Editorial

The Old Order Changeth

As I write, it is less than a week since we heard that the University, in its wisdom, has decided to close the Frank Lowy Library, move the collection out of the AGSM Building across to the University Library, with only four of its staff. As the best business research library in Australia, thanks largely to the early deans of the AGSM, Phil Brown and Jeremy Davis, and the foundation librarian, Pamela Taylor, the specialist knowledge and expertise of the Frank Lowy Library staff will be very difficult to replace. Its closure means that the only research activities remaining intact from the old AGSM are the Accelerated Learning Laboratory, some small research centres (including the Centre for Research in Finance), and the *Australian Journal of Management*. Excellence is no guarantee of survival in these times.

The Papers

This issue contains nine papers, eight of which report finance research, and one of which reports some organisation behaviour (OB) research. A plethora of studies of stock markets and the world have revealed systematic patterns of returns, market depth, volume and volatility, with distinct differences between specialist/limit-order-book markets and dealer markets, perhaps because of market imperfections, such as information asymmetries, where prices do not convey all information. The interaction of informed and liquidity traders could potentially cause the observed systematic patterns. But how to study historical market data? Comerton-Forde, O'Brien and Westerholm (2007) use a unique Finnish dataset that allows individual traders to be attributed to informed and liquidity traders. They find that both types of traders concentrate trading at the open and close, illustrating that a significant proportion of intraday patterns can be explained by strategic trading by informed and liquidity traders.

Is the variation in stock market returns consistent with cyclical clustering of return states? If so, it would provide a simple alternative to a random walk with constant drift to explain changes in time of expected returns from shifts in risk aversion or other underlying reasons. If so, could long-term clustering of regimes give rise to stock-market cycles? Using a 125 year monthly stock price index from 1875 to 2000, Powell, Roa, Shi, and Xayavong (2007) find clustering of a low-return and a high-return state that indicates the presence of very-long-term stock market cycles. They find a three-regime pattern, where a normal regime with reasonable returns is frequently interrupted by a regime of high returns, and by sharp losses during a low-return regime.

In the classic 1993 Fama-French model of returns in stocks and bonds, two synthetic portfolios are created: 'SMB' to capture the return premium that small firms receive in excess of large firms, and 'HML' to capture the return premium that high book-to-market firms receive in excess of low. But just what type of risk, if any, do SMB and HML capture? Does the FF model capture priced default risk? Using Australian data from 1996 through 2004, Gharghori, Chan and Faff (2007) find, first, that default risk is *not* priced in equity returns and, second, that SMB and HML do not proxy for default risk, although they are capturing some form of priced risk. Of what type of risk remains an open question.

Sault (2007) examines stock market volatility over the thirty years 1973 to 2003 in the eleven East Asian countries of Australia, China, Hong Kong, Indonesia, Japan, Malaysia, New Zealand, the Philippines, South Korea, Taiwan and Thailand across ten industries. Sault reports volatility results for four levels: firm, industry, country and region. As one might expect, Sault shows that an increase in the geographical scope of the investment opportunity set is coupled with decreases in the mean levels of volatility and correlations during times of increased volatility, highlighting the benefits of geographical diversification.

To what extent do Australian equity fund managers use derivatives to affect their risk-shifting behaviour? Benson, Faff and Nowland (2007) examine the use of derivatives by 102 Australian retail domestic general equity funds over the period 2002 through 2005. They find that managers' risk-shifting behaviour differs between derivative users and non-users. This is consistent with two hypotheses: - a gaming hypothesis and an active competition hypothesis—but not with a third hypothesis, the cash flow hypothesis.

Workers at the coal face (or on the shop floor) can discover, through learning by doing, new knowledge such as better ways of producing. But for this knowledge to best benefit the company, it must be conveyed to managers. But how? Riege and Zulpo (2007) have surveyed three anonymous firms (in metalwork, commercial metals, and food service equipment), including shop-floor workers with middle managers. Their results reveal that workers do not codify their knowledge, merely articulating it personally. Thus firms must provide avenues—such as 3M's suggestion boxes?—to facilitate knowledge exchange upwards. And the managers must be prepared to listen and learn, too, a culture of innovation.

Do takeovers create value for participating firms' shareholders? In general, yes for target firms, but equivocal for bidding firms. Using a dataset of 122 takeover announcements made by 110 listed Australian companies from 1997 though 2004, Le and Schultz (2007) offer the first Australian evidence of the impact of toeholds on bidder abnormal returns: They find significantly positive returns. Toeholds are the bidder's pre-takeover equity interest in the target, at least for unrivalled bidders. The positive impact of toeholds in multi-bidder contests is apparently dampened by the risk of overbidding by the toehold bidder.

How do foreign portfolio flows affect the volatility of emerging markets? Pavabutr and Yan (2007) found, using a Thai stock market data set from 1995 to 2002, that the effect is primarily from unexpected shocks in foreign flows. Specifically, the extraordinarily high volatility of the Thai market during the Asian financial crisis of 1997–1999 was associated with net selling, since foreign investors were not buyers, and thus liquidity providers, over that period.

The finance literature includes the notion that if a better-informed manager believes her firm's shares are undervalued, then she can signal this by announcing a stock repurchase. Previous studies have revealed negative cumulative abnormal returns in the stock market before the announcement, with a jump in price after the announcement, consistent with undervaluation. But this jump might also provide another motivation for the amount. Brown (2007) uses Australian data: 28 so-called equal access repurchase announcements from 1996 through 2003. There are institutional reasons to expect different results in Australian than in U.S. stock markets, and she finds much lower, albeit still positive, abnormal returns here, with a dramatic increase in trading volumes on and after the announcement date.

Housekeeping

There is good news for the *AJM*: after a period of twenty years or so, the *Journal* will be indexed again in the Thomson Web of Science *Social Science Citation Index*. Thirty years ago, Ray Ball, the foundation editor, with the help of Pamela Taylor, was successful in having the *Journal* accepted for indexing, but a series of administrative glitches, not least including neglecting to send out the issues when they returned from the printer's, meant that the *Journal* was dropped from the SSCI. Our recent notice of inclusion once more will allow us to quote an Impact Factor for the *Journal* to stakeholders one and all, as well as making the *Journal* more attractive as a place to publish.

Not that the *Journal* has lacked for good authors: in O.B. Eric Trist and Al Bandura have published with us, and our own Lex Donaldson and Robert Wood have also published. In Finance, using our on-line indexes of back issues, I recently determined that we have published seven papers by four of the world's most published finance academics: Rob Whaley (3 papers), Marti Subrahmanyam (2), Hans Stoll (1), and Cliff Smith (1).

To further the *Journal*'s attractiveness, and to signal (if it was needed) our international focus. David Gallagher and I, together with the guidance of John Piggott, have decided to set up an International Editorial Advisory Board. Watch this space.

The E. Yetton Award for the best paper published in the previous year in the *AJM* is awarded to Doug Foster and Charles Whiteman (2006), and the follow-up is awarded to Chongwoo Choe and Xiangkang Yin (2006). Congratulations to all four authors.

Robert E. Marks
General Editor

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