

Universität Mannheim Lehrstuhl für Internationale Finanzierung 68131 Mannheim **Besucheradresse:**

L9, 1-2 68161 Mannheim Telefon 0621/181-3755 Telefax 0621/181-1664

Nic Schaub schaub@bwl.uni-mannheim.de http://intfin.bwl.uni-mannheim.de

Seminar HWS 2012: "Hedge Funds and Liquidity"

- TOPIC R1: A Comparison of Hedge Fund Databases Advisor: Nic Schaub
- **TOPIC R2:**Hedge Fund PerformanceAdvisor: Nic Schaub
- **TOPIC R3:**Hedge Fund Characteristics and PerformanceAdvisor: Nic Schaub
- **TOPIC R4:**Hedge Fund Manager Characteristics and PerformanceAdvisor: Nic Schaub
- TOPIC R5:
 Sources of Illiquidity

 Advisor: Michael Ungeheuer
- **TOPIC R6:**Liquidity SpiralsAdvisor: Michael Ungeheuer
- TOPIC R7:Measures of LiquidityAdvisor: Michael Ungeheuer
- TOPIC R8:Liquidity and Asset PricesAdvisor: Michael Ungeheuer







<u>Universität</u> Mannheim

TOPIC R1: A Comparison of Hedge Fund Databases

Classification:	Empirical topic
Advisor:	Nic Schaub

Getting access to hedge fund data is rather difficult. Most studies on hedge funds are based on either the Lipper TASS database, the HFR database, or the CISDM database. These databases are said to overlap. However, while some studies claim that the overlapping is around 50% others only discover a few duplicates once the databases are merged. This can only be due to different merger procedures. The goal of this study is to compare hedge fund databases used in the literature, to compare merger procedures of existing studies, to develop your own merger procedure, and to merge the Lipper TASS database with a rarely used but very comprehensive dataset of hedge funds.

Introductory Literature:

Agarwal, V., Daniel, N.D., Naik, N.Y., 2005, Role of Managerial Incentives, Flexibility, and Ability: Evidence from Performance and Money Flows in Hedge Funds, Working Paper, Georgia State University.

Capocci, D., Hübner, G., 2004, Analysis of Hedge Fund Performance, Journal of Empirical Finance, 11 (1), 55-89.

Kosowski, R., Naik, N.Y., Teo, M., 2007, Do Hedge Funds Deliver Alpha? A Bayesian and Bootstrap Analysis, Journal of Financial Economics, 84 (1), 229-264.

TOPIC R2: Hedge Fund Performance

Classification:Empirical topicAdvisor:Nic Schaub

The hedge fund market experienced a tremendous growth before the recent financial crisis. Hedge funds suffered during the crisis. However, the hedge fund industry also recovered relatively fast from it. They still attract investors by claiming to generate absolute returns independently of any benchmark. It is widely accepted that hedge fund do generate an alpha. However, the size of the alpha depends on the model applied. The goal of this study is to provide an overview of existing studies on hedge fund performance and to determine hedge fund alphas by means of different models based on a rarely used but very comprehensive database of hedge funds.

Introductory Literature:

Ackermann, C., McEnally, R., Ravenscraft, D., 1999, The Performance of Hedge Funds: Risk, Return, and Incentives, Journal of Finance, 54 (3), 833-874.

Ammann, M., Huber, O., Schmid, M., 2011, Has Hedge Fund Alpha Disappeared?, Journal of Investment Management, 9 (1), 50-71.

Fung, W., Hsieh, D.A., 2004, Hedge Fund Benchmarks: A Risk Based Approach, Financial Analysts Journal, 60 (5), 65-80.







<u>universität</u> Mannheim

TOPIC R3: Hedge Fund Characteristics and Performance

Classification:	Empirical topic
Advisor:	Nic Schaub

A wide range of studies analyzes the impact of hedge fund characteristics on hedge fund performance. Size matters, liquidity matters, fees matter, etc. The goal of this study is to provide an overview of the existing literature on hedge fund characteristics and hedge fund performance and to investigate whether results of previous studies can be confirmed based on a rarely used but very comprehensive database of hedge funds.

Introductory Literature:

Ackermann, C., McEnally, R., Ravenscraft, D., 1999, The Performance of Hedge Funds: Risk, Return, and Incentives, Journal of Finance, 54 (3), 833-874.

Ammann, M., Moerth, P., 2005, Impact of Fund Size on Hedge Fund Performance, Journal of Asset Management, 6 (3), 219-238.

Schaub, N., Schmid, M., 2012, Hedge Fund Liquidity and Performance: Evidence from the Financial Crisis, Working Paper, University of Mannheim.

TOPIC R4: Hedge Fund Manager Characteristics and Performance

Classification:Empirical topicAdvisor:Nic Schaub

Hedge funds are often seen as pure "bets" on managerial skills. While a wide range of studies exists that investigates the impact of hedge fund characteristics on hedge fund performance, only a few papers investigate the relationship between hedge fund manager characteristics and hedge fund performance. Hence, the goal of this study is to provide an overview of the existing literature on hedge fund manager characteristics and hedge fund performance, to identify hedge fund manager characteristics that capture hedge fund managers' skills, and to investigate whether these hedge fund manager characteristics influence hedge fund performance based on a rarely used but very comprehensive database of hedge funds.

Introductory Literature:

Chevalier, J., Ellison, G., Are Some Mutual Fund Managers Better Than Others? Cross-sectional Patterns in Behavior and Performance, Journal of Finance, 54 (3), 875-899.

Edwards, F.R., Caglayan, M.O., 2001, Hedge Fund Performance and Manager Skill, Journal of Futures Markets, 21 (11), 1003-1028.

Li, H., Zhang, X., Zhao, R., 2012, Investing in Talents: Manager Characteristics and Hedge Fund Performances, Journal of Financial and Quantitative Analysis, forthcoming.







TOPIC R5: Sources of Illiquidity

Classification:	Empirical and/or theoretical topic
Advisor:	Michael Ungeheuer

Liquidity differs in the cross-section of assets and over time. For instance, stocks included in the S&P 500 index exhibit much higher trading volumes than stocks outside the index. As another example, during the flash crash on May 6th 2010 – when the Dow Jones crashed by over 6% within minutes – bid-ask spreads increased sharply. Such empirical findings prompt the question: What causes these differences in liquidity? The goal of this seminar paper is to review and classify the theoretical models, which try to explain illiquidity costs. Additionally a brief empirical study should be done in order to test one of the models.

Introductory Literature:

Amihud, Y., H. Mendelson, L.H. Pedersen (2005): Liquidity and Asset Prices, Foundations and Trends in Finance, 1(4), 269-364.

Grossman, S.J., J.E. Stiglitz (1980): On the Impossibility of Informationally Efficient Markets, American Economic Review, 70, pp. 393-408.

Kyle, A.S. (1985): Continuous Auctions and Insider Trading, Econometrica, 53, 1315-1335.

TOPIC R6: Liquidity Spirals and Amplification Mechanisms

Classification:Empirical and/or theoretical topicAdvisor:Michael Ungeheuer

Liquidity costs tend to be fragile and linked to price changes, i.e. they tend to suddenly jump to high levels, along with price drops and simultaneously for many securities. For instance, on 'Black Monday' in 1987 – with no apparent reason – prices for many securities dropped sharply while illiquidity increased. The goal of this seminar paper is to review and classify models, which try to model such extreme and systematic behavior of liquidity. Additionally a brief empirical study should be done in order to test one of the models.

Introductory Literature:

Brunnermeier, M.K., L.H. Pedersen (2009): Market Liquidity and Funding Liquidity, Review of Financial Studies, 22(6), pp. 2201-2238.

Krishnamurthy, A. (2010): Amplification Mechanisms in Liquidity Crises, American Economic Journal: Macroeconomics, 2(3), pp. 1-30.







TOPIC R7: Measures of Liquidity

Classification:	Empirical topic
Advisor:	Michael Ungeheuer

Liquidity is not a clearly defined concept, but it can be roughly described as 'the ease of trading a security'. More specifically, several dimensions of how easy it is to buy and sell a security can be identified. The level of liquidity is determined interdependently by how quickly (immediacy) and cheaply (breadth) you can buy or sell a large amount (depth) of securities, and by how quickly prices recover after a deal (resiliency). The fuzziness of this definition makes the empirical measurement of liquidity hard and interesting. Common low-frequency measures include for instance: the trading-volume of securities, the number of zero-return days per month and the monthly average of absolute return relative to dollar-trading-volume (Amihud Illiquidity Ratio). The goal of this seminar paper is to compute several measures of illiquidity for stocks and to relate the results to the existing literature.

Introductory Literature:

Goyenko, R.Y., C.W. Holden, C.A. Trzcinka (2009): Do liquidity measures measure liquidity?, Journal of Financial Economics, 92(2), pp. 153-181.

Amihud, Y. (2002): Illiquidity and Stock Returns: Cross-Section and Time Series Effects, Journal of Financial Markets, 5, pp. 31-56.

TOPIC R8: Liquidity and Asset Prices

Classification:Empirical and/or theoretical topicAdvisor:Michael Ungeheuer

It seems that costs of illiquidity should have an influence on asset prices. For example, securities with higher bid-ask spreads or more volatile and systematic changes in trading volume should offer a premium to incentivize investors to buy. More generally, the expected level of liquidity costs as well as the nature of (unexpected) changes of liquidity costs should make some securities more attractive than others and thus influence prices. The goal of this seminar paper is to review existing liquidity-related asset pricing models. Additionally a brief empirical study should be done in order to test one of the models.

Introductory Literature:

Amihud, Y., H. Mendelson (1986): Asset Pricing and the Bid-Ask Spread, Journal of Financial Economics, 17, pp. 223-249.

Acharya, V.V., L.H. Pedersen (2005): Asset Pricing with Liquidity Risk, Journal of Financial Economics, 77, 375-410.

Amihud, Y., H. Mendelson, L.H. Pedersen (2005): Liquidity and Asset Prices, Foundations and Trends in Finance, 1(4), 269-364.





