

# The Exchange

NEWS FROM THE FINANCIAL ECONOMICS INSTITUTE AT CLAREMONT MCKENNA COLLEGE

VOLUME 23, SPRING 2017

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## Director's Report and Tribute to Terri Van Eaton

by Joshua Rosett



Joshua Rosett

THE 2016-17 academic year marked some significant changes for the FEI and was punctuated with successful special events. Regarding ongoing activities, as always we had a full slate of student Research Analysts working on projects with faculty, provided access to databases, and this year eleven seniors completed the Financial Economics Sequence. Since the Fall newsletter, we co-sponsored, with the Robert Day Scholars program, a very successful New York City Networking Trip in January (see Networking Trip article nearby) and with both the RDS and Pomona College's Sagehen Capital Management, we co-sponsored the Student Investment Fund's Claremont Finance Conference (see Student Investment Fund article nearby). We continue to provide student tutors in the FEI Lab for Bloomberg, Capital IQ, Excel, Python, and Stata. We also sponsored a second year of workshops on financial literacy and valuation put on by the Student Investment Fund (SIF).

Regarding change, first the FEI has now completed its first full year with the new Board of Advisors (see listing nearby), which has already proved to be a highly productive development. We have established several committees of the Board to help with strategic guidance and related issues and look forward to working with them over the next several years. The full Board and the committees are working on a broad array of

issues and have already provided many useful suggestions regarding programming, outreach, advancement, and data acquisition. We are grateful for all the support the Board provides. We especially thank the Board Chair, Jim McElwee '74 P'12, and the two Vice Chairs, Alan Heuberger '96 and John Shrewsberry '87, for their leadership and help in shaping the new Board structures.

Second, we completed the second year with our new FEI Associates, with David Brown '00 as Chair. The Associates have provided excellent oversight for the Student Investment Fund (see 2016-2017 SIF CEO Kaitlyn Kelleher's nearby article). The contributions and enthusiasm of the members of this group have been wonderful for the FEI and the SIF. The SIF executive

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FINANCIAL ECONOMICS  
INSTITUTE

CLAREMONT MCKENNA COLLEGE

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

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team made two excellent presentations to the Associates at the board meetings during the year, and the feedback from the Associates is proving highly valuable to the SIF members. Our closer connection with the SIF has yielded several opportunities for them, the FEI, and the broader CMC community, including both of the financial literacy workshops, the annual Claremont Finance Conference, featuring Maureen Downey '93 as the Keynote dinner speaker at the Ath. She gave an excellent talk on impact investing. The FEI and SIF also hosted a presentation open to all CMC students by Brian Callaci P'20, Managing Director at Moelis & Co., Los Angeles. Another connection between the FEI and the SIF was FEI's sponsorship of the third annual BMGI Pitch Competition that took place on campus at the end of January. This event brought together the student investment funds from CMC and the other Claremont Colleges. A team from each participating fund pitched a company to a panel composed of CMC graduates, including Michael Larson '80, CIO of BMGI, followed by a networking reception. There were over a hundred people in attendance this year, our best attended pitch event to date.

Third, we completed our shift to providing Capital IQ as one of our major data offerings, with a subscription now large enough to provide individual access to many finance-related faculty members across the

Claremont Colleges, all SIF members, all FEI RAs, several classes during the academic year, and access for all CMC students via computers in the FEI Lab, as well as Poppa, Ryal, and South Labs. We believe this has been a major improvement in our data offerings. We continue to evaluate data provision to optimize this over time.

In April, the FEI was pleased to co-sponsor, with the Marian Miner Cook Athenaeum, a moderated lunch program at the Ath featuring Neel Kashkari, President and CEO of the Federal Reserve Bank of Minneapolis. Mr. Kashkari generously offered his time after the luncheon to meet exclusively with 14 students in a small conference room on campus. These students were given the opportunity to ask questions and converse with Mr. Kashkari during this hour-long meeting.

I'd like to highlight some FEI affiliated students who won academic awards at the end of this academic year: Andrew Yeh '17 won the award for Best Thesis in Financial Economics; Jizi Lu '17 won Best Overall Senior in Economics; and Amy Ingram '17 won Best Thesis in Innovation & Entrepreneurship. Three of the five RDS Outstanding Sophomores in Economics worked as RAs at the FEI: Laira Aggarwal '19, Yutao (James) Jiang '19, and Andrew Lindquist '19. Congratulations!

Finally, I want to take a moment to acknowledge Terri Van Eaton. Many of you know her from your time associated with the FEI as a student, a Board member, a parent,

or through many other connections. Terri will be retiring at the end of the summer after working at CMC since 1979, concluding over 38 years of service, with the last 10 years at the FEI as Assistant to the Directors. Service is not an adequate word. She is so well respected by the entire community, so loved by generations of students (flowers arrive each birthday from students from years gone by, former students returning to campus visit her before any professors, etc.), so immensely capable of handling the tremendous volume of highly varied work generated by the FEI, and just such a wonderful friend and colleague, that I cannot say how sorry I am to see her go, but also how delighted for her next steps. Terri, I will miss you.

Terri is highly modest, but she has agreed to let us establish an endowment in her name, the Terri Van Eaton Research Analyst Fellowship, to support several students working in the FEI Lab each year. Terri's request, when I approached her about such a fund, was that it should be directly related to students, and this seems a very fitting tribute to her many significant and valuable contributions to our students over the years. If you wish to contribute to this fund, please contact Kaitlyn Plummer in the Development Office at (909) 607-4255 or email her at [Kplummer@cmc.edu](mailto:Kplummer@cmc.edu). Or you may go online to make your gift or pledge at <https://online.cmc.edu/institutes/fei-gift-page>. ▲

## Congratulations to the FEI Summer 2017 Research Analysts:

**LAIRA AGGARWAL '19**, Economics/Mathematics dual major

**XINYI (CINDY) HU '19**, Economics & Engineering major

**KRYSTAL SUNG '19**, Economics major

**SHUIE (JOHN) XIA '19**, Economics-Accounting/Mathematics dual major

**YUJIA YAO '19**, Economics-Accounting major with the Financial Economics Sequence

**HAOCHENG (ANDY) YE '19**, Economics/Mathematics dual major

## Congratulations to the 2017-2018 BMGI/Michael Larson Asset Management Fellows:

**SAMARTH CHAWLA '19**, Economics & Engineering major with the Financial Economics Sequence

**JOHN EVERETT '18**, Economics/Government dual major with the Financial Economics Sequence

**ROMA FOREST '19**, Undeclared major

**JENNIFER MACE '19**, Undeclared major

**JOSEPH SCHEUER '19**, Economics major with the Financial Economics Sequence

**JONATHAN SHAW '18**, Computer Science/Economics dual major

## CMC's Student Investment Fund

*By Kaitlyn Kelleher '17, SIF Chief Executive Officer (2016-2017)*

IN 2016, THE CLAREMONT MCKENNA College Student Investment Fund (SIF) experienced another defining year. Over the preceding months, the SIF established a new portfolio management strategy, materially improved its investment process, and launched an analyst training and career development program. The Fund achieved other important milestones in developing its partnership with its oversight committee, the FEI Associates Board, and expanding its outreach efforts in the CMC and 5C communities.

In August 2016, the SIF sold out of its holding in the S&P 500 and purchased individual sub-sector SPDR Exchange-Traded Funds (ETFs). Effectively managing this restructured portfolio required the SIF to reorganize its industry groups to align with the sector ETFs. This new portfolio management strategy increased the Fund's focus on sector allocation and held the Fund's five industry groups accountable to a more accurate benchmark. The positive results of these efforts were evident in SIF's profitable decision to underweight its utilities ETF ahead of the projected January 2017 rate hike and the Healthcare group's ~20% outperformance of its benchmark for the 12-31-15 to 12-31-16 period.

The Fund now manages \$1.73 million of the College's endowment, a significant step up from the \$500 investment portfolio at its founding. Profitable investments in companies across the energy, healthcare, technology and consumer sectors increased the Fund's capital base five percent this year. This capital growth was also driven by SIF's developing partnership with the FEI Associates Board. After its creation last year, the Associates Board now provides SIF members consistent feedback on proposed investment ideas and serves as a valuable resource for interview preparation and career direction.

After rebalancing the portfolio, the SIF recognized the need to refine its investment process. This year, students presented their investment ideas to the Fund one week before their formal pitch. Lengthening the pitch process allowed members to more closely analyze securities and gave students

the opportunity to obtain feedback from both the advisory board and other SIF members ahead of their full presentation. While the value of a more thorough investment process cannot be understated, the SIF also recognized the importance of efficiently deploying capital in time sensitive ideas. As such, the SIF gave its managing directors the option to place 2% investments through a one-page written explanation rather than a fund-wide presentation and vote. This 2% option gave managing directors more autonomy over their capital and allowed positions to be executed within 24 hours. These improvements sharpened our security selection efforts and resulted in the movement of \$300,000 out of ETFs as of late March 2017. Going forward, the SIF plans to efficiently move additional capital out of passive funds and into higher return investments.

To better manage its growing portfolio, the SIF also introduced a formal education program. Throughout the year, new members received comprehensive training on investment pitch composition, basic accounting, financial statement analysis, and relative and discounted cash flow valuation methods. Enhancing these weekly, interactive educational sessions, the Fund, with the generous support of the FEI, provided new analysts with licenses to Wall Street Prep, a self-study program on topics ranging from accounting to financial statement modeling. Equipped with valuable technical skills, new members meaningfully contributed to the Fund by monitoring existing holdings and presenting new investment ideas.

Complementing these educational efforts, the SIF developed programming to support members with internship and job recruitment. SIF seniors hosted Q&A panels on their experiences in financial services, consulting and technology, providing junior members with first-hand perspectives on summer internships in these fields. The Fund also held mock interviews for students recruiting in the areas of investment banking, sales and trading, and private wealth management. Directly

exposing members to industry professionals, the SIF organized networking trips to various firms including PIMCO and Western Asset Management and invited speakers from Moelis & Co. and Trust Company of the West, amongst several others. These recruitment efforts helped SIF underclassman earn impressive summer 2017 internships at top firms including Hawk Ridge Management, Equinix, JP Morgan, and Goldman Sachs.

In addition to its internal focus on education and career development, the Fund allocated significant resources to programs for the CMC community. In March, the Fund hosted the annual Claremont Finance Conference with the generous support of the FEI, the Robert Day Scholars Program and Pomona College's Sagehen Capital Management. The event began with a moderated panel discussing current trends in private equity funding, valuations and deal volume. Participants then attended a panel where David Brown ('00 and Chair of the FEI Associates), founder of Hawk Ridge Capital Management LP; Peter Madsen (P'18, P'20), former partner at Bear Stearns; and Allan Rogers, former head of the U.S. Treasury Trading and Bankers Trust Corp., joined forces with two RDS professors, Richard Burdekin and Cameron Shelton, to discuss macroeconomic events ranging from Trump's presidency to Brexit proceedings. The conference concluded with a keynote address from Maureen Downey ('93) where she discussed the rise of impact investing in the U.S. and internationally.

Continuing the tradition started last year, the Fund also co-hosted with the FEI, two financial literacy seminars for the Claremont Colleges community. In the Fall, the first seminar focused on personal finance and investing, covering topics ranging from building a good credit score to retirement accounts. During the Spring semester, the second seminar was on financial accounting and valuation. These seminars were a tremendous success with over 80 students across the Claremont



## 2017 New York City Networking Trip

By Jennifer Mace '19 and Lydia Fu '18

THIS JANUARY, THE FINANCIAL Economics Institute and the Robert Day Scholars Program sponsored the 14th annual New York City Networking Trip. In the final week of the winter break, nine juniors and nine sophomores traveled to New York City to visit firms, Monday through Thursday, January 9th through the 12th, in different sectors of the financial industry and connect with industry professionals and CMC alumni in NYC. Michelle Chamberlain, Associate Vice President and Dean for Student Opportunities; Colleen Murphy, Associate Director of Career Services at the Student Opportunity Center; Professor Joshua Rosett, Director of the Financial Economics Institute; and Professor Eric Hughson, Chair of the Robert Day School of Economics and Finance, accompanied students on this trip.

The first visit of the trip was to Atalaya Capital Management. The group was hosted by Ivan Zinn '96, Atalaya's founding partner and Chief Investment Officer. He gave the students a thorough introduction to the hedge fund and private equity industries. Associate, Mia Genereux, also shared with

the students her experience at Travelers and Target before working for Atalaya. At the end of the visit, Mr. Zinn organized a pop quiz on the financial markets. Some students went home with water bottles and travel bags.

The second stop of the first day was at Lazard, a boutique investment bank that specializes in financial advisory and asset management. The students enjoyed a lunch presentation by Andrew Olsen (an Associate in the real estate group), and Analyst Sam Kaplan (Pomona '15), in the restructuring group. They shared their experiences in industry groups and gave advice to students in an engaging Q&A session.

Next, the group visited J.P. Morgan. The students met with Andrew Nam '15, Merriel Foster '14, Jeffrey Izon and Melanie White. They gave examples of their day-to-day work as Analysts and answered questions on their decision to work at a big bulge bracket firm like J.P. Morgan in a casual Q&A session.

The day concluded with a visit to Fred Alger, a mutual fund focused on

growth investing. The students were joined by Kevin Collins (Senior Vice President), and Gabrielle Linden (Executive Assistant). Collins gave a detailed presentation on Alger's investment philosophy on growth and the role of an Analyst at Fred Alger. Students asked questions along the way and gained more understanding of what growth investment means in practice.

Monday night was the first round of student dine arounds with CMC alumni. Students, in groups of two, had dinner with distinguished CMC alumni in the financial industry to learn about their lives after college.

The first visit of the second day was to Morgan Stanley. Ben Kraus '11, Phil Crawford '15, and Matt Ginsberg joined the group to talk about their work in the sales and trading division. Students had a lively discussion with the traders ranging from the transformation technology brought to the trading floor to their Brexit and election night experiences. Crawford spoke about his experience interacting with clients and traders as a sales person.

Next, students visited UBS Asset Management. At UBS, students met with Edward Conrad '06 (Director of Private Funds Group), Susan M. King '85 (Head of Sales and Marketing) and Henry Goodman (CMC parent and Senior Vice President). They walked students through a detailed presentation on the divisions within asset management and wealth management and talked about their own careers before and at UBS.

The group then traveled uptown to Deutsche Bank, where the students met with Alan Delsman '68 (Senior Credit Executive), Catherine Madigan (MD), Calli Hayes (MD), Barbara Ricci (MD, Global Markets Debt), Walter Chamorro (Director, Head of Credit, Latin America), Debbie Jones (Director GM Research), Zain Jamal '10 (Assistant VP, RE, Global Banking), Steven



CMC students visit IBM Watson

See NYC Networking Trip on page 5

**NYC Networking Trip** from page 4

Limandibhratha MA'14 (Analyst, RE, Global Banking), Sumaer Sandhu '16 (Analyst-Risk), Taylor Pulling (Associate, Leveraged Finance Risk) and Nicolle Bugajski (Associate, HR). Students learned about different roles in risk management and the global market in an engaging lunch and Q&A.

The last visit of the day was to Moelis & Co. Brian Callaci, P'20 (Managing Director at the Los Angeles Office), Adam Augusiak (Associate), Larry Liao (Analyst) and Nick Deale (Analyst), hosted the group. Students listened to a presentation about Moelis and the spectacular growth it has undergone in recent years. Adam shared with students his transition from law to investment banking. Larry and Nick also talked about their day-to-day work and their reasons for joining Moelis.

The day ended with an alumni reception at The Jimmy at the James Hotel, hosted by Doug Peterson '80, President and CEO of S&P Global. Students enjoyed a night of magnificent views and lively conversations with CMC alumni in New York.

The third day started with a visit to IBM Watson Group. IBM Watson is located in "Silicon Alley," a neighborhood of NYC that is ranked second in the nation for technology innovations/companies. At IBM Watson, students met with Yashih Wu (Chief of Staff, GM of Cognitive Solutions), Steve Cowley (GM Cloud), and Elly Keinan P'15 P'17 P'20, (GM Transformation). Through an interactive simulation with IBM Watson's technology, they demonstrated the effectiveness and power of natural language processing and the importance of machines and humans working together.

Next, a group of Millstein employees, including Matt Scheidemann (VP), Noah Kaswell (Associate), Sean Sakaguchi '16 (Analyst), Sam Brewer, Josh Mendelsohn, and several others, delivered a presentation explaining restructuring and a deal they recently completed. Students learned about the benefits of working at a smaller, specialized boutique investment bank like Millstein.

The group then walked to Stifel/Miller Buckfire, where they met with John McKenna '89 (Managing Director) and Evan Santoro (Analyst). McKenna and Santoro explained the core skills needed to be a successful investment banker and where they

believe investment banking and the human condition is headed.

Wednesday's last visit was to BBVA, a Spanish bank with an office in NYC that boasts an amazing view of Central Park. Students learned about fixed income S&T from Simeon Wallace (Executive Director), market research from Patrick Holert '85 (VP), and global market events from Mark Johnson (Executive Director).

Wednesday concluded with another evening of dine arounds. Pairs of small groups of students went to dinner with alumni at restaurants all throughout New York City. The dine arounds allowed students to connect and chat with alumni in more intimate settings. Students loved this unique opportunity to ask career questions, receive advice, and establish strong relationships with CMC alums.

Thursday began with a breakfast and a tour at Perella Weinberg Partners. Rebecca Offensend '08 (Associate), Robert Bond '05 (Associate), and Simon Clarke (Director), showed students around the office and explained Perella Weinberg's unique position as a relatively small advisory and asset management firm that can compete with leading investment banks at an advisory level. Analysts Emily Chen, Michael LeGrand, and Parker Shields, answered questions about their strong summer internship and analyst programs.

Students then travelled down to the financial district for a Q&A at Jane Street with Andres Varon (a software developer) and Andy Niedermaier (a trader). Students jumped at the chance to ask questions about the firm's quantitative trading specialization, flat organization, and focus on technology. The visit concluded with a tour of Jane Street's modern office led by Nikki Price and Lauren Sposta.

The students then walked across the street for their last visit of the trip at Goldman Sachs. Students first met with Ben Colman '03 (VP Technology), Brian Delaney '16 (Investment Banking Analyst), Andrew Cosentino '11 (Investment Banking Associate), David Alvililar '01 (Securities MD) and Max Mullen '12 (Investment Banking Associate), and they discussed the firm's distinct technological products, the investment banking summer and full-time analyst program, and securities trading. Next, Christine Mann '87 (Private Wealth Management VP), Andrew Kaiser P '13

(COO), and Peter Rominger MA'14 (Investment Management Analyst), offered insight into Goldman's Investment Management Division and its culture of offering more opportunity early in a career at the firm.

The 14th annual NYC Networking Trip was a great success. Many students spent the morning of Friday, January 13th, interviewing with some of the 15 firms visited during the trip, or having coffee chats with alumni. The students gained unique exposure to a variety of financial and a few technology firms. The students learned about different roles in the financial industry, received advice from individuals extremely successful in the field, and they built lasting relationships that will be highly beneficial to those interested in working in finance or in New York City, in general.

A great deal of thanks must be extended to the Robert Day Scholars Program, the Financial Economics Institute, the CMC Alumni and Parent Relations Office, the CMC Alumni Association, the RDS Advisory Board, the FEI Advisory Board, and the many alumni hosts at the various firms for their generous contributions that made this trip possible. An additional "thank you" must be given to Colleen Murphy (who did the majority of the work coordinating the trip – in addition to attending the trip), and to Professor Joshua Rosett, Professor Eric Hughson, and Michelle Chamberlain for attending, and guiding the students on the trip. ▲

**Investment Fund** from page 3

Colleges attending both events.

Thanks to the support from CMC, the FEI and the Robert Day Scholars Program, the SIF has had a very successful year. This success extends beyond CMC, with the graduating class of SIF seniors joining firms such as Cornerstone Research Group, Intuit, Goldman Sachs, JP Morgan, Deutsche Bank and Pantheon Ventures. Helping students achieve their post-graduation outcomes is a core mission of the SIF. The Fund's continued improvements to its structure and learning experience will ensure that future generations of SIF enjoy similar successes. ▲

## Financial Economics Institute – Spring 2017 Student Research Analysts

During the Spring 2017 semester, twenty-two 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:

**LAIRA AGGARWAL '19** worked with Professor Angela Vossmeier on a project involving systemic risk and network structure to trace the evolution (destruction and rebuilding) of the banking correspondent network system during the Great Depression and make comparisons to the recent structure.

**BHAVIKA BOORAGADDA '18** worked with Professor Angela Vossmeier on a project involving systemic risk and network structure to trace the evolution (destruction and rebuilding) of the banking correspondent network system during the Great Depression and make comparisons to the recent structure. She also worked with Professor Darren Filson on a Fin Tech review.

**AMBERISH CHITRE '18** was working 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 will be done by region and sector within California. Rish was also the Bloomberg tutor in the FEI Lab.

**JAE SUNG (JASEN) CHOI '18** worked with Professor Fan Yu compiling an historical dataset of Chinese central bank, corporate, and local government bond transaction pricing, bond characteristics, corporate financial conditions, and local government fiscal indicators, which can be used for future research on the Chinese bond market.

**JOHN EVERETT '19** worked with Professor Eric Hughson on a project examining momentum crashes and monetary policy.

**ZIJIN (LYDIA) FU '18** worked with Professor Joshua Rosett and Professor George Batta on a paper that examines the impact of off-balance-sheet obligations on U.S. corporate bond spread using a modified Merton Structure Model that incorporates off-balance-sheet obligations in companies' face value of debt.

**QIANYUN (CAROLE) GAO '17** worked with Professor Sven Arndt to continue a project on cross-border financial intermediation, credit conditions and asset-price volatility. She also assisted in a related project testing the hypothesis that certain types of cross-border networking reduce the sensitivity of a nation's trade balance to variations in exchange rates. The specific case involves U.S.-Mexico production sharing in certain industries. Carole also worked with Professor Darren Filson on a project assessing the optimal structure and characteristics of target-date funds.

**MATTHIEU HAFEMEISTER '17** worked on a project with Professor Joshua Rosett involving reporting and analyzing trends on Mergers and Acquisitions in Southern California. He was also the Capital IQ tutor at the FEI.

**AMY INGRAM '17** worked with Professor Angela Vossmeier on a project involving systemic risk and network structure to trace the evolution (destruction and rebuilding) of the banking correspondent network system during the Great Depression and make comparisons to the recent structure.

**YUTAO (JAMES) JIANG '19** worked on a project with Professor Eric Helland that examined the additional safety effects of a mass litigation on pharmaceuticals. In particular, the study, which examines over 30 years of litigation and adverse events data, can provide evidence on the marginal value of litigation beyond the FDA's safety regime.

**KANISHK KAPUR '18** worked on two projects for Professor George Batta. The first one is a Structural Estimation of Accounting Conservatism. As a basis of comparison, he estimated accounting conservatism using (mainly) regression-based techniques. Kanishk also conducted a lit review to decide which covenants to include in the model. In the second one, he gathered data on corporate defaults in Bloomberg, for a project Professor Batta and Professor Fan Yu are working on that explores the effect of credit default swap trading initiation on firm investment and debt issuance. He also conducted a lit review to help Professor Janet Smith decide which articles to include in the revised edition of her book, Entrepreneurial Finance and Venture Capital.

**ANDREW LINDQUIST '19** worked on a project with Professor Eric Helland that examined the additional safety effects of a mass litigation on pharmaceuticals. In particular, the study, which examines over 30 years of litigation and adverse events data, can provide evidence on the marginal value of litigation beyond the FDA's safety regime. In addition, Andrew scraped data for a paper Professor Helland presented at George Mason entitled, "OSHA, State Ergonomics Regulations, and Federal Relations."

**MINGDA LIU '17** worked with Professor Joshua Rosett to oversee the content and the maintenance of the FEI website.

**NAYANTARA (NAINA) MULLICK '17** was the Excel tutor at the FEI Lab.

**HUNTER OLSEN '18** worked with Professor Angela Vossmeier on a project involving systemic risk and network structure to trace the evolution (destruction and rebuilding) of the banking correspondent network system during the Great Depression and make comparisons to the recent structure.

**YILIU (ELAINE) SONG '18** worked with Professor Richard Burdekin on a project assessing whether Australia-China trade ties have been accompanied by stock interdependence by analyzing the composite and sector stock market indices of Australia and China during pre-global financial crisis and post-financial periods.

**HAMSA SRIKANTH '19** worked on a project with Professor Eric Helland that examined the additional safety effects of a mass litigation on pharmaceuticals. In particular, the study, which examines over 30 years of litigation and adverse events data, can provide evidence on the marginal value of litigation beyond the FDA's safety regime.

**AARUSHI TIBREWALA '18** worked on a project with Professor Eric



**FEI Spring Analysts** from page 6

Helland that examined the additional safety effects of a mass litigation on pharmaceuticals. In particular, the study, which examines over 30 years of litigation and adverse events data, can provide evidence on the marginal value of litigation beyond the FDA's safety regime.

**GEORGE VOJTA '17** was the Stata tutor at the FEI Lab.

**YULANG (DANNY) WANG '18** worked with Professor Darren Filson to extend Novy-Marx's paper on Gross Profitability strategy. Danny was also the Python tutor at the FEI.

**PETER WELCH '18** worked on a project with Professor Eric Helland

that examined the additional safety effects of a mass litigation on pharmaceuticals. In particular, the study, which examines over 30 years of litigation and adverse events data, can provide evidence on the marginal value of litigation beyond the FDA's safety regime. In addition, Peter worked on a paper for Professor Helland entitled, "The Value of an Attorney: Evidence from Changes to the Collateral Source Rule."

**ALBERT XU '17** worked with Professor Laura Grant on a project titled, "Strategic responses to third-party ratings: Theory and evidence from charities," which considers how third-party ratings affect the decisions of rated charities, including overall giving. ▲





## FEI Affiliated Faculty Research

### Selected 2016-2017 publications by faculty members affiliated with the FEI:

- ▶ “Credit derivatives and analyst behavior” (formerly circulated as ‘Credit derivatives and earnings announcements’), **George Batta**, Jiaping Qiu and **Fan Yu**, 2016, *The Accounting Review*, 91(5), p. 1315-1343
- ▶ “Rating agency and equity analysts’ adjustments to GAAP earnings,” **George Batta** and V. Muslu, *Contemporary Accounting Research*, forthcoming
- ▶ “A First Look at Brexit and Global Equity Markets,” **Richard C. K. Burdekin**, **Eric Hughson** and Jinlin Gu, *Applied Economics Letters*, Vol. 24 (2017), in press
- ▶ “An Empirical Examination of Factors Driving the Offshore Renminbi Market,” **Richard C. K. Burdekin** and Ran Tao, *China Economic Journal*, Vol. 10, No. 3 (2017), in press
- ▶ “The Renminbi’s Role Grows, But is the United States Being Left Behind?,” **Richard C. K. Burdekin**, *China-U.S. Focus*, (March 10, 2017—in both Chinese and English)
- ▶ “Pulling up the Tarnished Anchor: The End of Silver as a Global Unit of Account,” **Ricardo T. Fernholz**, Kris Mitchener and **Marc Weidenmier**, *Journal of International Money and Finance*, forthcoming
- ▶ “Nonparametric Methods and Local Time-Based Estimation for Dynamic Power Law Distributions,” **Ricardo T. Fernholz**, *Journal of Applied Econometrics*, forthcoming
- ▶ “Big Banks, Idiosyncratic Volatility, and Systemic Risk,” **Ricardo T. Fernholz** and Christoffer Koch, *American Economic Review: Papers & Proceedings*, forthcoming
- ▶ “The Distributional Effects of Progressive Capital Taxes,” **Ricardo T. Fernholz**, *Journal of Economic Policy Reform*, 2017, 20(2), p. 99-112
- ▶ “A Model of Economic Mobility and the Distribution of Wealth,” **Ricardo T. Fernholz**, *Journal of Macroeconomics*, December 2016, 50, p. 168-192
- ▶ “Do nonprofits encourage environmental compliance?,” **Laura Grant** and K. Grooms, *Journal of the Association of Environmental and Resource Economists*, forthcoming
- ▶ “Do Analysts Benefit from Labor Cost Disclosure? Evidence from Earnings Forecast Accuracy,” Sangwan Kim, KoEun Park, **Joshua G. Rosett** and Yong-Chui Shin, *Managerial Finance*, 2017, forthcoming
- ▶ “Are Public Equity Markets Still Relevant for Entrepreneurial Firms?,” **Joshua G. Rosett** and Richard Smith, *Entrepreneurial Finance: Managerial and Policy Implications*, Na Dai and Donald Siegel, editors, World Scientific Publisher, 2016
- ▶ “A Fallacy That Will Not Die,” **Gary Smith**, *Journal of Investing*, 2016, 25 (1), p. 7-15
- ▶ “Great Company, Great Investment Revisited,” **Gary Smith**, *Journal of Wealth Management*, 2016, 19 (1) p. 34-39
- ▶ “Stocks Should be Valued With a Term Structure of Required Returns,” **Gary Smith** and Albert Xu ’17, *Journal of Investing*, forthcoming
- ▶ “Overreaction of Dow Stocks,” **Gary Smith**, *Cogent Economics & Finance* – Taylor & Francis, 2016, 4(1), 1251831, <https://doi.org/10.1080/23322039.2016.1251831>
- ▶ “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
- ▶ **What the Luck? The Surprising Role of Chance in Our Everyday Lives**, **Gary Smith**, 2016, New York: Overlook, London: Duckworth, China: Shanghai Soothe Cultural Media Co., ISBN 978-1-4683-1375-8
- ▶ **The Money Machine: The Surprisingly Simple Power of Value Investing**, **Gary Smith**, 2017, New York: Amacom Books (American Management Association) ISBN 978-0-81-443856-5
- ▶ “Socially Responsible Investing by Universities and Colleges,” **Janet Kiholm Smith** and Richard Smith, *Financial Management*, 2016, 45, p. 877-922
- ▶ “Risk-taking in Competitive Settings: Evidence from Match Play Golf Tournaments,” **Janet Kiholm Smith** and **Serkan Ozbeklik**, *Journal of Corporate Finance*, in press, forthcoming
- ▶ “Which Institutional Investors Matter for Firm Survival and Performance?,” **Janet Kiholm Smith**, G. Erenburg, and R. Smith, *North American Journal of Economics and Finance*, 2016, 37, p. 348-373
- ▶ The Supply Chain Spillover Effects of IPOs,” **Janet Kiholm Smith**, K. Yamada, K. Kutsuna, and R. Smith, *Journal of Banking and Finance*, 2016, 64, p. 150-168
- ▶ “Sample Selection and Treatment Effect Estimation of Lender of Last Resort Policies,” **Angela Vossmeier**, *Journal of Business & Economic Statistics*, 2016, 34, 2, p. 197-212
- ▶ “The Impact of Estimation Uncertainty on Covariate Effects in Nonlinear Models,” **Angela Vossmeier** and Ivan Jeliazkov, *Statistical Papers*, forthcoming
- ▶ “Capital Surges and Credit Booms: How Tight Is the Connection?,” **Thomas Willett**, Puspa Amri and Greg Richey, *Open Economies Review*, 2016, Vol. 27, Issue 4, p. 637-670
- ▶ “Do Financial Crises Discipline Future Credit Growth?,” **Thomas Willett**, *Journal of Financial Economic Policy*, forthcoming
- ▶ “Policy Inconsistencies and the Political Economy of Currency Crises: An Agenda for Research,” **Thomas Willett** and Puspa Amri, et. al., *Journal of International Commerce, Economics, and Policy*, forthcoming



## Spring 2017 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 2016-2017 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:

#### **NATHAN (GATOR) ADAMS, *Is Silence the Answer?***

"This study examines the relationship

between company management guidance, and ex-ante crash risk over the duration of the 2008 (Jan 2006-Dec 2009) financial crisis using the implied volatility skew, which is based upon ex-ante volatility implied by the pricing model developed by Black-Scholes (1973). The study finds that over the duration of this crisis period, management guidance decreases with a rise in ex-ante crash risk. Further the study provides evidence on the relationship of management guidance and earnings volatility, and how that is affected by firm concentration and industry."

#### **TANVI BHARGAVA, *Financial Performance of Football Teams: Effects of Win Maximization, Performance and Transfer Spending on Stock Prices***

"The present paper explores the effects of championships won and financial stability of the clubs on share price returns for publicly traded football clubs in Europe. The study uses samples from 2012-2017 of 14 publicly traded clubs on different exchanges such as Borsa Italiana, London Stock Exchange, New York Stock Exchange, Germany Stock Exchange, Paris CAC Index, Borsa Lisbon, Copenhagen Stock Exchange as well as the Turkish Stock Exchange. The initial analysis assesses share price returns' links with team performance and team financial variables as well as two indices: STOXX 600 Market Index and the STOXX Football Index. Further analysis includes looking at revenues and the different variables that affect returns to see the correlation and understand profitability vs win maximization due to the effect of sugar daddy owners. There appears to be a negative and significant correlation between

profit margin and returns, and I also conduct event studies for the biggest transfers of the clubs and conclude that in the short term, there is a significant effect on share prices when transfers occur."

#### **JINLIN (DENNIS) GU *Housing Prices in Jingjinji, Huninghang and Pearl River Delta***

"This paper researches the relationships between sub-center cities, satellite cities and core cities in the Jingjinji Area, Huninghang Area and Pearl River Delta. It also covers the connections between the Chinese housing market and stock market. It uses a unique dataset called China Real Estate Index System (CREIS) to measure the Chinese housing prices. Through correlations, Granger causality tests and regression models, this paper concludes that there are indeed connections for the movements in housing prices in the surrounding cities relative to Beijing, Shanghai and Shenzhen in the three city groups, and there is no sufficient evidence to show the existence of the connection between Chinese housing market and stock market."

#### **GRIFFIN LAZARUS, *Stock Returns and Industrial Production: A Sectoral Analysis***

"This paper analyzes the relationship between stock returns and future industrial production growth rates from 1926-1940. It replicates the work of Fama (1990) and Schwert (1990) with the intent to see if the relationship continues to hold using sector data. Furthermore, this paper focuses on the 1926-1940 sample period to explore how the relationship is affected by the stock market crash of 1929. It is expected that the relation

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### Faculty Research from page 8

- ▶ "Efficient Markets and Behavioral Finance: What does the euro crisis tell us?," **Thomas Willett, Graham Bird** and Wenti Du, *Open Economies Review*, forthcoming
- ▶ "A Re-Examination of Rating Shopping and Catering using Post-Crisis Data on CDOs," **Fan Yu** and Robert Owlett, *Economics Letters*, 2016, 147, p. 164-167
- ▶ "Credit Derivatives and Analyst Behavior," **Fan Yu, George Batta** and Jiaping Qiu, *Accounting Review*, 2016, 91(5), p. 1315-1343
- ▶ "The Bull of Wall Street: Experimental Analysis of Testosterone and Asset Trading," A. Nadler, P. Jiao, C. J. Johnson, V. Alexander, and **Paul J. Zak**, *Management Science*, in press
- ▶ "Brain Trust," K. Nowack and **Paul J. Zak**, *Talent Economy*, Winter 2017
- ▶ "The Neuroscience of Trust," **Paul J. Zak**, *Harvard Business Review*, January-February, 2017
- ▶ **Trust Factor: The Science of Creating High Performance Companies**, **Paul J. Zak**, AMACOM, January 2017

## FES Theses from page 9

will be weak for the industry sectors experiencing strong growth prior to the crash. The results indicate that the relationship between stock returns and future industrial production growth rates persists on the sectoral level, however, the inclusion of the stock market crash of 1929 undoubtedly weakens the relation, especially for sectors growing rapidly prior to the crash.”

**JIZI LU, *Effects of the Gender of the Real Estate Agents on House Prices***

“This paper studies the effects of the gender of the real estate agents on the closing price of residential, single-family homes in seven cities in east Los Angeles county from 2016 to 2017. We conduct two sets of regressions and find that contrary to previous studies, female listing agents outperform male listing agents. We also find that the gender of the buyer's agents does not have significant effects on house prices. These results suggest that negotiation skills might not be the main key to explain the discrepancy of performance between male and female real estate agents.”

**TANIA SALOMON, *The Risk-Return Characteristics and Diversification Benefits of Fine Wine Investing***

“This thesis evaluates the risk-return

characteristics and diversification benefits of fine wine investment. It compares the historical performance of wine to that of equity, fixed income, real estate, and commodities. I calculate the correlation, volatility, and expected returns of these assets to examine whether adding wine to a portfolio increases its risk-adjusted return. I do this through the Markowitz portfolio optimization technique. The findings suggest that wine has a low correlation with traditional assets, providing diversification benefits. My results also show that adding wine to a portfolio increases its risk-adjusted return only when there is an allocation constraint of 0 to 25% per asset. This does not hold, however, when there are no asset allocation constraints.”

**CHUYI (WENDY) SHENG, *The Impact of the Shadow Banking Industry on the Effectiveness of Monetary Policies in China***

“The fast expansion of the shadow banking industry and its unregulated risks pose great challenges to the People's Bank of China. This paper uses the classic money multiplier and velocity models to investigate the impact of shadow banks on the effectiveness of monetary policies from 2006 to 2016. The time-series regression results show that shadow banks have a positive relationship with the velocity and a negative one with the multiplier. As the non-banks

disrupt the traditional credit creation process and the central bank loses control of two important monetary indicators, the paper then discusses possible new intermediate targets and reforms that can alleviate the shadow banking problems.”

**CHENGWU (HARRIS) XUAN, *Does the Use of Financial Derivatives Affect Distance-to-Default: Evidence from U.S. Bank Holding Companies***

“Using a sample of 1007 U.S. bank holding companies from 1995 to 2015, this study investigates whether the use of financial derivatives of U.S. bank holding companies affects distance-to-default, a measure of a bank's chance of defaulting. My results show that total derivatives and total derivatives for trading purposes do not have any statistically significant impact on distance-to-default. There is, however, a statistically significant correlation between total derivatives for non-trading purposes and distance-to-default. More exposure to total non-trading derivatives decreases distance-to-default, thus making a bank holding company riskier. Further analysis of the results shows that, after the initiation of the Dodd-Frank Act, more exposure to credit derivatives will decrease distance-to-default, therefore increasing the riskiness of a bank holding company.” ▲

## Climbing the Financial Modeling Learning Curve with 5C Students

*By Roma Forest '19, 2016-2017 Director of Events, CMC's Student Investment Fund*

CONTINUING THE TRADITION STARTED LAST year by Brian Eckhardt '16, the 2015-2016 CEO of CMC's Student Investment Fund, the SIF co-hosted, with the Financial Economics Institute, its Second Annual Financial Accounting and Valuation Seminar on March 25th. Our mission was to share the technical financial modeling skills that senior members of the SIF have gained with the 5C student community to help our peers learn skills fundamental to excelling in their future internships and careers.

Kevin Hsu '19 opened up the session with an interactive tutorial on how to read financial statements. He walked participants through the layout of a 10-K, using Raytheon as an example, and gave an introductory lecture to those who have never taken accounting before. Next, the

SIF's new 2017-2018 CEO, Arya Nakhjavani '18, built both comparables and discounted cash flow models with students. After teaching the basic theory and assumptions that are the foundations of financial modeling, he proceeded to dive into everything from formatting to Excel tricks that will impress interviewers.

More than 30 students attended the seminar while several others who could not attend the seminar reached out to request slides of the presentations, with many of the attendees coming from Pomona College and CMC. Following this success, the Student Investment Fund and the FEI plan to co-host the Accounting and Valuation Seminar next semester before recruiting new analysts to the Student Investment Fund. ▲



## Where Will FEI Students Be Working?

Congratulations to the following seniors and juniors completing the Financial Economics Sequence who have notified the FEI of their after-graduation employment (or other plans) and summer internships.

### Graduating Financial Economics Sequence Seniors:

**NATHAN (GATOR) ADAMS**, Global Investment Research Analyst, **Goldman Sachs & Co.**, Salt Lake City, UT

**TANVI BHARGAVA**, Financial Analyst, **Lombardi Healthcare**, Washington, DC

**JACK GERSTENBERGER**, Financial Analyst, **Houlihan Lokey**, San Francisco, CA

**MATTHIEU HAFEMEISTER**, Corporate Development Team, **Andreessen Horowitz**, Menlo Park, CA

**GRIFFIN LAZARUS**, Investment Banking Analyst, **D.A. Davidson & Co.**, Costa Mesa, CA

**TANIA SALOMON**, Risk Analyst, **Deutsche Bank**, New York City, NY

**CHUYI (WENDY) SHENG**, taking a gap year

**YUNYI (JOANNA) WANG**, will be attending the Haas School of Business at UC Berkeley for a Master's Degree in Financial Engineering

### Financial Economics Sequence Juniors – Summer Positions:

**BHAVIKA BOORAGADDA**, Summer Wealth Management Intern, **First Republic Bank**, Menlo Park, CA

**JACK BROWN**, Summer Intern, **J.C. Flower & Co.**, New York City, NY

**TIMOTHY DE SILVA**, Institutional Equity Sales and Trading Summer Analyst, **Morgan Stanley**, New York City, NY

**KANISHK KAPUR**, Catalyst, **ISME Accelerator**, New York, NY; Business Development Intern, **Yes Bank**, Mumbai, India; Business Development Intern, **DoIT Capital**, San Francisco, CA. (This internship runs from May 16th through August 25th)

**SHAYNA LYANDVERT**, Investment Banking Summer Analyst, **Bank of America Merrill Lynch**, Los Angeles, CA

**CLARA MADSEN**, (hasn't been assigned to a specific team yet), **Colony NorthStar**, Los Angeles, CA

**ARYA NAKHJAVANI**, Investment Banking Analyst, **KeyBanc Capital Markets**, New York City, NY

**AMAN RAGHUVANSHI**, Product Management Intern, **Persado, Inc.**, New York City, NY

**BEN SACKS**, Real Estate Analyst, **BMGI**, Seattle, WA

**PETER WELCH**, Finance Development Program Intern, **Apple**, Cupertino, CA

## 2016-2017 BMGI/Michael Larson Asset Management Fellows Post Graduation Employment and Summer Internship Information

**MATTHIEU HAFEMEISTER '17**, Corporate Development Team, **Andreessen Horowitz**, Menlo Park, CA

**KAITLYN KELLEHER '17**, Investment Banking Analyst, **Goldman Sachs**, New York City, NY

**KATHERINE KREY '17**, Investment Banking Analyst, Global Natural Resources Group, **Goldman Sachs**, New York City, NY

**HUNTER OLSEN '18**, Intern, Healthcare Management Program, **Northwell Health**, in the Emergency, Trauma & General Surgery Service Line, New York City, NY

**YULANG (DANNY) WANG '18**, Software Engineering Intern, **Microsoft**, Redmond, WA

**ALBERT XU '17**, Investment Analyst, **Payden & Rygel**, Los Angeles, CA



FINANCIAL ECONOMICS  
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