Accepted Manuscript

The long and the short of convertible arbitrage: An empirical examination of arbitrageurs' holding periods

Mats van Marle, Patrick Verwijmeren

PII: S0927-5398(17)30076-2
DOI: http://dx.doi.org/10.1016/j.jempfin.2017.09.001
Reference: EMPFIN 994

To appear in: *Journal of Empirical Finance*

Received date : 15 September 2016
Revised date : 20 July 2017
Accepted date : 12 September 2017

The long and the short of convertible arbitrage: An empirical examination of arbitrageurs' holding periods

Mats van Marle[a] and Patrick Verwijmeren[a,b]

20 July 2017

Abstract

We find that the average holding period of newly issued convertible bonds by convertible arbitrage hedge funds is approximately 11.6 months, which on average represents only 14% of the bonds' time to maturity. The relatively short holding periods highlight that hedge funds' motivations for holding convertible bonds are distinct from firms' traditional reasons for issuing them. The short holding periods are in line with convertible arbitrage hedge funds making convertible issues a low cost financing alternative for firms. We show that both issue and hedge fund characteristics affect holding periods.

JEL classification: G2; G32

Keywords: Convertible arbitrage; Hedge funds; Security holdings

[a] Erasmus University Rotterdam, Erasmus School of Economics, Burgemeester Oudlaan 50, 3000 DR Rotterdam, The Netherlands.

[b] University of Melbourne, Parkville, Victoria 3010, Australia

Corresponding author: Patrick Verwijmeren; E-mail: verwijmeren@ese.eur.nl; Tel: +31104081392. We thank Rex Wang, Hugo Wolters, and Han Yan for excellent research assistance. We thank two anonymous referees, Elroy Dimson, Bruce Grundy, Roman Kraussl, Thorsten Lehnert, Joshua Pollet, Christian Wolff, Jean-Pierre Zigrand, and participants at the 2016 Alternative Investment Conference for helpful comments.