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Testing the Profitability of Contrarian Trading Strategies Based on the Overreaction Hypothesis

Matthieu Duvinage, National Bank of Belgium, Paolo Mazza, ISESEG School of Management, Mikael Petitjean, Louvain School of Management & CORE

We develop 200 contrarian trading strategies based on significant market variations to test whether it is possible to benefit from the well-known psychological bias of overreaction that plagues investors. We conduct the most recent and appropriate statistical tests to ensure that none of these active strategies beats the buy-and-hold strategy due to pure luck only. Each of these strategies are tested on 13 different underlying assets, including exchange rates and stock indexes. When both transaction and borrowing costs are taken into account, our empirical results suggest that the use of significant market variations as daily reversal signals does not lead to any abnormal profit.

JEL Codes: G14.
Keywords: Return Predictability; High Market Variation; Overreaction; Behavioral Bias; SSPA

Evaluating UCITS Compliant Hedge Fund Performance

Serge Darolles, Université Paris Dauphine

Despite having registered significant investor appetite in recent years, empirical research on UCITS compliant hedge funds (“Newcits” or “Alternative UCITS”) is a rare commodity. The major contribution of this paper is therefore to evaluate the performance of publicly regulated Alternative UCITS vehicles in comparison to traditional hedge funds. For the first time, a representative set of data has been analyzed on a period from June 2004 to May 2011. The results shed light on what really matters for investors: regulation, managerial skills and risk. We show that the UCITS regulatory constraints come at a cost to performance and that the impact of regulation differs from one strategy to another. We also find that the performance of Alternative UCITS is positively affected by the skill set of the manager. In particular, hedge fund experience is relevant when managing Alternative UCITS funds.

Keywords: Hedge Funds; Mutual Funds; Regulation; Managerial Skills.
JEL Codes: G11; G18; G23.

Do Cooperative Banks Have Greater Market Power?

Damien Egarius and Laurent Weill, LaRGE Research Center EM, Strasbourg Business School, University of Strasbourg

This paper investigates if cooperative banks are different than their commercial counterparts in market power. We use data on a large set of banks over the period 2002-2008 from five European countries with an important market share for the cooperative banking industry (Austria, Denmark, France, Germany, and Italy). We measure bank market power with the Lerner index. We show that cooperative banks have a lower market power than commercial banks. This finding is explained by the governance of cooperative banks. As owners of cooperative banks are also clients of these banks, managers of cooperative banks have incentives to refrain from charging clients heavily.

JEL Codes: G21, P13.
Keywords: Lerner Index; Competition; Cooperative Banks.

In which Media are Analysts’ Recommendations most Followed?

Nadine Galy, University of Toulouse-Toulouse Business School, France, Laurent Germain, University of Toulouse, Toulouse Business School and ISAE, France, Denis Hilton, University of Toulouse II, France, Rainer Mathes, Prime Research, Mainz, Germany

Is it worth to follow press or TV financial advice? Is it a good bargain for an investor to spend money to gain access to these recommendations? In other words, can an investor make a profit following analysts’ recommendations published in press or broadcast? We address the question by examining whether the release day or a few days after, media coverage of analysts’ recommendations have an impact on share prices. If so, does the channel through which the information is released matter? Our study is the first, to our knowledge, comparing for the same time period, in the same country and in the same developed financial market the impact of recommendations on stock prices according to the type of media in which they appeared. We show that recommendations provided by specialized media and especially recommendations broadcast on TV have the strongest effect on share prices the day of the release. But if we take account a longer period after the release, acting on an upgrade published in the financial press or in the general press seems to be the strategies that, on average, procure the highest gains.

Keywords: Media Coverage; Analysts’ Recommendations; Stock Prices; Event Studies; Market Efficiency
Classification codes: G14; G15; O16
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