

Table 5

Merger arbitrage market environments and M&A strategy alpha. Seven factor model, 1996 - 2010

This table reports M&A strategy alpha in different merger arbitrage market environments between 1996 and 2010. Scarce (abundant) capital environment exists when MACA is below (above) its time series median, low (high) profitability environment exists when arbitrage spread is below (above) its time series median. N (months) represents the number of observations on alpha. Alpha is out of sample forecast obtained from rolling 24-month window regressions of HFRIMAI or asset weighted returns on the seven risk factors of Fung and Hsieh(2004). Sources:Hedge Fund Research, Inc., Lipper Tass, Ibbotson Associates, Thomson ONE Banker.

	Statistic (1)	Excess asset weighted return model			Excess HFRIMAI return model		
		Arbitrage spread above its median (high profitability) (2)	Arbitrage spread below its median (low profitability) (3)	p-value for alpha equality test (4)	Arbitrage spread above its median (high profitability) (5)	Arbitrage spread below its median (low profitability) (6)	p-value for alpha equality test (7)
MACA above its median (abundant arbitrage capital)	alpha N (months)	0.639% 25	-0.010% 70	0.031	0.676% 25	0.062% 70	0.041
MACA below its median (scarce arbitrage capital)	alpha N (months)	0.616% 52	0.409% 26	0.339	0.649% 52	0.582% 26	0.751
	p-value for alpha equality test	0.941	0.017		0.932	0.003	