

Financial Markets and Politics: The Piñera Effect on the Chilean Capital Market

Claudio A. Bonilla, Harold Contreras, and Jean P. Sepúlveda

ABSTRACT: The 2010 presidential election in Chile marked a change from the center-left coalition that governed the country for twenty years to a center-right coalition led by politician and businessman Sebastian Piñera. We study the effect that Piñera's presidential campaign had on the Chilean capital market. By using a panel of forty-nine companies during a period of thirteen months prior to the election, we find that there was a positive and significant effect on the capital market because of the expectation that Piñera would be elected president. That expectation continued throughout the entire presidential campaign.

KEY WORDS: Chile, financial markets, presidential elections.

On January 17, 2010, Sebastian Piñera was elected president of the Republic of Chile. His election marked a change from the center-left coalition (CLC), which governed the country for approximately twenty years, to a center-right coalition (CRC). This represented a milestone in the election history of Chile as voters had largely maintained a political tendency toward the CLC since the return to democracy in 1990. In fact, for the first time since 1990, a majority intention to vote for the CRC was seen during the presidential campaign even though the outgoing administration of President Michelle Bachelet had one of the highest citizen approval ratings in the country's history.¹

This election generated certain debate because of the shareholdings that the CRC candidate, Piñera, had in some Chilean companies throughout the presidential campaign.² Often when the candidate made announcements about future economic policies, the press speculated about how the announcement would affect the performance of the candidate's businesses. Indeed, in the days following the election, the securities regulator had to forbid the trading of securities of one of the companies (an investment vehicle) in which the candidate held an interest because there was a considerable rise in the stock price (see <http://au.businessinsider.com/chilean-president-hypes-his-own-stock-up-100-with-run-off-election-win-2010-1/>).

Nevertheless, in 2009, uncertainty continued to prevail about the real effects of the world financial crisis (unleashed because of the subprime crisis in the United States the year before) on the Chilean economy. Piñera was perceived in the polls as the person most capable of successfully confronting the adverse effects of the crisis and of better managing the country's economy.³

Claudio A. Bonilla (cbonilla@fen.uchile.cl) is an associate professor of business economics at the School of Economics and Business, University of Chile, Santiago. Harold Contreras (hcontrer@fen.uchile.cl) is an instructor of accounting and finance at the School of Economics and Business, University of Chile, Santiago. Jean P. Sepúlveda (jeansepulveda@udd.cl) is an associate professor of economics at the School of Economics and Business, Universidad del Desarrollo, Concepción, Chile. Claudio Bonilla is grateful for the financial support of FONDECYT (project no. 1100629). The authors thank Freddy Coronado, James Smith, Antonio Farías, and seminar participants at the University of Chile and Universidad del Desarrollo for their comments. The usual disclaimer applies.

The goal of this paper is to study the effects on the Chilean capital market generated by the expectation of Piñera being elected president of the republic. We use election polls to measure citizens' expectations of which candidate would be elected. The empirical model used suggests that the expectation that Piñera would be elected president had a positive and statistically significant effect on the capital market and that effect continued throughout the presidential campaign.

The Presidential Election in Chile in January 2010

The presidential election in 2010 was held in two stages. In the first stage, there were four candidates.⁴ None earned an absolute majority,⁵ so a runoff had to be held on January 17, 2010. In the second round, only the two candidates who had received the most votes participated: Piñera and Eduardo Frei Ruiz-Tagle. Ultimately, Piñera was elected president with 51.6 percent of the votes, thus putting an end to twenty years of CLC hegemony in presidential elections.

This result is important in the electoral history of Chile because it reversed a political trend of decades. The overthrow of the Socialist administration of Salvador Allende in 1973 and the subsequent authoritarian military government that ruled through 1989 drew a political map with a tendency of citizens to vote center-left. This notwithstanding, for the first time in twenty years, in election polls, the CRC candidate was seen to be clearly ahead during a large part of the presidential campaign.

Despite Piñera's initial lead in the polls, at the end of the presidential campaign the gap between Piñera and the CLC candidate was reduced to a margin of error. Several reasons can explain this evolution of the campaign. The CRC was presenting a single candidate for the first time right from the start, with Piñera at the forefront, while the CLC was dealing with party infighting that kept it from having a single candidate. In fact, in early 2009, House Representative Marco Enríquez-Ominami resigned from his party (Socialist) and from the CLC to present himself as an independent presidential candidate. His candidacy, which seemed irrelevant in the beginning, began to gain momentum during the presidential campaign and attracted an important percentage of the voters.

In addition, as time went by, the campaign of Frei began to gain greater voter approval, backed mainly by an ample group that had historically voted for the CLC. This information, combined with the high approval rating of the outgoing CLC administration, made the outcome of this election highly uncertain right to the end. The results of the early polls had Piñera winning with 44.06 percent of the votes (not the absolute majority required to be elected president) followed by Frei with 29.6 percent of the votes, Enríquez-Ominami, the leftist independent candidate, in third place with 20.14 percent of the votes, and finally, Jorge Arrate, the Communist Party candidate, with 6.2 percent of the votes. Since the votes from the left were historically largely captured by the CLC, the second stage of the elections would be determined by how the 20.14 percent of the votes obtained by Enríquez-Ominami, the independent candidate, would be distributed between the candidates Piñera and Frei.

The Piñera Factor

Measured by his net worth, Piñera's record as a businessman is remarkable. Piñera comes from an upper-middle-class family. Piñera's father was an engineer who held high offices in the public sector and whose only inheritance to his six children was a

good education. Piñera won a scholarship to study in the United States and later earned a Ph.D. in economics at Harvard University. Upon returning to Chile in the mid-1970s, he started several businesses through which he accumulated a considerable net worth and became a relevant player on the Chilean financial market, to the point of being, today, one of the few billionaires in Chile.

Piñera's business acumen and his understanding of economics made voters perceive him as the candidate that would, if elected, have a positive effect on the languishing Chilean economy, which had been growing at an average pace of 7.3 percent during the first CLC administration but had fallen to an average growth rate of 2.9 percent in the last CLC administration in the midst of an international crisis that was not yet being strongly felt in Chile.⁶

This feature of Piñera as a candidate leads us to assume that at least for the financial market, the greater probability of Piñera being elected would translate into improvements in the expectations of companies' future flows that would, in turn, increase market yields after the news that Piñera was ahead in the polls.⁷ We call this phenomenon the *Piñera effect*.

The presidential campaign in January 2010 was the third for Piñera. However, it was the first in which there were clear signs from the beginning that he might triumph. This campaign was also marked by the controversy created by Piñera's holdings in some companies. His political adversaries alluded to conflicts of interest that he would have with his businesses if he were elected president. We believe that the nexus the candidate maintained to the market during the campaign made it more likely that news of his greater or lesser probability of being elected would deepen the Piñera effect on the market.

Related Literature

Several articles relate presidential elections to capital market performance.⁸ Many of them focus on determining whether returns on the U.S. market follow a cyclical pattern caused by elections. Early articles show that stock returns tend to be higher during the last two years of a presidency than during the early years (Allvine and O'Neill 1980; Huang 1985; Umstead 1977). It has been found more recently that the stock return performance of U.S. firms tends to be higher under Democratic coalition governments than under Republican governments (Gärtner and Wellershoff 1999; Santa-Clara and Valkanov 2003).

The above-mentioned articles study the effects on stock markets assuming seasonality in political coalitions in the face of each election, without taking into account the relevance that the characteristics of a candidate himself may have on those effects. Herron et al. (1999) say that the relationship between potential elections and their effects on stock market performance may be more dependent on the characteristics of the candidates themselves than on their coalitions because the ideologies of coalitions vary little over time. The Chilean case seems to be a good example of that: Chilean party politics have, in the past twenty years, moved toward the center, and coalitions have split into center-left and center-right. Therefore, it is likely that in recent years, election results have been related more to certain characteristics of the candidates than to the ideologies of their coalitions. Consequently, it seems reasonable to expect that the effects on the stock market would also depend on particular factors such as the market's perception of each candidate's economic policy and ability to handle public issues, rather than the ideology of the coalition supporting him or her.

Another important branch of the literature studies the relationship between the stock market and presidential elections, centering on one event in particular: presidential elections in Great Britain (Manning 1989), Taiwan (Lin and Roberts 2007), or the United States (Goldman et al. 2009; Herron et al. 1999; Leblang and Mukherjee 2004; Roberts 1990; Snowberg et al. 2007). In general, these articles show that presidential elections do have significant effects on stock market indicators.

In his seminal work, Roberts (1990) studies specifically the effects that the 1980 U.S. presidential election had on the American defense industry. He demonstrates a positive and significant correlation between stock returns of that industry and the probability that Ronald Reagan, the Republican candidate, would win the election. In a more recent article, Lin and Roberts (2007) similarly analyze the effect that Taiwan's 2000 presidential election had on the stock market in view of the expectation that Chen Shui-bian would triumph. What is distinct about that election is that the market perceived potential warfare with China if Chen were elected as he was known to promote the economic and political independence of Taiwan from China. There was a significant adverse reaction by the Taiwanese market in the face of a possible victory by Chen. It was also demonstrated that this adverse effect was much greater for Taiwanese companies that had invested heavily in China.

Herron et al. (1999) analyze the effect of the U.S. presidential election in 1992 on different sectors of the American economy. They find a significant positive effect on firms in the defense industry in the expectation that the Republican candidate (Bush) would be elected and a significant positive effect on firms in the environmental sector in view of the possibility that the Democratic candidate (Clinton) would win the election.

The three above articles can be likened to our study as they also test the effects of presidential elections on the local stock market in view of the expectation that one particular candidate would be elected. These papers use a very small virtual market designed specially to capture the probability of the candidates in the race being elected. Assets traded on that market are priced according to the expectations of the outcome of the election. Although these markets seem appropriate for a study like this one, we believe that the characteristics of the market players can bias the desired analysis since the majority of the respondents are students from universities that operate and administer those markets and the persons associated with the students, such as the Iowa Political Stock Market used by Herron et al. (1999). Therefore, following the work of Leblang and Mukherjee (2004) and Pantzalis et al. (2000), we use real election polls to gather true expectations about the election of the candidates.

Data and Methodology

Expectations Regarding the Election and Election Polls

There are numerous presidential polls in Chile, and they vary in terms of the sample and methodology used. For that reason, to avoid biases in the information taken from the polls, we have used three main criteria to incorporate their results into our study. The first is regularity, meaning that we require that each poll has been published at least twice during the period of analysis. The second criterion is the media relevance of the polls. We expect that the market will internalize their results, so we therefore require that the news be public knowledge. Finally, we require that the polls have a high technical quality and that they have been taken by institutions independent from the candidates or their political coalitions. The polls selected are described in Table 1.

Table 1. General information on the polls selected for the study

Poll by	Sample	Method	Coverage	Published
CEP	1,505	Face-to-face	Population eighteen years and older (urban and rural) residing in 146 communities across the country (excluding Easter Island).	June 18, 2009 September 3, 2009 November 11, 2009 January 15, 2010
CERC	1,200	By telephone	Men and women over eighteen years of age, enrolled in the electoral registers, urban and rural, throughout Continental Chile.	May 14, 2009 August 12, 2009 October 20, 2009 December 9, 2009
Imaginación	1,008	By telephone	Men and women over eighteen years of age, enrolled in the electoral registers of the 130 largest municipalities in Continental Chile.	February 28, 2009 March 31, 2009 April 26, 2009 June 11, 2009 July 14, 2009 August 12, 2009 September 17, 2009 October 14, 2009 November 18, 2009
Ipsos	1,008	By telephone	Men and women over eighteen years of age, enrolled in the electoral registers, residing in twenty-four cities from Arica to Punta Arenas (rural areas are excluded).	April 15, 2009 June 9, 2009 August 19, 2009 October 21, 2009
Mori	1,000	Face-to-face	Men and women over eighteen years of age, enrolled in the electoral registers of Continental Chile.	July 23, 2009 January 13, 2010
TNS Time	1,320	By telephone	Arica-Parinacota, Iquique, Atacama, Coquimbo, Valparaíso, Metropolitan, Libertador Bdo. O'Higgins, Maule, Bío-Bío, Araucanía, Los Ríos, Los Lagos, Aysen and Magallanes.	March 31, 2009 April 30, 2009 June 2, 2009
UDD-La Segunda	A range from 1,196 to 1,214	By telephone	Men and women enrolled in electoral registers of their district, in the sixty-six largest districts in the country, segmented according to the electoral weight of each district, representing 68 percent of the electorate.	March 5, 2009 April 7, 2009 July 10, 2009 September 25, 2009 November 18, 2009 December 18, 2009

Table 2. Definition of variables for the comparison of hypotheses

<i>Dummy_1_t</i>	1 if Piñera increases in survey <i>i</i> ; 0 if Piñera drops or remains the same, or if there is no survey <i>i</i>
<i>Dummy_2_t</i>	1 if Piñera increases in the CEP or CERC survey; 0 if Piñera drops or remains the same, or if there is no CEP or CERC survey

The information taken from polls consists of how citizens intended to vote in the second round of the elections between the main candidates, Piñera of the CRC and Frei of the CLC, who represented the two coalitions that had disputed power and governed Chile in recent history. This intended vote is shown as a percentage that we could use as a proxy variable for the probability that the candidate would be elected. However, Herron et al. (1999) indicate that the relationship between the percentage resulting from a poll and the probability that a candidate will be elected requires an appropriate interpretation to avoid any bias in the analysis.⁹ Thus, to gather expectations, we use the relative outcome for Piñera in each poll. As we are interested only in the effect that the perception that he will be elected might have on the capital market, our variable of interest is defined between two dummy variables as shown in Table 2.

The first dummy variable adopts the value 1 when the percentage of citizens who will vote for Piñera rises in poll *i* on date *t* as compared to the same poll at *t* – 1, and it adopts the value 0 when Piñera drops below that percentage in the poll, Piñera stays the same compared to the previous poll, or there is no poll. The second dummy variable makes the same comparison as the first one but using only the Centro de Estudios Públicos (CEP) and Centro de Estudios de la Realidad Contemporánea (CERC) polls as those polls have historically been closer to the outcome of an election and are the ones of greatest technical prestige and media relevance in the country. Therefore, we expect that the results of those polls would have a greater impact on market expectations.¹⁰

Specification of Date and Model of Analysis

The dependent variable in this study consists of the daily stock returns for a group of forty-nine Chilean companies traded on the Santiago Stock Exchange. These companies were selected by an indicator of liquidity called the market presence on the Chilean market.¹¹ The period of analysis covers the last year of the presidential campaign, from March 2, 2009, to March 31, 2010. The data are taken from the Economatica database, which compiles financial and market information on Latin American, American, and British companies and is widely used in financial research.

The sensitivity in the returns of the firms in the sample is estimated using a model that allows the control of factors explaining the dynamics of stock prices on the Chilean market. We therefore rely on the three-factor model of Fama and French (1993)—used regularly in financial literature (Bebchuck et al. 2009; Dittmar and Mahrt-Smith 2007; Griffin 2002)—who introduce a size or market capital variable of firms and the book-to-market ratio (BE/ME) to explain their returns in addition to the traditional capital asset pricing model (CAPM). The model to be tested is therefore

$$[R_{it} - R_{ft}] = \alpha_i + \beta_1 [Rm_t - R_{ft}] + \beta_2 SMB_t + \beta_3 HML_t + \beta_4 DI_{t-1} + \beta_5 D2_{t-1} + \varepsilon_{it},$$

where R_{it} are the daily returns of company *i* on day *t*. R_{ft} is the risk-free rate for Chile, for which the daily interest of the Central Bank of Chile is used. Rm_t is a proxy variable for

the market return of a diversified portfolio for Chile, for which we use the General Stock Price Index (IGPA), which contains all shares on the Chilean stock market. The size factor SMB_t is the difference in stock returns between a portfolio of small businesses and a portfolio of large businesses (small minus big). HML_t (high minus low) is the difference in stock returns between a portfolio of firms with a high BE/ME (book-to-market equity ratio) and a portfolio of firms with a low BE/ME. DI_{t-1} is the dummy variable that has a value 1 if Piñera rises in a certain poll on day $t - 1$. The value of 0 is adopted if Piñera drops or remains the same or if there is no poll. The returns for day t are compared to the results of the poll published the day before so that they can be internalized by the market. The results of the election polls were always disclosed by the research centers at press conferences held in the midafternoon, so the main effect on the stock market, if any, would be the next day. $D2_{t-1}$ is also a dummy variable that has a value of 1 when Piñera rises in the polls, but it incorporates only the two most relevant polls, CEP and CERC.

We create four “equally weighted” portfolios in order to construct the variables associated with the size factor (SMB) and the book-to-market ratio (HML). The first two portfolios are based on firm size, creating a B portfolio for large firms and an S portfolio for small firms, which are separated using the median of market equity. The remaining portfolios are based on the median of the BE/ME, creating an H portfolio for firms with a high BE/ME ratio and an L portfolio for firms with a low BE/ME ratio. Then these four portfolios are intercepted to create four new portfolios (S/H, S/L, B/H, B/L). For example, the S/L portfolio contains the small firms that also have a low BE/ME ratio. Hence, SMB_t is the difference in returns between a small stock portfolio (S/H, S/L) and a large stock portfolio (B/H, B/L). HML_t is therefore the difference in returns between a portfolio of stocks with a high BE/ME ratio (S/H, B/H) and a portfolio with a low BE/ME ratio (S/L, B/L). Through this method, both the SMB and HML factors are free from the BE/ME ratio and size effects. The definitions of variables can be found in the Appendix.

Finally, and following the methodology of Ravina and Sapienza (2010), we estimate the model as a fixed effects panel data to control for the unobserved heterogeneity that may influence stock market performance. However, we test for the suitability of fixed effects against random effects by using the Hausman test. In all cases, the test favors the fixed effects estimation. Furthermore, we test and correct for heteroskedasticity by using White’s standard errors.

Results and Discussion

Table 3 provides the descriptive statistics of the variables with which we construct the four portfolios (S/H, S/L, B/H, B/L). It can be seen that the largest firms (B) have a lower BE/ME ratio during the period of analysis. This is consistent with the pattern characteristic of the Chilean capital market in which larger firms tend to be more profitable.

Table 4 shows the summary statistics of the dependent variable and the explanatory variables of the model. The coefficients of asymmetry and kurtosis indicate that none of the variables is distributed normally, which is characteristic of stock returns (Campbell et al. 1997).

Table 5 provides the results of our models with fixed effects since the Hausman test rejects the hypothesis of random effects for all. Column 1 evaluates the CAPM model for the Chilean case. The excess returns on the market portfolio ($Rm - Rf$) are seen to capture a significant variation in the returns of Chilean firms. Moreover, the SMB and HML portfolios also serve as a proxy for risk factors in explaining the movements in

Table 3. Descriptive statistics for portfolios formed on the basis of size and book-to-market ratio

Size group	Book-to-market equity (BE/ME)	
	Low	High
	Average BE/ME	
Small firms	0.37	1.14
Large firms	0.34	0.79
	Average ln(Market Equity)	
Small firms	25.54	26.03
Large firms	28.55	27.96
	Number of firms	
Small firms	7	12
Large firms	17	13

Notes: Firms are classified as small or large if their stock capitalization is below or above the median of the firms in the study, respectively. Firms are classified as low or high if their book-to-market equity ratio is below or above the median for the firms in the study, respectively.

the firms' stock returns. Columns 2, 3, and 4 show, as in Fama and French (1993), that the three-factor model is better at explaining the returns of firms than the CAPM model in itself. Although the beta of the traditional CAPM has more explanatory power, the coefficient of determination of the model improves slightly when the SMB and HML variables are included in the analysis.

When the dummy variables are added to the models (columns 5 and 6), it is seen that when Piñera performs better in the CEP and CERC polls, the stock returns have a better positive significant performance (see column 6). However, the same does not occur when all public opinion polls are used, as seen in column 5. Although a positive effect is observed, it is not significant. This is consistent with the argument that the CEP and CERC polls have more media relevance and greater prestige historically since they have always been very close to real election outcomes and, therefore, have a greater impact on the expectations of market players.

To see the robustness of the results contained in column 6 of Table 5, we incorporate an additional variable into the model that captures the effect that the publication of the CEP and CERC polls might have on the market, regardless of whether Piñera's numbers rise in that poll. Hence, the dummy variable 3 has a value 1 when the CEP and CERC polls are published and 0 when they are not. Column 7 in Table 5 confirms the results obtained by model 6 as dummy variable 3 is not statistically significant, which reinforces the argument that the significant effect seen in the returns of firms in the sample occurs because better results appear in those polls for Piñera as a candidate and not because the polls have been published.

The results reveal that an increase in the probability of Piñera winning the presidential election was positively appreciated by the capital market. In fact, we argue that Piñera's rise in the polls caused an increase in the future flows expected of the companies trading their shares on the Santiago Stock Exchange. This translated into a positive and statistically significant coefficient that captures the increase in the expectation of a probable victory by Piñera. The foregoing is consistent with the analysis of the perception that

Table 4. Summary statistics for the dependent variable and explanatory variables

Variables	Mean	Standard deviation	Minimum	Maximum	Skewness	Kurtosis	N
All returns							
Overall	0.0017	0.0186	-0.2031	0.2939	0.43	6.29	13,821
Between		0.0011	-0.0004	0.0046			51
Within		0.0185	-0.2043	0.2910			271
SMB	0.0008	0.0076	-0.0221	0.0353	0.74	5.63	271
HML	0.0001	0.0063	-0.0202	0.0218	-0.03	4.65	271
S/L	0.0022	0.0128	-0.0575	0.0616	0.53	7.28	271
S/H	0.0023	0.0107	-0.0307	0.0447	0.43	5.03	271
B/L	0.0013	0.0084	-0.0290	0.0261	-0.13	4.35	271
B/H	0.0015	0.0082	-0.0237	0.0316	-0.03	4.41	271

Table 5. Results of the Fama and French (1993) model, adding in the variables of interest

Variables	1	2	3	4	5	6	7
Constant	-0.00062 (0.308)	-0.00025 (0.684)	-0.00057 (0.350)	-0.00031 (0.611)	-0.00031 (0.606)	-0.00039 (0.519)	-0.00036 (0.551)
RM-RF	0.96787** (0.000)	0.98983** (0.000)	0.96941** (0.000)	0.98857** (0.000)	0.98849** (0.000)	0.98674** (0.000)	0.98782** (0.000)
SMB		0.30099** (0.000)		0.32004** (0.000)	0.32000** (0.000)	0.31863** (0.000)	0.31842** (0.000)
HML			-0.04358 (0.184)	0.07482** (0.031)	0.07476** (0.031)	0.07173** (0.039)	0.07179** (0.039)
Dummy 1					0.00005 (0.929)		
Dummy 2						0.00193** (0.033)	
Dummy 3							0.0013714 (0.075)
R ² overall	0.1847	0.1993	0.1849	0.1999	0.1999	0.2001	0.2000
F-statistic (p-value)	2,292.78 (0.000)	1,166.34 (0.000)	1,146.73 (0.000)	778.08 (0.000)	583.75 (0.000)	590.59 (0.000)	587.22 (0.000)
Hausman (p-value)	5.16 (0.0232)	84.02 (0.000)	7.32 (0.0257)	83.66 (0.000)	90.97 (0.000)	103.76 (0.000)	107.63 (0.000)
Observations	13,821	13,821	13,821	13,821	13,821	13,821	13,821

Notes: Dummy 1 = 1 if voter approval of Piñera rises in poll *i*. Dummy 2 = 1 if voter approval of Piñera rises in CEP or CERC poll. Dummy 3 = 1 if there is a CEP or CERC poll. ** $p < 0.05$.

voters had of Piñera during the campaign: that he was the best candidate to propel the economy and confront a potential financial crisis infiltrating from abroad.

Conclusions

Our article forms a part of the literature that studies the effects of presidential elections on capital markets. In general, there are two currents in this literature. The first establishes the presence of cyclical effects on the capital market dependent upon the coalitions that are victorious. The second refutes the idea of cyclical effects and dependencies on the coalitions in the race and concentrates on the idea that particular characteristics of the candidate or his or her ideologies regarding some issues are what cause effects on capital markets in view of the expectation of an election outcome. The second argument is consistent with the case of Chile, whose political map has been divided into two main coalitions since the return to democracy in 1990. One coalition is on the left and the other on the right, but both have a clear tendency to move toward the political center, where their ideologies differ in various matters, particularly in values and in the historic evaluation of the cleavage caused by the military government (Bonilla et al. 2011). At the same time, the two coalitions coincide in overall economic issues. For that reason, the results of the elections and the potential effects on the stock market are more dependent on certain characteristics of the candidates in the race than on the coalition that they represent.

The results indicate that when the probability rose that Piñera would be elected president, there was a positive and statistically significant effect on the capital market. Moreover, the effect was sustained throughout the presidential campaign. This means that the Chilean stock market viewed the business outlook of companies traded on the Santiago Stock Exchange very positively in an eventual victory by Piñera.

Notes

1. President Bachelet had an 84 percent approval rate at the time she left office, according to public opinion polls (see Adimark at www.adimark.cl/es/estudios/documentos/Ev_Gob_Terremoto2010.pdf).

2. According to “The World’s Billionaires,” compiled by *Forbes*, Piñera had a net worth of more than \$2 billion in March 2010. However, he transferred all his holdings to a blind trust before taking office.

3. See polls by Centro de Estudios Públicos (CEP, Center for Public Studies) in 2009.

4. The four candidates were Jorge Arrate, for the Communist Party, which was a member of the left coalition called “Together We Can Do More” (Juntos Podemos Más); Marco Enríquez-Ominami, an independent candidate with a leftist history; Eduardo Frei Ruiz-Tagle, for the Christian Democrat Party, a member of the CLC called the “Coalition of Parties for Democracy” (Concertación de Partidos por la Democracia), which had been governing Chile since 1990; Sebastian Piñera, for the National Renovation Party (Renovación Nacional), a member of the CRC called the Coalition for Change (Coalición por el Cambio).

5. In Chile, any candidate receiving more than 50 percent of the vote wins by an absolute majority and is therefore elected president in the first round.

6. For example, see the CEP survey at www.cepchile.cl/bannerscep/bdatos_encuestas_cep/base_datos.php.

7. Piñera’s efficiency and entrepreneurial success were also fuel for criticism in campaigns by his adversaries, who argued that running a government is very different from running a business and that Piñera’s campaign was vacuous and lacking mystique. This type of rather political analysis is outside the scope of our study.

8. In a broader view, several articles study the relationship between political news and the stock market. For example, see Önder and Şimşak-Muşan (2006).

9. Herron et al. (1999) say, for example, that if a candidate earns a 52 percent voter approval in a poll five days before the election and this is considered a probability, it means that 52 individuals out of every 100 will vote for the candidate. This means that five days before the election, with a probability of 1 (100 percent), that candidate will triumph. However, if that result is interpreted to mean that each individual will vote for the candidate with a probability of 0.52, then the probability that this candidate will win will be more than 52 percent. Thus, the relationship between the voter approval percentage shown by a poll and the probability of election requires a proper interpretation.

10. In fact, the CEP poll published on January 15 (two days before the election) showed the following results: Piñera, 53.5 percent, and Frei, 46.5 percent. The real outcome of the election was Piñera, 51.6 percent, and Frei, 48.3 percent.

11. The companies selected had a market presence greater than or equal to 50 percent. The Chilean securities market regulatory authority defines market capitalization as the percentage of days in which shares were traded for amounts greater than or equal to 200 unidades de fomento (USD 8,550 on December 31, 2011) during the last 180 trading days.

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Appendix: Definition of Variables

Variable	Description
<i>Returns</i>	Daily stock returns of a group of forty-nine Chilean companies traded on the Santiago Stock Exchange.
<i>SMB</i>	The size factor in the Fama and French (1993) model. It is constructed as the difference in stock returns between a portfolio of small businesses and a portfolio of large businesses (small minus big).
<i>HML</i>	The factor of the book-to-market equity (BE/ME) ratio in the Fama and French (1993) model. It is constructed as the difference in the stock returns between a portfolio of businesses with a high BE/ME and a portfolio with a low BE/ME (high minus low).
<i>RM</i>	The proxy variable for the market return of a diversified portfolio for Chile. In this case, we use the IGPA stock index, which contains all shares on the Chilean stock market.
<i>RF</i>	A proxy variable for the risk-free rate, in this case the real daily interest rate on bonds of the Central Bank of Chile.
<i>RM-RF</i>	The risk premium for the Chilean market.
<i>B/H</i>	A portfolio composed of large firms with a market equity above the median and with a high book-to-market equity ratio (BE/ME).
<i>B/L</i>	A portfolio formed by large firms with a market equity above the median and firms with a low book-to-market equity ratio (BE/ME).
<i>S/H</i>	A portfolio formed by small firms with a market equity below the median and firms with a high book-to-market equity ratio (BE/ME).
<i>S/L</i>	A portfolio formed by small firms with a market equity below the median and firms with a low book-to-market equity ratio (BE/ME).
<i>Dummy_1</i>	1: If the percentage of people who would vote for Piñera rises, as shown in poll <i>i</i> on date <i>t</i> , as compared to the same poll on <i>t</i> – 1. 0: If that same percentage drops for Piñera in the poll or remains the same as compared to the previous one, or if there is no poll.
<i>Dummy_2</i>	1: If the percentage of people who would vote for Piñera rises according to the CEP and CERC polls on date <i>t</i> compared to the same poll on <i>t</i> – 1. 0: If that same percentage drops for Piñera in the CEP and CERC polls or remains the same as compared to the previous one, or if there is no poll.
<i>Dummy_3</i>	1: If the CEP or CERC poll is published. 0: If there is no CEP or CERC poll.

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