

國立政治大學財務管理系博士論文

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**Two Essays of the Information Impact on the
Valuation of Closed-end Funds**



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PREFACE

Two papers are produced based on the results from this dissertation. The merit of using closed-end funds to study investors' sentiment is that closed-end funds are parallel valued, and hence we can compare the investors' behavior with their fundamental value.

The first paper is based on Chapter Two. Entitled "The Impact of Political Information on Fundamental Value and Market Value: Evidence from Taiwan's Closed-end Funds", it was presented at the 2005 Conference on Finance of Academic and Practice, held by department of finance of Tam Kang University, on 7 January, 2005. This paper explores the theory of investors' sentiment and the theory of market efficiency, using Taiwan's closed-end funds data. Our empirical results show that the assumption of market efficiency is corroborated by three out of four political events in the sample, while the remaining one event induces changes which are inconsistent with market efficiency. These results provide some support for the theory of investors' sentiment in the closed-end funds literature.

The second paper is based on Chapter Three. Entitled "News Effects on the Valuation of Closed-end Country Funds: Evidence around the Asian Financial Crisis Period", this paper was presented at the 2004 International Conference on Finance, held by National Taiwan University, on 20 December, 2004. In this paper, we use six Asian country funds, listed on the New York Stock Exchange, to test whether salient country-specific news affects investors' reaction around the Asian financial crisis period. The results are consistent with the hypothesis that news events, especially for economic news, do play a role in the magnitude of investors' reaction to changes in the fundamental values of closed-end country funds. During the financial crisis period,

the news effects are more significant than the other periods. We also find that financial crisis itself is the lower bound for the negative news effects on the closed-end funds.

ABSTRACT

This dissertation studies investors' sentiment to dramatic public information events and the news effect on the valuation of closed-end funds. There are two main issues included in this dissertation. For the issue of investors' sentiment, we employ domestic closed-end funds from Taiwan to test how political information events affect fund share price and net asset value. The political information events employed are the 1996 and 2000 presidential elections in Taiwan, including prominent political events ahead of the elections. For the other issue of news effect on the valuation of closed-end country funds, the six Asian country funds listed on the New York Stock Exchange are employed and the country-specific news are culled from the headlines shown on the front page of *The New York Times*.

For investors' sentiment, we examine how dramatic political news and events affect closed-end fund data, fund price, and net asset value, using a sample of Taiwan data. We use data from Taiwan, because its stock market has been repeatedly affected by political events. We develop a theoretical model to show how information shocks would affect the discounts on closed-end funds. In designing the model, which is tested below, we start by assuming that the information shock is consistent with market efficiency. Our empirical results show that, even though this assumption is corroborated by three out of four events, the remaining one event in four induces changes which are inconsistent with market efficiency. This provides support for the theory of the preponderance of investors' sentiment. The results also show that the return on fund share prices and the return of net asset value (NAV) move in the same direction and the impact of information shocks to the return of fund share price and

return of NAV have mostly the same sign. Although the results from domestic funds, with fund share prices and NAV that are valued in the identical market, tell us that there exists investors' sentiment, we intend to resolve what the information effects are on the valuation of closed-end country funds that have fund share prices and NAV valued in two different entities/markets.

We use a sample of six Asian country funds, listed on the New York Stock Exchange, to test whether salient country-specific news affects investors' reaction around the Asian financial crisis period. Our results show that in regular weeks, fund share prices react less to changes in fundamentals. In weeks with salient news appearing on the front page of *The New York Times*, fund share prices react much more than those in regular weeks. We also find that economic news affects the adjustment process of fund share prices more significantly before and during the Asian financial crisis periods. These results are consistent with the hypothesis that news events play a role in the magnitude of investors' reaction to changes in the fundamental values of closed-end country funds. As to the reaction of volume to news, the results show that news effect is significant in full sample period. For the reaction of volume to categorized news, economic news is significant in full sample period.

In sum, the results from either domestic funds or country funds all show that news events/information do play a role in individual investors' sentiment. The phenomenon is more conspicuous during a financial crisis period.

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