The Evolving Beta-Liquidity Relationship of Hedge Funds

Arjen Siegmann, Denitsa Stefanova

PII: S0927-5398(17)30031-2
DOI: http://dx.doi.org/10.1016/j.jempfin.2017.04.002
Reference: EMPFIN972

To appear in: Journal of Empirical Finance

Received date: 7 November 2016
Revised date: 24 March 2017
Accepted date: 9 April 2017


This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting galley proof before it is published in its final citable form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.
The Evolving Beta-Liquidity Relationship of Hedge Funds*

Arjen Siegmann\textsuperscript{a1}, Denitsa Stefanova\textsuperscript{b2*}

\textsuperscript{a}Vrije Universiteit Amsterdam, Faculty of Economics and Business, De Boelelaan 1105, 1081 HV Amsterdam, The Netherlands

\textsuperscript{b}Luxembourg School of Finance, Université du Luxembourg, 4, rue Albert Borschette, L-1246 Luxembourg

a.h.siegmann@vu.nl
denitsa.stefanova@uni.lu

*Corresponding author.

Abstract

Hedge funds are known to have liquidity-timing capability, but this might be conditional on aggregate market conditions. To test this, we analyze changes in the relation between hedge funds’ stock market exposure and aggregate stock market liquidity. Employing an optimal changepoint approach, we find that equity-oriented hedge funds display a significant shift in liquidity-timing behavior after the major market microstructure changes in the year 2000. The shift is from a negative relation between market beta and liquidity towards a positive relation. We rule out a mechanistic explanation of the results by computing the returns to several familiar risk arbitrage strategies, finding in them no evidence of a similar shift in liquidity timing.

Keywords: hedge funds, market timing, liquidity timing, changepoint regression, dynamic strategies

JEL-Classifications: G14, G18, G23

1 Introduction

Hedge funds seem to be able to time general market trends and risk factors. Market timing behavior is observed from their early exit from the technology bubble as well as quickly changing exposures to market risk factors (see Brunnermeier and Nagel (2004) and Patton and Ramadorai (2013). Dynamic trading strategies employed by hedge funds potentially get reflected

---

*We thank André Lucas, Albert Menkveld, Bernd Schwaab, Joop Huij, Yufeng Han, Paulo Maio, Redouane Elkamhi, Dale Rosenthal, seminar participants at the CFR Research Seminar at Cologne, the 14th Conference of the Swiss Society for Financial Market Research (SGF), International Paris Finance Meeting 2011, Montreal Mathematical Finance Days 2012, FMA Europe 2012 meeting, Luxembourg School of Finance and an anonymous referee for useful comments and suggestions. A previous version of this paper circulated as ‘Market Liquidity and Exposure of Hedge Funds’.

\textsuperscript{1} Tel.: +31 20 598 6581; fax +31-20 598 6020.

\textsuperscript{2} Tel.: +352 46 66 44 5589; fax +352 46 66 44 35589.
دریافت فوری متن کامل مقاله

امکان دانلود نسخه تمام متن مقالات انگلیسی
امکان دانلود نسخه ترجمه شده مقالات
پذیرش سفارش ترجمه تخصصی
امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
امکان دانلود رایگان ۲ صفحه اول هر مقاله
امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
دانلود فوری مقاله پس از پرداخت آنلاین
پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات