The 29th Australasian Finance and Banking Conference

Keynote Presentation

Factors Contributing to a Successful Academic Career

Asset Prices, Local Prospects and the Geography of Housing Dynamics

Capital Immobility, Recovery Rate Dynamics, and Financial Contagion

Hyunsoo Doh, University of Chicago

This paper provides a model in which slow capital inflows to a secondary credit market causes rollover-risk spillovers across financial firms (or banks) issuing collateralized short-term debt. In this economy, due to sluggish capital arrivals, asset liquidation of defaulted banks creates a price impact on the recovery rate for other banks' collaterals. Anticipating this price pressure, creditors of each bank choose to withdraw their funding earlier when other banks start deteriorating. The paper proves the existence of a Pareto-worst equilibrium, in which both the time-varying recovery rate and rollover threshold are endogenously determined. To analyse the spillover effect of a local shock more concretely, we generate a one-time unanticipated negative shock to some subset of the banks and examine the equilibrium transition path. The result shows that (i) the recovery rate declines in the beginning period of the disruption, but bounces back afterwards as new capital arrives, and (ii) the debt prices of both damaged and undamaged banks tend to move together. Lastly, the paper evaluates the effectiveness of certain monetary policies such as direct asset purchases and liquidity provisions.

Days to Cover and Stock Returns

Synthetic Shorting with ETFs

Qifei Zhu, University of Texas at Austin

Co-authored by Frank Weikai Li, Hong Kong University of Science and Technology

We provide novel evidence that arbitrageurs use exchange-traded funds (ETFs) as an avenue to circumvent short-sale constraints at the stock level. Using a large sample of U.S. equity ETF holdings, we document that shorting activity on ETFs rises with the difficulty of shorting the underlying stocks. Stocks that are heavily shorted via their holding ETFs underperform those lightly shorted by 94 basis points per month. The return predictability of ETF short selling on individual stocks is distinct from stock-level shorting measures, and is concentrated among stocks that face the most severe arbitrage constraints. Across a broad set of capital market anomalies, we find that anomaly returns are significantly attenuated when ETF ownership is high. Our evidence suggests that ETFs contribute to a more informationally efficient market by allowing arbitrageurs to target overpriced stocks that are otherwise difficult to short.

Why Do Distressed Firms Acquire?

Quxian Zhang (Eden), Erasmus University

This study documents a recent trend of diversifying acquisitions made by financially distressed firms and investigates the motivation for such acquisitions. Firms in financial distress engage in M&As as much as non-distressed firms between 2010 and 2014. Exploiting an exogenous shock in bankruptcy risk for financially distressed firms, I find that distressed firms reduce acquisition activities upon a reduction of bankruptcy probabilities. Specifically, distressed firms become more focused by cutting acquisition spending by 53% and by doubling divestitures. The results support the diversifying motivation of acquisitions by distressed firms, rather than the growth opportunity motivation that firms are capturing external growth opportunities. These findings indicate another distortion of financial distress in investment that when firms are under the pressure to meet debt obligations, it creates an incentive for firms to diversify and drives the investment style to external expansions.

A Model-Free Tail Index and Its Return Predictability

Jinji Hao, Washington University in St. Louis

This paper provides a novel framework --