FROM THE
Managing Editor

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This issue of *JASSA* contains a number of excellent papers which are particularly pertinent to the current financial situation facing the Australian economy and the regulatory issues arising from this.

Bans on short selling were implemented in many countries including Australia at the height of the global financial crisis (GFC) in 2008. The issue again became an important topic of debate following further market turmoil last year that saw bans being introduced in some European countries in August 2011. Michael D. McKenzie examines the common rationales provided for short selling bans during market turmoil, such as concerns about excessive volatility, market stability, market abuse and settlement disruption. His analysis and review of empirical studies examining the 2008 period provides little evidence to support these arguments against short selling and he suggests that regulators should be circumspect when considering any future bans. He also notes that there are many reasons for short selling beyond speculative trading such as risk management, market making and non-directional trading strategies which imposition of such bans disrupt.

Also of current interest is the issue of seasoned (secondary) equity raisings by Australian companies, with the ASX releasing a proposal to allow smaller companies to raise larger amounts through placements. One factor behind this proposal is the view that the cost of alternative capital raising methods, such as rights issues, is high. In that context, the study by Katherine Warren and Bill Dimovski is particularly relevant. They find 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. Costs were higher for smaller issues and more risky companies, and increased as the percentage underwritten increased, but declined as ownership concentration increased.

As the Australian Government continues to promote the growth of credit unions and building societies (CUBS) as a fifth pillar of banking, the paper by Necmi Avkiran SA Fin and David W.L. Tripe SF Fin investigating the relative financial efficiency of banks and CUBS provides some interesting public policy insights. Based on the particular efficiency measure that they use, the authors 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.

Concerns about corporate disclosure were sufficient to lead to a Corporations and Markets Advisory Committee (CAMAC) review and report in 2009 into the role played by analyst briefings and their effects. While that review concluded that there was no need for changes to regulation, it did not present empirical evidence on how such briefings affected market efficiency. The study by Terry Walter and Zachary Corones seeks to rectify that gap, noting that regulatory recommendations should be evidence based. They examine 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. They find that closed briefings allow earlier price discovery than open briefings and without creating any evidence of profitable informed trading, which does not support the case for additional regulation.

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Next, Maurice Peat F Fin and Danika Wright look at the impact of residential property investment on portfolio performance. Their 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 significant diversification benefits, Peat and Wright note that the current lack of investment vehicles in the residential real estate asset class is surprising, but they suggest that housing derivatives may be one solution to this. One issue arising from this study is the extent to which asset allocation of superannuation portfolios should take into account their members' substantial direct investments in residential real estate.

It is generally accepted that over the longer run, equities beat fixed interest in terms of average returns. But recent financial market volatility and poor equity performance has brought to the fore the question of how long is necessary before we can be confident of that outcome. Bin Li, Benjamin Liu, Robert Bianchi F Fin and Jen Je Su address this specific issue using US daily data from 1963 to 2011 for equity and Treasury bill returns. They find that the long run is indeed long, with a 15-year holding period being required to be 95 per cent confident that equities outperform. Moreover, for portfolios of large market capitalisation stocks (typically favoured by pension funds) even longer is required. ■

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