



Excellence in
Management
Education

Chair of Empirical Capital Market Research
Activity Report 2012/13

Activity Report
1 September 2012 – 31 August 2013

Chair of Empirical Capital Market Research

WHU – Otto Beisheim School of Management
Burgplatz 2
D – 56179 Vallendar
Tel.: +49 261 6509 - 721
Fax: +49 261 6509 - 729

Email: lutz.johanning@whu.edu
Internet: www.whu.edu/ekf

Table of Contents

	Page
1. Foreword	4
2. Team	5-7
3. Academic Programs	
3.1 Lectures in the BSc Program	8
3.2 Lectures in the MSc Program	9
3.3 Lectures in the MBA Program	9
3.4 Lectures in the PT-MBA Program	9
3.5 Lectures in the Doctoral Program	10
3.6 Guest Lectures	10
4. Examinations	
4.1 Dissertation Projects	11-13
4.2 Co-supervision	13
4.3 Bachelor Theses	14
5. Research	
5.1 Publications	14-15
5.2 Review Activities	15
6. Business Engagement	
6.1 Participation in Conferences	15
6.2 Memberships in Advisory Councils, Associations, Financial Networks	16
7. Sustainability	16-17
8. Roles within WHU	17

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 finalize a couple of new papers and contributed to some conferences. In our finance group research seminar interesting topics were presented. Prof. Yakov Amihud, New York University, again visited us in August, advised doctorate students and held presentations on liquidity risk

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

Vallendar, September 2013



Prof. Dr. Lutz Johanning

2. Team



Prof. Dr. Lutz Johanning |
Chair Holder

Tel. +49 261 6509 - 720
lutz.johanning@whu.edu

Prof. Dr. Lutz Johanning has been holding the chair of Empirical Capital Market Research since September 2007. He became speaker of the finance group in September 2010.

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 Vermoegensverwalter (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.



Barbara Luig
Personal Assistant

Tel. +49 261 6509 - 721
barbara.luig@whu.edu

Barbara Luig joined the chair from September 2007 until March 2013 and is now working for the HCCG Henkel Center for Consumer Goods at WHU.



Susen Schilo
Personal Assistant

Tel. +49 261 6509 - 721
susen.schilo@whu.edu

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



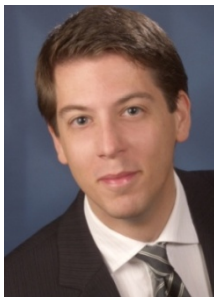
Dipl.-Volksw. Maximilian B. Trossbach
External PhD Student

maximilian.trossbach@whu.edu

Maximilian Trossbach has been a doctoral assistant at the chair from 2008 until 2012 and is now an external PhD student. He graduated from Goethe University in Frankfurt in August 2008 with a degree in economics. In the academic year 2012/13, he spent two semesters as a visiting scholar at the University of Tilburg in the Netherlands and at the NYU – Stern School of Business in New York. Maximilian co-authored eight articles for the weekly series “Denkfehler, die uns Geld kosten” in “Frankfurter Allgemeine Sonntagszeitung” with Lutz Johanning in 2012 and 2013. His research

interests are in the fields of emotional finance, behavioral finance and experimental economics. In his doctoral thesis, he works on different aspects of decision making under risk and ambiguity, including team dynamics, information processing in investment decisions, and trade-offs between working efforts and risk.

Before he joined WHU, Maximilian has gained working experience at Lufthansa Cargo AG (Chicago) @Visory Partners GmbH (Wiesbaden), Deutsche Post AG (Bonn), as well as TMC-Trossbach Marketing Concepts (Mainz). He has also worked as a tutor and a student assistant at the chairs of microeconomics and industrial economics at Goethe University.



Assistant Professor Dr. Denis Schweizer
Alternative Investments

Tel. +49 261 – 6509 724
denis.schweizer@whu.edu

Denis Schweizer was appointed assistant professor in August 2008. He studied business administration at the Johann-Wolfgang-Goethe University in Frankfurt am Main, Germany. After graduating, Dr. Schweizer began his dissertation at the Endowed Chair for Asset Management at the European Business School (EBS) in Oestrich-Winkel, Germany. He successfully completed his PhD in April 2008 with the thesis "Selected Essays on Alternative Investments." At the same time, Dr. Schweizer worked as an academic assistant in the design and structuring of executive educational programs in alternative investments and finance at the PFI Private Finance Institute/EBS Finanzakademie in Oestrich-Winkel. Dr. Schweizer also lectured in those programs. From September 2011 until January 2012 he was a visiting scholar at the New York University, USA.

Lectures held by Assistant Prof. Dr. Schweizer:

Spring 2013: Alternative Investments (BSc, 6th semester), 2 SWS
Spring 2013: Business Game (MSc, 2nd semester), 2 SWS (3 tracks)
Spring 2013: Risk Management in Corporates and Financial Institutions
(Full-time MBA class of 2013), 2 SWS

3. Academic Programs

3.1 Lectures in the Bachelor of Science Program

ASSET PRICING (Dr. Gaston Michel – guest lecturer)

Fall 2012, 3rd semester, 2 SWS

The course objective was to equip students with the fundamental tools in the field of asset pricing by focusing on the theoretical derivation of the most common asset pricing models and their empirical evaluation in integrated case-studies using MS EXCEL. At the end of the course, participants were able to test asset pricing models using real-world data and to make critical judgments about the underlying asset pricing theories.

ASSET MANAGEMENT (Professor Dr. Lutz Johanning)

Spring 2013, 6th semester, 2 SWS

This course focused on the fundamentals of Asset Management. It introduced students to the preferences of institutional investors and their restrictions, the asset allocation process, portfolio construction, best execution, performance measurement as well as marketing and sales. Students optimized their own portfolios of stocks and bonds in several excel case studies using real market data. In an extensive case study, students had to replicate an investment strategy. A guest speaker complements the lecture.

ALTERNATIVE INVESTMENTS (Dr. Denis Schweizer)

Spring 2013, 6th semester, 2 SWS

The main goal of the course is to understand fundamentals of the alternative investments industry. Therefore, the course started with a discussion about the risk- and return-profile of an active asset management compared to a passive asset management. Subsequently, the different investment styles of hedge fund and private equity managers are presented. This is followed by an introduction to the mechanisms in the commodity markets and the price formation in the futures and forwards commodity markets. Different portfolio construction models were presented and implemented in several excel case studies. The course ended with up to date trends in the alternative investments industry, like activism strategies, sovereign wealth fund investing and Special Purpose Acquisitions Companies (SPACs). In an extensive case study, students had to optimize portfolios under consideration of features unique to alternative investments. Guest speakers of a hedge fund and a private equity manager complement the lecture.

3.2 Lectures in the Master of Science Program

FINANCIAL RISK MANAGEMENT (Professor Dr. Lutz Johanning)

Spring 2013, 2nd semester, 2 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 risk models in MS-Excel. Additionally, the concept of risk is discussed as a theoretical foundation to these models.

BUSINESS GAME (Dr. Denis Schweizer)

Spring 2013, 2nd semester, 2 SWS (3 tracks)

The participants were divided into two groups which consist of several teams of five to six students each. The division into groups was carried out by the chair.

A kick-off meeting took place prior to the business game.

The Business Game is a business simulation based on rounds. The insights gained in the Bachelor of Science program and the Master of Science Program are applied by assuming a decision maker role in a company and linked with a management perspective.

3.3 Lectures in the MBA Program

RISK MANAGEMENT IN CORPORATES AND FINANCIAL INSTITUTIONS

(Dr. Denis Schweizer)

Spring 2013, MBA class of 2013, 2 SWS

The course introduced to the concept of risk and to 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 evaluation.

3.4 Lectures in the PT-MBA Program

RISK MANAGEMENT (Professor Dr. Lutz Johanning)

Spring 2013, MBA class of 2013, 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 underlines the importance of risk management by discussing various practical case studies.

3.5 Lectures in the Doctoral Program

ADVANCED ECONOMETRICS I (Prof. Dr. Lutz Johanning)

Fall 2012, 2 SWS (was cancelled)

This course introduced the fundamental methods of econometrics that are necessary for carrying out empirical research. The presented methods were implemented for case studies in MATLAB. The participants learned how to select proper methods for empirical research problems and how to implement them.

3.6 Guest Lectures

- **RESEARCH SEMINAR FINANCE**

In the course of this seminar, the chair of Empirical Capital Market Research organized five guest lectures:

Prof. Dr. Dr. h.c. Günter Franke, Universität Konstanz:

“Pre Crisis-Tranching and Pricing in CDO-Transactions”

Hans Degryse, KU Leuven & Tilburg University

Suffrage Institutions and Financial Development: Does the Middle Class Have a Say?

Heiko Jacobs, University of Mannheim

Losing Sight of the Trees for the Forest? Attention Shifts and Pairs Trading

Andreas Hackethal / Steffen Mayer, Goethe Universität

Passive Aggressive: Index-Linked Securities and Individual Investors

Morten Bennedsen, INSEAD

Estimating the Value of the Boss: Evidence from CEO Hospitalization Events

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

From 21 to 23 August 2013 Yakov Amihud followed again our invitation to visit WHU. For the research community at WHU, he held a teaching seminar entitled „The pricing of the liquidity risk factor“.

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.

4. Examinations

4.1 Dissertation Projects

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.

UMUT ORDU (completed in October 2012)

Cross Market Analysis – Option Implied Information for Quantitative Equity Portfolio Management

In three articles the paper style dissertation focuses on the informational content of option markets for quantitative equity management. The first essay titled “Short- and Long-Term Return Predictability due to Deviations from Put-Call Parity” focuses on the predictability and information content of option prices for future stock price movements. Umut Ordu wants to show that deviations from put-call parity reflects informed trading activity and can predict future returns of the underlying equities. The hypothesis that investors with short-term information trade in short-term options, while investors with long-term information trade in long-term options will be tested.

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

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

Selected Essays in Empirical Asset Pricing: Evidence on Information Incorporation and Efficiency of Capital Markets

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***Emotional Finance***

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.

4.2 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)

JULIA KAPRAUN

Volatility as an Asset Class- A case Study of Portfolio Diversification for a European Investor

SEBASTIAN CHRISTOPH MÖNNINGHOFF

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

RALF WIDTMANN

Modeling the competition between banks and peer to peer credit platforms

4.3 Bachelor Theses

CHRISTOPH DEMMERS

„Value Premium in European Equity Markets“

VANESSA LEMMER & BIJAN SOLTANI

*„Momentum and Contrarian Strategies in European Equity Markets“
Bijan Soltani und Vanessa Lemmer*

JOCHEN ZIERVOGEL

*„Asset Securitization in the Physical Commodity Trading Industry –
A Feasibility Analysis“*

5. Research

5.1 Publications

BOOKS/MONOGRAPHS

„Denkfehler, die uns Geld kosten. Warum wir immer das Falsche tun und andere sich ins Fäustchen lachen“

Winand von Petersdorff and Patrick Bernau (editors)

Bastei Lübbe (Lübbe Ehrenwirth); Auflage: Aufl. 2013 (20. September 2013)

Author of the following chapters (together with Max Trossbach): „Was man hat, das hat man“ p. 91 – 95

„Erfolg macht leichtsinnig“ p. 143 – 146

„Die falsche Scheu vor dem Unbekannten“ p. 147 – 151

„Warum wilde Raser manchmal ängstlich sind“ p. 175 – 179

„Tricksen mit dem Rahmen“ p. 199 – 202

„Das Herz ist immer dabei“ p. 333 – 337

ARTICLES IN INTERNATIONAL REFEREED JOURNALS

Haß, L. H., Johanning, L., Rudolph, B., Schweizer D.:

Do alternative real estate investment vehicles add value to REITs? Evidence from German open-ended property funds. The journal of real estate finance and economics, Vol. 47, 1, p. 65-82.

OTHERS

Johanning, L., 2013.

Die Bedeutung der Derivate für die Funktionsfähigkeit von Finanzmärkten.
Bankhistorisches Archiv / Beihefte, p. 59-71.

Funke, C., Gebken, T., Johanning, L. :

Investitionsverhalten bei Short-und Leveraged-ETFs Eine empirische Analyse des Handels deutscher Privatanleger, December 2012

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 2013

Cumming, D., Johanning, L., Schweizer , D.: The Two Faces of Hedge Funds,
Yearbook 2013, Frankfurt Main Finance, p. 40-41.

5.2 Review Activities

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

- Deutsche Forschungsgemeinschaft (DFG, German Research Foundation)
- Zeitschrift für Betriebswirtschaft (ZfB)
- Kredit & Kapital

6. Business Engagement

6.1 Participation in Conferences

SFOA Swiss Futures and Options Association, Bürgenstock Meeting 05.09.2012,
Interlaken

Panelist for “The World of Passive Investment Products in 5 Years”

UBS Deutschland AG / Frankfurt 20.09.2012

Reale Vermögenswerte, Asset Allocation und Liquidität

7. MiFID-Kongress – Regulatorisches Symposium, 13.11.2012

Panelist for “Aktueller Verhandlungsstand zum Thema MiFID/MiFIR”

ALFI Luxemburg, 17.04.2013

Speech & Panel

Risk Management, Regulation and Investor Protection

6.2 Memberships in Advisory Councils, Associations and Financial Networks

- Member of the advisory board of DVFA Certified Risk Manager Programs
- Member of the advisory board of European Finance Forum e.V.
- Member of the working group „Strategieentwicklung und Controlling in Banken“ (strategy development and controlling in banks) of the Schmalenbach Gesellschaft
- Member of the advisory council of the Association of Independent Asset Managers (Verband unabhängiger Vermögensverwalter, VuV)
- Member of the academic advisory board of the German Derivatives Associations (Deutscher Derivate Verband, DDV)
- Member of the Exchange Council of Eurex Germany

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.

8. Roles within WHU

- **Member of the WHU Senate**
- **Group Speaker Finance**
- **Member of the appointment committee Finance**
- **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 which takes place twice a year. Furthermore, he advises and attends to the scholarship holders in this region.