



Faculty of Business Administration

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Finance

“Do Short Sellers Convey More Information than Option Investors?”

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Abstract

We provide a comprehensive comparison of equity short-selling activity and option market activity in predicting future returns. We compare the predictive ability of three variables, namely the equity short interest ratio (SIR), put-call open interest ratio (PCOIR), and put-call buy volume ratio (PCBVR). Using the 4-factor risk adjustment model and based on 1-month holding period, we find the difference between abnormal returns to the lowest SIR and highest SIR equally-weighted portfolios is 1.60% per month, while the corresponding differences are 1.02% and 1.72% for PCOIR and PCBVR portfolios, respectively. The return predictability from SIR, PCOIR and PCBVR continue for up to 12 months. Based on double-sort portfolio approach and cross-sectional regressions of individual stocks, we find the predictive ability of PCOIR diminishes after controlling for SIR, while the predictive ability of PCBVR persists, and even subsumes that of SIR. There are large negative abnormal returns to stocks with high PCBVR and small institutional ownership. Since there is less short-sale constraint for option investors, the evidence cast doubt on the short-sale constraint hypothesis in explaining predictive ability of SIR.

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Time: 11:00-12:30

Venue: J323

ALL ARE WELCOME

A Short Biography of Prof. Kalok Chan

Prof. Kalok Chan obtained his PhD in Finance in 1990 from Ohio State University. Before joining the HKUST in 1996, he was an Associate Professor at Arizona State University. He served as the Director of MPhil/PhD Program in the School of Business and Management at HKUST from 1996-2001. His current research interests include liquidity and trading costs, trading strategies, and emerging stock markets. Prof. Chan's articles appear regularly in premier finance journals, such as the Journal of Finance, Journal of Financial Economics, and Review of Financial Studies. He is also the former editor of Pacific-Basin Finance Journal until 2009. Prof. Chan also heavily involves in community services and he is the advisor of a number of public bodies such as Hong Kong Exchanges and Clearing Limited, Hong Kong Association of Investors, Advisory Committee on Human Resource Development (Financial Services) of the HKSAR, and so on.