

# CONTENTS

Issue 2 2012

5

**From the Chair of  
the Editorial Board**

6

**From the  
Managing Editor**

8

**Should short selling be  
banned during periods of  
market turmoil?**

MICHAEL D. MCKENZIE

During times of market turmoil, market regulators are often called upon to ban short selling. This paper considers a number of arguments commonly used to justify banning, which revolve around issues of volatility, stability, market abuse and settlement disruption. A literature review focusing on the 2008 period provides little evidence to support these arguments against short selling, suggesting that regulators should be circumspect when considering any future bans.

14

**The direct costs of  
raising equity capital  
by renounceable rights  
issues in Australia**

KATHERINE WARREN  
and BILL DIMOVSKI

Rights issues continue to be a common means of raising equity capital for Australian companies listed on ASX. This study finds that from 2001 to 2006 the direct capital raising costs of Australian renounceable equity rights issues averaged nearly 4 per cent of gross proceeds raised. It also shows that issue size, percentage underwritten, concentration of ownership and issuer risk significantly influence the percentage direct costs of the rights issue.

20

**Can mutuals compete  
on commercial bank  
terms? Sharpening the  
regulatory focus**

NECMI KEMAL AVKIRAN  
SA Fin and DAVID W.L.  
TRIPE SF Fin

Prompted by the Treasurer's December 2010 announcement promoting the growth of the credit unions and building societies (CUBS) as a 'fifth pillar' of banking, this study investigates the relative financial efficiency of banks and CUBS. Based on the efficiency measure we use, we find that: banks are more efficient than CUBS; efficiency fell during the GFC; efficiency and profitability ratios are not highly correlated; and there is no strong evidence that economies of scale explain efficiency differences.

# 26

## **Open and closed analyst briefings: an intraday perspective**

TERRY WALTER and  
ZACHARY CORONES

This study examines the role of analyst briefings in the Australian share market, an area that has come under increased regulatory scrutiny. We identify the population of disclosed analyst briefings between 1999 and 2008, and analyse intraday ASX pricing data around the analyst briefing and contemporaneous earnings announcement events. Using abnormal trading activity as a proxy for information disclosure and a unique measure of informed trading, we make a number of interesting findings. Overall, we find that closed briefings allow earlier price discovery than open briefings and without creating any evidence of profitable informed trading. The case for additional regulation is not supported.

# 35

## **The impact of residential property investment on portfolio performance**

MAURICE PEAT F Fin  
and DANIKA WRIGHT

To identify the potential diversification benefits of residential property we extend a portfolio of traditional asset classes to include investment in residential property. We analyse the long-term price performances of domestic and international equities, government fixed income securities, listed property and Australian residential property, and construct return maximising portfolios for given risk levels. Our results indicate that for every level of risk, a portfolio which includes residential real estate has a higher expected return than a portfolio without it. Given these findings, particularly the relative stability of returns on residential real estate and its demonstrated low correlation with other assets — especially equities — the current lack of investment vehicles in the residential real estate asset class is surprising.

# 43

## **Stock returns and holding periods**

BIN LI, BENJAMIN LIU,  
ROBERT BIANCHI F Fin  
and JEN JE SU

While it is generally accepted that equities achieve higher returns than fixed interest on average over the longer run, recent financial market volatility and poor equity performance have raised questions about the required holding period. Our study addresses this issue by examining US stocks and Treasury bills from 1963 to 2011. We find that a 15-year holding period is required to ensure a 95 per cent probability that stocks will outperform the risk-free rate of return. And, for large market capitalisation stock portfolios (favoured by pension funds) the investment horizon is even longer.