EDITORIAL NOTE

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It is a pleasure to introduce the second issue of 2019 of the Journal of Financial Management, Markets and Institutions. The editorial team of the journal continue to work in trying to improve its relevance and scope. Along with the increasing number of submissions and citations, the managing team is also benefiting from the incorporation to the editorial board of new distinguished members of the academia. In particular, Thomas Chemmanur (Boston College), Claudia Girardone (University of Essex), Anthony Saunders (New York University) and Gregory Udell (Indiana University) have recently joined the editorial board.

The contributions to this edition are mostly devoted to valuation and information topics in financial markets. They all combine theoretical predictions with new empirical findings that offer new insights in relevant issues such as stock index prediction methods, complexity in investing models and new approaches to the interpretation of firm management and quality signals.

The first article is entitled “The Efficiency of Ensemble Classifiers in Predicting the Johannesburg Stock Exchange All-Share Index Direction” by Thabang Mokoaleli-Mokoteli and Hima Vadapalli. It investigates algorithms that predict the direction of Johannesburg Stock Exchange (JSE) All Share index. In particular, it tests the so-called ensemble prediction models to check if they outperform selected algorithms in predicting the direction of JSE index. The findings of the paper suggest that ensemble prediction models (i.e. Boosted and RUS-Boosted) are more efficient in predicting the JSE stock market index than other prediction algorithms (such as KNN, SVM and LR). A general implication of these results is that investors that use ensemble models to predict JSE index can obtain substantial monetary rewards. As a caveat, the article establishes that it is possible that, as more investors access this type of algorithms, they would suffer from alpha decay. This limits the welfare gains for investors of using the algorithms. Therefore, a suggested line of further research would be analysing the shelf life of this algorithm-based prediction models in different environments.

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The second article of this issue is entitled “The investment certificates in the Italian market: A comparison of quoted and estimated prices” by Sebastiano Vitali, Brando Viganò, Vittorio Moriggia and Giovanna Zanotti. The article deals with the price of investment certificates in the Italian market. It relies on a Monte Carlo approach as a baseline pricing model. The authors use the the historical volatility of the underlying returns and the discount factor given by the AAA yield curve estimated by the ECB. The findings in this research suggest it is convenient to use the Monte Carlo approach not to price the single components of the replicating portfolio, but to compute directly the payoff produced by the certificate. Additionally, the estimated price of the investment certificates is found to differ from the market price when this Monte Carlo model is applied to the Italian case. The authors speculate on this finding and suggest investors carefully evaluate whether the price of a certificate meets their expectations and not to renounce this control because of the apparent complexity of the instrument. Moreover, they suggest that the high complexity of a financial instrument can still correspond to a low risk instrument, but the market maker exploits the complexity to pursue some pricing flexibility without making the investor fully aware of it.

The third contribution to this volume, “Accuracy vs complexity trade-off in VaR modelling: could technical analysis be a solution?” by Evangelos Vasileiou, also explore the complexity of some valuation models. Th baseline assumption is that contemporary advanced models are incomprehensible to non-mathematicians. These study advanced econometric VaR models to show they are not usually applied in the financial industry due to their complexity. The article suggests a way to apply a CHVaR model, which is very easy to be applied. Taking the US market as a reference, the article suggests that using the SMA data filtering procedure improves the CHVaR models because it improves their representativeness of the real financial risk, which in turn reduces the procyclicality of VaR estimations. The author indicates that when the trading signals accurately confirm/forecast the market trend changes, they could be beneficial in the VaR field of study. He also concludes that the approach is so flexible that with the appropriate adjustments it could be applied to any market under certain conditions.

The fourth article is “How Do Investors Perceive Long-term Growth Targets and Forecast Horizons in Strategic Plans? Evidence from Italian Firms” by Giuseppe Di Martino. This contribution examines whether strategic-plans’ long-term growth targets and long-term forecast horizons are informative to investors and whether the credibility and usefulness of these targets are influenced by forecast horizons. The empirical analysis relies on a sample of 224 strategic plans presented on a voluntary basis by Italian listed companies between 2002 and 2018. The main finding suggest that long-term growth targets show an incremental information content for investors as indicated by the positive association between this variable and the cumulative abnormal returns (CAR) measured at strategic plan’s release. Hence, this quantitative information is perceived as credible and provides useful information to assess the firm’s value. The author suggests that these results have important implications

as, *inter alia*, they shed light on one of the possible reasons that underlie the findings documented in prior literature. In particular, if Italian strategic plans are informative to investors and analysts it will also be because of long-term growth targets that, when reported, are perceived as credible and useful. Additionally, the findings indicate that managers should not release strategic plans with long-term forecast horizon when uncertainty is high.

The final contribution to this issue is “Solicited versus Unsolicited Ratings: The Role of Selection” by Anna Gibert. This investigation examines if selection is one of the driving factors behind the differences in rating grades between borrowers with solicited and unsolicited rating status. In the model proposed by the author, the equilibrium is characterised by opposing results in the rating grade gap between solicited and unsolicited ratings, depending on the parameters. These findings suggest that selection of less creditworthy borrowers into unsolicited status makes unsolicited ratings grades lower on average than those with solicited ratings. The article also provides some practical evidence: using a panel of S&P long-term issuer ratings, it finds that controlling for the firm’s identity eliminates part of the effect of the solicitation status.

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