“Switching volatility in target stocks during takeover bids” by S. Gelman and B. Wilfling

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Summary

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  - P(t) $= \alpha\ V_T +$ (1-α)P*(t)
  - Takeover probability key determinant of the price process
  - As many price regimes as α values
  - Adopt to continuous time, daily data approximation

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  - Consider stocks of several European and a US company
  - Common and preferred stocks of one company
  - Different bid types: cash-bids, share-swap and mixed
  - Model return-equations by CAPM

Comments

- Regime switching models justified given the recognized differences in the pre- and post-bid behaviour of stocks
- The MS-GARCH models fitted improves on GARCHs
- Considerable focus on model evaluation
- Well done empirical analysis and well written paper
- The results are largely consistent with stylized facts

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5. Same model pre- and post-bid irrespective of stock type and bid type?

Allow for period, stock and bid dependence?

- Separate pre-bid and post-bid periods and two states in each of them
  - Different information level in both periods:
    - Pre-bid: Will there be a takeover bid and what?
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- Allow for interaction between the bidding and target stock returns when mixed and share-swaps
  - Stock prices become linked after a bid
  - The success of the bid may depend on the development of the bidding stocks
  - Here, the deal with share-swaps is rejected.