

The Exchange

NEWS FROM THE FINANCIAL ECONOMICS INSTITUTE AT CLAREMONT MCKENNA COLLEGE

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Director's Report

by Joshua Rosett



Joshua Rosett

THE SECOND half of 2015 has been a busy time at the Financial Economics Institute. In addition to our ongoing programming, we have updated our public face with our new website, added an important new database to our offerings, and we are integrating our activities with CMC's Student Investment Fund (SIF) in several dimensions. Strong interest in the FEI and the Financial Economics Sequence continues, as evidenced by the 51 students, mostly first- and second-year students, in attendance at our annual fall information session held in early September. Based on expressed interest, we believe the number of Sequence graduates will increase for the second year in a row. The Financial Economics Sequence meeting with the graduating Sequence seniors was held immediately following the information session.

We thank Nina Kamath '16 and Mingda Liu '17, who did fine work during the Spring 2015 semester and Summer 2015, respectively, to create our new website and add other social media sites to our online presence. The new website can be seen either via the link under the Experiences tab on the CMC site, or by going directly to <http://financial-economics-institute.org/>. Mingda is our webmaster for this year, and we are working continuously on updating the content of the site.

During the summer we had 7 CMC research interns working at the FEI, thanks, as always, to BMGI for funding our summer internship program. And this fall, we have 20

students employed at the Institute, including two of the five 2015-2016 BMGI/Michael Larson Asset Management Fellows, Rachel Doehr '16 and Albert Xu '17, who are taking the opportunity to work at the Institute via their Fellowships. Projects are described nearby. As part of the research analyst program, the Institute provides student tutors for the Bloomberg Terminal, Cap IQ, Excel, Stata, and Python to assist students from any of the Claremont Colleges in these areas.

As noted in our previous newsletter, we are creating stronger ties between the FEI and the SIF. This fall there were two major developments in this direction. First, the FEI worked with the SIF to put on two information sessions on financial literacy; the first one, in September, introduced personal finance and investing; the second session, held in late October, focused on the fundamentals of accounting and valuation. These Saturday sessions included very well done presentations by various members of the SIF, with sponsorship support from the FEI. Attendance was strong at both sessions. Brian Eckhardt '16, the current CEO of

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FINANCIAL ECONOMICS
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CLAREMONT MCKENNA COLLEGE

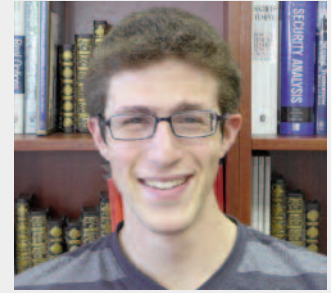
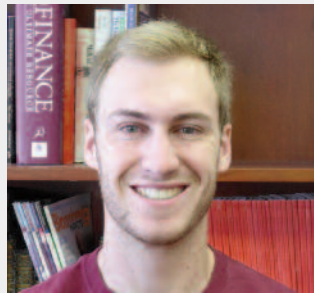
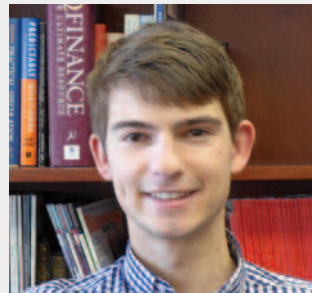
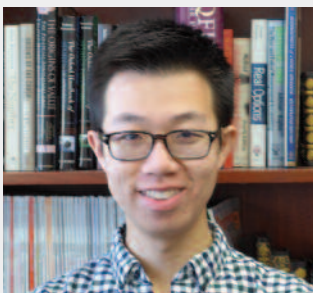
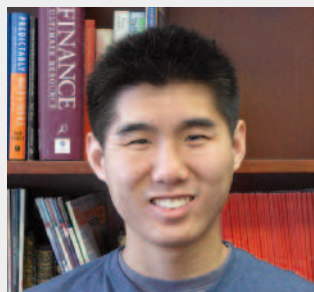
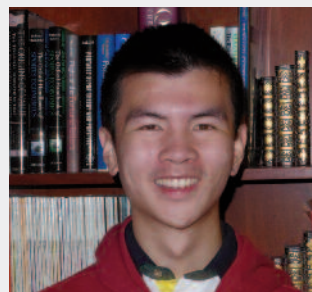
The Financial Economics Institute fosters education and research in financial economics by offering a unique undergraduate curricular program, the Financial Economics Sequence, supporting state-of-the-art databases, and encouraging student-faculty interaction on research.

Financial Economics Institute

Fall 2015 Student Research Analysts

During the Fall 2015 semester, twenty student Research Analysts were hired to work at the FEI. The following is a list of students, their faculty advisors, and a brief description of the research projects in which they were involved or the type of tutoring they provided:

- ▶ **FARHAN ATTAMIMI '17** is working to build an application for Professor Ananda Ganguly to be used in accounting research experiments to evaluate how investment decisions are influenced by relevance and reliability in accounting reports.
- ▶ **GABRIEL AYALA '16** is the tutor for the Bloomberg and Capital IQ at the FEI. He is also working with Professor Joshua Rosett on constructing regional stock indices including a Los Angeles index and Inland Empire index.
- ▶ **BHAVIKA BOORAGADDA '18** is working with Professor Angela Vossmeier on a paper that investigates the origins of too-big-to-fail by examining banks' requests for recapitalization submitted to the RFC in Illinois and New York, focusing on the money centers of Manhattan and Chicago's loop. The results offer important implications for lender of last resort policies and the effect of preferentially treating the nation's largest banks.
- ▶ **AVIV CASPI '16** is the Python tutor at the FEI and is also working with Professor Joshua Rosett on a project on Building Regional and Industry Segment Equity Indices for California.
- ▶ **RACHEL DOEHR '16** is the Stata tutor at the FEI.
- ▶ **JACK GERSTENBERGER '17** is working with Professor Darren Filson and Brian Dennis in which he is helping them examine variables that impact the tenure length of college presidents. By identifying personal characteristics, executive compensation, and institutional performance metrics, they will use this information to conduct statistical analyses that will enable them to predict college president tenure length.
- ▶ **MATTHIEU HAFEMEISTER '17** is working on a project with Professor Andrew Finley researching the significance and impact of settlements with IRS on companies' effective tax rate. He is also working with Professor Joshua Rosett on a project involving reporting and analyzing Mergers and Acquisitions, specifically in Southern California.
- ▶ **MICHAEL IRVINE '16** is working with Professor Darren Filson to create a new way of analyzing and ranking economics journals, including by examining median citations and time-based changes in citation counts.
- ▶ **CHRISTOPHER JACKSON '17** is working with CGU Professor Paul Zak analyzing physiological data comparing two different types of persuasion styles: (1) The promotion and betterment of one's own life vs. (2) The promotion and betterment of people's lives around you. These differences in persuasion tactics should influence the amount of money ultimately given in microfinance loans.
- ▶ **KANISHK KAPUR '18** is working on a project with Professor George Batta to determine the effect of a subsidiary initiating CDS trading on a diversified firm's internal capital market.
- ▶ **KAITLYN KELLEHER '17** is working with Professor Eric Helland to research the difference in the SEC's success rate when they bring a case to their own administrative judges versus when they must file the case in a criminal court of law.
- ▶ **SHENGYUE "LISY" LI '18** is working with Professor Angela Vossmeier on a project investigating the stigma caused by rescue programs during the financial downturns and analyzing how it affects a bank's ability to operate as a financial intermediary using a novel data set from the Reconstruction Finance Corporation in the Great Depression.
- ▶ **MINGDA LIU '17** is working with Professor Richard Burdekin on a project researching the monetary and fiscal policymaking in South Pacific countries by compiling and analyzing data using Stata and Excel. He also oversees the content and the maintenance of the FEI website.
- ▶ **SEAN SAKAGUCHI '16** is working as the Excel tutor at the FEI, providing training on Excel and spreadsheet utilization, and he answers students' basic and more accelerated questions in the use of this program as they apply to school projects, personal interests, or professional projects.
- ▶ **ABIGAIL SCHANTZ '18** is working on a project with Professor Eric Helland to research the difference in the SEC's success rate when they bring a case to their own administrative judges versus when they must file the case in a criminal court of law.
- ▶ **ANDREW SHEETS '17** is working to build an application for Professor Ananda Ganguly to be used in accounting research experiments to evaluate how investment decisions are influenced by relevance and reliability in accounting reports.
- ▶ **GEORGE VOJTA '17** is working on a project with Professor Eric Helland to research the difference in the SEC's success rate when they bring a case to their own administrative judges versus when they must file the case in a criminal court of law.
- ▶ **ALBERT XU '17** is working with Professor Sven Arndt on several projects, one of which is titled, "Economic Stability in a Contemporary Setting."
- ▶ **ANDREW YEH '17** is working with Professor Eric Hughson on a project looking at momentum as a factor cause of idiosyncratic equity returns and examining its properties and return distribution.
- ▶ **YI "NORA" ZHANG '17** is working with Professor Mitch Warachka on two projects. The first one investigates the impacts of insurance policies on religious activities by portfolio analysis at county level. The second one is a study on the cost of inattention through investigation of Airbnb prices during major sports events.

**FARHAN ATTAMIMI '17****GABRIEL AYALA '16****BHAVIKA BOORAGADDA '18****AVIV CASPI '16****RACHEL DOEHR '16****JACK GERSTENBERGER '17****MATTHIEU HAFEMEISTER '17****MICHAEL IRVINE '16****CHRISTOPHER JACKSON '17****KANISHK KAPUR '18****KAITLYN KELLEHER '17****SHENGYUE "LISY" LI '18****MINGDA LIU '17****SEAN SAKAGUCHI '16****ABIGAIL SCHANTZ '18****ANDREW SHEETS '17****GEORGE VOJTA '17****ALBERT XU '17****ANDREW YEH '17****YI "NORA" ZHANG '17**

Financial Economics Institute 2015 Summer Research Analyst Internship Projects



Left to right: Mingda Liu '17, Kanishk Kapur '18, Qianyun "Carole" Gao '17, Yi "Nora" Zhang '17, Phillip Jauregui '17, Chengwu "Harris" Xuan '17, and Amberish "Rish" Chitre '18.

RISH CHITRE '18

Faculty Advisor: Professor Eric Helland

Project: Admissibility of Expert Witness Testimony through the Application of Daubert Standards

- Coded data into spreadsheets that outlines frequency and length of Daubert arguments in expert witness testimony related to the Wyeth Pharmaceuticals dispute over the use of the drug, Prempro
- Used key words generated from a Python program analyzing large quantities of text to improve argument tracking in Excel
- Compared the accuracy of key word coding by looking at arguments coded by hand and comparing them to the accuracy of the Python program

QIANYUN "CAROLE" GAO '17

Faculty Advisor: Professor Sven Arndt

Project 1: Balance-of-Payments Adjustment in a Dual Exchange-Rate Regime

- Collected data on exchange rates for various countries from 1980 to 2014 from IMF
- Ran regressions using Stata to determine the relationship between exchange rate and national account variables
- Created figures representing the theoretical variations in the relationship between interest rate and income for countries with different exchange rate regimes

Faculty Advisor: Professor Mitch Warachka

Project 2: Relationship between Financial and Religious Activities

- Created a system for religion identification and cleaned data from 1980 to 2010
- Classified counties into a portfolio of 4*4 matrix based on

agricultural and religious activities

- Analyzed portfolio-specific impact of insurance on increase in congregation, using Stata

PHILLIP JAUREGUI '17

Faculty Advisor: Professor Paul Zak (CGU)

Project 1: Projecting Movie Revenues Using Economics Modeling

- Gathered data on over 150 movies for variables such as budget, opening weekend gross, and lifetime gross (domestic and worldwide)
- Examined month of release as a factor in predicting movie revenues using an economic model
- Ran multiple regressions to see statistical significance of any relations between movie variables and revenue

Project 2: Analysis of Socially Responsible Mutual Funds

- Compiled list of over 150 socially responsible mutual funds
- Compared annualized and total trailing returns to those of index funds such as the S&P 500 and NADAQ to identify the top 10 best and worst SRI (socially responsible investing) funds ranked by performance relative to indices
- Examined extreme funds to identify what factors, if any, explain the economics success or failure of mutual funds

KANISHK KAPUR '18

Faculty Advisor: Professor George Batta

Project: Effect of a subsidiary initiating CDS trading on a diversified firm's internal capital market

- Identified the ultimate parent if a firm with a trading CDS is a subsidiary, then identified the relevant segment and used Compustat to gather the rest of the information

- Summarized academic papers from related research. Identified and followed precedent for ratio construction
- Used Stata to construct a unified dataset spanning 18 years using data from CRSP, Compustat and Markit

MINGDA LIU '17

Faculty Advisor: Professor Richard Burdekin

Project 1: Fiscal policymaking and central bank institutional constraint in Latin America

- Collected, cleaned, and managed data spanning 20 years and 14 countries on Excel and Stata platforms
- Interpreted the data series by performing correlation and regression analyses

Project 2: Fiscal policy in South Pacific island countries

- Compiled and sorted relevant literature
- Sorted datasets and plotted data series for different research purposes using Excel
- Conducted correlation analyses and created correlation matrices of variables on Stata

CHENGWU "HARRIS" XUAN '17

Faculty Advisor: Professor Ananda Ganguly

Project 1: Fantasy & Dread: The Demand for Information and the Consumption Utility of the Future

- Programmed in Stata to output publication-quality Excel tables

Project 2: Relevance versus Reliability: Experimental Evidence on an Accounting Debate

- Programmed in Qualtrics and Javascript to amend and improve older program to run an accounting/economics laboratory experiment
- Organized and improved manual to distribute Qualtrics program via Amazon Mechanical Turk

YI "NORA" ZHANG '17

Faculty Advisors: Professors Mitch Warachka and Marc Weidenmier (joint work with Professor Barbara Bliss, UC San Diego)

Project 1: Predicative Power of Stock Return in the World Market

- Collected and organized data on stock price, foreign exchange rate and economic indicators of 71 countries from 1950 to present
- Computed exchange rate volatility and classified them using Reinhart and Rogoff regime
- Conducted general, area-specific and time-specific panel analysis to investigate in relationship between stock return and standardized export in multiple time periods, present and future, through various regressions

Project 2: Relationship between Financial and Religious Activities

- Created a system for religion identification and cleaned data from 1980 to 2010
- Classified counties into a portfolio of 4*4 matrix based on agricultural and religious activities
- Analyzed portfolio-specific impact of insurance on increase in congregations using Stata

2015 Southern California Finance Conference

ON FRIDAY, SEPTEMBER 25TH and Saturday, September 26th, the Financial Economics Institute sponsored the third annual Southern California Finance Conference at Claremont McKenna College. Organized by CMC Professors Mitch Warachka and Eric Hughson, the purpose of the conference was to further interactions between members of the Claremont Colleges community with interests in finance and respected finance academics from universities throughout Southern California. There were about twenty conference participants who attended the two-day conference. In the three two-hour sessions, six papers on a variety of topics in academic finance were presented and discussed by participants from CMC, Loyola Marymount, UC Irvine, UCLA, UC Riverside, UC San Diego and USC.

This year, for the first time, the conference featured a paper in neuro-finance. Cary Frydman, of USC, presented his paper "Testing Salience

Theory of Risky Choice using Eye-Tracking Data," co-authored with Milica Mormann. The question addressed in the paper was whether salient attributes of an alternative affect its weight in the decision-making process. In this case, the authors comparing a lottery with a potential positive outcome to a certain payoff, fixing the expected value of the lottery. The subjects were more likely to take the gamble when the positive payoff was made more salient. Indeed, the authors found a tradeoff between salience and the expected value of the lottery – a finding that might not be surprising to marketers. Further, when the negative payoffs of the lottery were highlighted, subjects not surprisingly were more likely to opt for the certain payoff instead. The behavioral findings were further reinforced with eye-tracking data that showed that subjects' eyes lingered more on the salient information, whether on the upside or the downside of the lottery.

In addition to the sessions, the

conference featured a lunchtime talk at the Marian Miner Cook Athenaeum (which also doubled as an FEI Seminar Series talk) featuring Gordon Phillips from USC. In his talk, "The Need for Industrial Organizational Foundations in Corporate Finance and Asset Pricing," Professor Phillips began by explaining that although a firm's competitors are often characterized as benchmarks to be evaluated against, they are really more than that, and the difference is important. In particular, there is an interaction between financial policy and the nature of competition. For example, firms choose financial policies to influence interaction with each other. This kind of interaction means that the nature of competition can influence a firm's governance, compensation systems, and financial structure. Indeed, fundamental corporate decisions such as the decision to merge are influenced by competition. ▲

Personal Finance at CMC

By Brian Eckhardt '16

Current SIF CEO and BMGI/Michael Larson Asset Management Fellow

THIS FALL, THE FINANCIAL Economics Institute (FEI) and the Student Investment Fund (SIF) co-hosted a series of financial literacy seminars for students from the five Claremont Colleges. The seminars were designed to educate students across all academic disciplines about personal finance, money management, investing and basic accounting.

The program came to inception last spring as the FEI and SIF leadership discussed CMC's already extensive academic and co-curricular resources. The Economics and Economics-Accounting majors through the Robert Day School and the Financial Economics Sequence through the FEI provide the theoretical foundations and technical skills necessary for future careers in business, finance, government and not-for-profit organizations; networking trips to New York, San Francisco, Chicago and Los Angeles enable students to build relationships with firms and alumni and identify potential career paths; and the FEI research positions and SIF analyst positions allow students to work closely with faculty and apply coursework to real-world research and problem-solving.

Absent from these offerings, though, was a program directed at preparing students for the personal financial decisions that await them after graduation. Just as finance helps businesses build factories and hire employees, personal finance helps individuals buy homes, save for higher education and plan for retirement. Learning about the available tools to accomplish life's goals is important for everyone, not just Economics majors. With this objective in mind and program funding provided by the FEI, the SIF began to plan two fall seminars.

The first seminar took place on Saturday, September 19 and introduced personal finance and investing. While the seminar was initially scheduled for a traditional lecture hall, high student demand prompted relocation to Bauer Forum which seats 141.

The afternoon program was broken into four focus areas: personal finance, investing theory, practical investing and an example investment pitch. Beginning with personal finance, Sean Sakaguchi '16 spoke about the

power of compounding interest, in which the earlier an individual saves and invests the higher are the long-term accruals. He also compared checking, savings and brokerage accounts and contrasted online and retail commercial banks. Arya Nakhjavani '18 reviewed debit and credit cards and outlined steps that an individual can take to boost his or her credit rating. He also reminded that most landlords check a potential renter's credit score before confirming a lease, reinforcing the importance of building good credit during college. Chris Czesla '18 explored insurance categories including life, health, auto, renters and disability.

Transitioning to investing theory, Daniel Fallon-Cyr '17 compared stocks and bonds, their risk and return profiles and their roles in a company's capital structure. After, he spoke about the growth and value investing theories as well as the template profiles for companies targeted by those investing strategies. Daniel closed his remarks by noting the efficient market hypothesis, which states that stocks incorporate all available information. As such, "beating the market" is impossible because prices respond only to new information, which by definition is random.

In the practical investing section, Sean spoke about certificates of deposit and the benefits and risks of CD laddering. He also reviewed other forms of tax advantaged vehicles including individual retirement accounts (IRA), employer-sponsored plans (401k) and educational savings accounts (ESA). Sean then contrasted traditional and Roth IRAs before Victor Chan '16 transitioned to explaining how students can go about analyzing stocks and other securities. He deconstructed buzzwords such as "strong fundamentals," "intrinsic value" and "discounted cash flow" and enumerated several resources for financial information including the *Wall Street Journal*, *The Economist*, annual and quarterly reports with the Securities and Exchange Commission, Bloomberg, Capital IQ and Wall Street broker research.

Andrew Clary '16 and Alex Brenner '17 ended the afternoon by presenting Naspers, which is a former SIF investment pitch and current holding in the fund's portfolio.

Through Naspers, students learned how to create an investment thesis, support it with evidence and weave the presentation together with warrants. Andrew and Alex also expounded on the sum-of-the-parts analysis that the SIF used to value Naspers. This technique is appropriate for conglomerate businesses with diverse business operations, allowing investors to value each division separately before summing the components into the whole.

The second seminar on Saturday, October 24 presented on the fundamentals of accounting and valuation. Sean and Andrew Yeh '17 walked students through the major components of the income statement including revenue, cost of goods sold, selling general and administrative, depreciation, interest, taxes and net income. Later, they sketched how a company can manipulate its income statement by engaging in "channel stuffing," a business practice in which a company pushes excess product into the distribution channel in order to inflate revenue.

Christian Kelly '18 taught students about the balance sheet and the "law" of accounting that assets equal liabilities plus shareholders' equity. Andrew Clary and Naina Mullick '17 presented the cash flow statement and how it serves as the composite of the other income statement and balance sheet. They described the indirect and direct accounting methods as well as the operating, investing and financing sections of the statement.

After students were familiar with basic accounting, Nick Lillie '17 and Dennis Gu '17 demonstrated how the three statements could be used to value a company. A discounted cash flow model (DCF) is based on the theory that a company is worth the present value of its future cash generation. The concept of time value of money asserts that a dollar today is worth more than a dollar tomorrow due to its earning potential between the two dates, so future dollars must be discounted to reflect their present value. Nick and Dennis presented the three DCF inputs of free cash flow forecasts, a discount rate and terminal value before leading

Personal Finance from page 6

students through a valuation exercise.

Gabby Ayala '16, Amanda Lin '16 and Jon Shaw '18 concluded the seminar and series with a discussion of relative valuation. To illustrate the technique, students learned how the unknown price of a Honda Civic could be determined based on the value of a

horse-drawn carriage. If a horse and buggy travels at an average speed of 5 miles per hour and costs \$1,000, a Honda Civic that travels 15 times faster could by extension be valued at \$15,000. Financial ratios are core to relative valuations, with Enterprise Value-to-Earnings before Interest Tax Depreciation and Amortization and Price-to-Earnings as two of the most common multiples.

The fall series on personal finance and investing was a success and the FEI and SIF plan to host it again next year. The next finance event at CMC is the Claremont Finance Conference in February 2016, which brings together students, faculty and alumni to explore current themes in the financial services industry. ▲

2015-2016 BMGI/Michael Larson Asset Management Fellows

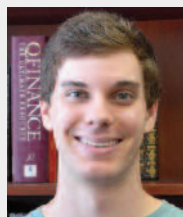
The BMGI/Michael Larson Asset Management Fellowship Program offers financial support and research experience for juniors and seniors at Claremont McKenna College who are interested in careers involving asset management and investment management. The recipients of this year's scholarships are:



Rachel Doebr '16

Rachel Doebr is a senior majoring in Economics with the Financial Economics Sequence. A native San Diegan, she came to CMC for the liberal arts experience doubled with the economics focus. Since arriving her freshman year, she has been involved in the Student Investment Fund,

as well as been an RA and TA for macroeconomics and Stata. Outside of school, she interns in the investment banking division at Houlihan Lokey in the Los Angeles office, and spends her free time working on two research projects with economists at the Federal Reserve Bank of Dallas. She will be joining Goldman Sachs in their investment banking division in New York City after graduation. Also a ballet dancer, she spends her free time taking class at Anaheim Ballet.



Brian Eckhardt '16

Brian, originally from Scottsdale, AZ, is a senior at CMC pursuing a Bachelor's degree in Economics and Master's degree in Finance as part of the Robert Day School's 4-year BA/MA program. In addition to being a Robert Day Scholar, Frank Seaver Leadership Scholar, and

two-year BMGI/Michael Larson Asset Management Fellow, Brian is the CEO of the Student Investment Fund and a researcher with the Rose Institute of State and Local Government. He is also a performing member of Under the Lights, CMC's theatre troupe. Last summer, he interned in the investment banking division of Bank of America Merrill Lynch. Prior to that, he interned with Hawk Ridge Management, a long-short equity hedge fund based in Los Angeles. After graduation, he will be joining a private equity firm in Chicago, IL as a full-time analyst.



Amber Falkner '16

Amber Falkner is a senior from Bradenton, FL, pursuing a Bachelor's degree in Economics and a Master's degree in Finance. In addition to being a BMGI/Michael Larson Asset Management Fellow and a Robert Day Scholar, she is the Chief Investment Officer of the CMC Student

Investment Fund and President of Claremont Colleges Against Cancer. Amber has held internships at a search fund, Danville Capital, and at a mutual fund, Dodge & Cox, after her freshman and sophomore years, respectively. This past summer, she interned as an investment banking analyst in the Consumer, Healthcare and Gaming group at Wells Fargo Securities. She will return to the Charlotte office after graduation as a full-time analyst. Her interests include fishing, creative writing, and kickboxing.



Sean Sakaguchi '16

Sean is a senior at CMC pursuing a dual degree in Philosophy, Politics, and Economics (PPE), and Economics-Accounting in addition to pursuing the Financial Economics Sequence through the FEI. Originally from Tigard, OR, Sean came to CMC due to its uniquely strong

government and economics programs. On campus, he is an active member of the Student Investment Fund (SIF) and the President of CMC's nationally ranked Model UN program. Over the various summers at CMC, Sean worked at the FEI before interning in Morgan Stanley's Wealth Management division. This past summer, he worked in NYC at Millstein & Company where he worked on a variety of corporate and governmental bankruptcy restructurings and will be returning after graduation. In his free time, Sean enjoys kayaking, archery, and playing card/strategic board games.



Albert Xu '17

Albert is a junior at CMC majoring in Economics. In addition to being a BMGI/Michael Larson Asset Management Fellow, he is also a Robert Day Scholar. He is the CIO of Sagehen Capital Management at Pomona College, and works as a research analyst

at the FEI. So far, Albert has researched under Professors Eric Helland, Gary Smith, and Sven Arndt. In his free time, he enjoys debating, fencing, and watching football.

Fall 2015 Financial Economics Sequence Oral Defense Presentations

THE FINANCIAL ECONOMICS SEQUENCE IS PART OF the Robert Day School of Economics and Finance at Claremont McKenna College. 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 twenty FES seniors who will be graduating during the 2015-2016 academic year. One senior is graduating at the end of the Fall 2015 semester and he made his presentation last spring. Three FES seniors wrote their theses this semester and gave their oral defense presentations at the end of the semester. In order to receive the Financial Economics Sequence notation on their transcripts, students must complete a major research project in the area of financial economics, the project may be the student's senior thesis, and make an oral presentation.

The following is a list of the students who made their presentations this semester along with the titles of their senior theses and the Abstracts of their theses:

AHMED ELTAMAMI

The Effect of Increased Regulation on Option Use within the Information Technology Industry

"Exorbitant executive compensation packages have drawn large criticism from the public eye and with the recent financial crisis and the previous tech bubble opinion on executive incentives has forced government institutions to respond. Over the past two decades the SEC and FASB have aimed to respond to the public and with three large regulation changes in the 2000s, pay for performance compensation has gone through many changes. In this study I build on previous work in an attempt to answer whether or not executives within the Information Technology industry have seen a larger decline in option compensation when compared to executives outside of the industry. Previous studies have indicated that option use has been consistently higher in the IT industry and in addition another study has showed that option use across all companies has decreased dramatically due to regulation changes. In this study I find that option use has dramatically decreased over the past decade due to regulation and that option use in the IT industry has remained consistently higher than others. I find that there is little significant evidence suggesting regulation changes have affected the IT industry at a larger rate than others. I would argue that the industry is less sensitive to regulation changes regarding option use but I do find significant

evidence that the industry has seen larger decreases in option use in 2013 when compared to other industries."

JAMES INGRAM

The Effects of the 1933 Bank Holiday and the Emergency Banking Act of 1933 on the Systematic Risks of Various Industries

"Utilizing the industry portfolio classifications that Fama and French provide in their data library, I analyze the specific effects that the 1933 Bank Holiday has on various industries. My empirical results go beyond what Silber (2009) determines to be significantly positive abnormal market returns on March 15, 1933, which is the day after the Bank Holiday and the largest ever one-day increase in the stock market. I use the CAPM and the Fama-French 3-factor Model to find significant systematic risk decreases after the Bank Holiday in the Coal and Transportation industries, as well as systematic risk increases in Consumer Goods and Apparel. To determine the driving factors behind these changes in systematic risk and abnormal returns, I test the correlation between industry leverage ratios and differences in systematic risk changes after the Bank Holiday. The Bank Holiday helps stabilize the economy and the nation's banking system, which I expect industries with larger debt obligations will benefit more after the Bank Holiday. Inconsistent with my expectations, I don't find significant evidence that the systematic risks of highly leveraged industries decreases more than industries with lower leverage ratios. I develop my argument to leave room for changes in the model used to estimate systematic risks in order to identify the variables that are the true drivers of the systematic risk changes that I observe."

EMILY ZHANG

San Francisco's Housing Price Surge: Strained Market Fundamental or Exaggerated Expectations?

"This paper uses time series regressions to examine whether San Francisco's housing price surge is due to strained market fundamentals or due to speculation. This paper uses and manipulates monthly and quarterly data related to the San Francisco housing market. Regressions focus on the following independent variables: past housing prices, value appreciation, new building unit permits, employee growth, technology activity, nonperforming loans, and interest margins. The results show that those lagged variables explain a reasonable portion of current housing price movements. However, in terms of current events, this paper cannot rule out the possibility that speculation is driving a new housing bubble in San Francisco."

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CMC's Student Investment Fund, provides a summary of these sessions elsewhere in this newsletter. Second, the FEI added an important database, the McGraw-Hill Financial Standard & Poor's Capital IQ database. We are making this product available to all CMC community members via work stations in Poppa Lab and the FEI, but we believe it will be particularly useful for those associated with the SIF and FEI, and the decision to purchase the database was made in collaboration with the SIF. The FEI is providing support for use of this database, thanks to Gabriel Ayala '16, who kindly agreed to add this duty to his work as Bloomberg tutor at the FEI. Look for further updates on FEI/SIF integration in future newsletters.

In September, the Institute sponsored a 2-hour Wharton Research Data Services (WRDS) information session for Financial Economics Sequence seniors, Economics-Accounting seniors, BMGI-Michael Larson Asset Management Fellows, and FEI student research analysts.

The FEI sponsored the third annual Southern California Finance Conference held on Friday and Saturday, September 25th and 26th at CMC, and featured Gordon Phillips, the Charles E. Cook – Community Bank Chair and Professor of Finance and Business Economics at the University of Southern California, as Athenaeum luncheon speaker. Professor Phillips was the conference Keynote Speaker and his Athenaeum presentation entitled, "When Are Powerful CEOs Beneficial? The Importance of Industry Competition" was also part of the FEI Speaker Series (see the summary of the conference elsewhere in this newsletter). Professors Mitch Warachka and Eric Hughson organized the sessions with financial and staff support from the FEI.

The FEI participated in the Research

Institutes Fair held in early October, providing information to interested students, staff, and faculty about our activities, including the annual New York City Networking Trip, student employment opportunities, our fellowship program, and the Financial Economics Sequence.

In early November, with organizational assistance from Lizzie Fitzpatrick of BMGI, for the second year the FEI hosted an event bringing together the Student Investment Funds from CMC, Harvey Mudd College, Pomona College, and Scripps College. A team from each SIF pitched a company to a panel composed of CMC graduates Michael Larson '80, Alan Heuberger '96, John O'Brien '02 and William Knowles '13, all from BMGI; and Erik Anderson '80 of WestRiver Capital, Inc. This year, HMC and Scripps formed a team to make a joint presentation. Claremont Colleges' faculty and staff, along with various student members of the SIFs were in attendance. The event was held in the Freeberg Forum, on campus, and the venue was almost filled to capacity. A networking reception was held following the pitch event.

Looking forward, the 13th annual New York City Networking Trip, which is cosponsored with the Robert Day Scholars Program, is planned for January 10th through the 15th. Two information sessions were held in September for CMC sophomores and juniors who were interested in going on the trip. Thanks to Marisa Walter, the Interim Director of External Relations at the Robert Day School who organized the trip this year, we are looking forward to an exciting week visiting prestigious firms. The trip will also include various evening events with financial services professionals and CMC alumni to provide maximum networking experiences for the students participating on the trip. There will be sixteen students going on the trip this year: three juniors and thirteen sophomores.

Also in January, we will be working with Executive Board members of the Student Investment Fund on the annual student-run Claremont Finance Conference, to be held February 12, 2016.

Finally, as always, I thank the RDS Board for their generous contributions making our activities possible. I also thank Terri Van Eaton for her wonderful work making the FEI a great experience for our students, and both Terri and Brian Dennis for their great administrative work supporting our programming. ▲

Upcoming Events

New York City Networking Trip JANUARY 10–15, 2016

Three juniors and thirteen sophomores 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. The goal is for these relationships to evolve into summer internship and full-time job opportunities for student attendees. In addition to the company visits, the trip will include various evening events with financial services professionals and CMC alumni. The trip is sponsored by the Financial Economics Institute and Robert Day Scholars Program.

Claremont Finance Conference FEBRUARY 12, 2016

The Executive Committees of the Student Investment Funds of CMC, Pomona College, and Scripps College, are coordinating and hosting the annual finance conference. More detailed information will be distributed in January.



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