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# Financial hedging with derivatives and its impact on the Colombian market value for listed companies

*Coberturas financieras con derivados y su incidencia en el valor de mercado en empresas colombianas que cotizan en Bolsa*

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## Abstract

The financial theory (Modigliani & Miller, 1958) presents risk management as a matter without importance in companies, given that the shareholders themselves managed their hedges, diversifying their portfolios. However, subsequent studies dispute said premise and present evidence that business financial hedging improves performance and increases the value of the same (Ahmed, Azevedo, & Guney, 2014; Allayannis & Weston, 2001; Kapitsinas, 2008). The efficient market risk management is supported in the financial derivatives, and demands strategic and efficient administrators in hedges that add value, especially in the face of clashes and macroeconomic and financial imbalances. The empirical evidence analyzes the behavior of the *Q*-Tobin as an indicator of the effect of the hedge strategies for the exchange rate associated to the market value. The aim of this work is to find evidence in Colombia on the effect of the use of derivatives in the market value of the company. Its added value lies in the analysis that is done by economic sectors, identified by ISIC codes and grouped into five (5) macro sectors (Agriculture and livestock, Commercial, Industrial or Manufacture, Services, and Construction). The methodology used includes the estimation of

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several regression models in data panels, using a Pooled regression model with fixed and random effect estimators through the maximum likelihood estimator. In general, a statistical and financially significant premium for hedges was found for companies exposed to exchange rate risks that use derivatives of a 6.3% average on the market value. Additionally, mixed results were found in relation to the variables analyzed in the model.

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*Keywords:* Financial hedging; Derivative instruments; Market risk; Market value

*JEL classification:* G320; G230; G130

## Resumen

La teoría financiera (Modigliani y Miller, 1958) plantea la gestión del riesgo como un asunto sin importancia en las empresas debido a que los mismos accionistas hacían su gestión de cobertura diversificando sus portafolios; sin embargo, estudios posteriores entran en conflicto con dicha premisa y evidencian que la cobertura financiera empresarial mejora el desempeño e incrementa el valor de las mismas (Ahmed, Azevedo y Guney, 2014; Allayannis y Weston, 2001; Kapitsinas, 2008). La gestión eficiente de riesgos de mercado se apoya en los derivados financieros y exige administradores estratégicos y eficientes en cobertura que agregue valor, especialmente frente a choques y desequilibrios macroeconómicos y financieros. Evidencia empírica analiza el comportamiento de la Q-Tobin como indicador del efecto de las estrategias de cobertura de tipo de cambio asociado al valor de mercado. Este trabajo pretende encontrar evidencia en Colombia sobre el efecto del uso de derivados en el valor de mercado de la empresa. Su valor agregado radica en el análisis que se hace por sectores económicos, identificados por códigos CIU y agrupados en cinco (5) sectores macro (Agropecuario, Comercial, Industrial o Manufactura, Servicios y Construcción). La metodología empleada incluye la estimación de varios modelos de regresión en panel de datos, utilizando una regresión Pooled con estimadores de efectos fijos y aleatorios mediante el estimador de máxima verosimilitud. En general, se encontró una prima por cobertura estadística y financieramente significativa para empresas expuestas a riesgos de tipo de cambio que usan derivados de un 6.3% promedio sobre el valor de mercado. Adicionalmente, se encontraron resultados mixtos en relación a las variables analizadas en el modelo.

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*Palabras clave:* Coberturas financieras; Instrumentos derivados; Riesgo de mercado; Valor de mercado

*Códigos JEL:* G320; G230; G130

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## Introduction

The dynamics of the contemporary economy, of modern commerce, and of the development of financial markets bring along high volatilities that demand a greater speed of adaptation and administrative capacity by modern managers. Said managers, in their goal to maximize the value of the company and avoid bankruptcy, will have to think of strategies that will make it possible for them to acquire management and risk mitigation tools, in which the financial derivatives play a crucial role, as the companies appropriate these instruments with knowledge on the different products and hedging strategies that apply insofar as the derivative markets attain a greater development (Sierra González & Londoño Bedoya, 2010).

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