EMERGING MARKETS: FINANCE eJOURNAL
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Table of Contents

^top

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"Portfolio Allocation for Sovereign Wealth Funds in the Shadow of Commodity Based National Wealth"

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Most sovereign wealth funds depend heavily on oil revenues to increase the capital base. Research on the investment performance of sovereign wealth funds however has focused on the returns to their financial asset portfolio. Given their reliance on the monetization of natural resource to increase the financial assets, it would better to account for national wealth returns by including oil price movement as a weighted part of the total portfolio. To correct for this, we simulate a dynamic portfolio maximizing risk adjusted returns across a large asset basket accounting for the continual depletion of natural resource assets. We find that given the large volatility and continual depletion of oil as a portion of the national wealth, sovereign wealth funds would be best served investing in low volatility liquid fixed income and equity indexes to balance their portfolio. Even when allowing for three asset portfolios, returns are only maximized when oil as a percentage of national wealth drops to approximately 50%.

"Hedging Inflation Risk in a Developing Economy"

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Inflation shocks are one of the pitfalls of developing economies and are usually difficult to hedge. This paper examines the optimal strategic asset allocation for a Brazilian investor seeking to hedge inflation risk at different horizons, ranging from one to 30 years. Using a vector-autoregressive specification to model inter-temporal dependency across variables, we measure the inflation hedging properties of domestic and foreign investments and carry out a portfolio optimisation. Our results show that foreign currencies complement traditional assets very efficiently when hedging a portfolio against inflation: around 70% of the portfolio should be dedicated to domestic assets (equities, inflation-linked (IL) bonds and nominal bonds), whereas 30% should be invested in foreign currencies, especially the US dollar and the euro.

"Bank Recapitalisation and Funds Availability to Small and Medium Enterprises in Nigeria"

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Nigeria's banking industry has experienced many reforms, the most recent of which was bank recapitalisation in 2004. One of the main thrusts of the recent reform was to address the financial problem of Small and Medium Enterprises (SMEs) that has been lingering despite various schemes and programmes introduced by successive governments to provide adequate loanable and equity finance to the sector. This study assesses the impact of bank recapitalisation on both credit availability to and equity investment in SMEs in Nigeria. The study formulates three hypotheses and applies three sets of simple regression to analyse banks aggregated secondary data extracted from various Central Bank of Nigeria (CBN)'s publications over the period 2001 through 2008. The study could not find evidence that bank recapitalisation has significant impact on credit availability to SMEs but confirms that it has significant impact on banks' equity investment funds under Small and Medium Enterprises Equity Investment Scheme (SMEEIS). The study therefore, recommends that the Federal Government should come up with credit guarantee scheme to motivate banks to grant more credit to the SMEs. Also, CBN should facilitate the emergence of smaller banks that will provide an alternative to the preference of megabanks to

finance big-ticket transactions at the expense of small borrowing such as that of SMEs. Furthermore, CBN should embark on awareness campaign to sensitise SMEs on SMEEIS and the requirement for accessing the funds in view of the gap observed between funds available and funds disbursed under the scheme.

"Time Duration Decay in Romanian Capital Markets"

Financial and Monetary Stability in Emerging Countries Conference, December 2010

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Classic studies of the probability density of price fluctuations g for stocks and foreign exchanges of several highly developed economies have been interpreted using a power-law probability density function $P(g) \sim g-(\alpha 1)$ with exponent values $\alpha>2$, which are outside the Levy-stable regime $0<\alpha<2$. To test the universality of this relationship in 'time duration,' we isolate the time duration between rate of change for the period Jan 2000-Oct 2010 for the 23 largest stocks of the Bucharest Stock Exchange which has the highest volume of trade in Romania. We find that $D(g)$ decays as an exponential function $D(g) \sim \exp(-\beta g)$ with a characteristic decay scales $\beta=2.45\pm0.045$. Thus we conclude that time duration in Romanian stock market may belong to a universality class that is witnessed in equity prices around the world.

"Oil Prices and the Greenback: It Takes Two to Tango"

Applied Financial Economics, Vol. 21, No. 8, 2011

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Although the relationship between oil prices and exchange rates has been investigated extensively in the literature, the results remain mixed. The aim of this article is to revisit this relationship allowing for nonlinear dynamics in the speed of adjustment to the equilibrium. This article argues that the existing literature does not consider oil as an asset class in portfolio allocation, and fails, therefore, to find evidence that exchange rate movements affect oil price dynamics. In other words, the role of oil prices in portfolio preferences is not exogenous to exchange rate determination as modeled in the literature, but rather endogenous. This article shows that during periods of high exchange rate volatility oil prices become highly affected by exchange rate movements of the dollar through a nonlinear smooth transition framework.

"Looking at Corporate Governance in China's Large Companies: Is the Glass Half Full or Half Empty?"

THE DEVELOPMENT OF THE CHINESE LEGAL SYSTEM CHANGE AND CHALLENGES, Guanghua Yu, ed., Routledge, December 2010

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Much has been achieved in the development of Chinese corporate governance policies and practices over the last two decades. Researchers have explored the broad contours of this achievement, although corporate governance research in China is still at an early stage of development. Research has tended to focus upon institutional and legislative developments, such as the passage of new Company Laws and the introduction of a Corporate Governance Code; attention has also been given to the role of regulatory bodies and stock exchanges in developing corporate rules, such as those concerned with improved disclosure and greater reliability of corporate reports; other research has examined key issues such as the role of the State as dominant shareholder, the role of the Party committee within listed companies, the position of independent directors and the supervisory board and the protection of minority shareholders. However, greater effort needs to be made by governance researchers to look more closely at the actual workings of Chinese corporations, such as through the use of empirical research methods. This paper argues that much remains to be done in this area if corporate governance ideas are to become embedded within the day to day practices of major Chinese companie
^top

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