

MANAGING EDITORS

Hendrik Bessembinder  
Stephen Brown  
Paul Malatesta

ADVISORY EDITOR

Mark Grinblatt

ASSOCIATE EDITORS

Andrew Ang  
Warren Bailey  
Gurdip Bakshi  
Mikhail Chernov  
Jeffrey Coles  
Jennifer Conrad  
Jefferson Duarte  
Wayne Ferson  
Jarrad Harford  
Jonathan Karpoff  
Michael Lemmon  
Francis Longstaff  
Ronald Masulis  
John McConnell  
Robert McDonald  
Wayne Mikkelson  
Neil Pearson  
George Pennacchi  
Jeffrey Pontiff  
Jay Ritter  
Michael Roberts  
Bryan Routledge  
Sergei Sarkissian  
Paul Schultz  
Chester Spatt  
Hans Stoll  
Ralph Walkling  
Ivo Welch  
David Yermack  
Guofu Zhou

**Can Mutual Fund Managers Pick Stocks? Evidence from Their Trades Prior to Earnings Announcements**

Malcolm Baker, Lubomir Litov, Jessica A. Wachter, and Jeffrey Wurgler

**Seasonality in the Cross Section of Stock Returns: The International Evidence**

Steven L. Heston and Ronnie Sadka

**Debt Capacity and Tests of Capital Structure Theories**

Michael L. Lemmon and Jaime F. Zender

**Transparency, Price Informativeness, and Stock Return Synchronicity: Theory and Evidence**

Sudipto Dasgupta, Jie Gan, and Ning Gao

**Information, Expected Utility, and Portfolio Choice**

Jun Liu, Ehud Peleg, and Avanidhar Subrahmanyam

**What Drove the Increase in Idiosyncratic Volatility during the Internet Boom?**

Jason Fink, Kristin E. Fink, Gustavo Grullon, and James P. Weston

**The Term Structure of Variance Swap Rates and Optimal Variance Swap Investments**

Daniel Eglolf, Markus Leippold, and Liuren Wu

**Level-Dependent Annuities: Defaults of Multiple Degrees**

Aksel Mjøs and Svein-Arne Persson

**Affine Models of the Joint Dynamics of Exchange Rates and Interest Rates**

Bing Anderson, Peter J. Hammond, and Cyrus A. Ramezani

Can Mutual Fund Managers Pick Stocks? Evidence from Their Trades Prior to Earnings Announcements . . . . .	1111
Malcolm Baker, Lubomir Litov, Jessica A. Wachter, and Jeffrey Wurgler	
Seasonality in the Cross Section of Stock Returns: The International Evidence . . . . .	1133
Steven L. Heston and Ronnie Sadka	
Debt Capacity and Tests of Capital Structure Theories . . . . .	1161
Michael L. Lemmon and Jaime F. Zender	
Transparency, Price Informativeness, and Stock Return Synchronicity: Theory and Evidence . . . . .	1189
Sudipto Dasgupta, Jie Gan, and Ning Gao	
Information, Expected Utility, and Portfolio Choice . . . . .	1221
Jun Liu, Ehud Peleg, and Avanidhar Subrahmanyam	
What Drove the Increase in Idiosyncratic Volatility during the Internet Boom? . . . . .	1253
Jason Fink, Kristin E. Fink, Gustavo Grullon, and James P. Weston	
The Term Structure of Variance Swap Rates and Optimal Variance Swap Investments . . . . .	1279
Daniel Egloff, Markus Leippold, and Liuren Wu	
Level-Dependent Annuities: Defaults of Multiple Degrees . . . . .	1311
Aksel Mjøs and Svein-Arne Persson	
Affine Models of the Joint Dynamics of Exchange Rates and Interest Rates . . . . .	1341
Bing Anderson, Peter J. Hammond, and Cyrus A. Ramezani	

## MANAGING EDITORS

**Hendrik Bessembinder**  
University of Utah

**Stephen Brown**  
New York University

**Paul Malatesta**  
University of Washington

## ADVISORY EDITOR

**Mark Grinblatt**  
University of California, Los Angeles

## ASSOCIATE EDITORS

**Andrew Ang**  
Columbia University

**Warren Bailey**  
Cornell University

**Gurdip Bakshi**  
University of Maryland

**Mikhail Chernov**  
London Business School

**Jeffrey Coles**  
Arizona State University

**Jennifer Conrad**  
University of North Carolina

**Jefferson Duarte**  
Rice University

**Wayne Ferson**  
University of Southern California

**Jarrad Harford**  
University of Washington

**Jonathan Karpoff**  
University of Washington

**Michael Lemmon**  
University of Utah

**Francis Longstaff**  
University of California, Los Angeles

**Ronald Masulis**  
Vanderbilt University

**John McConnell**  
Purdue University

**Robert McDonald**  
Northwestern University

**Wayne Mikkelson**  
University of Oregon

**Neil Pearson**  
University of Illinois, Urbana-Champaign

**George Pennacchi**  
University of Illinois, Urbana-Champaign

**Jeffrey Pontiff**  
Boston College

**Jay Ritter**  
University of Florida

**Michael Roberts**  
University of Pennsylvania

**Bryan Routledge**  
Carnegie Mellon University

**Sergei Sarkissian**  
McGill University

**Paul Schultz**  
University of Notre Dame

**Chester Spatt**  
Carnegie-Mellon University

**Hans Stoll**  
Vanderbilt University

**Ralph Walkling**  
Drexel University

**Ivo Welch**  
Brown University

**David Yermack**  
New York University

**Guofu Zhou**  
Washington University in St. Louis

### STAFF

Business Manager, **Susan Huot**

Editorial Assistants

**Sandra Leonard and Claudia Link**

The Journal of Financial and Quantitative Analysis (ISSN 0022-1090), Michael G. Foster School of Business, University of Washington, 115 Lewis, Box 353200, Seattle, WA 98195-3200, is published bimonthly in February, April, June, August, October, and December by Cambridge University Press, 32 Avenue of the Americas, New York, NY 10013-2473/Cambridge University Press, the Edinburgh Building, Shaftesburg Road, Cambridge CB2 8RU, UK for the University of Washington Michael G. Foster School of Business in cooperation with the David Eccles School of Business at the University of Utah and the Leonard N. Stern School of Business at New York University. Periodicals Postage Paid at New York, NY and additional mailing offices. POSTMASTER: Send address changes to Journal of Financial and Quantitative Analysis, Cambridge University Press, 100 Brook Hill Dr, West Nyack, NY 10994-2133, USA.

Copyright 2010, Michael G. Foster School of Business, University of Washington



**JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS**

PHONE: (206) 543-4598  
 FAX: (206) 616-1894  
 E-MAIL: [jfqa@uw.edu](mailto:jfqa@uw.edu)  
 URL: <http://www.jfqa.org>

University of Washington  
 Michael G. Foster School of Business  
 115 Lewis Box 353200  
 Seattle, WA 98195-3200 USA

VOL. 45, NO. 5, OCTOBER 2010

**PURPOSE AND FOCUS**

The Journal of Financial and Quantitative Analysis (JFQA) publishes theoretical and empirical research in financial economics. Topics include corporate finance, investments, capital and security markets, and quantitative methods of particular relevance to financial researchers. Opinions expressed in the JFQA are those of the authors and do not necessarily reflect those of the University of Washington Foster School of Business. For submissions queries, please write, call, fax, or e-mail the JFQA office. For all other information related to the journal, please contact Cambridge Journals Customer Services: Cambridge University Press, 100 Brook Hill Drive, West Nyack, NY 10994-2133, USA. <http://journals.cambridge.org/jfqa>

**SUBMISSIONS**

[www.editorialmanager.com/jfqa](http://www.editorialmanager.com/jfqa)

It is JFQA policy to give prompt attention to all submitted manuscripts. Consistent with this policy, honoraria are paid to referees who provide timely reviews. Submit manuscripts online ([www.editorialmanager.com/jfqa](http://www.editorialmanager.com/jfqa)) with a \$220 submission fee and confirmation of a current individual subscription. Checks must be payable to the JFQA in U.S. dollars for deposit in a U.S. bank. VISA, MasterCard, and American Express are accepted. Manuscripts are considered for publication on the understanding that they have not been previously published in whole or in part, and are not being simultaneously considered for publication elsewhere.

**SUBSCRIPTIONS**

<http://journals.cambridge.org/jfqa>

For individuals or institutions interested in a single journal subscription in 2010, please contact Cambridge Journals Customer Services. In the U.S., Canada, or Mexico, subscription fees are payable in U.S. dollars: [journals\\_subscriptions@cambridge.org](mailto:journals_subscriptions@cambridge.org). Elsewhere in the world, subscription fees are payable in U.K. pounds sterling: [journals@cambridge.org](mailto:journals@cambridge.org)

**2010 Annual Subscription Fees**

Volume 45: February, April, June, August, October, and December

Category	Access Type	Price
Organizational	Online & Print	£182.00 / \$364.00
Organizational	Print only	£166.00 / \$333.00
Organizational	Online only	£156.00 / \$312.00
Individual	Online & Print	£40.00 / \$80.00
Individual	Print only	£35.00 / \$70.00
Individual	Online only	£30.00 / \$60.00
Student	Print only	£17.00 / \$25.00

**RIGHTS AND PERMISSIONS**

All rights reserved. No part of this publication may be reproduced, in any form or by any means, electronic, photocopying, or otherwise, without permission in writing from Cambridge University Press. General enquiries from the USA, Mexico, and Canada should be addressed to the New York office of Cambridge University Press <http://www.cambridge.org/us/information/rights/contacts/newyork.htm>; general enquiries from elsewhere should be addressed to the Cambridge office <http://www.cambridge.org/uk/information/rights/contacts/cambridge.htm>; permission enquiries from Australia and New Zealand should be addressed to the Melbourne office <http://www.cambridge.org/aus/information/contacts/melbourne.htm>; enquiries regarding Spanish-language translation rights (only) should be addressed to the Madrid office <http://www.cambridge.org/uk/information/rights/contacts/madrid.htm>. Photocopying Information (for users in the U.S.A.): Copying for internal or personal use beyond that permitted by Sec. 107 or 108 of the U.S. Copyright Law is authorized for users duly registered with the Copyright Clearance Center (CCC), provided that the appropriate remittance is paid directly to: CCC, 222 Rosewood Drive, Danvers, MA 01923 U.S.A. Specific written permission must be obtained for all other copying; contact the nearest Cambridge University Press office.