

Internet Appendix A87: Foreign Portfolio Investment

A87.1 Illustrative Pitch Template Example - Reverse-engineered

This pitch is reverse engineered from the paper: Aggarwal, Raj, Colm Kearney, and Brian Lucey. 'Gravity and Culture in Foreign Portfolio Investment', Journal of Banking & Finance, vol. 36/no. 2, (2012), pp. 525.

Pitcher's Name	Katsiaryna Zhaunerchyk	For Category	Foreign Portfolio Investment	Date Completed	06/05/2016
(A) Working Title (Actual)	Gravity and Culture in Foreign Portfolio Investment				
(B) Basic Research Question	How cultural variables including but not limited to the language, religion and Hofstede's dimensions determine global FPI patterns independently from such traditionally conceived gravity effects as geographic distance and various institutional strength indicators?				
(C) Key paper(s)	Beugelsdijk, S., Frijns, B., 2010. A cultural explanation of the foreign bias in international asset allocation. Journal of Banking and Finance 34, 2121-2131. Daude, C., Fratzscher, M., 2006. The Pecking Order of Cross-border Investment. European Central Bank, Working Paper Series: 590, Frankfurt. Lane, P.R., Milesi-Ferretti, G.M., 2008. International investment patterns. Review of Economics and Statistics 90, 538-549.				
(D) Motivation/Puzzle	The existence of 'missing trade' problem and 'home bias' puzzle, which are attributable to the imperfection of the distance variable in gravity model, creates scope for the further investigations in this area (Trefler, 1995; Lewis, 1999). The previous research on the cultural effects influence on the foreign portfolio investment shows high statistical significance (Beugelsdijk and Frijns, 2010). Thus, extension of the variables by introducing cultural effects while using gravity model would potentially lead to deeper understanding of the factors which shape the FPI allocation. Thus, the investigation of the extend if any to which cultural effects independently from any other set of variables impact the FPI allocation determines the key motivation of this paper.				
THREE	Three core aspects of any empirical research project i.e. the "IDioTs" guide				
(E) Idea?	The general research idea specifies the necessity to explore the additional effects which can potentially impact the portfolio investment patterns in origination and destination countries. By willing so, the authors are focused on the influence of institutional strength variables as well as cultural variables on the investment in debt and equity instruments on both domestic and foreign market. Institutional variables are represented by the degree of bond market development (Bdev), degree of equity market development (Edev), corporate accounting quality (Accq), investor protection (Invp) and country risk (Risk). While, the cultural variables are represented by common language (Clan), common legal system origin (Cleg) and common religion (Crel). Additionally, the following Hofstede's Cultural dimensions indexes have been included in cultural variables range: masculinity (Masc), power distance (Powd), individualism (Indv) and uncertainty avoidance (Unca). The authors implicitly specify hypothesis: the cultural variables independently from the institutional variables influence the FPI allocation decision. Based on the stated above, the authors are aimed to conceptualize more broadly such cultural variables' effects as well as investigate the scope of their impact on FPI.				
(F) Data?	International monetary fund's (IMF) annual Coordinated Portfolio Investment Survey (CPIS) of the aggregated debt to equity position in \$US across 174 originating and 50 destination countries has been used to obtain the data for dependent variables - debt and equity. Frequency: yearly. Years: 2001-2007. Source: IMF website. Long-term debt and equity have been taken into consideration to minimize high- volatility related distortions. Moreover, the following restrictive criteria have been additionally applied: non-usage of transactions related to the dependent states and entities, offshore financial centers, international organizations, confidential transactions, unallocated and insufficient data. Majority of data on the institutional strength variables have been accesses through the previous similar publications. E.g.: corporate accounting quality (Accq) - Bushman et al (2004); bond market development (Bdev) - Beck, Demirguc-Kent et al (2000), investor protection (Invp) - Djankov, La Porta et al (2008). Country risk (Risk) variable was taken from Political Risk Services Group. Degree of equity market development (Edev) - Source: World Federation of Exchanges. Cultural variables data: common language (Clan), common legal system origin (Cleg) and common religion (Crel) - Source: Rse and Spiegel (2004). All Hofstede's Cultural dimensions indexes' source is the Geert Hofstede's website. Combination of data represents the panel dataset.				
(G) Tools?	Gravity model of Foreign Portfolio Investments has been taken as a basic framework. The set of variables has been divided to 3 groups: basic gravity variables, institutional strength variables and cultural effects variables. Basic gravity variables have been set by greatest/least physical/ cultural distances resulting to sample of 564 country pairs. Cultural variables has been categorized by country attributable mean score (with % range) based on the Hofstede's Cultural Dimension Theory. Classification and regression tree (CART) has been applied to classify 564 pairs by gravity and cultural distance. Then, Ordinary Least Squares (OLS) with White- corrected standard errors has been employed to test the significance of the variables (Bdev, Accq, Invp, Risk, Edev, Cleg, Clan, Crel, Masc, Powd,				

Cued Template taken from Faff, Robert W., Pitching Research (January 11, 2015). Available at SSRN: <http://ssrn.com/abstract=2462059> or <http://dx.doi.org/10.2139/ssrn.2462059>

	Indv, Unca) in shaping FPI patterns.
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TWO	Two key questions
(H) What's New?	The introduction of the cultural effects together with institutional strength variables while analysing the determinants of FPI represents the novelty of the paper. Moreover, the attempt to investigate the cultural effects separately from the other group of variables specify the potential significance of the results obtained by such research.
(I) So What?	The paper provides important implications for researches across different fields, assessing the extent to which culture has a great impact on financial decisions. This knowledge can be widely applied, aiming to achieve an advantage in any business activity which might involve adjusting for culturally-biased attitudes. E.g. determination of appropriate foreign investment decision including M&As, various market penetrations, marketing strategies, etc.
ONE	One bottom line
(J) Contribution?	This paper argues that, despite the "conservative" perception of investment decisions as a result of "precise" analysis of various institutional aspects, cultural influences can not be under-estimated. Stakeholders in this field should acknowledge that cultural effects might well be essential factors in better understanding behavior-driven investment decisions. The paper conveys that further research of cultural effects` impact can significantly contribute to the overall understanding of the motives which trigger heterogeneous agents in the international portfolio investment market.
(K) Three Key Findings	The core findings: 1. The level of masculinity in the originating country positively influences cross-border debt holdings almost twice the magnitude, than does equity. 2. The level of individualism positively impacts the cross-border equity holdings almost three times as much as debt. 3. The degree of power distance in the originating country influences more debt instruments than equity.