncratic volatility puzzle (for an overview, see Hou and Loh, 2016)?

Requirements:
The empirical work for this topic requires the use of statistical software (e.g. Stata), manipulation of data and the application of econometric methods. Some experience in this area would be helpful.

Introductory Literature:

- Barber, B.; Odean, T. (2008): All That Glitters: The Effect of Attention and News on the Buying Behavior of Individual and Institutional Investors, The Review of Financial Studies 21 (2), pp. 785-818.
- Da, Z.; Engelberg, J.E.; Gao, P. (2011): In Search Of Attention, The Journal of Finance 66 (5), pp. 1461-1499.
- Hartzmark, S.M. (2014): The Worst, the Best, Ignoring All the Rest: The Rank Effect and Trading Behavior, The Review of Financial Studies 28 (4), pp. 1024-1059.
- Hou, K.; Loh, R.K. (2016): Have we solved the idiosyncratic volatility puzzle?, Journal of Financial Economics, forthcoming.

TOPIC R4: Carry

Classification: Empirical topic
Advisor: Zorka Simon

A currency carry trade is a trading strategy in which an investor sells a certain currency with a low interest rate and uses the proceeds to purchase a different currency yielding a higher interest rate. The profit of this trade is based on the difference in yields and the amount of leverage used. For instance, Investopedia gives the example of the yen carry trade: "a trader borrows 1,000 Japanese yen from a Japanese bank, converts the funds into U.S. dollars and buys a bond for the equivalent amount. Let's assume that the bond pays 4.5% and the Japanese interest rate is set at 0%. The trader stands to make a profit of 4.5% as long as the exchange rate between the countries does not change. Many professional traders use this trade because the gains can become very large when leverage is taken into consideration. If the trader in our example uses a common leverage factor of 10:1, then she can stand to make a profit of 45%."

Currency carry trade has been extensively studied in the literature, but Koijen et al (2015) broaden and apply the concept of carry to any asset. A security's expected return can be decomposed into its "carry" and its expected price appreciation. They find that carry predicts returns both in the cross-section and in the time-series for a wide range of different asset classes, such as global equities, global bonds, commodities, US Treasuries, credit, and options. They show that carry is not explained by other known return predictors, but can capture several known return predictors from different asset classes, providing a unifying framework for return predictability.

In this study, the candidate should provide a brief overview of the literature on currency carry and the use of carry to predict returns of different asset classes. In the empirical part, the purpose of this seminar thesis is to replicate the main findings of Koijen et al. (2015) on a chosen asset class (preferably not US equities). Access to financial market data from Bloomberg or Datastream will be provided. We recommend that the candidate should feel comfortable using statistical packages, such as Stata or Matlab.

Introductory Literature:

- Koijen, R. S. J. and Moskowitz, T. J. and Pedersen, L.H. and Vrugt, E. B. (2015): Carry, Fama-Miller Working Paper. Available at SSRN: http://ssrn.com/abstract=2298565
- Goyal, A. and Welch, I. (2008): A Comprehensive Look at the Empirical Performance of Equity Premium Prediction Review of Financial Studies, Vol. 21(4), pp. 1455-1508
- Brunnermeier, M. Nagel, S. and Pedersen. L.H. (2008): Carry Trades and Currency Crashes, NBER Working paper 14473
- Òscar Jordà Alan M. Taylor (2009): The carry trade and fundamentals: Nothing to fear but feer itself, NBER Working Paper 15518

TOPIC R5: Safe haven CDS premia

Classification: Empirical topic
Advisor: Zorka Simon

CDS or credit default swaps are the most common credit derivatives. A CDS is a bilateral contract in which credit risk exposure of fixed income products is transferred between two parties. Most common underlying products are sovereign debt, municipal bonds, mortgage-backed securities or corporate bonds. In fact, a CDS contract is an insurance against non-payment and thus its price is a good approximation of the credit risk of the issuer of its underlying product.

But is it the case for all sovereigns? Klinger and Lando (2015) show that a for safe-haven sovereigns, like Germany and the United States, credit default spreads are driven to a large extent by regulatory requirements under which derivatives dealing banks have an incentive to buy CDS to hedge credit risk of their counterparties. In other words, the price of CDS not only reflects the credit risk of the fore mentioned countries, but it is distorted by the excess demand of banks, which is induced by prudential regulation. Others, like Bai and Collin-Dufresne (2013) find that CDS-bond basis, the difference between credit default swap spread and cash-bond implied credit spread, varies both over time and in the cross-section of countries.

In this study, the candidate should provide a brief overview of the literature on CDS pricing and puzzles of CDS, such as the safe haven CDS premia or the CDS-bond basis. In the empirical part, the purpose of this seminar thesis is to replicate the main empirical findings of one of the seminal papers in this strand of the literature on a sample of European or G7 countries. Access to financial market data from Bloomberg or Datastream will be provided. We recommend that the candidate should feel comfortable using statistical packages, such as Stata or Matlab.

Introductory Literature:

- Sven Klinger and David Lando (2015): Safe-Haven CDS Premia, Working paper available at SSRN: http://ssrn.com/abstract=2536632
- Bai, J. and P. Collin-Dufresne (2013). The CDS-Bond Basis.
- Fontana, A. and M. Scheicher (2010). An Analysis of Euro Area Sovereign CDS and their Relation with Government Bonds. Working Paper Series 1271, European Central Bank

TOPIC R6: Investor inattention and merger announcements

Classification: Empirical topic
Advisor: Anja Kunzmann

Attention is a scarce cognitive resource, which can limit the ability to process information - this also applies to investors who need to process information on stock markets. Recent research has taken this into account by considering the effects of investor inattention on their decision-making. DellaVigna and Pollet (2009) argue that investors might be distracted on Fridays due to the upcoming weekend. They provide evidence that investors incorporate the information of Friday earnings announcements with a delay. Louis and Sun (2010) build on this study and examine the market reaction to merger announcements released on Fridays. They argue that merger announcements are relatively large and complex corporate events, which require a lot of attention from investors to process their information content. In line with their expectations, they find a muted market reaction to Friday merger announcements. There are more factors that can draw off investors' attention from relevant news, for example upcoming holidays (see Chang & Hsu (2015)) or the announcement of several (irrelevant) news on the same day (see Hirshleifer et al. (2009)).

In this study, the student should provide a brief overview of the literature on investor inattention and its effect on stock markets. In the empirical part, the purpose of the thesis is to replicate the main findings in Louis and Sun (2010) on the market reaction to merger announcements that take place on Fridays. As an extension, a more recent time period and further distraction factors could be considered. Access to financial markets data from CRSP, Compustat and IBES will be provided.

Introductory Literature:

- Louis, H., & Sun, A. (2010). Investor inattention and the market reaction to merger announcements. Management Science, 56(10), 1781-1793.
- DellaVigna, S., & Pollet, J. M. (2009). Investor inattention and Friday earnings announcements. The Journal of Finance, 64(2), 709-749.
- Hirshleifer, D., Lim, S. S., & Teoh, S. H. (2009). Driven to distraction: Extraneous events and underreaction to earnings news. The Journal of Finance, 64(5), 2289-2325.
- Chang, Y. Y., & Hsu, W. H. (2015). Mood and Analyst Optimism and Accuracy. Working Paper

TOPIC R7: March madness: Investor inattention and earnings announcements

Classification: Empirical topic
Advisor: Anja Kunzmann

Attention is a scarce cognitive resource, which can limit the ability to process information - this also applies to investors who need to process information on stock markets. Recent research has taken this into account by considering the effects of investor inattention on their decision-making. DellaVigna and Pollet (2009) argue that investors might be distracted on Fridays due to the upcoming weekend. They provide evidence that investors incorporate the information of Friday earnings announcements with a delay. Similarly, Hirshleifer et al (2009) find a muted market reaction to earnings announcements when investors are distracted by several announcements on the same day. There are more factors that can draw off investors' attention from relevant news. Drake et al. (2015) consider "March Madness" (the NCAA basketball tournament which takes place every year in March) as an exogenous event that diverts investors' attention away from newly disclosed earnings information. Stock markets underreact to earnings announcements that are released during March Madness, and show a strong post-earnings announcement drift for these announcements.

In this study, the student should provide a brief overview of the literature on investor attention and earnings announcements. In the empirical part, the purpose of the thesis is to replicate the main findings in Drake et al. (2015) on the market reaction to earnings announcements that are released during March Madness. As an extension, a more recent time period or other distracting (sports) events could be considered. Access to financial markets data from CRSP, Compustat and IBES will be provided.

Introductory Literature:

- Drake, M. S., Gee, K. H., & Thornock, J. R. (2016). March Market Madness: The Impact of Value-Irrelevant Events on the Market Pricing of Earnings News. Contemporary Accounting Research, 33(1), 172-203.
- Hirshleifer, D., Lim, S. S., & Teoh, S. H. (2009). Driven to distraction: Extraneous events and underreaction to earnings news. The Journal of Finance, 64(5), 2289-2325.
- DellaVigna, S., & Pollet, J. M. (2009). Investor inattention and Friday earnings announcements. The Journal of Finance, 64(2), 709-749.