EDHEC-Risk Newsletter

September 23, 2011 Asset Management Research

FTSE EDHEC-Risk Efficient Indexes: August 2011	
United States	-5.01%
United Kingdom	-3.96%
Eurobloc	-10.12%
Developed Europe	-8.02%
Dev. Europe ex. UK	-9.55%
Japan	-5.36%
Dev. Asia ex. Jap.	-7.09%
Asia-Pac. ex. Jap.	-7.31%
Asia-Pacific	-6.32%
Developed	-5.93%
Emerging	-6.39%
All World ex. US	-6.68%
All World ex. UK	-6.10%
All World	-5.99%

EDHEC-Risk Alternative Indexes: Aug 2011 (Estimates)	
Conv. Arb.	-2.09%
CTA Global	0.27%
Dist. Sec.	-4.08%
Emg. Mkts	-3.90%
Eq. Mkt Neut.	-1.64%
Event Driven	-3.78%
Fix. Inc. Arb.	-0.68%
Global Macro	-0.34%
L/S Equity	-4.07%
Merger Arb.	-1.20%
Rel. Value	-1.86%
Short Selling	6.97%
FoF	-2.57%

Events

Europlace Institute of Finance Scientific Morning Conference:

EDITORIAL

Is there a risk/return trade-off across stocks? Theory and - perhaps more importantly - financial common sense suggest that there should be a trade-off between a stock's riskiness and its expected returns. On the one hand, standard asset pricing models suggest that systematic risk should be positively rewarded, i.e. stocks with higher betas should earn a higher expected return (see Ross's Arbitrage Pricing Theory, 1976). Subsequently, research has underlined the explanatory power of stock-specific or so-called idiosyncratic risk for expected returns (Merton, 1987). Taken together, these results suggest that total volatility, which is the model-free sum of systematic volatility explained by a factor model, and idiosyncratic volatility, should also be positively rewarded (Martellini, 2008). More...

INDUSTRY ANALYSIS

Short sale regulation in turbulent markets: can it help? Since the beginning of the financial crisis, the practice of short selling has come under heightened scrutiny with regulatory reactions differing across countries. Investors short stocks for many reasons, some betting on the fall of a share's price due to overvaluation, others as part of convertible arbitrage or long/short strategies, and many for hedging purposes. However, the practice is contentious and during sharp market declines short sellers are often cited as putting undue downward pressure on prices, thereby exacerbating negative price moves. Much of the recent activity in regulation is aimed at reducing this potential harmful effect of shorting. More...

Reaction to dangerously rising inflation Rising inflation is a fact of life worldwide. More ominously, some authorities in the developed world are signalling that some inflation would help to get their economies out of the public debt hole, as happened after the Second World War. US commentators in particular are pointing to the anchoring of inflation expectations as a reason for not worrying. Many are not convinced. More tellingly, the all-important issue of accounting in the presence of inflation is being resurrected. It was debated in the '70s, but has been largely dormant since. More...

FEATURES

Liquidity Session, Paris

Managing Insurance Assets Under Solvency II, London

Towards the Design of Efficient Equity Indices and Benchmarks: Australian seminars, Melbourne, Sydney

Investment Risk Management Seminar, Sydney

Performance of Equity Indices Seminar, Singapore

Impact of Enterprise Risk Management (ERM) and Firm Risk on Credit Rating Decisions, London

Towards the Design of Efficient Equity Benchmarks: Dubai seminar, Dubai

The Economics of High Frequency Trading Seminar, London

EDHEC-Risk Days Europe 2012, London

Books

Handbook of Short Selling

Performance of Socially Responsible Investment Funds against an Efficient SRI Index: The Impact of Benchmark Choice when Evaluating Active Managers Performance measurement of socially responsible investment (SRI) has been the subject of numerous studies in various countries. However, the conclusions of performance assessments always depend on the choice of the reference index one uses. SRI criteria lead to a reduction of the stock universe. Typical SRI indices respect such screenings and then simply weight the acceptable stocks by market cap, or alternatively by sustainability scores. They thus ignore the risk/return properties of stocks and in particular the correlations. Consequently, they do not necessarily reflect the performance available from a well-diversified portfolio of SRI-compliant stocks. More...

INTERVIEW

SRI funds do not perform particularly well in comparison with indices - an interview with Noël Amenc In this month's interview, we talk to Noël Amenc, Professor of Finance at EDHEC Business School, Director of EDHEC-Risk Institute, and Chairman of EDHEC-Risk Indices & Benchmarks, about a new EDHEC-Risk Institute study, "Performance of Socially Responsible Investment Funds against an Efficient SRI Index: The Impact of Benchmark Choice when Evaluating Active Managers." More...

RESEARCH NEWS

In Defense of Optimization: The Fallacy of 1/N *Mark Kritzman, Sébastien Page, David Turkington.* Several studies have shown that equally-weighted portfolios outperformed portfolios constructed using optimisation techniques (cf. for example, Jobson and Korbie, 1981; DeMiguel, Garlappi and Uppal, 2009; Duchin and Levy, 2009). This result can be explained by some characteristics of equally-weighted portfolios including, among others, non-concentration and over-weighting of small cap stocks. In addition, equal-weighting is easy to perform as it assumes no specific information about asset risk and return. More...

EDHEC PUBLICATIONS

How to Construct Fundamental Risk Factors? *Georges Hübner, Marie Lambert.* This paper proposes an alternative way to construct the Fama and French (1993) empirical risk factors. Without losing in significance power, in beta consistency or in factor efficiency compared to the Fama and French factors, this technique insulates the effects of other sources of risk as much as possible when evaluating one risk factor. Consequently, the approach is neater and leads to risk premiums that may not necessarily be used jointly in a regression-based model, unlike the original Fama and French factors whose risk exposures are highly sensitive to the inclusion of the other factors in the regression. More...

A Hedge Fund Investor's Guide to Understanding Managed Futures *Hilary Till, Joseph Eagleeye.* Managed futures strategies are a niche-within-a-niche in the capital markets. Despite this status, managed futures have become of particular interest to hedge fund investors. This paper discusses why this has become the case by focusing on this strategy's unique diversification properties. It also briefly covers the main characteristics of this investment category, its underlying sources of return, and alternative statistical measures that are appropriate for comparing managed futures investments with hedge fund investments. More...

EDHEC-RISK NEWS

Interest in the EDHEC-Risk Institute PhD in Finance continues to grow Some 16,000 people have expressed interest in the programme and 108 applications have been processed to date for the programmes starting in October in Europe and in February in Asia. More...

Raman Uppal appointed as a director of the American Finance Association Raman Uppal, Professor of Finance at EDHEC Business School and Member of EDHEC-Risk Institute, has been appointed to the board of directors of the American Finance Association, the world's premier academic organisation devoted to the study and promotion of knowledge about financial economics. More...

Ekkehart Boehmer invited to serve as Associate Editor of the Review of Financial Studies Ekkehart Boehmer, Professor of Finance at EDHEC Business School and Member of EDHEC Risk Institute, was invited by the Review of Financial Studies to serve as Associate Editor for a three-year period starting in July 2011. More...

Seminar exploring new insights into the performance of equity indices to be held in Singapore At a special presentation to be held in EDHEC Risk Institute - Asia's Singapore premises on November 3, 2011, Raman Uppal, Professor of Finance at EDHEC Business School and Member of EDHEC-Risk Institute, will be drawing on his recent research to explain how to shed light on the performance of equally-weighted equity indices and its sources. More...

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