The Principle of Behavioral Finance behind the Double-killing of Wanda Group's Stocks and Bonds

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Keywords: Wanda Group, Double-killing of Stocks and Bonds, Behavioral Finance.

Abstract. On June 22, 2017, the “double-killing of stocks and bonds” of Wanda Group was considered by many to be “irrational and pessimistic” caused by rumors, and it was an irrational and non-logical follow-up behavior of institutional investors affected by negative news. It is undeniable that this incident does have a boost of rumors, but the trading behavior of each institutional investor is based on its response to the interpretation of the signal, which is the result of mutual institutional gaming between multiple institutional investors. Moreover, the reason why rumors can really play a role is mostly because rumors have real support. This paper is based on the double-killing incident of Wanda encounters, focusing on the real support behind the rumors on the investment decisions made by investors, and analyzing the emotions and psychology in the investor transaction process.

Introduction

Behavioral finance theory breaks through the basic assumptions of traditional financial theory. Based on the two assumptions of "limited rationality" and "limited arbitrage", the core theoretical framework of this research field is established, which becomes an analysis of financial market phenomena and human behavior basis. An important area in behavioral finance theory is the study of investor behavior, which challenges the basic premise of traditional financial theory - the "rational man" hypothesis and puts forward the idea of "limited rationality". Revealing the psychological basis and behavior patterns of investors through the study of investor behavior can help us understand the various phenomena of the capital market from a new perspective. From the perspective of behavioral finance, this paper analyzes the limited rational behavior of investors behind Wanda's "double-killed of stocks and debts".

Recalling the Process of Wanda Group's Double-killing of Stocks and Bonds

On June 22, 2017, the double-killing of Wanda’s bonds was not an accident. There were various signs before the incident. This incident is the outbreak of accumulated risks of Wanda Group in recent years, and it is the time for the market to wait for “flooding”. The proliferation of rumors has ruined the wind, completely exposed the serious problems of Wanda Group, and reflected the influence of emotional and psychological factors on institutional investors' trading decisions in this incident.

Cause Concern

Under normal circumstances, stock and bond prices tend to have a “seesaw” effect. If the economy is good, the profit growth of listed companies will accelerate, so the stock market will perform better; if the economy goes down, the bonds will perform better, because on the one hand, investors’ risk appetite declines, and more people want to use bonds come to hedge, on the other hand, because the economy is not good, everyone will expect monetary policy to relax and will benefit bonds. That is, if the stock market performs well, the bond market will perform generally; if the stock market performs poorly, the bond market tends to perform better. Therefore, the phenomenon of "double bond killing" is relatively rare.
The Spread of Information and the Market's Response to Information

On June 21, 2017, the market suddenly rumors that Pudong Development Bank, ICBC Asset Management, CCB Shanghai and other institutions require their managers to clear the bonds related to Dalian Wanda. The reason is not mentioned. In fact, Dalian Wanda bonds have been sold in the past month. Very active. The next day, a message "A big bank let all managers sell Wanda real estate bonds" suddenly came out and quickly fertilized in the financial circle. The Weibo user “Mr. Interview” has used this issue as a “political risk” to smash the WeChat circle of friends. With the proliferation of rumors, Wanda more than just bonds fell sharply, the day 15 Wanda 01,15 Wanda 02, 16 Wanda 01 and other bonds fell about 2%. A-share listed company Wanda film was not spared, and then quickly fell to near-term limit, the lowest reported 51.93 yuan, a decrease of 9.91%, turnover of more than 1.2 billion. The stock price hit the biggest decline in five months. The turnover rate was as high as 5.42%, and the turnover rate on the previous day was only 0.85%. The Wanda movie was extremely active on June 22. The market value of Wanda Movies evaporated by 6.6 billion yuan in half a day.

Wanda Group's Response

In the face of the spread of unfavorable news in the market and the double fall in the price of stocks and debts, Wanda Group has taken a series of countermeasures. At noon on the 22nd, Wanda Group first issued a statement on its official WeChat, claiming that the online speculation of CCB and other banks issued a notice to sell Wanda bonds, which is a rumor. Subsequently, the Wanda film was suspended. The Shenzhen Stock Exchange announced that the public media information about Wanda movies may have a greater impact on the company's stock trading price. The company's stock was temporarily suspended at 13:00 on the 22nd. In order to boost the market, Wanda Film announced on the 23rd that Wanda’s shareholder’s shareholding plan was released. On the same day, bonds and stock prices began to stabilize.

The Reason why Wanda Group Suffered from the Double-killing of Stocks and Bonds

Information, whether it is good or bad, will be reflected in the price. The double fall of Wanda bonds and stock prices, many people regard it as excessive reaction of the market to bad information, and it is a panic crash caused by "rumors". In the information age, the emergence of new media has increased and improved the way and speed of information exchange and dissemination. At the same time, in the financial field, there have also been acts of disrupting market order through new media such as WeChat, Weibo, and the Internet. It is undeniable that rumors will lead to a plunge, and A shares are not a special case. This happens in almost any market. However, in the Wanda incident, the "rumor" spearhead pointed to Wanda and played a role, but it was a cause.

National Macroeconomic Situation and Industry Background

Macroeconomic Situation. As the world economy enters a new cycle, the Chinese economy has also been significantly affected. China’s economic growth has grown from within the past two-digit growth to less than 10%, and since 2012 it has entered 8%, and since 2015 it has entered 7%. Within, China’s economic growth rate in 2015 was 6.9%. In 2016, China’s economic growth rate was 6.7%. In 2017, China’s economic growth rate was 6.9%, and economic growth slowed down. China’s foreign exchange reserves peaked in June 2014, and the amount of foreign exchange reserves reached US$399.3 billion. After that, it gradually declined. During the period, there was even a period of 100 billion US dollars per month. By the end of 2017, the national foreign exchange reserves were 3,139.9 billion dollar.

The necessary economic growth and foreign exchange size are particularly important for China, which is in transition, and the government is facing great pressure. In the midst of China's economic downturn, financial regulation, real estate regulation, and difficulties in China's economy, Wanda Group relies on strong political and business relations and policy dividends to earn a lot of money in
the real estate and financial industries, but to avoid domestic risks, emptying domestic assets, starting large-scale mergers and acquisitions overseas, and transferring assets. Its overseas investment is not high-end technology, finance and other industries that meet China's long-term economic development needs, but such as media companies, hotels, entertainment facilities, football clubs, luxury goods giants and other fields. At the same time, the choice of M&A time coincides with the height of China's economic growth. The Wanda Group is the darling of the wind of the system. It is also a typical representative of China's development stage. However, as a billion-dollar enterprise, it is not a social undertaking of scale. Wanda caused dissatisfaction with the authorities.

**Industry Background.** Since March 2017, a series of regulatory hot words such as “preventing financial risks” and “vigilance and high leverage” have plagued the entire financial industry under the “preservative conservative” market atmosphere. In March 2017, Weiqiao Textile, China Hongqiao was short-selled, and the Anbang incident in June, etc., a series of “quality enterprises” have problems, which makes the sensitive institutional investors more cautious. In mid-June, the China Banking Regulatory Commission asked banks to investigate the credit risk of several companies, including Wanda, HNA Group, and Renaissance. Most of the investigations were conducted by private enterprises that have invested more fiercely in overseas countries and have greater exposure in the banking industry in recent years. Therefore, “leveraged risk” is like the sword of Damocles hanging on the head of institutional investors this year. Any company that is in contact with it is a target for institutional investors to avoid. Under this kind of market sentiment, Wanda, which was labeled as “more fierce overseas investment and greater exposure to the banking industry”, almost instantly reminiscent of the problem of excessive financial leverage.

The debt ratio of Wanda Commercial has been high, especially in 2013, Wanda’s asset-liability ratio is close to 90%. As of the event, according to the 2017 interim report of Wanda Commercial Real Estate, the total assets of Dalian Wanda Commercial Real Estate were 822.7 billion yuan, belonging to Wanda's own funds of 229.9 billion yuan, liabilities of 592.8 billion yuan, debts owed to banks of 132.4 billion yuan, and asset-liability ratio 72.06%, EBITDA interest multiple 2.87>1, quick ratio 0.57<1, more than one year interest payment, still insufficient. At the same time, because many of its overseas mergers and acquisitions take the form of internal insurance and external loans, Wanda’s assets such as real estate in China are used as collateral. However, many of the companies that they acquired, lack of profitability and sometimes losses, may face the situation of domestic Wanda foreign Wanda loans. In fact, Wanda's financial tension is very tight, the breeze can still cope with it, and the slightly larger wind Wanda Finance may not turn around. The pressure from home and abroad will cause Wanda to have problems. At the same time, Wanda will add more risks to the banking system through leverage, and Wanda's financial problems will be linked to the real estate industry and the banking system.

**Wanda Group Is in a Desperate Situation**

**Wanda Commercial Hong Kong Shares Delisted and Encountered A-share Listing Hindrance.** Wanda Commercial Hong Kong shares were listed less than 16 months ago. On August 15, 2016, the EGM was held to approve the privatization delisting resolution. Since the value of Wanda Commercial is undervalued in the Hong Kong market and it is difficult to refinance, it expects to integrate more funds into the A-share market through H-share delisting and A-share listing. Wanda Commercial opened the road to A-share listing, but the road back to A was seriously blocked. Moreover, according to the gambling agreement signed between Wanda Commercial and investors, Wanda Commercial will need to be listed on the mainland Main Board for two years after the delisting of Hong Kong stocks or before August 31, 2018. If you can't log in to A shares as scheduled, you will have to pay HK$40 billion for a high price repurchase.

**Wanda Movie Suspensions.** Wanda’s double-killing of the stocks and bonds caused Wanda’s film to be temporarily suspended on the same day. Wanda’s film continued to be suspended after a short resumption. Although it was issued every other time, it was not clear when it was resumed. Wanda Films has claimed that it will disclose major asset restructuring plans before January 3, 2018,
but it will encounter restructuring and dystocia, and shareholders will withdraw shares and reduce their holdings. Wanda’s film and television shareholders have been reduced from 44 to 23, and Yuzhu Shi’s giant investment has also withdrawn from Wanda’s film and television shareholders. As for fear of selling and clearing after the resumption of trading, as of May 26, 2018, Wanda movies were still suspended, and the resumption of trading was nowhere in sight.

**Institutional Investors’ Response to Information**

Investors in the investment market will be influenced by other investors and the overall behavioral environment, and investors will imitate, use, compare, follow and infect each other.

There are few retail investors in the bond market, and they are basically institutional investors. Moreover, the bond market is very sensitive, and often in the case of rumors that it is impossible to falsify, institutional investors tend to respond to information and avoid risk. In this incident, the follow-up of institutional investors does not mean that they really believe in rumors, nor do they follow the trend blindly, but after comprehensively considering the domestic macroeconomic situation, policy environment, market risks, and actions of other institutional investors making judgments and reactions. From the perspective of institutional investors, in the face of the national and financial industry's supervision and restrictions on Wanda, Wanda's accumulated high risks in recent years, banks have indeed sold Wanda bonds, institutional investors holding Wanda bonds and stocks, The hand is like a bomb that can't be ruled out but can be detonated in the short term. Institutional investors are watching each other, waiting for a detonation opportunity to wait for a burst point, in order to reduce the risk to a controllable range. Therefore, when rumors spread to the market, considering that if other institutional investors believe and sell Wanda bonds, bond prices will fall more, and institutional investors will follow the trend of risk control. When institutional investors reacted, a stronger bearish signal was formed.

**The Principle of Behavioral Finance behind the Double-killing of Wanda Group's Stocks and Bonds**

The biggest hazard of rumors is that the fake drama really makes the investment logic fall into an "infinite loop": if it does not come out, it is a ghost in the heart; if it comes out, it is a serious situation. Just like the collapse of Bear Stearns and Lehman Brothers, no one knows what the so-called Goldman Sachs refused to trade with Bear Stearns. However, this letter that no one has seen has opened the flood gates of Bear Stearns and Lehman Brothers. Similarly, the Wanda Group’s experience of double-killing of stocks and debts also shows the principle of behavioral finance.

**Irrational Psychological Factors of Investors**

Investors are unable to maintain complete rationality when conducting any investment behavior. There will always be some irrational behaviors. These behaviors are actually caused by psychological factors. These psychological factors mainly include: overconfidence, Congregational psychology, too cautious and so on. When investors are overconfident, they tend to believe their judgments too much and ignore the correct analysis, which leads to investment mistakes. Producing a herd mentality is susceptible to other people's investment strategies and changing their strategies. Too cautious is not enough awareness of current investment behavior, too early to make behavior changes, such as the early release of stocks in the hands. These psychological factors are very common in investment, and it is precisely because of these reasons that anomalies in the investment market can occur.

**Proverbs Have Some Real Support**

The market is overreacting because there are some real support for the rumors. This is a special case of plunging due to rumors. This is the case in almost any market. However, not every rumor is lethal. Most of the rumors can really play a role, mostly because the rumors have some real support, which will be trusted by institutional investors and make a temporary overreaction.
The real support of this incident should be a series of "unsatisfactory" things such as Wanda's experience in foreign exchange supervision in 2017 and the acquisition of overseas assets. And, in mid-June 2017, the CBRC’s risk investigation and the active trading volume of Wanda bonds since June. This part of the "real support" should not lead to such a large market effect. However, the time node at which the incident occurred was under the background of strict financial supervision. Since March 2017, “preventing financial risks” and “warning high leverage”... a series of regulatory enthusiasm has caused the entire financial industry to be shrouded in a “preservative conservative” market atmosphere. Coupled with the short-selling of Weiqiao Textile Company and China Hongqiao Company in March this year, and the Anbang Group incident in June, a series of “quality companies” have problems, which has made sensitive institutional investors more cautious. “Leverage risk” is like the sword of Damocles hanging on the head of institutional investors this year. Any company that is in contact with it is a target for institutional investors to avoid. Under this market sentiment, Wanda, which was labeled as “more fierce overseas investment and greater exposure to the banking industry”, almost instantly reminiscent of the problem that financial leverage may be too high. Investors' confidence in the company is going through a sway, and a little bit of turmoil can be a key force to stay around. This part of the "real support" was amplified by the market, which led to this plunge.

**Conclusion**

When analyzing investor behavior, we should take into account the various political and economic factors at that time, and judge the influence of emotions and psychology on their trading behavior when interpreting information and making trading decisions. See the rationality of investor behavior behind abnormal market volatility.

At the same time, investors need to remain vigilant when there is a significant negative market. For small and medium-sized investors, they should not only focus on "severe rumors," but should cultivate more rational analytical skills in dealing with rumors. It is necessary for small and medium-sized investors to learn financial theory knowledge such as behavioral finance, thereby improving their financial level and investing with reasonable financial knowledge. In this way, investors can effectively avoid the impact of psychological factors on themselves and invest more rationally. Compared with those small investors, some large investors such as corporate institutions have more sufficient funds and talents, and have more comprehensive sources of information. When investing in securities, they can more accurately grasp the market trend and avoid market risks. But because companies and institutions make investment decisions by decision makers, policy makers are also affected by psychological factors.

Both institutional investors and small and medium-sized investors face the same A-share market. If investors can conduct long-term and in-depth analysis of the securities held by their opponents, they can still be in the brain when the rumors strike. After a "second thought", after a similar incident, investors may be able to avoid some unnecessary losses and even get more low-risk benefits from such events.

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