

# The Exchange

NEWS FROM THE FINANCIAL ECONOMICS INSTITUTE AT CLAREMONT MCKENNA COLLEGE

VOLUME 21, SPRING 2016

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## Director's Report

by Joshua Rosett



Joshua Rosett

THE 2015-16 academic year was successful for the FEI in terms of ongoing programming, but also featured two key developments regarding our governance structure. These are, first, the establishment of a new group of alumni, the FEI Associates, with joint duties to provide oversight and advice to the Student Investment Fund (SIF) and ideas and support for FEI programming. Second, the FEI Board of Advisors has been re-established as a separate entity from the previous Robert Day School Board of Advisors. We believe both of these developments have great promise for the future success and growth of the FEI.

In the past few Director's Reports, I have noted the increasing integration between the FEI and the SIF, as we work closely with SIF leadership on issues such as database acquisition (note our purchase of CapIQ discussed in the Fall Newsletter), sponsorship of SIF community service activities such as the Financial Literacy Workshops during Fall '15, and event planning such as the Claremont Finance Conference. Concurrently, over the course of the past year, we have developed a new structure incorporating young alumni into a group named the FEI Associates, with responsibilities both to the SIF and to the FEI.

The FEI Associates is slated to meet twice annually, once each semester. At the meetings, a portion of the agenda will be oversight of the SIF. SIF teams will make pitches to the Associates, and Associates will provide advice regarding formulation of investment policy. Individual Associates will also give input to SIF pitch teams during the process of preparing pitches. We expect this dual mentoring/advisory role will be greatly beneficial to the SIF. With regard to the FEI, Associates are expected to provide useful input on moving FEI programming forward to keep pace with market place changes, and to communicate this to CMC students via information sessions.

The first meeting of this group occurred in February, and was a great success. The

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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.*

**Director's Report** from page 1

group had a very fruitful discussion of its charges, provided useful input to the SIF and FEI, and proposed the concept of providing guidance to individual SIF pitch teams. We are grateful for the time, energy, and enthusiasm evident from the very start of the new FEI Associates activities.

The second key development is the re-establishment of the FEI Board of Advisors. A few years back, under circumstances different from what we face today, it was sensible to combine the advisory boards of the Robert Day School and FEI. Though this merger proved successful for the development of each entity at the time, structural changes in the Robert Day Scholars program over the past few years created a situation where it is more efficient and beneficial to separate governance structures for the FEI and the Robert Day Scholars programs. Consequently, starting with our next meeting in the Fall, the FEI Board of Advisors will resume activities as a separate entity. I am personally very grateful for all the input and oversight the board members have provided over my first two years as Director, and eagerly look forward to working with them in this new capacity starting in the Fall. From the FEI point of view, having their undivided attention on the

FEI agenda will provide great benefits.

Though the news regarding the FEI Associates and Board of Advisors is the highlight of the past few months, we also have had a successful year with ongoing programming. We employed 20 students each semester during the 2015-2016 academic year, and hired 7 full-time RAs last summer and have just brought on 6 full-time RAs for this summer; we once again co-sponsored and participated in the New York City Networking Trip, and helped organize and sponsor a pitch event for the CMC Student Investment Fund and two finance conferences, sponsored the SIF Financial Literacy Workshops last Fall; we added S&P Capital IQ to our data offerings, and continued to support students by providing tutors for the Bloomberg Terminal and CapIQ, as well as Excel, Python, and Stata; we participated in the Research Institute Fair in the Fall and the Inside CMC days (admitted students revisit days) this Spring. During the year, we made substantial progress on our local content initiative regarding SoCal stock indices and transactions measures. We expect these to appear on our website shortly.

During this past academic year, 11 students successfully completed the Financial Economics Sequence. We also proudly note that every senior honors winner in Finance, Economics, and Economics Accounting for

the Class of 2016 has an association with the FEI or used FEI resources. The overall Best Senior in Economics, Brian Eckhardt, is a two-year BMGI/Michael Larson Asset Management Fellowship recipient. The Best Thesis in Economics was written by Rachel Doehr, both a BMGI/Michael Larson Asset Management Fellow and FEI Stata Tutor this year. The winner of both Outstanding Senior and Best Thesis in Economics-Accounting awards was Meghan Fuelling, who worked as a research analyst at the FEI. The winner for Best Thesis in Financial Economics, Robert Owlett, extensively used resources provided by the FEI in his thesis. It's also worth noting that one of the four juniors who received Best Junior in Economics awards was Zhongyi "Joey" Yu who has been an FEI research analyst.

Looking to next year, we anticipate continued integrated work with the SIF both directly with SIF leadership and via the FEI Associates, and look forward to working with the re-established Board of Advisors.

Finally, as always, I am truly grateful for the tremendous work of both Terri Van Eaton and Brian Dennis for making the FEI an outstanding resource for our students. I also thank Colleen Bartlett in the development office for her tireless efforts and excellent ideas on behalf of the FEI over the past year. ▲

## Congratulations to the FEI Summer 2016 Research Analysts:

**SYED UMAR FAROOQ '17**, Economics/International Relations dual major

**ZIJIN (LYDIA) FU '18**, Economics major

**YUTAO (JAMES) JIANG '18**, Economics major

**ANDREW LINDQUIST '19**, Economics major

**CHUYI (WENDY) SHENG '17**, Economics/Government dual major with the Financial Economics Sequence

**YULANG (DANNY) WANG '18**, Computer Science/Economics dual major

## Congratulations to the 2016-2017 BMGI/Michael Larson Asset Management Fellows:

**MATTHIEU HAFEMEISTER '17**, Economics/Mathematics dual major with the Financial Economics Sequence

**KAITLYN KELLEHER '17**, Economics/Government dual major

**KATHERINE KREY '17**, Economics/International Relations dual major

**HUNTER OLSEN '18**, Economics major

**YULANG (DANNY) WANG '18**, Computer Science/Economics dual major

**ALBERT XU '17**, Economics/Philosophy dual major

## 2016 New York City Networking Trip

By *Matthieu Hafemeister '17 and Rish Chitre '18*

THIS JANUARY, THE FINANCIAL Economics Institute and the Robert Day Scholars Program sponsored the 13th annual New York City Networking Trip. In the final week of winter break, three juniors and sixteen sophomores traveled to NYC to learn about the various opportunities available in the financial services industry. The trip offered chances for students to connect with various alumni in both professional and casual settings. Marisa Walter, Interim Director of External Relations for the Robert Day School of Economics and Finance, Professor Joshua Rosett, Director of the Financial Economics Institute, and Eric Hughson, Chair of the Robert Day School faculty, accompanied the students on their visit.

The trip started on the morning of Monday, January 11th with a tour of the New York Federal Reserve. Katie Femia '06, a Markets and Policy Associate, hosted the group. In addition to Katie, Chelsea Wunderlich, Intern Recruiter, joined us. Katie spoke to the group about her duties with regard to analyzing global financial market developments on behalf of the Federal Open Market Committee. Students also received a tour of the Fed's unique architecture and were shown the gold vault far below the actual Federal Reserve.

The trip to the New York Federal

Reserve was followed by a visit to Endeavor Global, a nonprofit organization that aims to assist entrepreneurs by providing them with global services such as a large network for funding and global mentorship. Endeavor was also the recipient of the 2015 Kravis Leadership Prize. The group met with Mark Trapani, an Associate within the Entrepreneur Selection & Growth Division at Endeavor. Mark spoke about the upcoming challenges to entrepreneurs as well as a new division of Endeavor called Endeavor Catalyst, an innovative co-investment vehicle designed to support Endeavor Entrepreneurs.

The group then traversed down the Avenue of the Americas to visit BBVA, a Spain-based multinational bank. The group met with Carmen Lundell '13, an Analyst in the Domestic Debt Capital Markets Division of the bank. Carmen was joined by Richard Cascais from the LATAM Credit Sales Division and Alejandro Cuadrado, Global Head of Foreign Exchange. Carmen spoke about her role within Debt Capital Markets and her transition from the rotational program at BBVA where she previously worked. Richard spoke about the global climate in Latin America and the challenges facing sub investment grade companies. All three individuals spoke to the positive impact of BBVA's expansion into the United States.

The evening offered some students the time to explore the city while other students attended a "Dine-Around" opportunity with CMC alumni in the New York City area. Pairs of students ventured out into the city to meet the alumni at a predetermined restaurant. The discussions were both casual and professional as students met with alumni of different ages and sectors of the financial services.

The next morning started off bright and early with a visit to Morgan Stanley in their Times Square office. The group was hosted by Phil Crawford, a recent 2015 graduate and Ben Kraus '11. Both work in the Sales and Trading Department of the investment bank. This visit stood out to students because they were exposed to a different division other than the traditional Investment Banking Division. The fast-paced nature of the job and stories of large quantities of money being exchanged gave students ideas for potential career opportunities. Ben and Phil also spoke to the client-side of the business and some of their day-to-day operational tasks. Finally, Ben and Phil gave the students an outlook and opinion on the happenings of the volatile financial markets and how that affects the Sales and Trading business.

The group switched gears for the next visit to Sibson Consulting, a strategic human resources consulting firm. Students were given a presentation by Senior Associate Ilan Bielas '13, and Associates Hunter Salem, Sam Fassak and Megan Werner. The topic of conversation revolved around various projects the individuals within the group have worked on and the impact those projects have had on the company. Many of the projects focused on maximizing the productivity of the clients' human capital.

The afternoon started off with a visit to Deutsche Bank. The students began by having lunch in the office and socializing with Alan Delsman '68 a Senior Credit Executive; Tony Conklin, a Managing Director in Equity Research; Steven Limandibhratha '14, Risk Analyst; Zain Jamal '10, Risk Analyst, specializing in real estate; Catherine Madigan, a Managing Director of the Leveraged Finance and Risk Division; Taylor Pulling, an Analyst in the Leveraged Finance and Risk Division; Mimi



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**NYC Networking Trip** from page 3

Rogers, Analyst; and Nicolle Bugajsk, the Graduate Recruiter. The hosts delivered a firm-wide overview and presented various opportunities for young professionals within the bank. Next, there was a panel discussion on opportunities along with descriptions of what is involved in working in risk and equity research at a large global investment bank. A strong emphasis was placed on the advantages of working at a truly multinational corporation that values working abroad. The analysts and Mr. Delsman spoke of the opportunities to work in Germany given the bank's origin.

After visiting the iconic Wall Street Bull statue, the group made their way to the World Trade Center 9/11 Memorial and then on to visit Goldman Sachs. There, we were joined by a wide array of people in the investment bank. Andrew Cosentino '11, an Associate in the Investment Banking Division; Andrew Duckworth '12, an Associate in the Securities Division; John William P'17, a Head of Securities, Futures and Clearing; Ben Colman '03, an Associate in the Technology Division; Christine Mann '87, a Vice President/Private Wealth Advisor in the Private Wealth Management Division; David Alvilarr '01, a Director in the Sales and Trading Division; Andrew Kaiser P'13, a Managing Director of Private Banking; and Peter Rominger PIT '14, an Analyst in the Asset Management Division of the bank, gave the group an in-depth overview of the bank and the different operations that are part of Goldman Sachs.

Tuesday concluded with an alumni reception hosted by Doug Peterson '80 P'14,'15, President and CEO of McGraw Hill Financial. The event was attended by various alumni from the New York City area and also a few from other locations including Chicago and San Francisco.

The third day started with a visit to Atalaya Capital. Ivan Zinn '96, founder, hosted the group and was joined by Ben Spector, part of the Operations Team, and Mia Genereux, an Analyst. Mr. Zinn handed out copies of an overview of the company and talked about the business of buying distressed debt and assets and turning them around by assessing the true value of the asset or security. He also had Mia talk about her role as a recent recruit, the interviewing process with examples of

interview questions she was asked, and the work she does on a daily basis.

The group then ventured over to Miller Buckfire, a restructuring firm which is part of Stifel. The group was given a fantastic presentation by John McKenna '89 and was joined by May Reilly, a Scripps College graduate. Mr. McKenna gave a presentation about restructuring and the challenges, both professionally and personally, that someone working in restructuring faces. Mr. McKenna imparted valuable advice to the group and urged us to think about restructuring as an opportunity for those who enjoy learning about intricate technical skills.

After Miller Buckfire, the team visited the JP Morgan office and was joined by Merriel Foster '14, an Analyst in the Asset Management Division of the bank; Susan Adamsen '81, a Managing Director of Private Banking; Investment Banking Analysts Andrew Nam '15 and Daniel Anderson; and Nickolas Polowchena, a VP and the Analyst Manager. The panel of individuals gave the group a good sense of what a career in banking and asset management implied for people who are just out of college, but also what staying with a big firm can look like 20 or 30 years down the line. Analysts spoke of their daily duties and recent deals they worked on, while Susan spoke about her interaction with clients and her role in developing professional relationships.

The day concluded with a visit to KKR, a prominent private equity firm founded by CMC alumni Henry Kravis '67 and George Roberts '66, along with Jerome Kohlberg. The students were introduced to a panel of analysts and associates within a variety of groups at KKR. Rodrigo Bravo '13, Lin Hi, Andrew Bergman '14, Brandon Brier, Naven Johal, Jane Cai, and John Lu all spoke to us about the various groups at KKR including a KKR-specific group called the Internal Capital Markets Group. The panel also spoke about the recent shift in KKR's recruiting process to include recent college undergraduates as well as recent graduate students.

That evening, more "Dine Around" opportunities were scheduled for some of the students.

Thursday, January 14th was the last day of visits, which included a total of five different visits. The first was PA Consulting, a management consulting firm specializing in technology and innovation. We were hosted by Clark Kissiah '13, in the Energy &

Utilities sector; Michael Zhan, Energy & Utilities; Justin Hughes, Federal & Defense; and Ashley Amaral in the Healthcare sector. The team talked about their roles in developing technology for clients' businesses as well as fulfilling consulting duties to maximize efficiency and impact.

After PA Consulting, the group made their way to Wells Fargo where they were greeted with a presentation by a panel of Investment Banking Analysts. The group was also given the unique opportunity to hear from John Weiss, the President of Wells Fargo Securities. A large portion of the discussion from the panel and Mr. Weiss focused on the culture of Wells Fargo as a bank, as well as the ongoing transition of the bank as it becomes one of the fastest growing investment banks on the street. The analysts spoke about their experiences working in a collaborative environment while at Wells Fargo.

Next up was a stop at Fred Alger Asset Management. Kevin Collins, Client Portfolio Manager, and Dan Chung, CEO/CIO, hosted the group. Mr. Collins gave the group an overview of the firm's overarching goals and strategies that focused on growth investing. Dan Chung spoke to the group about the firm's history and the roles and responsibilities that he has acquired as CEO and as a junior team member.

Following Fred Alger, the team visited Millstein, a boutique restructuring bank. The group was hosted by Associates Matt Schneidemann and Noah Kaswell and Analysts Samuel Breuer, Josh Mendelsohn, Quinn Lawlor, and Josh Chmara. The team talked about the nature of restructuring and how it differs from conventional investment banking. They explained their various career paths and choices that led them to a career in the restructuring world. In addition, the group talked about a few deals they worked on both in the public and private sectors.

Finally, the group ventured to Google in Chelsea Park for the last visit of the trip. We were hosted by Tina Daniels '93, a Director of Agency Business Development; Jackie Rosen in the Agency Business Development Division; and Thomas Graham who works on the Data Analytics, Agency Business Development Team. Tina and Jackie spoke about their careers and how they ended up in their current positions. They also gave the

## CMC's Student Investment Fund

By Brian Eckhardt '16, SIF Chief Executive Officer (2015-2016)

THIS ACADEMIC YEAR HAS BEEN A transformative period for the Claremont McKenna College Student Investment Fund (SIF). Over the preceding months, the SIF has established a new oversight structure in association with the Financial Economics Institute (FEI), refined its operational structure, developed new resources to support best practices with our investing, and hosted the Claremont Finance Conference. The year also marked success in our long-running campaign to reach \$1 million in assets under management. Taking on new initiatives is a hallmark of the SIF, and if the progressions made over the past four years serve as a guide, the next four years will be even more exciting.

In June of 2015, the SIF received a \$1 million donation from George Roberts '66 P'93. We thank Mr. Roberts for this extraordinary gift. The Fund now manages \$1.65 million of the College's endowment, a significant step up from the \$500 investment portfolio at its founding. The increase in portfolio size was appropriately accompanied by an increase in responsibility, and accordingly the SIF has spent the year improving its organizational structure and implementing investing safeguards. The primary addition to the Fund's oversight was the creation of a new alumni group named the FEI Associates, with dual responsibilities to provide oversight for the Fund and input and support for FEI activities. The FEI Associates includes CMC alumni who were SIF members, FEI Research Analysts, or studied finance while at CMC. Going forward, the FEI Associates will be an additional resource when students have questions about proposed investment pitches or the broader SIF portfolio.

While historically strong in security analysis and selection, the Fund has not always maintained focus on managing investments after they enter the portfolio. This year, the Fund has placed greater emphasis on portfolio management. Over the fall semester, we reviewed all of our legacy investments and sold many of the old positions. Going forward, the SIF plans to manage a portfolio of ten investments, each comprising approximately \$150,000 of the

portfolio. Structuring the portfolio around ten investments will optimize students' abilities to track corporate developments and reevaluate holdings in a timely manner.

Similarly, to better manage the larger portfolio, this year the SIF substantially expanded its student membership. The fall pool of SIF applicants was especially strong, so the Fund admitted a record number of students in early October. Ten freshmen and five sophomores entered the Fund, bringing the total membership to 53 students. The new members have proven to be invaluable contributors to the team as the Fund works to monitor existing investments and deploy capital into new investments.

To provide continuity to the SIF, in the spring of 2015, we created a new database to archive all previous SIF pitches, valuation models and general educational resources. This database will be perpetually updated so that future members have access to the compendium of SIF work. The Fund also rewrote its student constitution in order to bring its current operating structure in line with its governing document. The primary change in the new constitution was a revision to voting procedures. Historically, to add an investment to the portfolio a pitch needed to be approved by a simple majority of members, and all members had one equal vote. The new voting system maintains the simple majority threshold, but weights members' votes based on their seniority in the Fund. The votes made by seniors are weighted by a factor of 4, the votes made by juniors are weighted by a factor of 3, the votes made by sophomores are weighted by a factor of 2, and the votes made by freshmen are not magnified by a factor. The new system is designed to account for the knowledge and experience students attain as they advance in the Fund and at CMC, and improve our stock selection. Lastly, to standardize pitch content, the Fund implemented a rubric of material to be included in every investment presentation. All of these improvements have aided our portfolio management and security selection efforts.

In addition to exciting internal developments in the SIF, the Fund has also devoted significant resources toward

programming for CMC and the five Claremont Colleges. Most recently, the SIF hosted the Claremont Finance Conference with support from the FEI and the Robert Day School of Economics and Finance. The conference is an annual event that brings together some of the Claremont Colleges' most successful alumni in the finance industry to speak with students about current events.

The day began with a presentation by the SIF leadership to the new FEI Associates, in which students walked the alumni through the current SIF portfolio and solicited feedback on improvement areas. Following the formal presentation, there was a lunch in the Marian Miner Cook Athenaeum with members of the FEI Associates. After lunch, students heard from David Brown '99, Chair of the new FEI Associates and founder of Hawk Ridge Management, and Steve Burlingame '99, Investment Analyst at Poplar Forest, about value, growth and hybrid investing. The conference's keynote speaker was John Shrewsbury '87, Executive Vice President and Chief Financial Officer of Wells Fargo. After a late-afternoon networking reception on the Athenaeum outdoor patio followed by a steak dinner, Mr. Shrewsbury led the audience through a presentation about innovation on Wall Street and the rise of financial technology. The Claremont Finance Conference had an excellent turnout and complemented our fall series on personal finance and money management.

Thanks to support from CMC, the FEI and the Robert Day School, the SIF has had a very successful year. This success extends beyond CMC, with the graduating class of SIF seniors joining firms such as Alvarez & Marsal, Bank of America Merrill Lynch, The Boston Consulting Group, Deloitte, FTI Consulting, Goldman Sachs, Millstein, and Wells Fargo. Helping students achieve positive post-graduation outcomes is the core mission of the SIF. The Fund's continued improvements to its structure and learning experience will ensure that these outcomes persist for future generations of SIF members. ▲

## Financial Economics Institute Spring 2016 Student Research Analysts

During the Spring 2016 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:

**GABRIEL AYALA '16** was the tutor for Bloomberg and Capital IQ at the FEI. He also worked with Professor Joshua Rosett on constructing regional stock indices including a Los Angeles index and Inland Empire index.

**AMBERISH CHITRE '18** worked with Professor Joshua Rosett to build custom equity indices in Bloomberg to investigate whether the performance of companies that are headquartered in a specific region reflect economic growth within that region. Analysis was done by region and sector within California.

**RACHEL DOEHR '16** was the Stata tutor at the FEI.

**JACK GERSTENBERGER '17** worked 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.

**MATTHIEU HAFEMEISTER '17** worked with Professor Joshua Rosett on a project involving reporting and analyzing Mergers and Acquisitions located geographically in Southern California. The project analyzed trends in the various verticals and counties of Southern California to further break down the deal flow and activity.

**AMY INGRAM '17** worked 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.

**MICHAEL IRVINE '16** worked 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. He was also the Python tutor.

**ANANT JAITHA '17** worked with Professor Ananda Ganguly on a project which is developing a web application to conduct and record the results of an experiment on the effect of different kinds of accounting reports on investors' belief formation and trading activity.

**KANISHK KAPUR '18** worked on two projects with Professor George Batta. The first one studied the effect of a subsidiary initiating CDS trading on a diversified firm's internal capital market. The second one examined the effects of CPA licensing requirements on the quality of borrowers' information given to banks.

**KAITLYN KELLEHER '17** worked 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** worked 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** worked 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 oversaw the content and the maintenance of the FEI website.

**SEAN SAKAGUCHI '16** worked as the Excel tutor at the FEI, providing training on Excel and spreadsheet utilization, and he answered 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** worked 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.

**GEORGE VOJTA '17** worked 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.

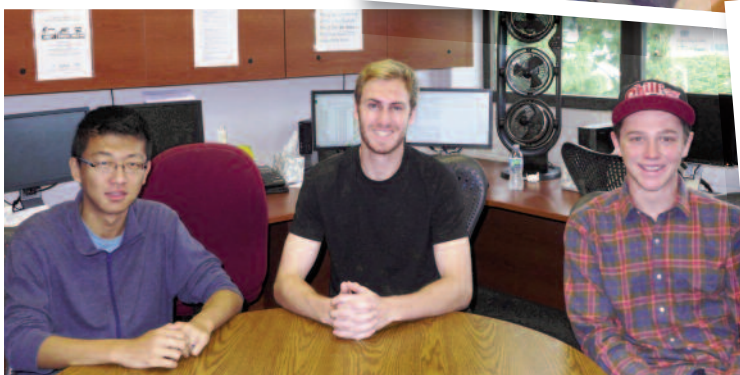
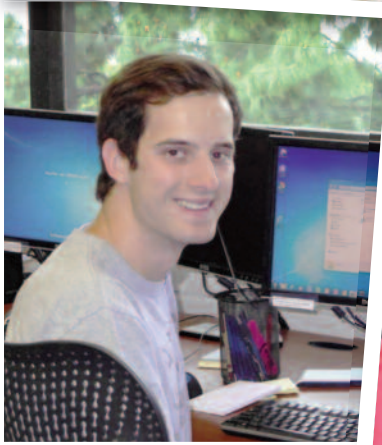
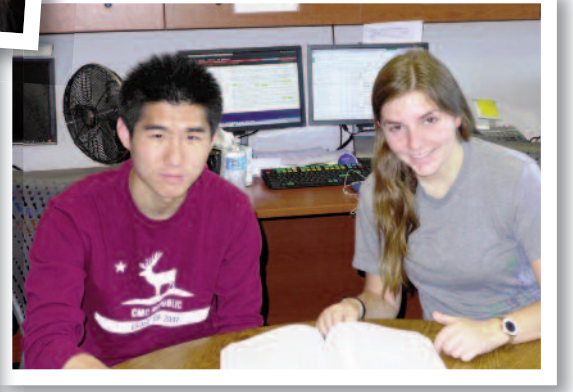
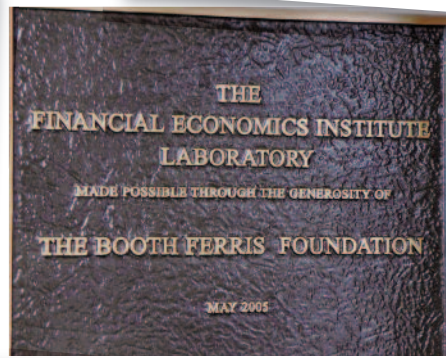
**PETER WELCH '18** worked on a project with Professor Eric Helland to research the difference in the SEC's success rate when they bring a case to their own administrative judges versus when they must file the case in a criminal court of law.

**ALBERT XU '17** worked with Professor Sven Arndt on several projects, one of which is titled, "Economic Stability in a Contemporary Setting."

**ANDREW YEH '17** worked 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.

**ZHONGYI "JOEY" YU '17** worked on two projects with Professor Jeff Flory. The first one analyzed the key determinants of the micro-savings adoption rate in Malawi with a panel dataset of over 2,000 households collected before and after the introduction of savings services. The second one was doing research on existing economic models to derive appropriate subsidy levels and solar panel financing schemes in rural Argentina.

**YI "NORA" ZHANG '17** worked with Professor Mitch Warachka during the first half of the semester on a project researching the economic cost of inattention. She then worked with Professor Eric Helland on a study of the difference in the SEC's success rate when they bring a case to their own administrative judges versus in a criminal court of law.



## FEI Affiliated Faculty Research

### Selected 2015-2016 publications by faculty members affiliated with the FEI:

- ▶ “Blood Money: Violence for Hire in the National Hockey League,” **Richard C. K. Burdekin** and Matthew Grindon Morton, *International Journal of Sport Finance*, Vol. 10, No. 4 (November 2015), pp. 328-356
- ▶ “Evaluating Mergers in the Presence of Dynamic Competition Using Impacts on Rivals,” **Darren Filson**, Saman Olfati, and Fatos Radoniqi, *Journal of Law and Economics*, forthcoming
- ▶ “The Economic Consequences of Tax Service Provided Sanctions: Evidence from KPMG’s Deferred Prosecution Agreement,” **Andrew Finley** and James Stekelberg, *Journal of American Taxation Association*, Spring 2016
- ▶ “Fantasy and Dread: The Demand for Information and Consumption Utility of the Future,” **Ananda Ganguly** and Joshua Tasoff, *Management Science*, forthcoming
- ▶ “Estimating Effects of English Rule on Litigation Outcomes,” **Eric Helland** and Jungmo Yoon, *Review of Economics and Statistics*, forthcoming
- ▶ “The Impact of Fetal Alcohol Exposure: Evidence from the End of Prohibition,” **Eric Helland**, **Mary Evans** and Jon Klick, *Economic Inquiry*, 54(2): 762-777, 2016
- ▶ “Of IV and Institutions,” **Eric Helland**, *Journal of Institutional and Theoretical Economics*, March, 2016
- ▶ “Everything’s Bigger in Texas Except the Medmal Settlements,” **Eric Helland**, Tom Baker, and Jon Klick, *Connecticut Insurance Law Journal*, forthcoming
- ▶ “Stock Ownership and Patterns of Recusal in Federal Courts,” **Eric Helland**, James Anderson, and Merritt McAlister, *Georgetown University Law Review*, 103(5): 1165-1210, 2015
- ▶ “Seasonal Affective Disorder and Seasoned Art Auction Prices: New Evidence from Old Masters,” Doron Kliger, **Joshua Rosett**, **Yaron Raviv**, Thomas Bayer, and John Page, *Journal of Behavioral and Experimental Economics*, Vol 59: 74-84, December 2015
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- ▶ “Companies are Seldom as Good or as Bad as They Seem at the Time,” **Gary Smith**, *Essays in Honor of Joseph Stiglitz*, Columbia University Press, forthcoming
- ▶ “Great Company, Great Investment Revisited,” **Gary Smith**, *Journal of Wealth Management*, forthcoming
- ▶ **Standard Deviations: Flowed Assumptions, Tortured Data, and Other Ways to Lie with Statistics**, **Gary Smith**, Chinese edition, in press
- ▶ **What the Luck? The Surprising Role of Luck in Our Everyday Lives**, **Gary Smith**, New York: Overlook/Duckworth, 2016
- ▶ “The Supply Chain Spillover Effects of IPOs,” **Janet Kiholm Smith**, K. Yamada, K. Kutsuna, and R. Smith, *Journal of Banking and Finance*, forthcoming, 2016
- ▶ “Socially Responsible Investing by Universities and Colleges,” **Janet Kiholm Smith** and R. Smith, *Financial Management*, forthcoming, 2016
- ▶ “Risk-taking in Competitive Settings: Evidence from Match Play Golf Tournaments,” **Janet Kiholm Smith** and **S. Ozbeklik**, *Journal of Corporate Finance*, forthcoming, 2016
- ▶ “Institutional Investors and the Transformation of Underperforming Firms,” **Janet Kiholm Smith**, G. Erenburg and R. Smith, *Quarterly Journal of Finance*, 5 (2015): 1550019
- ▶ “Sample Selection and Treatment Effect Estimation of Lender of Last Resort Policies,” **Angela Vossmeier**, *Journal of Business and Economic Statistics*, 34, 197-212
- ▶ “Fixed Exchange Rates and Financial Markets as Sources of Macroeconomic Disciplines,” **Thomas Willett**, Eric Chiu and Stefanie Walter, in Thomas Oatley, Ed., **Handbook of International Monetary Relations**, Edward Elgar, 2015, pp. 285-303
- ▶ “Chinese Stocks during 2000-2013: Bubbles and Busts or Fundamentals?” **Thomas Willett** and Priscilla Liang, *The Chinese Economy*, No. 3, 2015, pp. 199-214
- ▶ “Capital Flow Surges as Bubbles: Behavioral Finance and McKinnon’s Over-borrowing Syndrome Extended,” **Thomas Willett**, Levan Efremidze, and John Rutledge, *Singapore Economic Review*, forthcoming
- ▶ “How Common Are Capital Flow Surges? How They are Measured Matters A Lot,” **Thomas Willett** and M. Crystalin, et. al., *Open Economies Review*, 2015, Vol. 26, pp 663-682
- ▶ “Preliminary Evidence for the Neurophysiologic Effects of Online Coupons: Changes in Oxytocin, Stress, and Mood,” **Paul Zak**, V. Alexander, and S. Tripp, *Psychology & Marketing*, 32(9): 977-986 [Digital Version] 2015



## Spring 2016 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 have eleven FES seniors who will be graduating during the 2015-2016 academic year. Three of these seniors gave their FES oral defense presentations at the end of the fall semester and eight at the end of the spring 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, and make an oral presentation.

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

**NAJEER AHMED, *Addressing the Post-Keynesian Critique: Exchange Rate Determination with an Extended Mundell-Fleming Model***

"The assertion that financial flows are the primary drivers of exchange rates may be considered as financial markets become increasingly large and sophisticated. However, the Post-Keynesian critique leaves little room for the real economy to impact exchange rates. This paper aims to extend the Mundell-Fleming model to address the Post-Keynesian critique of mainstream models, by incorporating wealth effects, expectations, and Taylor-rule interest targeting. Discussion of significant financial events affecting the USDJPY exchange rate finds that wealth effects are significant considerations, and that the real economy cannot be discounted completely. Empirical results find that the real interest rate is a significant factor in exchange rate determination, tying into the discussion over the relationship between savings and consumption."

**JUSTIN BECK, *NAFTA's Impact on Mexico, the U.S., and Canada's Economies: A Look at Stock Returns***

"The North American Free Trade Agreement continues to be a controversial topic, and with the impending implementation of the Trans-Pacific Partnership trade agreement, NAFTA has been a heavily discussed issue during the 2016 presidential campaign. Past research has critically assessed the extent to which

NAFTA delivered on promises made by its lobbyists to improve economic welfare and stimulate growth in the North American markets, via trade and investment. These studies explain that NAFTA has helped to boost intra-regional trade and investment flows in North America, but has fallen short on any substantial improvements in welfare and deeper regional economic integration. However, researchers have found evidence for convergence among North American equity markets, and argue that this is generated by NAFTA. Using time series data from 1990 to 2007, this study builds on these conclusions to examine how NAFTA impacted equity markets in the North American region. I look at returns to each major stock index for Mexico, the U.S. and Canada, and find evidence that returns on these indexes improve in the post-NAFTA period for Mexico and the U.S., but not for Canada. Additionally, there is evidence to suggest that exports and FDI are the primary drivers for this improvement in stock returns."

**EDUARDO RAMIREZ, *Does Size and Industry Affect CEO Performance? The Effect of CEO Succession Announcements on Firm Value***

"This study expands on previous research regarding the effect of CEO performance on firm value. An event study is conducted using a market model of CEO successions and daily returns in order to generate predicted returns. Two separate regressions are run using a 3 day and 5 day

See FES Theses on page 10

### Faculty Research from page 8

- ▶ "The heart of the story: Peripheral physiology during narrative exposure predicts charitable giving," **Paul Zak**, J. A. Barraza, V. Alexander, L. E. Beavin, and E. T. Terris, *Biological Psychology*, 105: 138-143 [Digital Version] 2015
- ▶ "Oxytocin reduces food sharing in capuchin monkeys by modulating social distance," **Paul Zak**, S. F. Brosnan, C. F. Talbot, J. L. Essler, K. Leverett, T. Flemming, P. Dougall, and C. Heyler, *Behaviour*, 152(7-8): 941-961 [Digital Version] 2015
- ▶ "The Neuroscience of Brand Trust," **Paul Zak** and L. A. Crosby, *Marketing Management*, May: 22-23 [Digital Version] 2015
- ▶ Oxytocin Responses After Dog and Cat Interactions Depend on Pet Ownership and Affects Interpersonal Trust," **Paul Zak**, B. Curry, B. Donaldson, M. Vercoe, and M. Filippo, *Human-Animal Interaction Bulletin*, in press
- ▶ "The Neural Inhibition of Learning Increases Asset Market Bubbles: Experimental Evidence," **Paul Zak**, L. Efreimidze, G. Sarraf, and K. Miotto, *Journal of Behavioral Finance*, in press
- ▶ "Persuasive narratives and costly actions," **Paul Zak**, G. Zahedzadeh, and J. A. Barraza, *Terrorism and Political Violence*, in press
- ▶ "Building Trust is a Blood Sport," **Paul Zak**, *Ivey Business Journal*, November/December, 2015

FES Theses from page 9

event window respectively. The results of the regressions are using to compare abnormal returns between industries and market capitalization. While some daily abnormal returns are statistically significant, cross-sectional analysis of CAR are for the most part not significant. Further study is needed in order to come to a stronger conclusion.”

**SHARAN SETH, *The Effects of Managerial Turnover on Share Prices of Publicly Traded English Football Teams***

“This paper explores the effects of managerial changes on the share prices of publicly traded football teams in England. Using data from 9 publicly traded teams during 1992-2016, 21 managerial changes were analyzed through an event study analysis. Events were categorized as sackings or resignations, and the hypotheses for each were laid out differently. The results indicated that two of the managerial sackings generated negative abnormal returns prior to the sacking and positive abnormal returns after the change of manager. The study also identifies the difficulties in the study of football teams’ share prices due to their illiquidity and identifies improvements that can make further research in this topic more accurate.”

**ANDREW SOVA, *The Effect of Negative Special Items on Future Income in Different Sectors***

“With increasing scrutiny over standards of financial statement transparency, this paper attempts to resolve misconceptions about effects of negative special items on future earnings. Value investor Benjamin Graham advises students to avoid firms that consistently post special items, because it is indicative of the volatility of the business. Using panel data from 2003 to 2014 and a regression structure used by Burghstaler et al. (2002), I find in contrast to Graham’s warning, that negative special items significantly increase earnings in the four quarters following its occurrence. Furthermore, I analyze results by sector and find that negative special items in the Information Technology sector have the most dramatic positive effects on future earnings. This study gives investors more insight as to what negative special items mean for future earnings of a company.”

**ZHENGYANG XU, *Contagion and Competitive Intra-Industry Effects of Default Announcements – Evidence from Chinese Bond Market***

“In this paper I analyzed the intra-industry competitive and contagion effect during bond defaults in China. The analysis is performed using bond price, since the Chinese stock market is immature and has incredible amount of volatility. The sample includes 15 cases of default across 10 different industries since 2014, and the cumulative effect of the industry portfolios is positive over 11-day event window (competitive effect) with a t-statistic of 6.22. In addition, I found that SOE defaults overall have a significant positive abnormal return on their industry portfolios during 11-day event window with a t-statistic of 4.72, indicating a competitive effect. In contrast, Non-SOE defaults overall have a significant negative abnormal return on their industry portfolios over 3-day window with a t-statistic of -3.36, showing a contagion effect. But this difference could be due to the characteristics of industries as opposed to the nature of SOEs. By analyzing the condition and characteristics of each industry, I found that the significance of abnormal return depends on the level of competition of the industry and the level of information available. In terms of contagion and competitive effect, industries showing a contagion effect offer products that are difficult to differentiate, such as cement and water bottle. Industries showing a competitive effect offer products that are highly specialized and rely heavily on technology innovation, such as the special equipment industry and electric equipment industry.”

**XINYING YOW, *Measuring the Effectiveness of China’s Capital Flow Management and Progress on Capital Account Liberalization***

“China’s goal of eventually having the renminbi (RMB) be ‘fully convertible’ necessarily requires that its capital account be fully liberated; this paper investigates the ongoing changes of the implemented capital controls by China and China’s progress on liberalizing the country’s capital account. The first portion of the paper studies deviations of the covered interest parity, a common measure of capital controls. Econometrical analysis provides evidence for significant and persistent RMB/USD interest rate differentials, calculated from monthly data of

1-month yields for the sample period of 1999 to 2014. At the same time, evidence for cointegration between the onshore and offshore yield suggests that capital flows are not fully restrictive in the long run. The second portion of the paper analyzes constructed de jure capital control indices based on IMF’s AREAER documents following Chen and Qian (2015), and actual capital account flows based on China’s Balance of Payments. The constructed de jure indices quantify the intensity of changes of capital controls, capturing the gradualist style that China adopts in implementing its policies. The index reveals that China has been increasing its pace of capital account liberalization in the recent years compared to the past, and in particular, prioritizes liberalizing controls on outward FDI flows and equity securities inflows. The constructed de jure indices and the respective flows for FDI and equity securities are found to be highly correlated, implying that flows have been responsive to changes in the controls. It also indicates that prior to the restriction lift offs, the capital controls had been relatively effective.”

**SHIYU ZHANG, *Relationship between Real Estate Market and Stock Market in China***

“This paper studies the price fluctuation from 2010 to 2016 of two major assets in China: real estate and stock. Equity price is found to Granger cause stock price while the reverse relationship is significant but less strong. The paper then studies whether the nature of the correlation depends on the type of city under consideration. This is achieved by grouping 25 cities into four city tiers based on their level of economic developments and conducting a linear causality test on each city tier. Housing price in first tier cities is found to be much more significantly correlated with stock price. Larger and more developed cities tend to have a stronger correlation with stock than smaller and less developed ones. In addition, the paper also studies the impact of the Chinese government’s recent home purchase restriction on the relationship between the two asset classes. However, the results are contradictory and are not consistent with expectation. The lack of significant results could be contributed to the inherent limitation of our data, as well as the complicated and sometimes confusing policy announcement mechanisms in China.” ▲

## Where Will FEI Students Be Working?

Congratulations to the following seniors and juniors completing the Financial Economics Sequence who have notified the FEI that they have secured employment or will be attending graduate school.

### Graduating Financial Economics Sequence Seniors:

**AHMED ELTAMAMI**, Economics-Accounting, Financial Forensics and Litigation Consulting Associate, **RSM**, Los Angeles, CA

**JAMES INGRAM**, Economics, Analyst in the Contract Finance Department, **PennyMac**, Westlake Village, CA

**EDUARDO RAMIREZ**, Economics, Client Service Associate, **Mariner Wealth Advisers**, San Diego, CA

**SHARAN SETH**, Economics, Program Analyst in the Business Advisory Program in the Financial Services Office (FSO) at **Ernst & Young**, New York, NY

**EMILY ZHANG**, Economics, Associate at **Berkeley Research Group**, Emeryville, CA

**SHIYU ZHANG**, Mathematics/Economics, will be attending **Caltech**, Pasadena, CA, for a Ph.D. in Economics

### Financial Economics Sequence Juniors – Summer Positions:

**NATHAN "GATOR" ADAMS**, Economics-Accounting, Summer Analyst, **JP Morgan Asset Management**, Houston, TX

**ERIC BAKAR**, Economics, Investment Associate, **Fisher Investments**, San Mateo, CA

**JACQUES BIALOSTOZKY**, Economics-Accounting, **Clifford Swan Investment Counselors**, Pasadena, CA

**DANIEL FALLON-CYR**, Economics/Mathematics, Product Management Intern, **Intuit**, Mountain View, CA

**JAKE GLASSER**, Economics-Accounting, Securities Analyst, **Goldman Sachs**, New York, NY

**MATTHIEU HAFEMEISTER**, Economics/Mathematics, Investment Banking Summer Analyst, **Wells Fargo**, San Francisco, CA

**NAYANTARA MULLICK**, Economics, Sales and Trading Summer Analyst, **JP Morgan**, New York, NY

**CONNOR STASTNY**, Economics-Accounting, Investment Banking Analyst, **Harris Williams & Co.**, San Francisco, CA

**YUNYI "JOANNA" WANG**, Economics/Mathematics, Credit Fund Summer Analyst, **Fortress Investment Group**, Century City, CA

**HENRY WEI**, Economics, Summer Analyst, **Wells Fargo Securities**, Century City, CA

**CHENG "HARRIS" XUAN**, Economics, Business Analyst Intern, **Orbital Insight**, Palo Alto, CA

**YI "NORA" ZHANG**, Economics/Mathematics, Summer Analyst, **Quantum Capital**, San Francisco, CA

### NYC Networking Trip from page 4

group an overview of where the advertising technology market is heading in the next couple of years. Thomas, who had previously worked in the financial world prior to joining Google, spoke about his responsibilities at Google and the different career opportunities investment banking had provided him after his analyst years.

The 2016 New York City Networking Trip was a phenomenal success. Many of the students spent their final day in the city scheduling coffee chats with individuals that they had spoken to during the trip. Given the large number of sophomores on the trip, interview opportunities were scarce, but the connections and relationships built with the many companies visited will serve as an invaluable resource to those interested in working in New York City or the

financial services more generally.

A great deal of thanks must be extended to the Robert Day School of Economics and Finance, the Financial Economics Institute, the CMC Alumni and Parent Relations Office, the CMC Alumni Association, the RDS Advisory Board, and the many alumni hosts at the various firms for their generous contributions that made this trip possible. ▲



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