

Accepted Manuscript

Downside risk and stock returns in the G7 countries: an empirical analysis of their long-run and short-run dynamics

Cathy Yi-Hsuan Chen , Thomas C. Chiang , Wolfgang Karl Härdle

PII: S0378-4266(18)30112-2
DOI: [10.1016/j.jbankfin.2018.05.012](https://doi.org/10.1016/j.jbankfin.2018.05.012)
Reference: JBF 5354



To appear in: *Journal of Banking and Finance*

Received date: 8 July 2015
Revised date: 26 April 2018
Accepted date: 15 May 2018

Please cite this article as: Cathy Yi-Hsuan Chen , Thomas C. Chiang , Wolfgang Karl Härdle , Downside risk and stock returns in the G7 countries: an empirical analysis of their long-run and short-run dynamics, *Journal of Banking and Finance* (2018), doi: [10.1016/j.jbankfin.2018.05.012](https://doi.org/10.1016/j.jbankfin.2018.05.012)

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

Downside risk and stock returns in the G7 countries: an empirical analysis of their long-run and short-run dynamics

Cathy Yi-Hsuan Chen*

Ladislaus von Bortkiewicz Chair of Statistics, C.A.S.E. - Center for Applied Statistics and Economics,
Humboldt-Universität zu Berlin, Unter den Linden 6, 10099 Berlin, Germany

Email: chencath@hu-berlin.de; Tel:+49 30 2093-5625

Thomas C. Chiang

LeBow College of Business, Drexel University,
Gerri LeBow Hall, 3220 Market Street, Philadelphia, PA 19104 USA,

Email: chiangtc@drexel.edu; Tel:+1 215 895 1745

Wolfgang Karl Härdle

Ladislaus von Bortkiewicz Chair of Statistics, C.A.S.E. - Center for Applied Statistics and Economics,
Humboldt-Universität zu Berlin, Unter den Linden 6, 10099 Berlin, Germany

Sim Kee Boon Institute for Financial Economics, Singapore Management University,

50 Stamford Road, 178899 Singapore, Singapore

Email: haerdle@hu-berlin.de; Tel:+49 30 2093-5631

Abstract

Any risk-return tradeoff analysis in aggregate equity markets relies on appropriate measures of risk, in most studies based on (co-)variance relations. Consequently, in integrated global markets, country-specific expected return is priced with a world price of covariance risk. This study relates domestic excess stock returns to the world downside risk. Evidence shows that downside tail risk (as a multiplier of volatility) has long memory cointegration properties; hence the underlying risk aversion behavior in an integrated market is associated with the conditional quantile ratio, the correlation of stock returns, and the cointegrating coefficient of downside risk. Our empirical results based on G7 countries indicate that investors are averse to downside risk, which via Cornish-Fisher expansions is related to higher moment risk and interpretable in a utility-based decision framework.

JEL classification: G11, G12, G15, C24, F30

Keywords: downside risk; value-at-risk; long memory; fractional integration; risk-return;

Download English Version:

<https://daneshyari.com/en/article/7356464>

Download Persian Version:

<https://daneshyari.com/article/7356464>

[Daneshyari.com](https://daneshyari.com)