

Active Trading: Exploiting Asset Pricing Anomalies

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Office hours: After class or by appointment

This course delivers a detailed discussion of the methodological and practical issues that arise in building active trading models, and a thorough analysis of the most recent empirical evidence on asset pricing anomalies. The course focuses on equity pricing anomalies and related trading strategies, as well as pricing anomalies in foreign exchange, fixed income securities and derivatives.

The goal of the course is to present the most recent empirical evidence, and provide an objective and encompassing evaluation of state-of-the-art techniques for trading, risk measurement, performance evaluation, benchmarking and backtesting. The economic rational and folklore behind some of the anomalies will be described. International evidence, where available, will be described as well.

I. QUANTITATIVE EQUITY MANAGEMENT

- Introduction
- Finding alpha
 - Is it for real?
 - Current views
- Forecasting risk
 - Equity risk models
- Building portfolios
 - Portfolio optimization
 - Approaches to portfolio construction
 - Optimization issues
- Forecasting returns
 - Data, hypothesis and rational
 - Analyzing backtesting results
 - Value and momentum models – a first look
- Going live
- Summary

II. EQUITY-RELATED ANOMALIES

Corporate Events

- Methodology and Trading Strategies
- Financing
 - Dividends
 - Initial public offerings
 - Repurchases

- Stock/bond offerings
- Corporate Restructuring
 - M&A
 - Spinnoffs/carveouts
- Information Events
 - Earnings announcements
 - Insiders' transactions
 - Short interest
 - Stock splits

Stock Return Predictability

- Methodology and Trading Strategies
- Technical-Based Strategies
 - Momentum/contrarian/M&A
 - Lead-lag relations
- Fundamental Strategies
 - Cross sectional strategies ("stock picking")
 - Value vs. glamour
 - Book/market
 - Size
 - Dynamic Assets Allocation ("market timing")
 - Predictability
 - Predictive variables
 - Time-varying sharpe ratios

Issues

- Closed End Funds Puzzle
- January Effect
- Index Inclusion/Exclusion

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| III. OTHER ANOMALIES |
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- Currencies
- Emerging market debt
- Volatility trading