

Date of the event:

On Thursday 26th May 2011
From 01:00 PM to 2:00 PM

Location:

Luxembourg School of Finance
University of Luxembourg
4 Rue Albert Borschette
2nd Floor
Modigliani Miller Auditorium (E02-003)
L-1246 Luxembourg

Registrations:

- Free seminar (with lunch included)
- Registrations by email before May 23rd, 2011
- At the following address : lsf-events@uni.lu

Information:

Ms Caroline Herfroy
Tel : +352 46 66 44 6335

<http://www.lsf.lu/eng/Research/Seminars-and-Workshops>



The LSF is pleased to invite you to the following lunch seminar:

***Endogenous Risk in Equity Markets
and Market Turbulence***

*By Professor Giorgio Consigli
University of Bergamo, Italy*

**Thursday, 26th May 2011
From 01:00 PM to 2:00 PM**



Endogenous Risk in Equity Markets and Market Turbulence

By Giorgio Consigli

The **Luxembourg School of Finance**

Is pleased to invite you to the

LSF Seminar

The distribution of securities prices in financial markets is known to exhibit heavy tails, and furthermore the time trajectory has occasional extreme swings or reversals in direction. The modeling of heavy tails has been achieved with the addition of a homogeneous point process to a diffusive process. However, the timing of the jumps in the point process should capture the price reversals. In this paper a non-homogeneous point process is introduced, so that the intensity and size of jumps are state dependent. The state is characterized by a stress measure, which is composed from a combination of risk factors. The factors considered are the bond-stock yield differential and the volatility VIX.

If the rationale for the inclusion of the bond yield differential as potential stress measure comes from the (continuously varying) expected impact of the risk free interest rate and the market expectation over future earnings, the consideration of the VIX index does reflect both an aggregate measure of economy-wide credit cycle (according to the structural approach to credit risk) and a direct signal of the market uncertainty over future corporate performance. An increasing implied volatility indicator would then reflect a generalized contraction of investors planning horizons and a reduction of corporate earnings, resulting into an equity market downturn.

The presented methodology can be generalized to several instability factors, and alternative indicators can be put forward to capture the equity market sentiment. The study is conducted over the 1990-2009 period in the US market. The model captures the swings in equities prices and provides a basis for anticipating reversals from risk factors.