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Herausgegeben von Dirk Schiereck

Band 9

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Financial Return Risk and the Effect on Shareholder Wealth

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A Compendium of Five Empirical Studies across Selective Industries

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Preface

Malte Raudszus has taken his first steps in corporate finance research back in the days before he graduated from European Business School (ebs) in 2007. Built on the learnings of a very well written seminar paper with a fellow student, his diploma thesis on "Risk behavior around convertible bond issuances" laid the basis for his ongoing focus on empirical studies investigating risk dynamics. Not surprising for a graduate from ebs he had various professional opportunities and proceeded with an initial career step in strategy consulting at The Boston Consulting Group (BCG).

In close communications throughout this time I was able to keep Malte convinced that a doctoral program in corporate finance would be a highly valuable experience and academic challenge to him. In the fall of 2009, I welcomed him back at the chair of corporate finance, now at Technische Universität Darmstadt, where I had routinely moved to in the meantime.

Until December 2009 Malte had yet achieved to finish a draft of his first study on corporate diversification with a focus on the construction industry. This enabled him to obtain admission to his primary academic conference, the annual meeting of the Academy of Economics and Finance (AEF), then held in Houston, Texas. Mid 2010 he submitted his manuscript to a top-tier international management journal where he is currently within the second round of the revision process.

Throughout the year 2010 Malte engaged in some cross-discipline research projects with a former fellow student from ebs. His spearing partner Jan-Willem Olliges was then enrolled as a doctoral student in the field of real estate economics with a former colleague of mine at ebs being Karl-Werner Schulte. As I had a first manuscript on my desk I identified significant publishing potential and recommended to get an American A-list researcher on board to challenge the study. Today I am delighted to say that this planting of seeds has carried nice fruit as a first publication of Malte, Jan-Willem and Glenn R. Mueller form Denver University in the Journal of Real Estate Portfolio Management has been achieved.

In terms of the academic learning curve Malte has climbed up high throughout his time of active research at ebs and TU Darmstadt. Yet in his diploma thesis he applied advanced volatility modeling techniques from the so called GARCH family. Probably not anticipated by him either he reignited on this topic when starting his doctoral studies and thus developed empirical volatility and risk analyses as one of his core fields of academic competence.

This dissertation as a compendium of closely related chapters but nevertheless individual studies underlines his way of performing continuously advancing research. As the first part sheds light on corporate diversification through M&A and how related risk dynamics affect shareholder wealth, he carries over the methodology to external events in the second part of the book. In studies three and four Malte individually scrutinizes the adverse implications of bank failures and bank bailouts in the recent financial crisis from 2007 to 2009. As he finds opposing return shocks he identifies the limits of the standard GARCH (1,1) model and moves on to the more advanced EGARCH which incorporates the so called leverage effect. As observed of the behavior of financial market stock return data, volatility reacts asymmetrically to positive and negative return shocks. As Malte applies the EGARCH in his final study he can simultaneously scrutinize the adverse bank events with an appropriate econometric foundation.

Throughout Malte's various conference attendances at the annual meetings of the AEF, the American Real Estate Society (ARES) and the Deutsche Gesellschaft für Finanzwirtschaft (DGF) he has received an amount of valuable professional feedback and insight into the research economy that is by far not common for a two-year doctoral student. Currently, three of his studies are under review in major international journals, and as it is the objective of any serious academic scholar, he is talking the effort to finally achieve the respective publications. In this light interpret the present book as a small plant that is yet growing and hopefully further refined and advanced versions of the present studies will find their way into a premier publication.

I am a bit sad to have lost Malte again to the world of business. As he had been focused on banking and M&A back in the days as a strategy consultant it is again not surprising that he recently continued to work in that field. Starting as of January 2012 he moved to Deutsche Bank where he currently supports and drives the ongoing integration of a major German retail bank. I still hope he returns to academia soon as he is not just a gifted scholar in financial econometrics but also enjoys the teaching. He has yet done very well stepping in for me when I was on travels and would serve as outstanding role model for our discipline.

In any case I wish him all the best for his future endeavors.

Prof. Dr. Dirk Schiereck

Acknowledgements

This dissertation origins not least from a seminar paper in finance which my good friend Alexander Ploch and I wrote during our final year of studies at the European Business School (ebs), Oestrich-Winkel. With his rigorous approach to econometric analysis he was a main driver of success to our joint work. Consecutively, we each wrote our diploma theses individually in the same field and I later continued on my academic path pursuing a PhD in finance. Therefore, I like to extend a special thanks to Alex as he clearly enabled me to take this way.

After graduation I took advantage of starting of my career at The Boston Consulting Group, even though I had yet committed myself to a doctorate program at ebs. I am very thankful to Dirk Schiereck, then Professor of Banking and Finance at ebs, that he showed himself obliging in extending another offer for a doctorate program to me, after he had moved to Technische Universität Darmstadt (TUD). Throughout my dissertation time he has been a great 'doctor father' and I am especially thankful for the countless times Professor Schiereck took the burden to provide me with valuable advice, comments, criticism, and suggestions.

Special thanks go to Ramit Mehta and Jan-Willem Olliges as they contributed significantly to three of the five studies this dissertation book comprises, to Professor Glenn Mueller form University of Denver, USA, and to various anonymous referees who put considerable effort into achieving publication in major academic journals. I am also grateful to my doctoral colleagues at TUD who engaged in insightful discussions and helped refine my thinking. In particular I want to thank Julian Trillig, Mehtap Ölger, and Mark Mietzner for their patience and effort in discussing econometric issues and technical transformations.

This book could hardly have been written without the support of my family and friends. Intensive studying, literature analysis, and econometric modeling need counterparts to keep up the mood. Therefore, I like to extend extra special thanks to my parents, Barbara and Frank, supporting me again for the time being. Another distinguished thanks goes to the 'student horse riders' at TUD who enabled me to pick up a unique sport and dive into a thrilling community that is very ambitious but also dedicated to a good bit of fun.

All remaining errors of this dissertation are mine alone.

Malte H. Raudszus

To my families.

Content Overview

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List of Abbreviations

ABS	Asset-backed securities
AER	Aero [industry]
a.o.	among others
ARCH	Autoregressive conditional heteroscedasticity
BEVER	Beverages
Big Four	Four largest breweries worldwide: Anheuser-Busch Inbev, Heineken, SABMiller, and Carlsberg
Bil.	Billion
CAPM	Capital asset pricing model
CGI	Consumer goods industry
CON	Construction
CSI	Consumer services industry
DEF	Defense
DG	Drug
DS	Datastream
DW	Durbin-Watson [statistic]
e.g.	exempli gratia (for example)
EGARCH	Exponential GARCH
ELE	Electric
ENG	Engineering
EQP	Equipment
Fed	Federal Reserve Bank
FD	Food
FDIC	Federal Deposit Insurance Corporation
FIHI	Financial Institution Health Index
FSI	Financial services industry
FTSE	Financial Times Stock Exchange [Index]
GARCH	Generalized autoregressive conditional heteroscedasticity