FEN-AUGUST-2017.

["Does Financial Education Impact Financial Literacy and Financial Behavior, and If so, When?"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3016931&partid=22912&did=352063&eid=50644)
[World Bank Policy Research Working Paper No. 8161](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=561341&partid=22912&did=352063&eid=50644)

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[LUKAS MENKHOFF](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=301916&partid=22912&did=352063&eid=50644), German Institute for Economic Research (DIW Berlin), Humboldt University of Berlin - Faculty of Economics,Email: lmenkhoff@diw.de

A meta-analysis of 126 impact evaluation studies finds that financial education significantly impacts financial behavior and, to an even larger extent, financial literacy. These results also hold for the subsample of randomized experiments (RCTs). However, intervention impacts are highly heterogeneous: financial education is less effective for low-income clients as well as in low- and lower-middle income economies. Specific behaviors, such as the handling of debt, are more difficult to influence and mandatory financial education tentatively appears to be less effective. Thus, intervention success depends crucially on increasing education intensity and offering financial education at a "teachable moment."

["The Value of Financial Education – When and How?"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3014882&partid=22912&did=352063&eid=50644" \t "_blank) 

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Financial education in high school has been studied and found to be associated with positive financial behavior. However, certain knowledge bestowed on students might not be enough to enhance financial behavior due to time preference, mental maturity, changing financial products (or knowledge), and the timing and applicability of the financial education. This study uses data from National Financial Capability Study (NFCS) to examine the timing of financial education and its impact on short-term and long-term financial behavior. We also explore the power of financial education on financial knowledge and look at how financial knowledge is linked to positive economic behavior. We find that financial education should be taught during multiple life stages to achieve the best outcome. In other words, the empirical results indicate that financial education conducted in multiple channels, including high school, college, the workplace, and at home is the most optimal. For those who did not attend college, being exposed to financial education in high school is significantly associated with positive economic behavior. Policymakers in the financial capability arena are informed on the channels of financial education which produce the most fruitful economic and societal gains.

***When I first read the abstract, I couldn’t figure out what they meant by sustainability or how they were measuring it or what it had to do with mutual funds. Turns out that they were looking at the introduction of Morningstar’s sustainability ratings: SGB.***

["Do Investors Value Sustainability? A Natural Experiment Examining Ranking and Fund Flows"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3016092&partid=22912&did=352069&eid=55749) 

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Examining a shock to the salience of the sustainability of $8 trillion of mutual fund assets, we present evidence that investors value sustainability. Being categorized as a low sustainability fund resulted in outflows of more than $12 billion and an increased probability of liquidation. High sustainability funds received inflows greater than $22 billion. We can reject that mutual fund investors on average view sustainability negatively or do not care about sustainability. Investors reacted to the extreme categories, largely ignoring middle categories and detailed aspects of the ratings. Experimental evidence suggests that higher sustainability is viewed as a positive predictor of future performance, but we do not find evidence of such performance in the data.

["Portfolio Liquidity and Diversification: Theory and Evidence"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3016781&partid=22912&did=351996&eid=1603180) 
[CEPR Discussion Paper No. DP12195](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=223793&partid=22912&did=351996&eid=1603180)

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A portfolio's liquidity depends not only on the liquidity of its holdings but also on its diversification. We propose simple, theoretically motivated measures of portfolio liquidity and diversification. We also develop an equilibrium model relating portfolio liquidity to fund size, expense ratio, and turnover. As the model predicts, mutual funds with less liquid portfolios have smaller size, higher expense ratios, and lower turnover. The model also yields additional predictions that we verify empirically: larger funds are cheaper, funds that trade less are larger and cheaper, and funds that are too big perform worse. We also find that mutual fund portfolios have become more liquid because both components of diversification, coverage and balance, have trended upward.

["Investment-Horizon Spillovers"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3016920&partid=22912&did=351916&eid=1508306) 
[NBER Working Paper No. w23650](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=209249&partid=22912&did=351916&eid=1508306)

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This paper uses wavelets to decompose each stock’s trading-volume variance into frequency-specific components. We find that stocks dominated by short-run fluctuations in trading volume have abnormal returns that are 1% per month higher than otherwise similar stocks where short-run fluctuations in volume are less important—i.e., stocks with less of a short-run tilt. And, we document that a stock’s short-run tilt can change rapidly from month to month, suggesting that these abnormal returns are not due to some persistent firm characteristic that’s simultaneously adding both short-run fluctuations and long-term risk

["Financial Stability Analysis: What are the Data Needs?"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3014083&partid=22912&did=351381&eid=1119486) 
[IMF Working Paper No. 17/153](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=116128&partid=22912&did=351381&eid=1119486)

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The growing incidences of financial crises and their damage to the economy has led policy makers to sharpen the focus on financial stability analysis (FSA), crisis prevention and management over the past 10-15 years. The statistical world has reacted with a number of initiatives, but does more need to be done? Taking a holistic view, based on a review of experiences of policy makers and analysts, this paper identifies common international threads in the data needed for FSA and suggests ways to address these. While there has been an encouragingly constructive response by statisticians, not least through the G-20 Data Gaps Initiative, more work is needed, including with regard to shadow banking, capital flows, corporate borrowing, and granular data. Further, to support FSA, the paper identifies potential enhancements to the conceptual advice in statistical manuals including with regard to foreign currency and remaining maturity.

["Identifying Outliers in Finance"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2986928&partid=22912&did=351356&eid=1107676) 

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Outliers represent a fundamental challenge in empirical finance research. We investigate whether the routine techniques used in finance research to identify and treat outliers are appropriate for the data structures we observe in practice. We then propose a multivariate outlier identification strategy and show this method effectively identifies outliers, tests for their influence, and minimizes the bias they cause in both cross-sectional and panel regressions. We empirically test this method using replications of four recently published studies in premier finance journals to show how adjusting for multivariate outliers can lead to significantly different results.

[New Special Study of the Securities Markets: Institutional Intermediaries"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3005542&partid=22912&did=351350&eid=1096317) 

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This essay, written for the Conference on the New Special Study of Securities Markets at Columbia Law School, identifies the key regulatory challenges posed by institutional intermediaries in America’s capital markets. We survey existing legal and economic research and suggest new areas for regulatory reform and scholarly inquiry. We cover registered investment companies (such as mutual funds), private investment funds (such as hedge funds and private equity funds), credit-rating agencies, and broker-dealers.

[What Information Drives Asset Prices?"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3015833&partid=22912&did=351218&eid=948944) 
[Chicago Booth Research Paper No. 17-23](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/PIP_Journal.cfm?pip_jrnl=930647&partid=22912&did=351218&eid=948944)

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The market price-dividend ratio is highly correlated with several macroeconomic variables, particularly inflation and labor market variables, but not with aggregate consumption and GDP. We incorporate this observation in an exchange economy with learning about the economic regime from consumption history and a latent signal. The estimated model rationalizes the moments of consumption and dividend growth, market return, price-dividend ratio, and real and nominal term structures and the low predictive power of the price-dividend ratio for consumption and dividend growth while a nested model with learning from consumption history alone does not. The intuition is that the beliefs process has high persistence and low variance because beliefs depend on the signal. The model fit remains largely intact when we replace the latent signal with a combination of macroeconomic variables that heavily loads on inflation and labor market variables. The results highlight the informational role of macroeconomic variables and suggest that just one combination of macroeconomic variables, along with consumption, proxies well for investors’ relevant information set.

["The Impact of Benchmark Choice on US Mutual Fund Benchmark-Adjusted Performance and Ranking"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3014010&partid=22912&did=351217&eid=947908) 

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This study re-visits the question of benchmark mismatch among 1281 US equity mutual funds and its impact on benchmark-adjusted fund performance and ranking. All funds report S&P500 index as a prospectus benchmark, yet 2/3 of those are placed in the Morningstar category with risk and objectives different to those of the S&P500 index. We identify ‘true’ benchmarks for those mismatched funds and find that their S&P adjusted alphas are higher than ‘true’ benchmark adjusted alphas in 61.2% of the cases. In terms of fund quartile rankings, 30% of winner funds lose that status when the prospectus benchmark is substituted with a more suited one. In the remaining performance quartiles there is no clear advantage of using S&P 500 as a prospectus benchmark. The prospectus benchmark therefore can mislead investors about fund’s relative performance. This leads us to conclude that any reference to performance in a fund’s prospectus should be treated with caution.

["The Economics and Regulation of Secondary Trading Markets"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3012536&partid=22912&did=351056&eid=795132) 
Presented at Initiating Conference 'New Special Study of the Securities Markets', held at Columbia Law School, 23 & 24 March 2017

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We examine current areas of concern in the regulation of secondary trading markets, including questions concerning market fragmentation, protected orders, minimum tick size, maker-taker pricing models, transparency and dark liquidity, algorithmic and high-frequency trading, the duties and obligations of broker-dealers who handle customer orders, system robustness, flash crashes and episodic liquidity, exchange traded funds, distributed ledger technology, the ownership and usage of market data, and the governance of market data plans. We also discuss potential ways to reduce transaction costs and improve transparency in fixed income markets. To the extent possible, we summarize key findings from the existing academic literature, describe directions for future research, and offer suggestions for future rulemaking.

["The 'Roll Yield' Myth"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3011634&partid=22912&did=351056&eid=795132" \t "_blank) 

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It is widely asserted that futures investors periodically pay or receive an amount proportional to the difference in futures prices across delivery dates. This “roll yield” is mythical – no such cash flow occurs, at the time of “roll trades” or at other dates. While the use of the word “yield” renders the “roll yield” a misnomer, the difference in futures prices across delivery dates does contain useful information. The “roll yield” explains when futures gains exceed or fall short of spot price changes. And, while the “roll yield” is not a cash flow to futures investors, it is in some cases correlated with actual futures gains and losses, and for storable assets it provides information regarding cash flows to those who hold spot positions. This paper clarifies the actual role of the “roll yield” for gains and losses to futures positions.

["Instability of Centralized Markets"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3012889&partid=22912&did=351056&eid=795132" \t "_blank) 

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Centralized markets reduce the costs of search for buyers and sellers. Their ‘thickness’ increases the chance of order execution at competitive prices. In spite of the incentives to consolidate, some markets, securities markets and online advertising, being the most notable, are fragmented into multiple trading venues. We argue that fragmentation is an inevitable feature of any centralized market except in certain special circumstances.

[Anomalies Abroad: Beyond Data Mining"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3012923&partid=22912&did=351058&eid=794313) 

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A pre-specified set of nine prominent U.S. equity return anomalies produce significant alphas in Canada, France, Germany, Japan, and the U.K. All of the anomalies are consistently significant across these five countries, whose developed stock markets afford the most extensive data. The anomalies remain significant even in a test that assumes their true alphas equal zero in the U.S. Consistent with the view that anomalies reflect mispricing, idiosyncratic volatility exhibits a strong negative relation to return among stocks that the anomalies collectively identify as overpriced, similar to results in the U.S.

["Dead Alphas as Risk Factors"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3011446&partid=22912&did=350643&eid=495041) 

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We give an explicit algorithm and source code for extracting equity risk factors from dead (a.k.a. "flatlined" or "hockey-stick") alphas and using them to improve performance characteristics of good (tradable) alphas. In a nutshell, we use dead alphas to extract directions in the space of stock returns along which there is no money to be made (and/or those bets are too volatile). In practice the number of dead alphas can be large compared with the number of underlying stocks and care is required in identifying the aforesaid directions.

And an earlier piece.

Kakushadze, Z. and Yu, W. (2017a) How to Combine a Billion Alphas. Journal

of Asset Management 18(1): 64-80.

Available online: http://ssrn.com/abstract=2739219.

["How Blockchain Could Disrupt Wall Street!"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2866962&partid=22912&did=350644&eid=488974) 

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The financial markets are not only changing internally but also externally as blockchain starts to change the infrastructure landscape. The falling fees for investment management is creating a more accountable financial industry and forcing the stock market to also question its broader role in the society. Blockchain eliminates third party. Stock Exchanges are third parties. The idea of long term stock exchange, raised by Eric Ries in “The Lean Startup” were never so relevant. The author explores the historical context of stock exchanges and why they are not ready for the impending change. The foundation stones of the stock exchange business like liquidity and price discovery are worth revisiting in the blockchain context. The exchanges should get ready for disruption in their space and beginning of evolution of the stock exchange business in possibly less than a decade.

[Blockchain, Securities Markets and Central Banking"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3007402&partid=22912&did=349724&eid=1264457) 

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Distributed ledger technology, a variant of which is blockchain technology, represents one of the most important innovations of the fintech revolution. Academics, policymakers and market participants are experimenting with the technology with the aim of enhancing the functioning of financial markets. Industry consortia are being formed by the biggest financial institutions in the world seeking to leverage the use of the technology, in order to improve the clearing and settlement process. Furthermore, central banks in advanced and developing economies are examining the potential of using the technology in market infrastructures operated by central banks and are even exploring the possibility of issuing digital base money. Nevertheless, the widespread adoption of distributed ledger technology as envisioned by its ardent supporters encounters considerable legal obstacles, including the numerous new regulations imposed on financial markets and market participants in the aftermath of the financial crisis. The present paper will seek to disentangle the myths from the realities of the so-called distributed ledger technology or blockchain revolution and discuss how the legal regime can act both as an impediment and a catalyst to the widespread adoption of the technology.

["Does Investor Risk Perception Drive Asset Prices in Markets? Experimental Evidence"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3007878&partid=22912&did=350400&eid=311935) 

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What people perceive as risk clearly goes beyond variance. Several papers have shown that, e.g., probability of loss plays a more prominent role in perceived risk than does variance. We are the first to explore how individual risk perception influences prices and trading behavior in a market setting by exposing subjects to a number of differently shaped return distributions which they then trade on. We first elicit subjects’ individual risk perceptions, finding results in line with earlier papers. We then let subjects trade assets with these return distributions on a continuous double auction market. In the markets we observe active trading and prices strongly driven by average risk perception. While standard finance theory predicts identical prices for most of our assets we find average prices to vary by up to 20 percent, with assets perceived as being less risky trading at significantly higher prices.

["Dark Trading Volume at Earnings Announcements"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3007697&partid=22912&did=350069&eid=52501) 

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This study examines how the market share of dark venues changes at earnings announcements. We find a statistically and economically significant increase in dark market share during the week of and the week subsequent to the announcement of earnings. We also examine the relation between two firm characteristics and the changes in dark market share around earnings announcements: the quality of the firm’s information environment and the existence of a Credit Default Swap (CDS) market for the firm’s debt securities. We find that the increase in dark market share is larger for firms with high quality of information environment than firms with low quality. This finding is consistent with informed traders facing lower execution risk and uninformed traders facing lower adverse selection risk in dark venues for firms with relatively high quality of information environment. In addition, the increase in dark market share is higher for firms without CDS traded on the firm’s obligations, which is consistent with some informed traders trading in the CDS market instead of dark venues around earnings releases.

["Revisiting Tick Size: Implications from the SEC Tick Size Pilot"](https://hq.ssrn.com/Journals/RedirectClick.cfm?url=https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2994892&partid=22912&did=349528&eid=1179331)

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This paper analyzes the effect of the SEC tick size pilot on market quality variables. We find the predicted trade-off from bigger tick sizes: greater cost of execution (spreads) and greater displayed liquidity in the form of increased depth. This suggests that with greater tick sizes investors can trade larger blocks of assets at the best prices (bid/ask) but at the same time the cost of small transactions is greater. Moreover, we find this effect to be significant only in assets for which the quoted spread is of a magnitude similar to the new tick size, thus the effect is significant for assets with a quoted spread which is proportionately large relative to the tick size.

Increasing the tick size has a second effect, namely it reduces the minimum price variation. We find that this minimum price variation affects all assets in that we find a significant decrease in the number of changes in the best prices (bid or ask) in all assets. We also find that the increase in minimum price variation decreases the range of prices (the difference between the maximum and minimum price) though this effect is only weakly significant for assets which have quoted spreads that are significantly larger than the tick size. %This decrease in volatility could be the result of higher trading costs and lower volume and activity. The undesired effect comes from volume and activity.

We also find a significant decrease in NASDAQ intraday trading volume as well as across the sum of all venues. This effect is contrary to the SEC's stated objective and that of the JOBS Act, namely to increase volume, and we find that the effect is most significant for the treatment group with the trade-at restriction (treatment group 3).

Finally, we document a reduction in the level of market activity as measured by messages and trades that are posted and subsequently canceled in a short period of time (fleeting order). We find that the effect of the pilot is consistent with theoretical predictions and that this effect is statistically and economically significant for assets with quoted spreads that are of a similar magnitude as the tick size, and weakly or non-significant for assets with quoted spreads that are large relative to the tick size. These results suggest that the focus of evaluating the effect of tick sizes should be on the relative size of the asset's quoted spread, and not, as is often the case in the literature, the relative tick size as measured in terms of the asset's absolute price level.