

**Internet Appendix A222: Finance: Value Premium
Illustrative Reverse Engineered Pitch Template Example**

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(A) Full Reference	Brailsford, T., Gaunt, C. and O'Brien, M. (2012). The investment value of the value premium. <i>Pacific-Basin Finance Journal</i> , 20(3), pp.416-437.				
(B) Basic Research Question	Is the value premium systematic across the market and exploitable? – An empirical test in Australian stock market				
(C) Key paper(s)	Fama, E. and French, K. (1993). Common risk factors in the returns on stocks and bonds. <i>Journal of Financial Economics</i> , 33(1), pp.3-56. Fama, E. and French, K. (n.d.). The Value Premium and the CAPM. <i>SSRN Electronic Journal</i> . Loughran, T. (1997). Book-To-Market across Firm Size, Exchange, and Seasonality: Is There an Effect?. <i>The Journal of Financial and Quantitative Analysis</i> , 32(3), p.249.				
(D) Motivation/Puzzle	Value investment strategies tell us stocks with higher book-to-market ratio have a higher average return, generally, than stocks with lower book-to-market, which is called “value premium”. However, this finding is based on stock markets and methods of picking stocks into portfolios. Different stock markets with different distributions of stocks, portfolio classification methods might lead to different conclusions on value premium.				
THREE	Three core aspects of any empirical research project i.e. the “ IDioTs ” guide				
(E) Idea?	Using the Australia stock market setting, explore whether and to what extent different methods of portfolio formation lead to different conclusions about book-to-market ratios, value premium and size premium. Also, the study compares the results with prior studies, which find evidence that value premium is only being present in the largest stocks in Australia, while the premium only being present in the smallest stocks in US market.				
(F) Data?	Data are derived from two sources. ASX market information like price, dividend and capitalization are sourced from the Centre for Research in Finance. Accounting information is hand-collected from annual reports of each company for the period 1982 to 2006.				
(G) Tools?	The research is couched within the Fama-French three factor asset pricing framework. Stocks are assigned into 25 groups based on two dimensions, book-to-market ratios and market capitalization. Then it examines the performance of these portfolios using summary statistics and their monthly return using inferential statistics. Finally, the research conducts an asset pricing test to extend comparison of the alternative portfolio construction methods.				

TWO	Two key questions
(H) What's New?	Many prior studies on value premium are from the US market. The current study chooses a non-US setting and digs deeper into the value premium phenomenon itself and examines further portfolio classification methods, which may affect conclusions on the premium. Further, it studies illiquidity and market microstructure on the returns of small stocks, which masks the value premium in micro stocks.
(I) So What?	This research clarifies academic thinking about the value premium in Australian stock market. The finding, that value premium is a market-wide characteristic and not limited to small, illiquid stocks, provides a base for portfolio managers to develop their own investment strategies. Also, it provides some insights on pricing factors to researchers for their further research into pricing models.
ONE	One bottom line
(J) Contribution?	Extends our understanding of the Fama and French 3-factor model, with a special focus on the value factor. This research contributes an empirical test of the value premium in the Australian market and examines the feasibility of value investment strategies in Australia.
(K) 3 Key Findings	<ol style="list-style-type: none"> 1. Different portfolio construction methods lead to different conclusions on value premium. Prior studies find that in the Australian stock market, the value premium exists in larger stocks. However, under realistic portfolio construction methods, existence of value premium is not affected by size factor. It is systematic and increases inversely with size. 2. Under realistic portfolio construction methods, the size premium largely disappears in the Australian setting. 3. Under realistic portfolio construction methods, asset pricing tests provide strong evidence of a value premium in the Australia market.