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Management
Education

Activity Report 2015/2016

Chair of Empirical Capital Market Research
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Foreword



This report summarizes the academic activities of the members of the chair of empirical capital market research during the last year.

With our finance courses in the Bachelor, Master, MBA and Part-time MBA we have contributed to the school's educational mission. I like to thank all students for their participation and constructive evaluations.

In the area of research we could publish a paper in the Journal of Applied Corporate Finance and worked on a paper on bond transaction costs.

Prof. Yakov Amihud, New York University, again

visited us in August 2016, advised doctorate students and held presentations on "The information content of dividend increase announcements: Signaling and agency costs".

I warmly thank Susen Schilo and Philip Schnorpfeil for their helpful support especially for the open and constructive cooperation during the last year.

Vallendar, September 2016
Prof. Dr. Lutz Johanning

1. Team



Professor Lutz Johanning
Chairholder

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Prof. Dr. Lutz Johanning has been holding the chair of Empirical Capital Market Research since September 2007. He was speaker of the finance group from September 2010 until October 2013.

After his studies in business administration at the Johann Wolfgang Goethe-University in Frankfurt/Main, he worked as postgraduate research assistant at the Ludwig-Maximilians-University in Munich, where he received his PhD in 1998. He held the position of assistant professor at the Institute for Capital Market Research and Finance at this university and was promoted to professor in 2002. Until 2007 he was professor of the Endowed Chair of Asset Management at the European Business School, International University, Schloss Reichartshausen. In 2006 and 2007, he spent one semester as visiting professor at the University of Michigan, Ann Arbor, USA, where he taught a graduate course in portfolio risk management.

Professor Johanning's research interests are in the areas empirical capital market research and best execution, financial risk management as well as emotional finance.

Since January 2015 he is a member of the Consultative Expert Group, who advises the European Securities and Markets Authority (ESMA), European Banking Authority (EBA) and European Insurance and Occupational Pensions Authority (EIOPA) – within the realization of the regulations of the Packaged Retail and Insurance-based Investment Products-(PRIIPs).

Professor Johanning is a member of the board of directors of the EDG AG and vwd AG. Since January 2008, he has been a member of the Exchange Council of Eurex Deutschland. He represents WHU at "Frankfurt Main Finance" and is a member of the academic board of the Verband unabhängiger Vermoegensverwalter (VuV) (association of independent asset managers) as well as a member of the advisory board of the European Finance Forum (EFF) and of the Deutscher Derivate Verband (DDV). He has been the liaison lecturer for the region of Bonn-Koblenz at the Stiftung der Deutschen Wirtschaft (sdw) (foundation of German business) since January 2011.



Susen Schilo
Personal Assistant

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Susen Schilo joined the chair in April 2013. She worked for the Full-Time MBA before since 2006.



Philip Schnorpfeil
Research Assistant

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Philip Schnorpfeil joined the chair in July 2016 as a research assistant and doctoral candidate. He completed his M.Sc. in Finance at WHU in June 2016, where he also supported the Chair of Financial Accounting for over a year, and previously studied in Cologne, Copenhagen, and Brussels. Being interested in finance, economics, and econometrics, his dissertation is likely to be in the field of behavioral finance.

2. Teaching

2.1 Master of Science Program

Financial Risk Management

Thomas Ridder, DZ Bank
Spring 2016, 2nd semester, 2,5 SWS

In this module students are introduced to the concepts and techniques of market and credit portfolio risk management. They learn to apply these methods in computer classes and a course project. In addition, the concept of risk is discussed as a theoretical foundation to these models. The goal is that students get a comprehensive understanding of financial risk management and financial regulation.

2.2 Part-Time MBA Program

Risk Management

Professor Dr. Lutz Johanning
Fall 2015, MBA class of 2016, 2 SWS

All economics decisions are risky; therefore, managers need to estimate the different future outcomes of their decisions. This course introduces the concept of risk and the techniques of corporate and financial risk management. A key to these techniques is the understanding of probability distributions, which can be created through simulations. In addition, risk management is linked to the strategic management of a firm. Class discussions, a course project, different case studies, and a guest lecture illustrate the concept of risk, the techniques of risk management, and its importance.

3. Theses

3.1 Bachelor of Science Program

Till Wicher

Could Post-Crisis Legislation Have Prevented the Financial Crisis of 2007 / 2008?

Paul Gebhardt

Fund Managers' Employment Risk and the Performance of Brand-Stocks

The study is the first to analyze the international effects of default risk on equity returns using Merton's (1974) option pricing model to compute default measures. Using an international sample of stocks from 42 countries, we try to disentangle how default risk is priced differently among international capital markets as well as to explain the differences by market structure, regulation and friction disparities.

3.2 Master of Science Program

Yixin Hu

The Role of Emotions in Financial Group Decision

Radoslav Hristov

Cross-Market Predictability – Evidence from Derivative and Stock Markets

The implementation of efficient empirical examinations on the predictive power of derivative instruments for future asset returns by utilization of qualitative and quantitative data sets have only been possible since the last couple of years. Hence, there is surely need for further research in order to explore all the opportunities that emerge from the new fast growing and highly innovative markets. On this basis, this thesis will explore the linkages between spot and derivative markets in a predictive manner. The first part will focus on the commodity market and the specific implications arising from the term structure dynamics, rebalancing, diversification, as well as the inferences that can be gained concerning return predictability associated with the market as a whole, and especially regarding non-homogeneous commodities. The second paper will concentrate on the linkage between equity, options and credit derivatives markets. More precisely, an attempt will be made to assess the pricing efficiency of the firm's capital structure (debt vs. equity) by employing different derivatives that should imply the same risk exposure. On that account, normalized maturity-adjusted risk units will be constructed in order to analyze which dynamics can serve as indicator for discrepancies. Furthermore, their ability for return estimation in the short term will be examined. The third part will study topics closely related to the objectives of the previous two, but will also cover other markets and underlying models.

Guangchao (Nick) Luo, Durham Exchange Student

The Equity Home Bias Puzzle in Emerging Markets

3.3 Executive MBA Program

Stefan Betz

Analyzing and forecasting the stock market using advanced mathematical models

3.4 Doctoral Program

Kay Benk

Emotions and Capital Markets – A psychodynamic approach

The aim of the dissertation is to gain scientific information about the relationship between the personality characteristics of professional capital market investors and their general trading success. In order to identify characteristics, a modified method of the Operationalized psycho-dynamic Diagnosis (OPD2) is used which was developed for the clinical psychology. The findings allow insights in the investors' motives as well as their strengths and weaknesses with regard to dealing with their own person and their environment according to psychodynamic aspects. The survey is effected by interviews, the number of samples being currently 15 professional traders.

Nicolas Schmidt

Key Success Factors of Investment Funds in Germany

The investment fund business is one of the most prospering fields in the financial services sector. As it still bears a great deal of growth potential, new fund providers continuously enter the German market and thus increase the pressure of competition. In order to sustain the growing competition, „in the battle for market share“, investment funds have to identify key success factors and enhance their competitive advantages. However, there is neither a general consensus in the industry about the identification of these factors nor sufficient research. This dissertation addresses this problem and analyzes key success factors of investment funds. The aim is to deduce recommendations for action for the management of investment funds.

Mathias Frederik Schmidt (finished in November 2015)

Pricing and Liquidity of complex and structured derivatives

This PhD thesis will focus on the different pricing methods for complex derivatives especially credit derivatives such as collateralized debt obligations (CDO's). In a first step, a comparison between the standard market model and the implied copula approach for credit default swap indices will be done. Secondly, enhancements on the methods

such as different approaches for the recovery rate will be a topic of this thesis. The last examination will result from the first topics or alternatively will cover liquidity issues in bond pricing.

Philip Schnorpfeil

Working Title: The Effect of Culture on Corporate Risk-Taking – Evidence Using the Former West-East Germany Border

3.4.1 Co-Supervision

Simone Braun

Preferences in psychological and social contexts: Why Economics needs more than Rationality

Sabine Fetz

Die Bedeutung von Netzwerken in der Wirtschaft – Eine Untersuchung mit Hilfe der modernen Netzwerktheorie – (The significance of networks in the economy – An examination based on the modern network theory)

Sebastian Christoph Mönninghoff

The Regulation and Supervision of Systemically Relevant Banks following the Financial Crisis of 2008 – An Economic Analysis

4. Teaching Innovation

The course in Emotional Finance is based on psychoanalytical theory. Therefore, the learning technique is different from classical business courses.

Innovative learning techniques are the class discussions, which are based on personal reflections and discussions of the personal careers of the students.

In a case study students have to apply the content by analyzing the emotional patterns of financial group decisions.

5. Research

5.1 Other Journals

Johanning, L.; Becker, M.; Völkle, A. (2015): Transaction costs for German institutional investors - empirical evidence from stock markets. Journal of applied corporate finance : JACF. 4, 27.

5.2 Publications in Newspapers or Magazines

FAZ: „Frankfurt verschafft sich zu wenig Gehör“ 16.07.2016

FAZ: "Die Kritik darf nicht verstummen" 28.10.2015

FAS: "Mehr als nur ein Name" 01.11.2015
Frankfurt Main Finance Jahrbuch 2016: How scholarship supports the development of FinTech 08.12.2015

WDR 2 Stichtag: Börse 08.12.2015

5.3 Working Papers

Johanning, L / Becker, M. / Völkle, A. (2016): Are Transaction Costs of Corporate Bonds Inverse to Order Size?

5.4 Other

Reviewer for Deutsche Forschungsgemeinschaft (DFG)

Member of the Schmalenbach Gesellschaft (SG) in the study group "Strategic Planning and Controlling in Banking Corporations"

SG is the oldest association concerned with business administration in Germany. It is a registered politically independent non-profit institution with both business economists and executive personnel among its members. The dialogue between science and business is at the center of the society's work.

6. Executive Education and Corporate Connections

6.1 Publications

SSE-WHU: Risk Management for Executives, Case: ING Direct Strategic Risk Management

7. Services provided to the School

7.1 Serving As Representative or Contact Person for a Foundation, for Example a Scholarship Foundation, at WHU

Liaison Lecturer of the Stiftung der Deutschen Wirtschaft e.V. (sdw) (Foundation of German Business) Since January 2011 Professor Johanning has been the liaison lecturer for the area Bonn-Koblenz. He is responsible for the pre-selection in the application process. Furthermore, he advises and attends to the scholarship holders in this region.

7.1 Other Services provided to the School

Representative of WHU at Frankfurt Main Finance e.V.
Member of the Consultative Expert Group on Key Information Document for PRIIPs
For their joint work on the Key Information Document for PRIIPs the ESAs established a Consultative Expert Group (CEG). The CEG will advise the PRIIPs Sub Group of the Joint Committee mainly in the technical work involved in developing methodologies for disclosure of risks, rewards and costs of retail investment products.

8. Community Outreach

8.1 Memberships in Advisory Councils, Associations and Financial Networks

Member of the Advisory Board of Verband unabhängiger Vermögensverwalter e.V., Frankfurt am Main (Germany)
VuV is an association of independent asset managers.

Member of the Advisory Board of Deutscher Derivate Verband (DDV), Berlin und Frankfurt am Main (Germany)
DDV is the German derivatives association.

Member of the Advisory Board of European Finance Forum (EFF, Germany)
EFF is a network and platform for management leaders in the financial services industry and their consultants.

Member of the Exchange Council of Eurex Deutschland

Member of the Supervisory Board of Vereinigte Wirtschaftsdienste AG (vwd), Frankfurt am Main (Germany);

Member of the Supervisory Board of EDG AG Germany

Member of the Supervisory Board of Source For Alpha AG
Source For Alpha AG is an active asset management boutique.

Member of the Supervisory Board of XTP AG Germany

Member of the Supervisory Board of credX AG Germany

Expert on topics in the field of capital market, especially pricing and risk classification of financial products

8.2 Responsibility and Sustainability

The research of the chair members and projects in cooperation with financial institutions focus on the standardization of transparency of financial products. This standardization improves investor protection and by this fosters the sustainability of investment decisions.

Investor protection is on the top of the political and regulatory agenda throughout Europe (see PRIIPs regulation for an example). The primary goal of the regulators is to protect retail investors from unrecognized risks and to increase the transparency in product costs. In order to achieve this objective, legislative authorities have initiated numerous provisions in recent years. As regulated in PRIIPs, MiFID and German security law WpHG (Wertpapierhandelsgesetz), the distribution of complex products for example is linked to a suitability test. Besides the existing laws, the complexity of financial products for retail investors also plays an essential role in the current regulatory discussion and consultation.

The chair's research projects will address the question if the regulators' objective of an improved investor protection could be achieved by focusing on the complexity of financial products,

since there is no consistent and objective definition. Furthermore, regulating complexity ignores the fact that products classified as complex often allow for risk reduction and thus meet the preferences of many retail investors. A ban, e.g. of structured products, would therefore not be reasonable as this would hamper the access to risk reducing strategies for retail investors.

In the research projects we analyze how the undisputable meaningful objectives of the regulator - investor protection and the improvement of the understandability as well as the comparability of investment products - could be achieved by regulating product complexity at all. The projects provide an alternative approach for regulating transparency instead of banning complexity. Key element of the illustrated approach is the standardisation of product transparency.

Since January 2015 Prof. Johanning is member of the Consultative Expert Group on Key Information Document for PRIIPs. The CEG will advise the PRIIPs Sub Group of the Joint Committee mainly in the technical work involved in developing methodologies for disclosure of risks, rewards and costs of retail investment products.



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