

The Finsia Journal of Applied Finance

JASSA

issue 4 / 2009

- Quantile regression: its application in investment analysis** page 7
David E. Allen F Fin, Edith Cowan University
Paul Gerrans, Edith Cowan University
Abhay Kumar Singh, Edith Cowan University
Robert Powell, Edith Cowan University
- Fundamental investment research – do US results apply to Australian investors?** page 13
Bruce Vanstone, Bond University
Tobias Hahn, Bond University
Gavin Finnie, Bond University
- Are hedge fund returns predictable?** page 17
Robert Bianchi F Fin, Griffith University
Thanula Wijeratne, Queensland Investment Corporation
- Forensic risk analysis** page 25
Norman Sinclair F Fin, St Clair Financial Services
- The valuation of in-situ plant and machinery** page 31
Wayne Lonergan SF Fin, Lonergan Edwards & Associates
- Risk-adjusted discount rate estimation for evaluating mining projects** page 36
Mohsen Taheri, Amirkabir University of Technology, Iran
Mehdi Irannajad, Amirkabir University of Technology, Iran
Majid Ataee-pour, Amirkabir University of Technology, Iran
- Older people's assets: using housing equity to pay for health and aged care** page 43
Benedict Davies F Fin, a member of Finsia's Consumer Finance Advisory Group
- Book review** page 48
Investment Legends: The Wisdom that Leads to Wealth
- 2009 Index** page 50
- Webmaster recommends** page 61

contents

4

From the Chair of the Editorial Board

7

Quantile regression: its application in investment analysis

DAVID E. ALLEN F FIN, PAUL GERRANS, ABHAY KUMAR SINGH AND ROBERT POWELL

Quantile regression is a very powerful tool for financial research and risk modelling, and we believe that it has further applications that can provide significant insights in empirical work in finance. This paper demonstrates its use on a sample of Australian stocks and shows that while ordinary least squares regression is not effective in capturing the extreme values or the adverse losses evident in return distributions, these are captured by quantile regressions.

13

Fundamental investment research – do US results apply to Australian investors?

BRUCE VANSTONE, TOBIAS HAHN AND GAVIN FINNIE

The global financial crisis has sparked renewed interest by many investors in value-based investment approaches. Much published research, particularly from the United States, supports the use of fundamental analysis for value-based investment. This paper indicates how to test a well-documented US fundamental investment strategy but, in line with our previously published research, it also finds that these strategies do not translate well to our market.

17

Are hedge fund returns predictable?

ROBERT BIANCHI F Fin AND THANULA WIJERATNE

While empirical researchers have found that stock, bond and hedge fund returns can be predicted with conventional financial and economic variables, recent econometric studies have shown that many predictive regressions are spurious when the forecasting instrument is a non-stationary variable. In this study, we re-examine the predictability of hedge fund index returns with forecasting variables that are stationary. The results suggest that many financial and economic variables are insignificant in predicting hedge fund index returns.

25

Forensic risk analysis

NORMAN SINCLAIR F Fin

This paper examines a number of important portfolio risk management issues by providing an example of risk budgets and risk management control processes during the turbulent period from January 2008 to August 2009. It reveals a high degree of risk concentration within a large stock portfolio, evidence of risk drift over the period, and significant breaches of initial portfolio and sector risk budgets.

31

The valuation of in-situ plant and machinery

WAYNE LONERGAN SF Fin

The use of conventional cost-based valuation techniques can significantly understate in-situ plant and machinery values in fixed asset intensive businesses, especially in mining related assets. There are also important potential flow-on consequences to other valuations where a top-down valuation methodology is used. Before undertaking fixed asset valuations, the appropriateness or otherwise of the conceptual framework from which the numbers are derived and their context should be carefully considered.

36

Risk-adjusted discount rate estimation for evaluating mining projects

MOHSEN TAHERI, MEHDI IRANNAJAD AND MAJID ATAEE-POUR

While the preferred methods of mining project evaluation (net present value and internal rate of return) require the definition of an appropriate risk-adjusted discount rate (RADR) to establish investment criteria, most of the literature focuses on the calculation of the company's cost of capital. This approach, however, can create problems if the company's new projects do not have the same risk as its existing business. This paper discusses the methods for selecting the discount rate – in theory and in practice, both for mining and general projects – and proposes some guidelines for selecting the RADR.

43

Older people's assets: using housing equity to pay for health and aged care

BENEDICT DAVIES F Fin

The research agenda on the ageing population should be broadened to include consideration of how people will pay for their health and aged care later in life. With aged care costs difficult to estimate in advance, it is not easy for people to plan ahead. Hopefully, further financial innovation, including alternatives to reverse mortgages, will occur to help people address these issues.

48

Book Review: *Investment Legends: The Wisdom that Leads to Wealth* by Barry Dunstan

REVIEWED BY SCOTT DONALD SF Fin

50

2009 Index

61

Webmaster recommends