Active Trading: Exploiting Asset Pricing Anomalies

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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

III. OTHER ANOMALIES

- Currencies
- Emerging market debt
- Volatility trading