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EDHEC-Risk Institute Position Paper Shows that the 2008 Short Sale Ban did not Ease Downward Pressure in the Financial Markets

In a new position paper entitled "Spillover Effects of Counter-cyclical Market Regulation: Evidence from the 2008 Ban on Short Sales," Professor Abraham Lioui, Professor of Finance at EDHEC Business School looks at the impact of the ban on broad market indices in the US and in Europe (the United Kingdom, France, and Germany).

Since these indices and their performance are of great concern to the asset management and hedge fund industries, it is important for practitioners and policymakers to understand the impact of changing the rules of the game (banning short sales) on the return distribution of these indices and to assess the potential spillover effects of a counter-cyclical regulation affecting only one segment of the financial market.

Among the main conclusions of the study:

- The ban leads to a considerable increase in the dispersion of investor opinions and this dispersion, in turn, leads to great increases in the volatility of stocks and indices. This effect is evident even when such events as the Lehman Brothers bankruptcy and the longstanding sub-prime crisis are controlled for.
- Nor does the ban relieve the downward pressure on stock prices. Short selling does not migrate to the derivatives markets; the sustained fall of prices is, instead, the result of long traders exiting the market.
- The market does not seem to believe that short sellers or the hedge fund industry were responsible for the turmoil of 2008.

The position paper "Spillover Effects of Counter-cyclical Market Regulation: Evidence from the 2008 Ban on Short Sales," which represents a substantial revision to a previous EDHEC position paper from April 2009 entitled "The Undesirable Effects of Banning Short Sales," can be accessed by pressing [Ctrl] and clicking on the following link:

http://docs.edhec-risk.com/mrk/000000/Press/EDHEC_Position_Paper_Short_Sale_Ban.pdf

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About EDHEC-Risk Institute

EDHEC-Risk Institute is part of EDHEC Business School, one of Europe's leading business schools and a member of the select group of academic institutions worldwide to have earned the triple crown of international accreditations (AACSB, EQUIS, Association of MBAs). Established in 2001, EDHEC-Risk Institute has become the premier European centre for applied financial research. In partnership with large financial institutions, its team of 47 permanent professors, engineers and support staff implements six research programmes and ten research chairs focusing on asset allocation and risk management in the traditional and alternative investment universes. The results of the research programmes and chairs are disseminated through the three EDHEC Risk Institute locations in London, Nice and Singapore.

EDHEC-Risk Institute validates the academic quality of its output through publications in leading scholarly journals, implements a multifaceted communications policy to inform investors and asset managers on state-of-the-art concepts and techniques, and forms business partnerships to launch innovative products. Its executive education arm helps professionals to upgrade their skills with advanced risk and investment management seminars and degree courses, including the EDHEC Risk Institute PhD in Finance and the EDHEC Risk Institute Executive MSc in Risk and Investment Management.

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