

What can we learn from Finnish Stock Market Research?

This special issue of the Finnish Journal of Business is dedicated to the empirical research of Finnish stock markets conducted mainly in Finnish universities. The papers included in this issue are based on papers presented at the tenth anniversary symposium for Suomen arvopaperimarkkioiden edistämissäätiö / Stiftelsen för främjande av värdepappersmarknaden i Finland. After briefly presenting this Foundation and the Symposium this introduction gives some general comments on issues brought up by research covered in the papers published in this issue.

The foundation: Suomen arvopaperimarkkinoiden edistämissäätiö / Stiftelsen för främjande av värdepappersmarknaden i Finland, was founded in 1986 to promote research in Finnish security markets, thus enhancing our knowledge on how these markets actually work.

The Foundation is an independent foundation run by a board consisting of four distinguished persons from Finnish business circles. Its activity has mainly consisted of distributing grants to scholars doing active research related to Finnish security markets. In addition the foundation awards annual prizes to outstanding masters theses in the field. In these activities the board is assisted by a scientific council consisting of three professors covering different aspects of security market research, while the councils secretary's tasks have been handled by the director of the Foundation. During its more than ten years of existence the director, and the backbone of the foundation, has been Mr. Irmer Stenberg. The foundation has also benefited from the support of many professors in Finnish universities especially in the task of selecting candidates for the outstanding theses awards.

The purpose of the tenth anniversary symposium was to bring together most of the researchers doing active research related to the Finnish stock market in order to survey and discuss the present state of our knowledge in that field. The international perspective was brought in by professor Edwin Elton from New York University, at that time president elect of the American Finance Association, who in addition to actively commenting on the papers presented at the symposium gave his view on interesting areas for future research in finance, and a summary on what he found especially interesting in the issues covered during the two-day symposium. I think I can safely act on behalf of the authors of the papers appearing in this volume in thanking professor Elton for his comments and questions that helped in making the papers much more accessible to readers with a broad perspective on issues in the theory of finance.

In the discussions during the symposium it became apparent that there are several important events and relevant trends in the post-war economic development in Finland that especially more experienced Finnish researchers simply assume to be familiar to the reader. However, for a researcher with a foreign background, or for an aspiring young Finnish PhD student these "facts" may be largely unknown. The paper by Mika Vaihekoski included in this issue is intended to fill that gap.

Overall the papers in this issue should be considered not as the final word from the best experts in the field but rather as a provocation for further research. By filling in the known details in our map of reality the blank spots become more easily identifiable. The purpose of this issue is to provide something of a map like that, especially to young researchers with an ambition to expand our knowledge on how Finnish security markets actually work.

The survey papers in this issue have been produced with a deliberately biased perspective. The authors were asked to mainly concentrate on results produced by research at their own institution. Readers of this issue who look for a synthesis are thus encouraged to read and compare the different papers to find out where there seems to be broad agreement and which results seem to be more contradictory. Indeed a fruitful strategy, especially for young PhD students looking for dissertation topics, is to search for contradictory results to see whether there is scope for additional research that could tip the scale in favour of one view or the other.

In addition to the background paper by Vaihekoski the papers in this volume roughly fall into four categories: asset pricing: Löflund & Knif, Martikainen et al., Perttunen et. al. ; corporate finance: Ikäheimo & Heikkilä, Liljebloom & Högholm; derivatives markets: Puttonen; and taxation: Ylä-Liedenpohja. The number of papers in each category reflects the activity of the contributors rather than any deliberate policy on behalf of the editors. Of these papers the paper by Ylä-Liedenpohja is somewhat different in the sense that it sorts out the actual impact on security returns of the present taxation in Finland, rather than surveying earlier empirical research in the area. Since taxation complicates matters considerably by driving a wedge between observed returns and returns actually received by the investor we concluded that a more detailed analysis of where we stand today in that respect should be valuable for anybody with an interest in doing equity market research on

current Finnish data.

A sweeping overview of the substantial amount of research reported in this edition indicates that in general the results on Finnish data resemble those obtained on data for much more liquid markets. Notable differences are produced by the small number of securities, which makes the identification especially of risk-related pricing issues more difficult than on large markets, and thin trading, that is a lack of liquidity in many of the listed stocks, which will make the problem of non-synchronous trading much more prevalent than on US data. The important conclusion that emerges from the observed similarities between results on Finnish data and results from more liquid markets is that after all the Finnish stock market is not that different. Stock prices in Finland tend to exhibit the same patterns as stock prices in other parts of the world.

With respect to future stock market research on Finnish data there is one conclusion in particular worth emphasising, which was brought up several times by different persons during the symposium. This conclusion is that there are relatively few studies which are focusing on particular institutional differences between Finland and some other countries. By focusing on such cases it should be possible to derive expected differences in investor behaviour, differences that could be tested against actual data. The fact that international economic integration is reducing differences between different countries in general will make these cases even more valuable in the sense that they will more and more start to resemble the ideal of a controlled experiment.

Also discussed during the symposium was the likely regime shift that the Finnish stock market will experience in the near future. This regime shift will be produced by Finland's participation in the European Monetary Union. The disappearance of the risks connected with the Finnish Markka, a relatively exotic currency on an international level, will make Finnish stocks closer substitutes to stocks quoted in other European countries. The question concerning how this will impact on the pricing of Finnish stocks is certainly highly interesting from a theoretical as well as practical standpoint. What we safely can conclude is that this likely regime shift will not reduce the value of this special issue of the Finnish Journal of Business. On the contrary, as long as research covering data generated during the old regime is conducted, the papers published in this issue are likely to constitute standard references in trying to pin-point the actual changes produced by the switch from the Finnish Markka to the new Euro-regime.

A large number of persons have contributed to this issue. In addition to the authors a number of persons have participated as discussants, referees and commentators. This issue owes its existence to their efforts. There is one person in particular who has read all the papers and made substantial efforts in improving the readability of the papers. That person is Mr. John Rogers from the Research Institute of the Finnish Economy, ETLA. On behalf of the editors I would like to extend a warm thanks to him and to all persons who have been involved in the work of producing this issue.

What can we learn from Finnish stock Market Research? Rather than trying to come up with an answer to this question I will encourage the reader to go on reading this issue with that question in mind. The most important thing in active research is not to come up with final answers but to find new and refined questions that can help us achieve a deeper understanding of how reality actually works.

Tom Berglund

Guest Editor