Investment Barriers And Premiums On Closed-End Country Funds

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Abstract

We investigate the cross-sectional relation between investment barriers and premiums on closed-end country funds (CECFs) using a sample of single country equity funds traded in U.S. markets over the period from 1995-2004. We find that funds investing in markets with higher indirect investment barriers as measured by market turnover and country risk have higher premiums. We also find that the direct investment barrier as measured by the investable weight factor does not explain the large variation in the CECF premiums. The indirect barriers discourage individual investors from directly investing in emerging markets. Our results suggest that investors can invest in emerging markets with high indirect barriers through the country funds, which accordingly have higher premiums. The result is not consistent with the results of Nishiotis's study (2004).