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Market Pricing of Credit Linked Notes - The Influence of the Financial Crises

by

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appears in: Journal of Credit Risk, 2016

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Market Pricing of Credit Linked Notes-

The Influence of the Financial Crises

In Germany, structured financial products already account for 6% to 8% of all assets invested, proving that the market for these products is still very attractive for retail investors. A question often discussed in this context is whether these products are priced fairly. One of the latest contributions in this field is the paper by Rathgeber and Wang (2011), who analyzed the pricing of Credit Linked Notes (CLN) in the primary market.

In this paper, we significantly extend the work of Rathgeber and Wang (2011) and analyze the effect of the 2007 - 2009 financial crisis on the pricing of CLN and, specifically, on their pricing in the secondary market. Therefore, we analyzed the pricing of 90 CLN covering 13,555 daily quoted prices. In addition to the major finding that CLN in the secondary market are not only overpriced but also underpriced in many cases, we discovered that the overpricing of CLN significantly decreased after the financial crisis.

Keywords

Credit Linked Notes, Market Pricing, Fair Value, Financial Crisis, Product Life Cycle