Discussion of Raddatz & Schmukler

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Finance is changing

The old classification:
- Asset pricing
- Corporate finance.

Emerging classification:
- Markets and prices
- Financial intermediaries
- Financing of firms
- Household finance.
This paper

- A remarkable new dataset
- Enables attacking a series of important questions about international mutual funds
- Striking, gloomy answers.
Investors

- Behavioural biases
  - Agency problems

Fund managers

- International finance pathologies

Country
Who is the smart money?

- This paper shows international MFs are not the smart money, buying at fire sale prices
- They exacerbate the selling pressure in times of trouble and vice versa
- They are the liquidity demanders, not the liquidity providers
- Question 1: Does this damage their returns and how much?
- Efficient trades are being left on the table
- Question 2: Who takes these?
- Other foreigners – or locals? Hedge funds?
- I.e., who makes that excess return?
A little nervous about the linear models that are being estimated. 

Can we analyse interesting events in the data using the event study methodology?

- Country crises dates
- Elections
- Stock market and currency volatility?
- Extreme low returns for a fund
- Extreme high returns for a fund
- Extreme events on the local index and on the local exchange rate
- Extreme events on the local EMP

Is behaviour in normal days different from behaviour in more extreme days?

Our work: Responses to extreme days is a bit different.
Example: all foreign investors and extreme days of Nifty

So who is the smart money?
Are all countries alike?

When investors take money away from an international MF, what would it do?

1. Borrow to meet redemptions, sell index futures, liquidate slowly
2. Sell more liquid markets
3. Sell more liquid markets quickly, gradually sell off less liquid markets

More liquid markets → more extreme behaviour by such funds.
A research frontier

- EPFR data is making possible the study of funds investing in countries.
- It would be interesting to go within the country and explore similar questions about individual firms.
Thank you.