

Measuring the Performance of Managed Investments: The Case of Israeli Provident Funds



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The article reviews measures for the examination of managed investments and implements these measures for provident funds (“Gemel” and “Hishtalmut”) in Israel in 2007-2018 using monthly returns. The first set of measures is related to risks: standard deviation of returns, betas vs. various securities indices, as well as return variance that is not explained by various securities indices (specific variance). We divide the sample period into four sub-periods and find high persistence in risk measures between subsequent sub-periods. For example, the correlation between return standard deviation in subsequent sub-periods is 0.9. The second set of indicators relates to return level: accumulated return, average monthly return, the Sharpe measure and the alpha measure. In contrast to the risk indices, there is a very low persistence in return level measures. For example, the correlation between alphas in subsequent periods is 0.04. The conclusion is that when choosing provident funds, risk indices can be used to assess future risks. On the other hand, in assessing the level of future returns, in practice it is not possible to rely on future yields. Therefore, it is important to take into account management fees, which affect future returns directly. It should be noted that the empirical examination relates to provident funds, and it is possible that in other types of investments (for example mutual funds) the persistence is different.

The Effect of the Liquidity of the Firm’s Securities on Its Value



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The paper presents a theory of asset pricing that we have proposed and developed: investors require a higher expected return on an asset when its trading cost is higher or when its liquidity or marketability is lower. That is, for a given cash flow that the asset produces, its price is lower when its liquidity is lower. The theory is supported by empirical findings on stocks, bonds and other assets, in the United States and in countries around the world. Consequently, the required expected return is higher when there is higher exposure of the asset return to market liquidity shocks, as compensation for liquidity risk. A corporate manager can lower the firm’s cost of capital by increasing the liquidity of its stock and bonds. Indeed, it has been found that companies invest more when their stock liquidity is higher. Liquidity can be increased by greater information disclosure (including accounting information) and transparency to increase investors’ willingness to trade the stock. Liquidity improves when increasing the float of shares and bonds traded — which may conflict with the wish to hold large blocks by control holders — and expanding the investors’ base, especially among small investors. Dividend policy and stock repurchase policies should also consider the impact on liquidity.