

# The Exchange

NEWS FROM THE FINANCIAL ECONOMICS INSTITUTE AT CLAREMONT MCKENNA COLLEGE

VOLUME 15, FALL 2012

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## Director's Report

by Lisa Meulbroek



Lisa Meulbroek

THIS FALL MARKED the beginning of the ninth year for the Financial Economics Institute. The FEI is the financial research arm of the Robert Day School of Economics and Finance, providing data and research

support for faculty, and providing research experience, networking opportunities, and educational and career support for students.

We currently have 66 students who plan to complete the Financial Economics Sequence: 23 seniors, 29 juniors, 10 sophomores, and 4 freshmen.

The Student Investment Fund course (Econ 194A) is in its second year, taught by Professor Hughson. A typical class begins with student investment presentations and then, if time, is followed by a half-hour lecture from Professor Hughson on a valuation topic. Students are responsible for presenting one investment idea per semester, and they also critique one investment pitch. Outside speakers speak on various finance topics. This semester, David Bradley '03, CFA and VP at Sirius Advisors, LLC and Rohan Rangaraj '01, CFA and Co-Portfolio Manager at Sirius helped critique investment pitches and talked about their investment strategies. Russell Greenberg '79, Founder and Managing Partner at Altus Capital Partners and FEI Associate Board Member, also critiqued a stock pitch.

This year, Robert Thomas '99, CIO at The George Kaiser Family Foundation and

FEI Board Advisor, is the industry advisor for the five-student team participating in the CFA Investment Challenge, a valuation competition sponsored by the CFA Institute. This year, the students will value Edwards Lifesciences, a medical technology firm. Professor Hughson is the faculty advisor. This is the second year a team comprised of CMC Student Investment Fund students will compete.

The FEI sponsored a "sold out" evening Ath talk on December 5, 2012, by Colin Camerer, the Robert Kirby Professor of Behavioral Economics at Caltech discussing "Neuroeconomics: How Brains Decide What Stocks to Trade and What Foods to Eat." People are often too eager to sell winning stocks and hold on to losing stocks (even when they should do the opposite). Camerer also described which neural circuits are in

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FINANCIAL ECONOMICS  
INSTITUTE

CLAREMONT MCKENNA COLLEGE

*The Financial Economics Institute fosters education and research in financial economics by offering a unique undergraduate curricular program, the Financial Economics Sequence, supporting state-of-the-art databases, and encouraging student-faculty interaction on research.*

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charge of resisting temptation to choose unhealthy junk foods that taste good. Camerer explained that this anomaly, called the "disposition effect," is related to neural activity in a particular brain region and he

noted that in a series of simple games, chimpanzees' behavior was far closer to optimal behavior than human behavior was.

As always, we are grateful for the myriad contributions, financial and otherwise, made by our Board members and the BGI Fellowship Program, which

provides support for faculty-student research on investment management topics. The FEI relies upon annual gifts by its Board, Advisors, and friends of the Institute to support our activities, and we appreciate the generosity of time and money that makes the FEI function. ▲

## 2012-2013 BGI/Michael Larson Asset Management Fellows

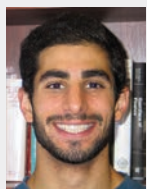
The BGI/Michael Larson Asset Management Fellowship Program offers financial support and research experience for juniors and seniors at Claremont McKenna College who are interested in careers involving asset management and investment management. The recipients of this year's scholarships are:



### ***Julian Buckner '14***

Julian, born and raised in Brookline, MA, is a junior at CMC majoring in Economics-Accounting with the Financial Economics Sequence. After his freshman year, Julian worked as a summer analyst at Bank of America Merrill Lynch, and spent this past summer as an intern at Houlihan Lokey in the Financial Advisory Services

group in San Francisco, CA. On campus, he serves as student representative to the Student-Alumni Relations Council, Co-Editor of the CMC Accounting Association Balance Sheet, and an active member of the CMC Student Investment Fund.



### ***Viken Douzdjian '13***

Viken, currently from Portland, OR, is a senior at CMC majoring in Economics and plans to complete the Finance Sequence. In addition to being a BGI/Michael Larson Asset Management Fellow this year, he is also a 2012-2013 Robert Day Scholar. On campus, he is the Captain and President of the

Claremont Men's Lacrosse Team, works for the Financial Economics Institute as a Research Analyst tutoring students on the Bloomberg Terminals and he's also planning the FEI's 2013 NYC Networking Trip, at the Career Services Center he is a Career Consultant, and is the President and Chief Investment Officer of CMC's Student Investment Fund. Viken spent last summer working for Wells Fargo's Investment Bank's Technology, Media, and Telecommunications group in San Francisco, CA. He is excited to be returning to Wells Fargo's Investment Bank following graduation.



### ***David Hirsch '13***

David is a senior at Claremont McKenna College majoring in Economics with the Financial Economics Sequence. Born and raised in Evanston, IL, he is a 2012-2013 Robert Day Scholar and was a 2011-2012 BGI/Michael Larson Asset Management Fellow. On campus, David has worked for the Kravis Leadership

Institute as a consultant to not-for-profits and is currently Chief Executive Officer of the CMC Student Investment Fund. He also serves as a student representative on the Board of Trustees College Advancement Committee and on the ASCMC Executive Board as

financial advisor. After his sophomore year, David worked in equity research at Morningstar and this past summer he worked in investment banking at JP Morgan. After graduation, David will return home to Chicago to work full time at JP Morgan.



### ***Rachel Kitzmiller '13***

Rachel is a senior at Claremont McKenna College pursuing a degree in Economics. She is a Robert Day Scholar and a recipient, for the second year, of the BGI/Michael Larson Asset Management Fellowship. Besides her academic pursuits, Rachel serves as the Chief Development Officer for the CMC Student

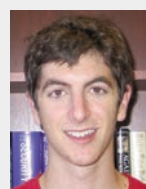
Investment Fund and is currently planning the FEI's 2013 New York City Networking Trip. After graduation, she will be working as an investment banking analyst at J.P. Morgan.



### ***Blake Morell '13***

Blake is a senior at Claremont McKenna studying Economics with a Finance Sequence, where he is a BGI/Michael Larson Asset Management Fellow, Robert Day Scholar and McKenna Scholar. Born and raised in Portland, OR, Blake grew up playing golf and going to Oregon Ducks Football games, enjoying both despite

the rain. While at CMC, Blake has tutored Economics and Mathematics and worked as a research assistant with the Lowe Institute of Political Economy. In addition, he ran the tour program and currently interviews prospective students through the Office of Admission. This past summer, Blake worked as a summer analyst for Intrepid Investment Bankers in Los Angeles. He will be returning to Intrepid as a full-time analyst after graduating in the spring.



### ***Daniel Shane '13***

Daniel Shane is a senior at Claremont McKenna College majoring in PPE and Econ-Accounting. He hails from Irvine, CA. At CMC, Daniel is heavily involved in Model United Nations, the Rose Institute of State and Local Government, and the CMC Student Investment Fund. During the past two summers, he has

interned at Checchi Capital Advisers (CCA) and Cascade Investment in Beverly Hills, CA and Kirkland, WA, respectively.

## CMC's Student Investment Fund

*By Rodrigo Bravo '13, Managing Director – Large Cap Group*

THE STUDENT INVESTMENT FUND (SIF) is a student-run organization that uses financial analysis to manage and invest a portion of the Claremont McKenna College endowment. SIF provides students a unique opportunity to apply skills learned in their academic pursuits in a career-oriented setting. This year has been transformational for the Student Investment Fund as the Fund embarked on various new initiatives to grow both in size and stature. By outperforming the greater market, doubling the size of the Fund, hosting the upcoming Claremont Finance Conference, and commencing participation in the global CFA challenge, SIF has taken on new ventures and handled them with efficiency and dexterity.

SIF is a 'bottom-up' Fund which uses fundamental analysis of financial and economic information to identify mispriced securities in the market. During weekly meetings, students evaluate fundamental information, including financial reports, industry comparisons, new regulations, demographic trends, earnings statements, and economy-wide trends to build discounted cash flow models and relative valuation analyses to identify potentially mispriced securities. The Fund holds weekly meetings where students "pitch" investment ideas which are then voted on by a democratic process. The Fund is divided into four asset classes: Domestic Large Capitalization, Domestic Small Capitalization, International Equities, and Fixed Income/Currencies/Commodities. Currently, the Fund is comprised of approximately 40 students and is overseen by faculty member and Associate Director of the Financial Economics Institute, Professor Eric Hughson.

SIF is currently led by an executive committee consisting of CEO David Hirsch '13, CIO Viken Douzdjian '13, and COO Arjun Kapur '14. Senior management is comprised of five managing directors (one for each group and one MD of risk management) and five vice presidents. The remainder of the Fund consists of junior members of the group who serve as portfolio analysts. Under this management, the Fund has seen promising results.

COO Arjun Kapur reported: "The

Student Investment Fund has had a good year so far, and has outperformed the market by 4.5%. The addition of capital over the summer has resulted in a major reallocation of the portfolio. There has also been an increase in activity within the asset classes of Large Cap and Fixed Income/Currencies/Commodities. The Fund realized significant gains on Buffalo Wild Wings, Visa Inc. and McKesson Corporation over the past year." One major factor that has contributed to the Fund's outperformance has been a new initiative to actively and individually set price targets for all securities in order to better manage positions and secure positive gains.

The Fund size has not only grown due to capital gains over the past year, it has also doubled due to generous alumni contributions. CEO David Hirsch commented: "It has been exciting to witness the doubling of our Fund size over the last few years, and we hope to see it continue through strong organic and gift-related growth. Every donation given to the Fund is greatly appreciated by our members. With new capital comes new learning and investment opportunities as well as an enhanced national and local reputation." With the increase of funds, SIF intends to not only continue to have outsized returns, but also plans on developing initiatives that give back to the institution through different forms of academic support and development, such as an SIF merit scholarship for current students.

Apart from growing in size, SIF hopes to grow in presence across the academic community by collaborating with Scripps and Pomona's Student Investment Funds to host the Claremont Finance Conference in February 2013. The conference will focus on Risk, Regulation & Return, and the keynote speaker will be Doug Peterson '80, President and CEO of Standard & Poor's. In addition, the conference will have two panels: one focused on finance and investing and the second on corporate strategy and entrepreneurship.

Last year, CMC was represented in the CFA Institute Research Challenge. The CFA Challenge is an annual global competition which provides students with an opportunity to engage in financial analysis and apply their

skills in a competitive environment. Last year's team was comprised of Rodrigo Bravo '13, Julian Buckner '14, Rachel Kitzmiller '13, Akbar Mirza '13, and Carter Wilkinson '14. They represented CMC in a strong showing, earning very high marks on their final presentation. Akbar Mirza commented: "The CFA Challenge was very helpful in building responsibility and a finance skill set, as you are using personal synthesis and public information to build your own analysis, understand a particular business model and present the information to a group of judges. Overall, the Challenge was very useful for interviews and great preparation for my summer internship." This year, SIF is once again sponsoring a team which will be advised by CMC alumnus Robert Thomas '99, Chief Investment Officer of The George Kaiser Family Foundation.

This year, SIF has also created a new role, Chief Development Officer (CDO). Current CDO Rachel Kitzmiller '13 explained how "the purpose of creating this role is to facilitate development of the Fund through extracurricular activities, including organizing an annual report, bringing in guest speakers, developing mentorship programs and helping with internship and full-time recruiting. One of the new programs started this year was the SIF Internship Book. It is a book that contains information about where SIF members interned in previous summers and is a great resource to learn about the different job opportunities in finance."

We are proud to say that seniors in the Fund have been able to translate their success in the Fund to career prospects as many have already secured full-time positions with firms, including JP Morgan, BofA Merrill Lynch, Lazard, Lincoln International, Wells Fargo, Bain & Company, and Moelis & Company, amongst others. By improving practical, presentation, investing and networking skills through the Fund, SIF will continue to grow and provide students interested in finance a great learning experience.

For any questions, feel free to reach out to David Hirsch '13 at [dhirsch13@cmc.edu](mailto:dhirsch13@cmc.edu) or visit the SIF website at [www.cmc-sif.org](http://www.cmc-sif.org). ▲



# Financial Economics Institute

## Fall 2012 Student Research Analysts

During the fall 2012 semester, seventeen student Research Analysts are assisting faculty members with research projects. The following is a list of students, their faculty advisors, and a brief description of the research projects:

- ▶ **ANDREW BERGMAN '14** is working with Professor Eric Helland on a project examining the holistic cost of consumer information breaches among publicly traded companies in order to develop data-handling best practices.
- ▶ **GREYSON BLUE '13** is the FEI's Stata tutor for CMC and off-campus students who need assistance.
- ▶ **JASMINE DILUCCI '14** is working with Professor Joshua Rosett on a project investigating the relationship between the degree of enforcement and the level of compliance of accounting principles.
- ▶ **ANDREW DODDS '15** is working with Professor Cronqvist compiling and collecting historical governance and financial data for Dow Jones firms since (and prior to) the creation of the SEC from Moody's database. They also analyzed and established trends using COMPUSTAT and CRSP databases as to how various factors (board size, chairman independence, geographical location, etc.) affected various income statement and balance sheet line items.
- ▶ **VIKEN DOUZDJIAN '13** is the Bloomberg tutor for CMC and off-campus students who are interested in learning how to utilize the Bloomberg Terminals.
- ▶ **MERRIEL FOSTER '14** is working with Professor Ananda Ganguly and Professor Junmo Yoon on a project on Quartile Regressions and Prediction of Financial Statement Errors.
- ▶ **MADISON FRIEDMAN '14** is working with Professor Janet Smith and Professor Serkan Ozbeklik on a project which looks at PGA Tour tournament data to empirically verify that golfers who are not safely in first place adopt more aggressive, riskier strategies as the rounds of the tournament progress. Successful empirical verification would confirm traditional game theory and would have wide ranging implications in areas such as hedge fund management.
- ▶ **STACIE HETRICK '13** is working with Professor Eric Hughson on a project on Congressional Insider Trading: Should We Be Concerned?
- ▶ **ARJUN KAPUR '14** is working with Professor Ananda Ganguly and Professor Jungmo Yoon on a project on Quartile Regressions and Prediction of Financial Statement Errors.
- ▶ **NIKHIL LEDLIE '13** is working with Professor Sven Arndt on a project involving real and nominal exchange rate differentials on countries pegged to the United States Dollar using the International Financial Statistics and Balance of Payments databases.
- ▶ **XINZHU (NANCY) LI '15** is working with Professor Richard Burdekin on the impact of the Chinese Stimulus Package at Home and Abroad by conducting sector-level analysis in listing companies from the Shanghai, Hong Kong and New York exchanges.
- ▶ **PHILIP LIAO '14** is working with Professor Paul Zak at CGU on a project exploring the relationship between companies that treat their employees well and financial returns.
- ▶ **BENJAMIN PYLE '13** is working with Professors Lisa Meulbroeck, Janet Smith, and Henrik Cronqvist on a project that examines investment, spending, and management decisions in regards to endowments for post-secondary education over the past 30 years.
- ▶ **YIJING (ARTEMIS) SHEN '13** is working with Professor Richard Burdekin examining linkages between China's futures exchange markets, constructing indices for commodities traded in these markets and investigating their price movements.
- ▶ **NICHOLAS WEISS '15** is working with Professor Eric Helland researching patent litigation settlements between pharmaceutical companies and their resulting effect on drug prices in today's economy.
- ▶ **SAMUEL WONG '13** is working with Professor Eric Hughson on the Congressional Insider Trading project to determine if insider information given to U.S. Senators affects their returns on top of normal market returns.
- ▶ **LAWRENCE ZHONG '14** is working with Professor Cronqvist compiling and collecting historical governance and financial data for Dow Jones firms since (and prior to) the creation of the SEC from Moody's database. They also analyzed and established trends using COMPUSTAT and CRSP databases as to how various factors (board size, chairman independence, geographical location, etc.) affected various income statement and balance sheet line items.



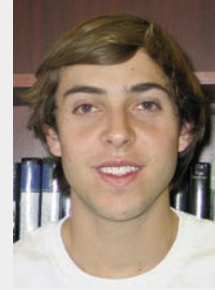
Andrew Bergman '14



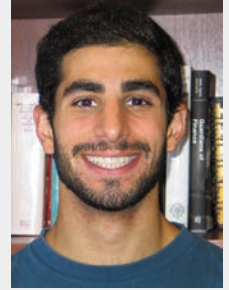
Greyson Blue '13



Jasmine DiLucci '14



Andrew Dodds '15



Viken Douzdjian '13



Merriel Foster '14



Madison Friedman '14



Stacie Hettrick '13



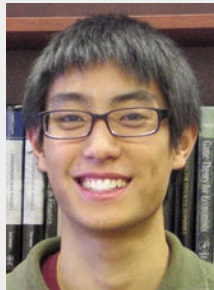
Arjun Kapur '14



Nikhil Ledlie '13



Xinzhu (Nancy) Li '15



Philip Liao '14



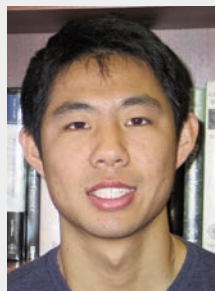
Benjamin Pyle '13



Yijing (Artemis)  
Shen '13



Nicholas Weiss '15



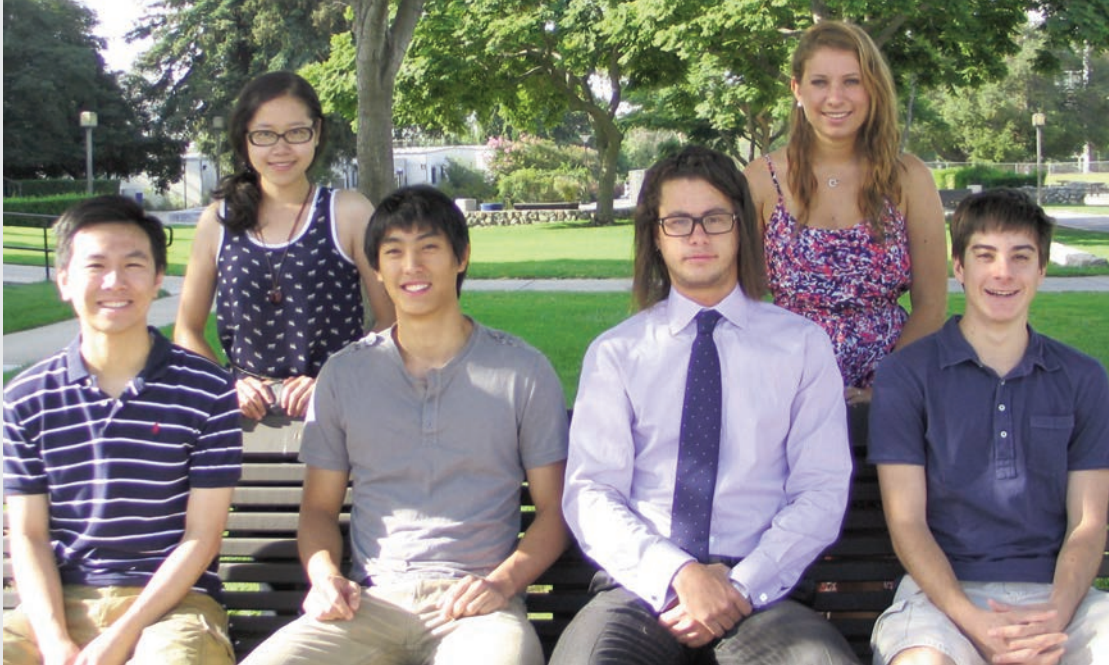
Samuel Wong '13



Lawrence Zhong '14



## Financial Economics Institute 2012 Summer Research Analyst Internship Projects



**Back row, left to right:**  
Jing Wen '13 (Pomona College), Merriel Foster '14.  
**Front row, left to right;**  
Lawrence Zhong '14, Philip Liao '14, Madison Friedman '14, and Dante Quazzo '15.  
**Not pictured:** Jinlin Ye '12 (Pomona College).

### **MERRIEL FOSTER '14**

*Faculty Advisors: Professor Ananda Ganguly and Professor Jungmo Yoon*

**Project:** Quartile Regressions and Prediction of Financial Statement Errors

- Used GAO Restatement database to identify companies with major financial restatements due to misreported revenue or cost and expense
- Gathered information on restatements from amended 10-K's and 10-Q's from EDGAR database
- Compiled lists of competitors for each firm to serve as control against fraudulent or misstated companies
- Collected and presented full financials from Compustat on target companies and their competitors to show and analyze effects of the restatements

### **MADISON FRIEDMAN '14**

*Faculty Advisors: Professor Janet Smith, Professor Eric Hughson, and Professor Serkan Ozbeklik*

**Project:** The PGA Tour's Exponential Payout Structure and Its Incentive Effects on Tournament Behavior

- Imported, merged, and organized 30 years worth of data sets from the PGA Tour Statistical Inquiry Database
- Used statistical analytics software to manipulate merged data sets and calculate time and position variables used to segment data
- Ran repeated statistical and graphical analyses of relative to par (RTP) scores according to each unique method of data segmentation
- Preliminary summary statistics extend work by Ehrenberg and Bognanno (1990) by showing that players in 1st place seek to reduce risky play, decreasing expected RTP scores, while all other players increase risk at the expense of higher expected RTP scores

### **PHILIP LIAO '14**

*Faculty Advisor: Professor Paul Zak at Claremont Graduate University*

**Project:** Management, Employee Satisfaction and Financial Performance

- Produced reports on a multitude of companies, recounting their financial history and stating their outlook via an analysis of 10-K filings and news sources, all with a focus of relating financial performance with effective/ineffective employee practices
- Collected data and created tables of employee turnover rates and employee satisfaction ratings for hundreds of companies
- Analyzed portfolios of companies with poor employee satisfaction, calculating alphas and betas with stock data compiled from CRSP via WRDS

### **DANTE QUAZZO '15**

*Faculty Advisor: Professor Eric Helland*

**Project:** Market Power in Property Casualty Insurance Markets

- Compiled and organized medical insurance data from the Medical Liability Monitor for 1997-2010
  - Collected physician salary data from the Bureau of Labor Statistics to cross-reference against insurance claims data
  - Used Microsoft Excel to match salary data with insurance premiums on county, metropolitan statistical area, and state levels
- Secondary Project:** Patent Litigation in Pharmaceuticals
- Detailed pharmaceutical litigation settlements regarding Abbreviated New Drug Applications (ANDAs) as set forth in Paragraph IV of the Hatch-Waxman Act
  - Aggregated drug and litigation result data from companies' 10-Ks into Excel spreadsheets

**JING WEN '13** (Pomona College)

*Faculty Advisors: Professor Richard Burdekin and Professor Sven Arndt*

**Project 1:** (for Burdekin) Correlations among Commodities across Multiple Chinese Futures Markets

- Design VBA programs to automate data collection and selection to construct a dataset that contains settlement price and trading volume for each commodity
- Performed time series analysis to determine 2008 financial crisis' impact on correlations among commodities using Stata

**Project 2:** (for Burdekin) Closed-End Funds in China

- Gathered and sorted 12 years of stock data of 58 closed-end funds from Bloomberg Terminal
- Ran regression and created graphs to determine the relationship between closed-end funds' performance and the overall Chinese stock market performance

**Project 3:** (for Burdekin) RMB Internationalization

- Searched, summarized, and translated articles and policies on the topic of the Internationalization of Chinese currency

**Project 4:** (for Arndt) Econometric Analysis of International Trade Flows

- Collected and sorted the macroeconomic indices of the U.S. economy over the past 30 years from various sources, such as IMF, World Bank, and Bureau of Economic Analysis

**JINLIN YE '12** (Pomona College)

*Faculty Advisor: Professor Eric Hughson*

**Project:** Effect of the Introduction of a Clearinghouse on Trading Costs

- Collected, managed and analyzed data of New York Stock Exchange using event study method
- Conducted literature review on financial economics theory of trading cost and Clearinghouse
- Conducted regression analysis and designed statistical tests to determine the effect of introduction of a Clearinghouse

**LAWRENCE ZHONG '14**

*Faculty Advisors: Professor Henrik Cronqvist and Professor Marc Weidenmier*

**Project:** The Evolution of Corporate Governance

- Compiled and collected historical corporate governance and financial data for Dow Jones firms since (and prior to) the creation of the SEC from Moody's database
- Analyzed and established trends using COMPUSTAT and CRSP databases as to how various factors (board size, chairman independence, geographical location, etc.) affected various income statement and balance sheet line items

## Fall 2012 Financial Economics Sequence Oral Defense Presentations

### THE FINANCIAL ECONOMICS

Sequence is part of the Robert Day School of Economics and Finance. The curriculum of the Sequence is designed for students interested in pursuing careers in the financial sector and/or graduate education in economics, finance, and related fields.

The Sequence has a rigorous quantitative focus and is designed to complement majors in economics, economics-accounting, and mathematics, as well as dual majors having an economics component. In addition, the

Sequence is complementary to the coursework required for the undergraduate Robert Day Scholars Program, and prepares students for the Master's Program in Finance of the Robert Day School. Under the auspices of the Financial Economics Institute (FEI), students complete the Sequence, which is noted on the transcript, thereby attesting to their solid understanding of the discipline.

We currently have 23 seniors who will be graduating during the 2012-2013 academic year. Seven of these seniors gave their

Financial Economics Sequence oral defense presentations at the end of the fall semester. In order to receive the Financial Economics Sequence notation on their transcript, students must complete a major research project in the area of financial economics. The project may be the student's senior thesis.

The students who made their presentations this semester and the titles of their senior theses are:

**BRIAN BARTLETT**, *The Impact of Corporate Sustainability Reporting on Firm Valuation*

**JESSICA BARTLETT**, *A Compensation Comparison: Determinants of Compensation for Chief Executive Officers and University Presidents*

**DREW BECKERMAN**, *Short-Term Stock Market Response to "Say on Pay" Failed Votes*

**MAX BRENNAN**, *The Use of Real Options in Biotechnology Capital Budgeting: Theory and Practice*

**VIKEN DOUZDJIAN**, *How Does Coinsurance Affect Acquirer Returns in Mergers?*

**YANCAN (LYDIA) LI**, *The Effects of Ownership on Bank Performance: A Study of Commercial Banks in China*

**JAMES WEYERHAEUSER**, *A Study in Market Micromanagement: The Asymmetrical Effects of the 2008 Short Sale Ban on Stocks With and Without Traded Options*



**Brian Bartlett '13 and Jessica Bartlett '13 are the first twin siblings to complete the Financial Economics Sequence.**





Viken Douzjian '13



Rachel Kitzmiller '13

THE STUDENT ORGANIZING committee for the January 2013 NYC Networking Trip was comprised of two seniors, Viken Douzjian and Rachel Kitzmiller. Twelve CMC students were selected to participate in the January trip: Madeleine Bannon '14, Andrew Bergman '14, Elan Bernstein '15, William Locke Brown '14, Julian Buckner '14, Julia Cole '14, Jasmine DiLucci '14, Philip Liao '14, Shree Pandya '14, Henry Pellicoro '15, Andrew Runde '14, and Carter Wilkinson '14. Students will be visiting BlackRock, Deloitte, Deutsche Bank, Fred Alger, Goldman Sachs, Kohlberg Kravis Roberts & Co., Morgan Stanley, Royal Bank of Canada, and Standard & Poor's. ▲

## Upcoming Events

### New York City Networking Trip

**JANUARY 14–18, 2013**

Fourteen students will visit prestigious firms in NYC to gain exposure to various job opportunities in the financial markets and to establish relationships with CMC alumni working at these companies.

### Claremont Finance Conference

**FEBRUARY 22–23, 2013**

Held on CMC's Campus –  
Venue TBA

The Executive Committees of the Student Investment Funds of CMC, Pomona College, and Scripps College are coordinating and hosting the annual conference at CMC.



FINANCIAL ECONOMICS  
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