



Excellence in  
Management  
Education

Chair of Empirical Capital Market Research  
Activity Report 2014/15  
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## 1. 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 update our working papers and finalized to a book chapter. In our finance group research seminar interesting topics were presented.

Prof. Yakov Amihud, New York University, again visited us in July 2015, advised doctorate students and held presentations on "The information content of dividend increase announcements: Signaling and agency costs".

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

Vallendar, September 2015



Prof. Dr. Lutz Johanning

## 2. Team



**Prof. Dr. Lutz Johanning**  
Chairholder

Tel. +49 261 6509 - 720  
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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.

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 Vermoögensverwalter (VuV) (association of independent asset managers) as well as a member of the advisory board of the European Finance Forum (EFF). 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.

### **3. Academic Programs**

#### **3.1 Teaching**

##### **Master of Science Program**

###### **Financial Risk Management**

**Professor Dr. Lutz Johanning**

**Spring 2015, 2nd semester, 2,5 SWS**

The course gave a complete overview of the fundamentals of financial risk management and provided participants with valuable skills for jobs in financial engineering and risk management. Students were introduced to the concepts and techniques of market and credit portfolio risk management and learned to apply these methods in computer classes and a course project. The most important market risk models (Delta-Gamma, Historic Simulation, and Monte Carlo Simulation) as well as credit portfolio models were presented. Students learned how to apply market and credit risk models in MS-Excel. Additionally, the concept of risk is discussed as a theoretical foundation to these models. Especially the Excel case studies can be considered as innovative learning techniques as students need to implement risk management methods for real option and loan portfolios.

###### **Behavioral Finance and Emotional Finance**

**Professor Dr. Mei Wang & Lutz Johanning**

**Spring 2015, 2nd semester, 2,5 SWS**

This course discussed important topics in Behavioral Finance, including non-expected-utility theory, heuristics and biases, heterogeneous beliefs, anomalies such as equity premium puzzle, momentum and bubbles. The goal was to understand various perspectives in the behavioral finance research and its practical relevance. In Emotional Finance psychological and neural aspects of financial decision making were explored, especially the role of emotions such as joy, trust and fear. As the course in Emotional Finance is based on psychoanalytical theory the learning technique is different from classical business courses. As innovative learning techniques can be considered the class discussions, which are based on personal reflections and discussions of the personal careers of the students. In a case study students had to apply the content by analyzing the emotional patterns of the new Greek government.

##### **Part-time MBA Program**

###### **Risk Management**

**Professor Dr. Lutz Johanning**

**Fall 2014, MBA class of 2015, 2 SWS**

The course introduced the concept of risk and the techniques of corporate and financial risk management. It linked risk management to the strategic management of a firm and underlined the importance of risk management by discussing various practical case studies.

## 3.2 Doctoral Dissertations

### Supervision

#### 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 psychodynamic 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.

#### 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.

#### 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.

#### 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 (submitted in July 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.

**Friedrich Matthias Stemme (finished in April 2015)**

***Performance of Suppliers to Under-pressure Customers: Pricing of Financial Distress Along the Supply Chain***

Using a data set of well-defined supplier-customer links, this paper investigates the returns and operating performance of suppliers to distressed customers. Customer distress is measured using the Merton model (1974). A rolling long-short strategy that sells the suppliers with the most distressed customers and buys the suppliers with the least distressed customers yields monthly Fama and French (1993) abnormal returns of 203 basis points.

**Maximilian Bernhard Trossbach (finished in March 2015)**

**Experimental Studies on Risk Preferences, Investment Risk Disclosure, and Motives for Risk-Taking**

In a series of experimental studies, he analyzes the risk behavior of individuals and teams, with a special focus on group dynamic effects on decision making. For the individual perspective, the concurring motives of rational choice and individual behavioral dispositions are in the core of the analysis. The dissertation shall contribute to the literature by explaining drivers of rational behavior in decision making under uncertainty. Implications for capital markets can be derived for, e.g. team composition for investment committees. The results are also expected to shed further light on the risk preferences of private investors.

## **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*

## **3.3 Theses**

Lutz Johanning supervised the following theses:

### **Guido Cruttchet, BSc Program**

*Active Portfolio Management versus Passive Index Tracking*

### **Ian Griffith, MSc Program**

*From analysis to emotions, an overview of how risk perception calibrates opinions about financial risks and guides investment*

### **Juljan Pöhlsen, PT-MBA Program**

*Hedging in the German Electricity market – Analysis of hedging strategies for wholesale consumers based on historical data*

### **Jan M. Kuboschek, PT-MBA Program**

*Active versus Passive Investments: Causes of Over- and Underperformance*



### 3.4 Guest Lectures

For the research seminar finance, which took place from September 2013 until June 2014 and addressed all faculty members and doctoral students, Denis Schweizer and Lutz Johanning organized the following guest lectures:

#### **Fall 2014**

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#### **Spring 2015**

March 10, 2015

Sascha Steffen, European School of Management and Technology Universität in Berlin  
„Zero Risk Contagion - Banks' Sovereign Exposure and Sovereign Risk Spillovers“

#### **YAKOV AMIHUD, Ira Leon Rennert Professor of Entrepreneurial Finance, New York University, Leonard N. Stern School of Business**

Yakov Amihud followed again our invitation to visit WHU from 29 to 31 July 2015. For the research community at WHU, he held a teaching seminar entitled "The information content of dividend increase announcements: Signaling and agency costs." Besides, he discussed research projects with doctoral assistants, assistant professor and professors in one-to-one conversations. Yakov Amihud's research focuses on the effects of liquidity of assets on their returns and values, and the design and evaluation of securities markets' trading methods. On these topics, Amihud has done consulting work for the NYSE, AMEX, CBOE, CBOT, and other securities markets. He has published more than seventy research articles in professional journals and in books, and edited and co-edited five books on topics such as LBOs, bank M&As, international finance, and securities market design. Also this year he had given an exclusive interview for "Institutional Money"

#### **Guest lectures within lectures**

November 23, 2014 Gerald Grasshoff, The Boston Consulting Group GmbH  
PT MBA 2014, Risk Management

## 4. Research

### 4.1 Publications

Book Chapter:

Lutz Johanning / Maximilian B. Troßbach: Risikoklassifizierung als Bestandteil von Anlagestandards, erscheint im Tagungsband „Der Schutz des Verbrauchers bei der Vermögensanlage, Bayreuth, 03./04. April 2014“.

Working Paper

Lutz Johanning / Maximilian B. Troßbach: Risk Disclosure in Key Investor Information Documents, Risk Perception, and Investment Decisions, Working Paper 2014.

Funke, C./Gebken, T./Johanning, L./Michel, G./Stemme, M.: Performance of Suppliers to Under-Pressure Customers: Evidence of Financial Distress along the Supply Chain, Working Paper 2014

Study on Behalf of Frankfurt Main Finance (FMF)

Burcin Yurtoglu/Lutz Johanning: Financial Centres 2025: Future Roles with a Special Focus on the Financial Centre Frankfurt, June 2015 (equivalent of 50,000 € fundraising on behalf of WHU).

### 4.2 Review and Expertise

Lutz Johanning acted as a reviewer for the following associations and journals:

- Deutsche Forschungsgemeinschaft (DFG, German Research Foundation)
- Zeitschrift für Betriebswirtschaftslehre (ZfB)
- Zeitschrift für Bankrecht und Bankwirtschaft (ZBB)
- Kredit & Kapital

## 5. Assignments at WHU

- Representative of WHU at Frankfurt Main Finance e.V.
- 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.
- 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.
- 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.

## 6. Business Engagement

### Memberships in Advisory Councils, Associations and Financial Networks

- Member of the Supervisory Board of Vereinigte Wirtschaftsdienste AG (vwd), Frankfurt am Main (Germany);  
vwd is a provider of customized information, marketing and technology solutions for financial services providers, media, private investors and the treasury of companies, with locations in Germany, Belgium, France, Italy, the Netherlands, and Switzerland.
- 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 Supervisory Board of EDG AG Germany  
Member of the Exchange Council of Eurex Deutschland
- Member of the Supervisory Board of Source For Alpha AG  
Source For Alpha AG is an active asset management boutique.
- Expert on topics in the field of capital market, especially pricing and risk classification of financial products

## **7. 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. 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 the 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. According to the recent draft of the Market of Financial Instruments Directive (MiFIR regulation), the European Security Market Authority (ESMA) could be authorized to release product bans for a limited time period. In addition, national authorities could be able to ban products under the motivation of investor protection.

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.