Three essays on empirical finance: the alphas and betas
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Citation for published version (APA):

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In this thesis, three articles are presented in each chapter. Chapter 2 takes advantage of a natural experiment in Taiwan to test the effect of short-sales constraints on price delays. Since September 1998, short-selling is banned at a price below the close price of the previous trading day. The new rule creates unique daily dynamics of short-sales constraints. Unlike existing short-sales constraint proxies like short interest or lending fees, our dynamic constraints do not suffer from endogeneity. Moreover, the constraints are public information and thus ideal for testing the rational expectation models, in which investors have to be aware of the level of the constraints. We extend the empirical methodology in Hou and Moskowitz (2005) and find no evidence of price delays. Our results are in line with Diamond and Verrecchia (1987), who argue short-sales constraints do not necessarily bias the prices. We also study the effect of daily price limits on the price delay and find it increases significantly if stocks hit their price limits on the previous trading day.

Chapter 3 develops a new GMM-style methodology with good small-sample properties to assess the abnormal performance and risk exposure of a non-traded asset from a panel of cash flow data. We apply this method to a sample of 958 mature private equity funds spanning 24 years. Our methodology uses actual cash flow data and not intermediary self-reported Net Asset Values. In addition, it does not require a distributional assumption for returns. For venture capital funds, we find a high market beta and significant under-performance. For buyout funds, we find a low beta and zero abnormal performance, but the sample is small. Larger funds have higher returns due to higher risk exposures and not higher alphas. We also find that Net Asset Values significantly overstate fund market values for the subset of mature and inactive funds.

Chapter 4 studies two of the most popular technical trading rules, involving so-called resistance and support price barriers. The barriers are either formed by
a recent high or low price, or by a special round number like 10, 20, 30. Unlike the existing literature, we (i) exploit changes in the second moments to detect the barriers and (ii) analyze price behaviors both before and after breaking through the barriers. Using NYSE and AMEX listed stocks, we find that the CAPM beta, total return variance, and idiosyncratic return variance all significantly decrease prior to breaking through a historical high or low price. After the breakthrough of a resistance level at a historical maximum, the one-day drift of CAPM alpha is highly significant at an annualized value of 35%. Results for barriers at special round numbers are more mixed.