“Bill Sharpe has a wonderful knack for devising simple examples to draw out a succession of important lessons about portfolio choice and equilibrium asset prices.”
—Richard Brealey, London Business School

**Investors and Markets**
Portfolio Choices, Asset Prices, and Investment Advice

**WILLIAM F. SHARPE**

In *Investors and Markets*, Nobel Prize–winning financial economist William Sharpe shows that investment professionals cannot make good portfolio choices unless they understand the determinants of asset prices. Sharpe sets out his state-of-the-art approach to asset pricing in a nonmathematical form that will be comprehensible to a broad range of investment professionals, including investment advisors, money managers, and financial analysts. This method of analyzing asset prices accounts for the real behavior of investors. Sharpe makes this technique accessible through a new, one-of-a-kind computer program (available for free on his Web site, www.wsharpe.com) that enables users to create virtual markets, setting the starting conditions and then allowing trading until equilibrium is reached and trading stops. Program users can then analyze the final portfolios and asset prices, see expected returns, and measure risk. Any serious investment professional will benefit from Sharpe’s unique insights.

232 pages. 60 line illus. 84 tables. 6 x 9.
Princeton Lectures in Finance
Yacine Aït-Sahalia, series editor
Cloth $39.95 0-691-12842-1
Published in association with the Bendheim Center for Finance, Princeton University

“Here is one of finance’s great minds offering commonsense advice for individual investors... This book is a major contribution to the literature of finance.”
—Peter L. Bernstein, author of *Capital Ideas: The Improbable Origins of Modern Wall Street*
34th Annual Meeting
22-25 August 2007
Ljubljana / Slovenia
Paper submission deadline is March 1, 2007

www.efa2007.org
efa2007@ef.uni-lj.si
Aussenegg, W., P. Pichler, and A. Stomper, IPO Pricing with Bookbuilding and a When-Issued Market, Dec., 829–862.
Cleary, S., V. A. Aivazian, and L. Booth, Dividend Smoothing and Debt Ratings, June, 439–453.
Faccio, M., J. J. McConnell, and D. Stolin, Returns to Acquirers of Listed and Unlisted Targets, March, 197–220.
Ferson, W., A. F. Siegel, and P. T. Xu, Mimicking Portfolios with Conditioning Information, Sept., 607–635.
Volume 41 Index (continued)


Houston, J., C. James, and J. Karceski, What a Difference a Month Makes: Stock Analyst Valuations Following Initial Public Offerings, March, 111–137.


James, C., J. Houston, and J. Karceski, What a Difference a Month Makes: Stock Analyst Valuations Following Initial Public Offerings, March, 111–137.


Karceski, J., J. Houston, and C. James, What a Difference a Month Makes: Stock Analyst Valuations Following Initial Public Offerings, March, 111–137.


Napp, C., and E. Jouini, Arbitrage with Fixed Costs and Interest Rate Models, Dec., 889–913.

(continued on next page)
Volume 41 Index (continued)

Naveen, L., Organizational Complexity and Succession Planning, Sept., 661–683.
Sweeney, R. J., Mean Reversion in G-10 Nominal Exchange Rates, Sept., 685–708.
Xu, P. T., W. Ferson, and A. F. Siegel, Mimicking Portfolios with Conditioning Information, Sept., 607–635.
Yan, A., Leasing and Debt Financing: Substitutes or Complements?, Sept., 709–731.
JFQA Style Requirements

Send manuscripts via e-mail in PDF, Word, or LaTeX. The cover page must show title, author name(s) and affiliation(s), e-mail address(es), and work phone number(s). The first page of text should include the title and a one-paragraph abstract of no more than 100 words. Manuscripts must be double-spaced on one side of the page. All sections of the paper, beginning with the introduction and ending with a conclusion or summary, must be numbered with Roman numerals. Subsection headings must be lettered A, B, C, etc.

The manuscript should explain its relation to other research in the field, especially recently published material. References cited in the text should be noted by the last name(s) of the author(s) followed by the publication year enclosed in parentheses without punctuation: Smith (1988). When a particular page, section, or equation is referred to, the reference also should be placed within parentheses: (Smith and Jones (1988), p. 222), (Green (1988a), eq. 3).

Lengthy mathematical proofs and extensive tables should be placed in an appendix or omitted from the manuscript entirely. In the latter case, the author may indicate in a footnote that proofs or tables are available on request. The author should make every effort to explain the meaning of mathematical proofs.

The author should check the manuscript for clarity, grammar, spelling, and punctuation to minimize editorial changes and the necessity of extensive corrections at the proof stage. All abbreviations must be defined.

Equations. All but very short mathematical expressions should be displayed on a separate line and centered. Important displayed equations must be identified by consecutive Arabic numerals in parentheses on the left. Expressions should be aligned and subscripts and superscripts clearly marked to avoid confusion.

Tables. Each table must be titled and numbered consecutively with Arabic numerals. Please check the text to make sure there is a reference to each table. General footnotes should be marked a, b, c, etc., for specific footnotes. Asterisks * or ** indicate significance at the 5% and 1% levels, respectively. The author should check tables to be sure that totals are correct and that the title, column headings, and footnotes clearly explain the content of the table. If tables are on separate pages at the end of the article, indicate approximate placement within the text.

Figures. Figures must be titled and numbered consecutively with Arabic numerals. Captions should present sufficient information to describe the purpose of the figure. Figures for accepted manuscripts must be of professional quality and ready for reproduction.

Footnotes. Footnotes must be double-spaced. Footnotes must not be used for the purpose of citation. Footnotes with extensive content should be avoided.

References. All works cited in the text must be alphabetically arranged in a double-spaced list at the end of the manuscript. Examples:


Forthcoming Articles

Investment and Competition
Evrim Akdogu and Peter MacKay

Stealth-Trading in Options Markets
Amber Anand and Sugato Chakravarty

Information and the Intermediary: Are Market Intermediaries Informed Traders in Electronic Markets?
Amber Anand and Avanidhar Subrahmanyam

Is IPO Underperformance a Peso Problem?
Andrew Ang, Li Gu, and Yael V. Hochberg

The Determinants of Capital Structure: Capital Market Oriented versus Bank Oriented Institutions
Antonios Antoniou, Yilmaz Guney, and Krishna Paudyal

Idiosyncratic Volatility and the Cross-Section of Expected Returns
Turan G. Bali and Nusret Cakici

Stock Market Liquidity and Firm Dividend Policy
Suman Banerjee, Vladimir A. Gatchev, and Paul A. Spindt

Order Consolidation, Price Efficiency, and Extreme Liquidity Shocks
Michael J. Barclay, Terrence Hendershott, and Charles M. Jones

The Role of Underwriter-Investor Relationships in the IPO Process
Murat M. Binay, Vladimir A. Gatchev, and Christo A. Pirinsky

The Impact of Overnight Periods on Option Pricing
Mark-Jan Boes, Feike C. Drost, and Bas J. M. Werker

Stock Market Participation and the Internet
Vicki Bogan

Mutual Fund Attributes and Investor Behavior
Nicolas P. B. Bollen

A Binomial Lattice Method for Pricing Corporate Debt and Modeling Chapter 11 Proceedings
Mark Broadie and Özgür Kaya

Characterizing World Market Integration through Time
Francesca Carrieri, Vihang Errunza, and Ked Hogan

Corporate Governance, Shareholder Rights, and Shareholder Rights Plans: Poison, Placebo, or Prescription?
Gary L. Caton and Jeremy Goh

Analysts’ Conflict of Interest and Biases in Earnings Forecasts
Louis K. Chan, Jason Karceski, and Josef Lakonishok

Control Transfers, Privatization, and Corporate Performance: Efficiency Gains in China’s Listed Companies
Gongmeng Chen, Michael Firth, Yu Xin, and Liping Xu

An Explicit, Multi-Factor Credit Default Swap Pricing Model with Correlated Factors
Ren-Raw Chen, Xiaolin Cheng, Frank J. Fabozzi, and Bo Liu

Do Market Timing Hedge Funds Time the Market?
Yong Chen and Bing Liang

The Value of Outside Directors: Evidence from Corporate Governance Reform in Korea
Jongmoo Jay Choi, Sae Woon Park, and Sean Sehyun Yoo

Generalized Analytical Upper Bounds for American Option Prices
San-Lin Chung and Hsieh-Chung Chang

The U-Shaped Investment Curve: Theory and Evidence
Sean Cleary, Paul Povel, and Michael Raith

Board Composition, Corporate Performance, and the Cadbury Committee Recommendation
Jay Dahya and John J. McConnell

Reassessing the Impact of Option Introductions on Market Quality: A Less Restrictive Test for Event-Date Effects
Bartley Danielsen, Bonnie Van Ness, and Richard Warr

(continued on next page)
Forthcoming Articles  (continued)

Basis Convergence and Long Memory in Volatility when Dynamic Hedging with Futures
Jonathan Dark

Systematic Share Price Fluctuations after Bankruptcy Filings and the Investors Who Drive Them
Mark C. Dawkins, Nilabhra Bhattacharya, and Linda Smith Bamber

Second Order Stochastic Dominance, Reward-Risk Portfolio Selection, and the CAPM
Enrico De Giorgi and Thierry Post

Chapter 11: Duration, Outcome, and Post-Reorganization Performance
Diane K. Denis and Kimberly J. Rodgers

The Impact of Mutual Fund Family Membership on Investor Risk
Edwin J. Elton, Martin J. Gruber, and T. Clifton Green

International Diversification with Large- and Small-Cap Stocks
Cheol S. Eun, Wei Huang, and Sandy Lai

The Dynamics of Credit Spreads and Ratings Migrations
Heber Farnsworth and Tao Li

Derivative Lawsuits as a Corporate Governance Mechanism: Empirical Evidence on Board Changes Surrounding Filings
Stephen P. Ferris, Tomas Jandik, Robert M. Lawless, and Anil Makhija

Underpricing in Discriminatory and Uniform-Price Treasury Auctions
David Goldreich

Missed Opportunities: Optimal Investment Timing when Information is Costly
Graeme Guthrie

All Events Induce Variance: Analyzing Abnormal Returns when Effects Vary across Firms
Scott E. Harrington and David G. Shrider

Bayesian Learning in Financial Markets: Testing for the Relevance of Information Precision in Price Discovery
Nikolaus Hautsch and Dieter Hess

Incentive Contracts and Hedge Fund Management
James E. Hodder and Jens Carsten Jackwerth

Insiders’ Tax Preferences and Firm’s Choice between Dividends and Share Repurchases
Jim Hsieh and Qinghai Wang

Optimal Portfolio Choice with Parameter Uncertainty
Raymond Kan and Guofu Zhou

Why Do Controlling Families of Public Firms Sell Their Remaining Ownership Stake?
Sandy Klasa

Swee-Sum Lam, Ruth Tan Seow-Kuan, and Glenn Wei Tsao-Min

Time-Series Behavior of Share Repurchases and Dividends
Bong-Soo Lee and Oliver Meng Rui

Why Do Firms Go Dark?
András Marosi and Nadia Massoud

The Effect of Shareholder Taxes on Corporate Payout Choice
William J. Moser

Bayesian Analysis of Linear Factor Models with Latent Factors, Multivariate Stochastic Volatility, and APT Pricing Restrictions
Federico Nardari and John T. Scruggs

The Genesis of Home Bias? The Location and Portfolio Choices of Investment Company Start-Ups
Jerry T. Parwada

Board Composition and Corrective Action: Evidence from Corporate Responses to Bad Acquisition Bids
Donna L. Paul

Are Household Portfolios Efficient? An Analysis Conditional on Housing
Loriana Pelizzon and Guglielmo Weber

(continued on next page)
Forthcoming Articles  (continued)

Multivariate Tests for Stochastic Dominance Efficiency of a Given Portfolio
Thierry Post and Philippe Versijp

The Empirical Failure of the Expectations Hypothesis of the Term Structure of Bond Yields
Lucio Sarno, Daniel L. Thornton, and Giorgio Valente

The (Poor) Predictive Performance of Asset Pricing Models
Timothy Simin

An International Examination of Affine Term Structure Models and the Expectations Hypothesis
Huarong Tang and Yihong Xia

The Value of the Designated Market Maker
Kumar Venkataraman and Andrew C. Waisburd

Forecasting Currency Excess Returns: Can the Forward Bias Be Exploited?
O. Miguel Villanueva

Information Disclosure and Market Quality: The Effect of SEC Rule 11Ac1-5 on Trading Costs
Xin Zhao and Kee H. Chung

Competitive Equilibrium with Debt
Alexei Zhdanov

Debt Capacity, Cost of Debt, and Corporate Insurance
Hong Zou and Mike B. Adams
The Journal of Financial and Quantitative Analysis (ISSN 0022-1090) is published quarterly (4 issues per year) by University of Washington School of Business Administration, a nonprofit organization located at 115 Lewis, Seattle, WA 98195-3200. The Managing Editor is Paul Malatesta, School of Business Administration, University of Washington, 115 Lewis, Box 353200, Seattle, WA 98195-3200. There are no known bondholders, mortgagees, or other security holders owning or holding 1 percent or more of total amount of bonds, mortgages, or other securities. The purpose, function, and nonprofit status of this organization and the exempt status for federal income tax purposes have not changed during the preceding 12 months. The annual subscription price for the Journal of Financial and Quantitative Analysis is $150/$160 for institutions and $70/$80 for individuals. During the preceding 12 months, the average number of copies printed for each issue was 2,650; the average paid circulation 2,402; the average free distribution 26; the average number of copies distributed 2,428. Corresponding figures for the last issue before filing: total number of copies printed 2,700; total paid circulation 2,396; free copies distributed 29; total distribution 2,425. Average percent paid 99%; actual percent paid 99%.

I certify that the statements made by me above are correct and complete.

Ms. Marty Auvil
Editor, Journal of Financial and Quantitative Analysis

(This statement is for 2006.)
The Journal of Financial and Quantitative Analysis (JFQA) is published quarterly in March, June, September, and December by the School of Business Administration at the University of Washington in Seattle, Washington, U.S.A. Topics include corporate finance, investments, capital and security markets, and quantitative methods of particular relevance to financial researchers. With a circulation of 3000 libraries, firms, and individuals in 70 nations, the JFQA serves an international community of sophisticated finance scholars—academics and practitioners alike. The JFQA prints 10 to 12% of the more than 400 unsolicited manuscripts submitted annually. An intensive blind review process and exacting editorial standards contribute to the JFQA's reputation as a top finance journal.

Payment in advance is required. Checks or money orders must be payable to the JFQA in U.S. dollars for deposit in a U.S. bank. Subscriptions start with the next available issue unless otherwise requested. Upon request, electronic subscriptions are available in PDF files. Claims for missing issues must be made within six months of the publication date.

To inquire about permission to reprint or the availability of specific back issues (at a cost of $25 per copy), contact the JFQA office.

<table>
<thead>
<tr>
<th>U.S.</th>
<th>International</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Library or Firm</td>
<td>$150</td>
<td>$160</td>
</tr>
<tr>
<td>Individual</td>
<td>$70</td>
<td>$80</td>
</tr>
<tr>
<td>Student (with current verification)</td>
<td>$25</td>
<td>$30</td>
</tr>
</tbody>
</table>

International Airmail $40

Total Amount Paid

Please start subscription with the ☐ March ☐ June ☐ Sept ☐ Dec 2006 issue.

Name _____________________________________________________________

Company _________________________________________________________

Address __________________________________________________________

City ______________________ State __________ Zip ________________

Country __________________ E-mail ________________________________

Phone ______________________ Fax _________________________________

Payment made by: ☐Check ☐VISA ☐MasterCard ☐American Express

Account No. __________________________ Exp. Date (mm/yyyy) __________

Cardholder’s Name ______________________________________________

Mail or fax directly to:

Journal of Financial and Quantitative Analysis
University of Washington
School of Business Administration
115 Lewis
Box 353200
Seattle, WA 98195-3200 U.S.A.

Phone: (206) 543-4598
Fax: (206) 861-1894

Federal Identification No.: 91-6001537 ISSN: 0022-1090 URL: http://www.jfqa.org

Published online by Cambridge University Press
End of Year Report from the Managing Editors

Are Bank Loans Special? Evidence on the Post-Announcement Performance of Bank Borrowers
Matthew T. Billett, Mark J. Flannery, and Jon A. Garfinkel

Innovation, Information, and Financial Architecture
Solomon Tadesse

Financial Development and the Cash Flow Sensitivity of Cash
Inder K. Khurana, Xiumin Martin, and Raynolde Pereira

Do Institutions Receive Favorable Allocations in IPOs with Better Long-Run Returns?
Beatrice Boehmer, Ekkehart Boehmer, and Raymond P. H. Fishe

IPO Pricing with Bookbuilding and a When-Issued Market
Wolfgang Aussenegg, Pegaret Pichler, and Alex Stomper

Stock Market Performance and the Term Structure of Credit Spreads
Andriy Demchuk and Rajna Gibson

Arbitrage with Fixed Costs and Interest Rate Models
Elyes Jouini and Clotilde Napp

Tick Size and Institutional Trading Costs: Evidence from Mutual Funds
Nicolas P. B. Bollen and Jeffrey A. Busse

Do Behavioral Biases Vary across Individuals? Evidence from Individual Level 401(k) Data
Julie R. Agnew