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

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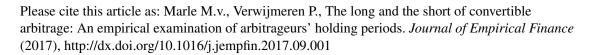
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#### Abstract

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

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