

**Cyprus University of Technology**

***Department of Commerce, Finance and Shipping***

***Seminar Talk***

Friday 15th of May 2015, 11:00-12:00

(Conference Room, 2nd floor, Continental Building)

**“Broker Rebates and Investor Sophistication”**

**by**

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Abstract

Following a ruling of the Israeli Securities Authority, portfolio managers had to obtain their clients’ consent, in writing; so that they can continue to receive a fraction of the transaction costs their clients pay the broker executing the trades. One would expect an overwhelming opposition to the kickback as consenting investors are exposed to avoidable losses due to (moral hazard) access trading. Yet the opposite is found – about 89% of the investors in our sample allowed their manager to receive a kickback. This is quite remarkable considering that not responding is taken as a prohibition. Indeed, the more sophisticated investors tend to disagree. We find that portfolios of consenting investors underperform in the year following their decision. Also, the empirical evidence indicates that consenting is not a reward on past success.

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