1. Momentum Turning Points

Garg, Ashish and Goulding, Christian L. and Harvey, Campbell R. and Mazzoleni, Michele

Abstract

Turning points are the Achilles' heel of time-series momentum portfolios. Slow signals fail to react quickly to changes in trend while fast signals are often false alarms. We examine theoretically and empirically how momentum portfolios of various intermediate speeds, formed by blending slow and fast strategies, cope with turning points. Our model predicts an optimal dynamic speed selection strategy. We apply this strategy across domestic and international equity markets and document efficient out-of-sample performance. We also propose a novel decomposition of momentum strategy alpha, highlighting the role of volatility timing.

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3489539

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2. Size Matters, if You Control Your Junk

Cliff Asness, Andrea Frazzini, Ronen Israel, Tobias Moskowitz, and Lasse H. Pedersen

Abstract

The size premium has been challenged along many fronts: it has a weak historical record, varies significantly over time, in particular weakening after its discovery, is concentrated among microcap stocks, resides predominantly in January, is not present for non-price based measures of size, is weak internationally, and is argued to be subsumed by proxies for illiquidity. We find, however, that these challenges are systematically dismantled when controlling for the quality, or its inverse "junk", of a firm. Across a wide variety of quality measures proposed in the literature a significant size premium emerges, which is: stable through time, robust to specification, more consistent across seasons and markets, not concentrated in microcaps, robust to non-price based measures of size, and not captured by an illiquidity premium. These results are replicated in 30 different industries and in 24 different equity markets. The resurrected size effect that controls for quality puts it on par with other anomalies such as value and momentum in terms of its economic significance.

https://editorialexpress.com/cgi-bin/conference/download.cgi?db_name=AFA2017&paper_id=23

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3. An Empirical Assessment of Models of the Value Premium

Huijun Wang and Jianfeng Yu

Abstract

This paper inspects leading explanations of the value premium, especially those based on structural models. Recent models of the value premium typically endogenously link B/M to firm-specific attributes. The value firms then earn higher subsequent returns because these firms command a higher risk premium due to a higher default probability, lower profitability, higher operating leverage, shorter cash flow duration, or higher cash flow risk. Using several moderators, we first sort the entire sample into several groups of firms, across which the value premium varies significantly. We find that among the groups in which the value premium is tiny and insignificant, there is indeed a significant desired relation between B/M and firm-specific attributes. In sharp contrast, among the groups in which the value premium is the most pronounced, there is no significant desired relation between B/M and firm-specific attributes. Moreover, in many cases, these relations are even opposite to the predictions of these theories. Given the above findings, we further explore potential sources for the value premium. Overall, we conclude that our understanding of the value premium is still very limited.

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1866397

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4. Social Capital, Trust, and Firm Performance: The Value of Corporate Social Responsibility during the Financial Crisis

Karl V. Lins, Henri Servaes, and Ane Tamayo

Abstract

During the 2008–2009 financial crisis, firms with high social capital, as measured by corporate social responsibility (CSR) intensity, had stock returns that were four to seven percentage points higher than firms with low social capital. High-CSR firms also experienced higher profitability, growth, and sales per employee relative to low-CSR firms, and they raised more debt. This evidence suggests that the trust between a firm and both its stakeholders and investors, built through investments in social capital, pays off when the overall level of trust in corporations and markets suffers a negative shock.

https://onlinelibrary.wiley.com/doi/full/10.1111/jofi.12505

5. Socially responsible firms

Allen Ferrell, Hao Liang, Luc Renneboog

Abstract

In the corporate finance tradition, starting with Berle and Means (1932) , corporations should generally be run to maximize shareholder value. The agency view of corporate social responsibility (CSR) considers CSR an agency problem and a waste of corporate re-sources. Given our identification strategy by means of an instrumental variable approach, we find that well-governed firms that suffer less from agency concerns (less cash abundance, positive pay-for-performance, small control wedge, strong minority protection) en-gage more in CSR. We also find that a positive relation exists between CSR and value and that CSR attenuates the negative relation between managerial entrenchment and value.

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2464561

6. The wages of social responsibility — where are they? A critical review of ESG investing

Gerhard Halbritter and Gregor Dorfleitner

Abstract

This paper contributes both to investigating the link between the corporate social and financial performance based on environmental, social and corporate governance (ESG) ratings and to reviewing the existing empirical evidence pertaining to this relationship. The sample used includes ESG data of ASSET4, Bloomberg and KLD for the U.S. market from 1991 to 2012. The econometrical framework applies an ESG portfolio approach using the Carhart (1997) four-factor model as well as cross-sectional Fama and MacBeth (1973) regressions. Previous empirical research indicates a relationship between ESG ratings and returns. As against this, the ESG portfolios do not state a significant return difference between companies with high and low ESG ratings. Although the Fama and MacBeth (1973) regressions reveal a significant influence of several ESG variables, investors are hardly able to exploit this relationship. The magnitude and direction of the impact are substantially dependent on the rating provider, the company sample and the particular subperiod. The results suggest that investors should no longer expect abnormal returns by trading a difference portfolio of high and low rated firms with regard to ESG aspects.

https://www.sciencedirect.com/science/article/abs/pii/S1058330015000233

7. Procyclical Stocks Earn Higher Returns

William N. Goetzmann, Akiko Watanabe and Masahiro Watanabe

Abstract

We find that procyclical stocks, whose returns comove with business cycles, earn higher average returns than countercyclical stocks. We use a half century of real GDP growth expectations from economists' surveys to determine forecasted economic states. This approach largely avoids the confounding effects of econometric forecasting model error. The loading on the expected real GDP growth rate is a priced risk measure. A fully tradable, ex-ante portfolio formed on this loading generates a procyclicality premium that is statistically significant, economically large, long-lasting over a few years, and independent of the size, book-to-market, and momentum effects.

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1570705

8. US Political Cycles and International Stock Returns

Pasquale Della Corte and Hsuan Fu

Abstract

This paper demonstrates the US political cycle is important to understand the risk premia of the stock and currency markets worldwide. We first document that the stock excess returns are higher and the USD is more appreciated when the US president is a Democrat rather than a Republican. Then, we argue that the US trade policy generates the cross-country spillovers to the non-US markets. From the networks constructed by trade and cross-border capital flows, we also find that the peripheral countries have higher stock returns when the US president is a Democrat. Lastly, we find that the return differences are largely mitigated after controlling for the trade tariff. It seems that the US presidential puzzle which is also observed in the international financial markets can be rationalized by the level of trade protectionism.

https://editorialexpress.com/cgi-bin/conference/download.cgi?db_name=AFA2021&paper_id=682