

The Exchange

NEWS FROM THE FINANCIAL ECONOMICS INSTITUTE AT CLAREMONT MCKENNA COLLEGE

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Director's Report

by Joshua Rosett



Joshua Rosett

THOUGH THE 2017-18 academic year saw the continuation of the FEI's main programs, much of our focus this year was on reviewing the FEI's mission and enhancing resources that fall within our sphere. We highlighted our successful endowment fund drive in the Fall 2017 *Newsletter*, noting that the drive exceeded its goal and raised \$560,488, including \$100,090 for the Terri Van Eaton fund. This was matched with a gift from BMGI. Once again, thank you to all of those who gave so generously. But in addition to raising additional funds, we re-examined our mission statement and expanded our resource offerings along lines we believe will best benefit our constituents.

First, over the course of the year, the Strategy Committee of the FEI Advisory Board reviewed the mission statement of the FEI. The statements had not changed since the creation of the Institute in 2004, but the founding of the Robert Day School in the intervening time period and changes in the broader environment in which we operate dictated that our focus needed to change. As examples, first the creation of the BA/MA program in finance impacted the Financial Economics Sequence, the networking trip, and many other aspects of the FEI. Second, the change in timing of the job market for

both interns and post-graduation necessitated adjustments in the nature of the New York City Networking Trip. Third, the maturation of the Student Investment Fund and the value of the holdings presented the opportunity to create the FEI Associates group with joint responsibilities to the SIF and the FEI. Fourth, the enormous advances in data availability and computing power over the past 15 years put great pressure on our data analysis environment at the FEI.

In response to these factors and others, the Strategy Committee of the FEI Advisory Board endorsed, and ultimately the full Advisory Board approved, a new mission statement reflecting what we believe are a good set of guiding principles for the FEI going forward. The new mission statement reads:

The mission of the Financial Economics Institute is to provide unique research, curricular and extracurricular opportunities engaging the Claremont Colleges in both the theory and practice of financial economics. The FEI administers three programs directed at these objectives. First, the FEI supports collaborative, advanced student/faculty research in financial economics and overlapping disciplines. Second, the FEI oversees the Financial Economics Sequence, a unique curriculum grounded on rigorous quantitative courses in a liberal arts context, preparing students for career opportunities in finance. Third, the FEI sponsors

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activities for the broader community, including oversight of the Student Investment Fund, provision of databases, space and hardware for multiple purposes, and support for conferences, workshops, internships, networking trips and other events.

In recognition of these principles, we are in the process of reviewing our main activities with an eye to directing resources to where there will be the largest return for our constituents. Though we intend to continue working with the Strategy Committee over the next couple of years to review all aspects of the FEI's programming, we are already working through some of these areas.

First, as noted in a previous report, we extensively reviewed our database offerings over the past year. The number and potential research value of databases has expanded dramatically during the past decade, and we believe it is important to provide access to the highest valued among these for both students and faculty. In part due to the cost, we have sought to find partners to purchase databases where possible, including other institutes, the Library, and the Robert Day School, and the College. Over the past year, primarily through such collaborations, we have added components of the Wind database on economic series in China, both the Compustat Global and Point in Time databases (jointly purchased with the Library), the Loan Connector add-on to the Library's Thompson Financial Eikon subscription, and the PitchBook database (jointly purchased with the Center for

Entrepreneurship and Innovation). We will continue to review and purchase access to data sources we believe serve the mission of the FEI.

Second, over the past year, we have expanded our computing resources with both new hardware and additional software. Our new computers in the FEI Lab are high end and geared for software packages such as Stata and the finance-related modules of Matlab. Currently, we are in the process of adding a server with much larger computing capacity, approximately 10 times the memory, CPU power, and storage of the machines we can typically afford to put in the Lab. The server will allow multiple users to analyze much larger databases than otherwise would be possible. This is a joint purchase with the Lowe Institute, and the return on investment to both institutes is very large.

Third, we are working with the Robert Day Scholars program, the Soll Center, and the Student Investment Fund to enhance our training and networking offerings for students. The continual shift of the job market to earlier timing within the college student's career has necessitated an adjustment in our target audience for the NYC Networking trip towards Sophomores, and we are working with the RD Scholars program to add space for networking trips to other destinations, as well as finance training for students associated with the FEI, the FES, and the SIF. Similarly, we continue to work with the SIF to provide training to students interested in finance. The SIF has proposed that for the 2018-19 academic year, they will run a financial analysis training session

and follow on with a case competition managed by the SIF and sponsored by the FEI. We are very excited by this development.

We also note our ongoing activities. For Spring 2018, we once again had a great trip to New York for the Networking trip (see article in this Newsletter), again hosted a very successful fourth annual BMGI Pitch event, sponsored the Student Investment Fund Finance Conference, sponsored an Athenaeum talk by Greg Mankiw, had 26 student RAs working in the FEI Lab, collaborated with BMGI to choose 8 new BMGI/Michael Larson Asset Management Fellows for 2018-19, and hired 5 students to work as RAs for Summer 2018.

Finally, I want to take a moment to thank two people. First, Nancy Faust has done a great job in her first year as Administrative Assistant to the Directors. She quickly learned and very well handled the myriad day-to-day activities as well as our many larger discrete annual events. She had big shoes to fill following on from Terri Van Eaton, and has so successfully done so. Finally, it is with a bit of sadness that I note the departure of Colleen Bartlett, who is leaving CMC to take another job. Many of you know she was so instrumental in our successful fund-raising drive over the past year. Colleen collaborated so well with the Advancement Committee of the FEI Advisory Board, pushed so hard to be sure we created a great plan, contacted so many people, and doggedly followed up to get us across the finish line. I doubt we could have accomplished what we did without her. I thank her and wish her all best luck in her new post. ▲

2018 New York City Networking Trip

By Josh Dorman '20 and Evelyn Chen '20

THIS JANUARY, THE FINANCIAL Economics Institute and the Robert Day Scholars Program sponsored the 14th annual New York City Networking Trek. In the final week of winter break, three juniors and fourteen sophomores traveled to NYC to learn about the different opportunities available in the financial services industry. The trip offered the chance for students to connect with various alumni in both professional and casual settings. Michelle Chamberlain (Dean for Student Opportunities), Ursula Diamond (Director of Student Opportunities), Freya (Lee) Hurtado (Assistant Director of Career Services), Eric Hughson (Chair of the Robert Day School faculty), and George Batta (Associate Professor of Economics and Associate Director of the FEI) accompanied the students on their visit.

The first visit of the trek was to the New York Stock Exchange. Joe Vencil '85 (Senior Managing Director at Forte Securities) arranged a private tour of the exchange floor where the group was able to witness professional market makers in action. Additionally, Joe's colleague Chris Cornette, a trader with TD Prime Securities, led an insightful discussion on the exchange's history and explained how the rise of algorithmic trading has dramatically altered the daily work environment at the institution.

Next, the group visited Deutsche Bank where they met with Alan Delsman '68 (Managing Director), Steven Limandibhatha '14 (Investment Banking Analyst), and Tania Soloman '17 (Credit Risk Analyst, MRMAC). The students all enjoyed a lunch presentation provided by Mr. Delsman and his colleagues, and were able to gain an incredible level of insight into the firm's risk management division and a number of employment opportunities with the firm.

For the final stop of the day, the students stopped at the New York Times. The group was hosted by David Enrich '01, who recently left *The Wall Street Journal* to serve as the *Times's* editor of the finance section. Mr. Enrich led us on a private tour of the offices and introduced the group to two of his reporters, Jessica Silver-Greenberg and Matt Goldstein, who discussed how they researched new stories. He also discussed his

recently published book, *The Spider Network*, and talked about how his passion for research contributes to his role at the newspaper.

On Monday evening, dozens of local alumni joined the students, Student Opportunity Center staff, and professors for a networking reception at Vandal, hosted by Doug Peterson '80 (President and CEO of S&P Global). The event allowed the trek's participants to meet and connect with distinguished former CMC students and gain insight into a diverse array of careers.

The following morning, the group stopped at Millstein, a boutique restructuring investment banking firm. The visit was hosted by Sean Sakaguchi '16 (Restructuring Analyst) and Matt Scheidemann (Vice President). They each detailed examples of particularly interesting past transactions, with Sakaguchi providing insight into his experience working with the government of Puerto Rico to help restructure their debt. Josh Mendelsohn (Associate) and Olivier Fioroni (Restructuring Analyst) later joined the students for a brief networking session after the presentation.

Next, the students visited UBS and were hosted by Edward Conrad M'10 (Director, Private Funds Group) and Henry Goodman P'17 (Senior Vice-President, Private Wealth Management). Mr. Conrad discussed how the current high valuations of private companies have posed new challenges for his team, while Mr. Goodman described how his group has been working to integrate Environmental, Social, and Governance (ESG) values into some of their portfolio strategies.

The last visit of the day was to Principles for Responsible Investment (PRI), a division of the United Nations that seeks to promote ESG investing. The students were hosted by Melanie Paty '15 (Policy Officer) and Danielle Chesebrough (Senior Manager of Investor Relations), and engaged in a lively discussion of how the current political climate has presented new challenges for the team at PRI.

Tuesday evening was the first night of dine-arounds, where students—in groups of two and three—met with accomplished alumni. The dinners presented a fantastic opportunity for attendees to learn about the different paths from CMC to distinguished

careers in the financial services industry.

On Wednesday, students started the day by visiting Morgan Stanley's offices in Times Square. The event was hosted by Scott Ashby '95 (Managing Director, Debt Capital Markets), Ben Kraus '11 (Trader, Equity Derivatives), and Phil Crawford '15 (Equity Derivative Sales Trading Analyst). All three alumni shared their experiences at Morgan Stanley, and students were able to gain a deep understanding of a bulge bracket investment bank's debt capital markets, sales and trading, and equity research divisions.

Following the visit at Morgan Stanley, the group stopped at Moelis, a boutique investment bank with offices next to Rockefeller Center. The event was hosted by CMC parent Brian Callaci (Managing Director), along with several analysts. Mr. Callaci described the rapid expansion the firm has experienced in the past few years, and he emphasized the various growth opportunities that Moelis offers to its employees.

Next, students visited NERA Economic Consulting and were welcomed by Patrick Conroy (Managing Director; Chair of the Securities and Finance Practice) and Lisa Fan (Analyst). At NERA, students were able to learn about opportunities for consulting with an economics focus. Mr. Conroy gave an overview of the company, and Ms. Fan talked about her previous experience working for a bulge bracket investment bank and her transition to NERA.

The last stop of Wednesday's trip was at J.P. Morgan, hosted by Naina Mullick '17 (Sales and Trading Analyst), Merriel Foster '14 (Investment Banking Analyst), Skyler Almquist (Investment Banking Analyst), Nicky Simpson (Investment Banking Analyst) and Melanie White (Investment Banking Associate). After the analysts described their daily duties and recent deals they worked on, the students were able to obtain a good sense of different roles and duties for sales and trading and investment banking. While Ms. Foster talked about her unique experience transferring from San Francisco's asset management division to New York's investment banking division, Mr. Almquist offered his thoughts on

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Bitcoin and blockchain.

Later that night, several other groups of students ventured out into the city for the second evening of dine arounds, forging valuable connections with alumni who hold positions in the hedge fund industry, investment banking, and asset management.

Thursday morning began with a visit to Atalaya Capital. Students were hosted by its founder, Ivan Zinn '96, and by Brian Ford (Managing Director, Business Development and Investor Relations) and Mia Genereux (Associate). Mr. Zinn provided an introduction to private equity and the hedge fund industry, as well as a detailed overview of his fund's business model. Mr. Ford and Ms. Genereux shared their career experience after college and their respective paths to Atalaya. The event was later joined by Scott Arnold '09, who is currently a partner at Sachem Head Capital Management. He discussed his experience working as investment banking analyst at a bulge bracket bank, his time as a private equity associate at

KKR, and his current involvement in a hedge fund.

After the visit to Atalaya Capital, the students headed to Jane Street Capital, a technology-driven proprietary trading firm. The visit was hosted by Kait O'Neil, a recruiter at Jane Street, and two members of the quantitative trading team. Ms. O'Neil gave the students a tour of Jane Street's offices, which includes a trading floor, gym, and the dining hall. The topic of conversation revolved around the day-to-day tasks a trader in Jane Street is assigned, and around the company's unique culture.

For the final stop, students visited Goldman Sachs and met with alumni in various divisions of the bank. The visit was hosted by Katherine Krey '17 (Investment Banking Analyst), Kaitlyn Kelleher '17 (Investment Banking Analyst), Max Mullen '12 (Investment Banking Associate), David Alvilarr '01 (Managing Director, Securities), Scott Sonneborn '17 (Analyst, Engineering), Brian Delaney '16 (Investment Banking Analyst), Peter Rominger M'14 (Associate), and Andrew Kaiser (Global Head, Private

Banking). Students acquired an in-depth overview of different departments within the bank, and also learned about the collaborative and supportive culture of Goldman Sachs.

The 14th annual New York City Networking Trip was a huge success. Many students spent Friday scheduling coffee chats with professionals that they had spoken to during the trip. Additionally, five CMC sophomores attended an informational interview hosted by Diego Cuenca '07, the founder of Kata Capital Partners. Mr. Cuenca was looking for summer interns, so the meeting served as a wonderful opportunity for interested students to learn more about the company.

A great deal of thanks must be given 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 all alumni hosts at the firms for their generous contributions that made this trip possible. ▲



CMC Students visit Atalaya

The Financial Economics Institute: A Student's Perspective

By Amberish "Rish" Chitre '18

FOUNDED IN 2004, THE FINANCIAL Economics Institute (FEI) offers students an unparalleled opportunity to learn and develop skills outside of the classroom. Some of these skills include learning how to conduct academic research and using financial, statistical, and programming software. The FEI also hires student tutors to help assist other students with learning how to use the aforementioned software for classes, work, or personal interest. In addition, the FEI partners with the Robert Day Scholars Program (RDS) to sponsor a networking trip to New York City which helps students become acquainted with firms in the financial services, consulting, and technology industries. The Institute is also involved with putting on the annual Claremont Finance Conference, sponsoring guest speakers, and facilitating student research through the BMGI/Michael Larson Asset Management Fellowship Program.

I became familiar with the FEI as a freshman after taking Professor Helland's introductory economics class. He spoke to me about a project in the pharmaceuticals-healthcare space that piqued my interest. I also saw it as an opportunity to become involved early with the Institute. I worked for Professor Helland during the second semester of my freshman year as well the following summer of 2015. His project familiarized me with an industry that I had very little knowledge of prior to the project and materially improved my research and Excel skills. In addition to skills development, as a recent high school

graduate, I found it refreshing that students and faculty could work so closely together, creating a more personalized learning experience. Professor Helland has become a mentor and close confidant of mine and I strongly believe this is attributable to working with him as a research analyst through the FEI.

During my sophomore year, I started to develop a stronger interest in finance. After speaking with the director of the FEI, I was given the opportunity to work on a project that had been in the pipeline for a few years. This project involved creating custom stock indices to reflect the performance of specific industries and sectors in California. The intent of this project was to create a benchmark of potential California specific investments since these indices do not currently exist.

While I ran into some of the same obstacles that others working on this project before me encountered, the project challenged me to chart solutions to sophisticated problems. I was able to make some progress by making the necessary data collection process more efficient. However, I ultimately concluded that creating custom indices requires a programming background because of complications related to the timing of companies listing and delisting from exchanges. This problem created large spikes and drops in data which made the corresponding index unrepresentative of a true benchmark. Despite these problems, I am confident that a new research analyst will enjoy working with this unique project and

ultimately find an appropriate solution. Despite these obstacles, I learned a lot from working on the project, and that was the main purpose of it.

The third main experience I had at the FEI was being hired as the Bloomberg tutor in my junior and senior year. I tutored students interested in the software, students who needed it for a project, or seniors working on thesis. I developed a proficiency in Bloomberg as a result of my interest in finance and time spent in the FEI trying different functions on the terminal. It is a tool I used during my summer internships in investment banking and has been extremely useful for class projects. I found that while Bloomberg might be more complicated than other financial software, it is a treasure trove of information from research reports with professional analyst projections to full-fledged financial models integrating these projections. I found these models useful for teaching students about financial modeling by showing them how to compare their model with a more complicated one from Bloomberg.

I am extremely thankful for the opportunity I received my freshman year to join the Financial Economics Institute. The faculty, staff, resources, and lab have been invaluable resources in my professional and personal development. Claremont McKenna College students continue to enjoy the many benefits of the FEI and while I will miss this hallmark of my time at CMC, I look forward to seeing how the Institute grows and changes over time. ▲

Deutsche Bank Event

By Roma Forest '19, 2017-2018 Chief Investment Officer, CMC's Student Investment Fund

ON TUESDAY, APRIL 3, DEUTSCHE BANK'S Technology division hosted an information and networking session before the Student Investment Fund's general meeting. Representatives from Deutsche included a Vice President of Internet Investment Banking and two first year analysts. Nick Lillie '17, previous Chief Investment Officer of the Student Investment Fund, works as a first year analyst in Deutsche's Technology San Francisco headquarters. He returned to campus to discuss his experiences since graduating Claremont McKenna. Approximately thirty

students from around the 5Cs attended to learn more about how to obtain a summer internship in technology investment banking. Students described the event as helpful, engaging, and informational. Blaze Li '19 said, "I really appreciated the Deutsche team taking time off to talk to us in person. I think that it was very helpful for the underclassmen especially with recruiting happening so early and I think they did a good job explaining the recruiting process to everyone." The FEI and Student Investment Fund hope to hold more 5C finance events together in the future. ▲

Financial Economics Institute – Spring 2018 Student Research Analysts

During the Spring 2018 semester, twenty-six 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:

YASHNA BATRA '20 worked with Professor Darren Filson on a project that involved collecting data on films to compare the financial performance of franchise films to non-franchise films.

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.

LINYUE (EVELYN) CHEN '19 was the Excel tutor in the FEI Lab.

AMBERISH (RISH) CHITRE '18 was the Bloomberg tutor in the FEI Lab.

HA YUN (CHLOE) CHO '19 worked with Professor Laura Grant on an energy conservation project, collecting the energy usage data of households living in different military bases and the weather data in order to further explore the energy usage habits.

ANTHONY DERAS '20 worked on a project with Professor Hughson that examines the effects of the individual discount rates set by each division of the Federal Reserve on the price of stocks during the Great Depression era.

ROMA FOREST '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.

ZIJIN (LYDIA) FU '18 worked with Professor Yun Liu of KGI to study the effect and characteristics of executive mobility. She is also doing initial data analysis on the role of private directors on public corporate boards.

XINYI (CINDY) HU '19 worked with Professor Burdekin to explore research opportunities on Chinese financial markets and the trading of Chinese securities on offshore markets such as the London Stock Exchange.

JIawei (JACK) HUANG '19 is the FEI website editor. He also 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 will be done by region and sector within California.

YUTAO (JAMES) JIANG '19 worked on a project with Professor Eric Helland that examines the additional safety effects of a mass litigation on pharmaceuticals. In particular, he is analyzing over 30 years of litigation, adverse events, and market data of FDA-approved drugs to assess the marginal value of litigation beyond the FDA's safety regime.

KANISHK KAPUR '18 worked on a project with Professor George Batta that is a structural estimation of accounting conservatism. He was also the Capital IQ tutor in the FEI Lab.

ETHAN KURZ '20 worked on a project with Professor Ricardo

Fernholz investigating cryptocurrencies to identify patterns and trends that can lead to a profitable portfolio.

WILLIAM LI '21 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.

FRANNY LIN '19 worked with Professor Lincoln on a literature review on how exchange rate fluctuations affect firm value.

ANDREW LINDQUIST '19 worked on a project with Professor Eric Helland that examines the additional safety effects of a mass litigation on pharmaceuticals. In particular, he is analyzing over 30 years of litigation, adverse events, and market data of FDA-approved drugs to assess the marginal value of litigation beyond the FDA's safety regime.

JENNIFER MACE '19 worked with Professor Angela Vossmeier on a project that examines the impact of the Federal Reserve's lending to nonbank financial firms on economic recovery and growth – specifically during the Great Depression. The deepening of the financial crisis in 2008 led the Federal Reserve to revive a provision found in Section 13(3) of the Federal Reserve Act to extend credit to nonbank financial firms for the first time since the 1930s, but has since been restricted.

NIKOLAOS PAPAGEORGIOU '19 worked with Professor Darren Filson on a project that involved collecting data on films to compare the financial performance of franchise films to non-franchise films.

TANISHA SHETH '20 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.

JOSEPH SCHEUER '19 worked with Professor Eric Hughson on a project collecting commercial paper and prime lending rates at different Federal Reserve branches prior to 1937. The information will be used to assess the impact of monetary policy in different regions on stock prices.

YILIU (ELAINE) SONG '18 worked with Professor Laura Grant on an energy conservation project, collecting the energy usage data of households living in different military bases and the weather data in order to further explore the energy usage habits.

YULANG (DANNY) WANG '18 worked with Professor Julio Garin to replicate a paper on the effect of weather patterns in the Sub-Saharan Africa countries versus other developing countries. He also worked with Professor Laura Grant to refactor an Excel VBA program to easily generate meaningful data analyses for a local recycling plant administrator. Danny was also the Python tutor in the FEI Lab.

FEI Spring Analysts from page 6

SHUJIE (JOHN) XIA '19 worked with Professor Julio Garin to replicate a paper on the effect of weather patterns in the Sub-Saharan Africa countries versus other developing countries.

YUJIA (EUGIA) YAO '19 was the Stata tutor in the FEI Lab.

ZHENG (VERGIL) YING '18 worked with Professor Sven Arndt and Dr. Alexander Huemer on a project that strives to establish a better system to describe the trade pattern between the U.S. and Mexico. He contributed by analyzing data compiled from USITC and IMF's

IFS since 1989, as well as adding trade data between the U.S. and China to determine the effect on the manufacture/non-manufacture trade with Mexico.

MINGYU ZHENG '20 worked with Professor Eric Helland on a project 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. She worked on developing a computer program that helps with relevant-article identification. ▲



Spring 2018 Financial Economics Sequence and BA/MA Oral Defense Presentations

THE FINANCIAL ECONOMICS Sequence and BA/MA in Finance are both parts of the Robert Day School of Economics and Finance at Claremont McKenna College. These curricula are designed for students interested in pursuing careers in the financial sector and/or subsequent 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. 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.

The BA/MA provides additional depth in finance that results in the awarding of the Masters degree as well as the BA after the student completes their four years of study at CMC. After completing prerequisite courses in economics, corporate finance and accounting, students complete 9 units of Masters-level finance along with a seminar in research methods, and they write and defend a finance thesis. Students admitted to the BA/MA program are Robert Day Scholars.

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

TYLER WHEETLEY AMAYA

Nonperforming Loans (NPLs): Asset Pricing and Determinants of Profitability

"The purpose of this research is to analyze the role of NPL loan characteristics in explaining NPL profit outcomes compared to the current pricing model for NPLs. I use the internal rate of return (IRR) of individual loans as my measure of profitability. I perform a standard linear regression of the determinants of NPL pricing characteristics, where IRR is the dependent variable. I re-estimate the first equation by replacing the NPL measure of

profitability with the NPL purchase price to provide a comparison. I find that interest rates and properties in New York are statistically significant and negatively correlated with IRR. I find that delinquent taxes have a slightly positive correlation with NPL Profitability. I also find that properties in good and fair condition are both positively correlated with profitability, relative to properties in poor or unknown condition. Continued research in this area and adjustments to the current NPL model will allow for more accurate future model estimates."

CRYSTAL ANDERSON

The Effect of the Mandatory Adoption of IFRS on Transparency for Investors

"This paper examines the effect of the mandatory adoption of the International Financial Reporting Standards (IFRS) on transparency for investors by measuring the increase in earnings management during the post-adoption period of IFRS. One sign of earnings management is current year earnings being only slightly higher than the previous year's earnings. An increase in earnings management means a decrease in accounting quality and a decrease of transparency for investors. By comparing firms that mandatorily adopted IFRS to similar benchmark firms in terms of strength of legal enforcement, book-to-market ratios, market values and net incomes, I am able to run empirical regressions examining variables of growth, equity issuance, leverage, debt issuance, turnover, size, cash flow, and time period in order to determine the effect of the adoption on IFRS on earnings growth. After looking at 516 firms from 20 countries for the years of 2002-2007, I conclude that IFRS is decreasing financial reporting quality and decreasing transparency for the investing public, and therefore is not accomplishing its goal of bringing efficiency, accountability, and transparency to global financial markets."

ABHISHEK BIYANI

An Event Study to understand the Varied Response of Demonetization on the Indian Stock Exchange

"On the 8th of November, 2016, Prime

Minister Modi declared all Rs. 500 and Rs. 1000 notes in circulation, constituting 86% of the currency, to be illegal tender for transactions. All the currency had to be deposited into bank accounts, and new notes would be issued. Amounts deposited over Rs. 250,000 (approx. USD 4000) would face tax scrutiny. The reasoning given for this was to curb corruption, terrorism financing and counterfeiting. This led to a scramble in the economy, giving rise to many dubious schemes for evading the consequences of this policy. There was a significant loss in income for people, however, they were willing to bear the short term pain, in the promise of medium to long term gain. Economists and political thinkers are divided on the merits of this matter. We tested the varied effect of demonetization on the Indian economy by examining the returns of the National Stock Exchange using the Event Study Methodology in the immediate period following demonetization. We found a statistically significant decline in consumption sectors. This was largely driven by decline in the ability to spend. Public Sector Banks (PSBs) saw huge positive abnormal returns, while the Private Banks recorded a lagged negative effect. This may be because the PSBs were riddled with NPAs and in dire need of liquidity, or because of the market's differentiated perception of corruption within these portfolios. We also find State-Owned Companies to benefit from the announcement."

VICTOR BUNCE

Does Growth Drive Valuation? An Analysis of Percent Revenue Growth as a Multiples-Based Valuation Method in Public Mergers and Acquisitions

"Over the last twenty years, the worldwide number of public mergers and acquisitions has grown at a compound annual growth rate of 3.3%. In each transaction, acquirers and valuing parties including corporations, investment banks, and buyout funds value target firms using a variety of methodologies. This paper provides evidence in favor of trailing twelve months

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percent revenue growth as a multiple for valuation. Using the last twenty years of public mergers and acquisitions available on S&P's Capital IQ, this paper finds that revenue growth is a consistently significant predictor of a target firm's purchase multiple, measured as its enterprise value divided by revenue. Further, this paper finds no evidence that trailing twelve months percent revenue growth is more significant during economic bubbles, and that the effect is largely mitigated within the technology sector."

AMBERISH CHITRE

The Effect of the Change in Call Loan Rates and Volatility on Stock Returns in 1929: An Empirical Study into a Determinant of the Great Depression

"I investigate the effect of the change in call loan rates on stock returns during 1929. Call loan rates are the interest rates on borrowed funds to trade equity on a given exchange. It is estimated that 40% of stocks during this period were bought on margin. After a price decline comes a margin call, followed by a forced sales of securities, which leads to additional margin calls and future price declines. I regress daily excess returns on the change in daily call loan rates during 1929. In addition, I estimate volatility using an ARCH model and observe the previously understood negative relationship between volatility and stock prices. I find a statistically significant negative relationship between call loan rates and stock returns. Furthermore, I also find that changes in call loan rates are most influential on the manufacturing sector relative to the other 11 industries tested."

KENDALL GREENBERG

You can Run But You Can't Hide: The Advance of Shareholder Activism

"Shareholder activism has exploded in popularity since the turn of the century, due in large part to impressive relative returns generated by its major participants. The result has thus been a surge in assets invested in the category, to in excess of \$170 billion today up from less than \$3 billion in 2000 (Inglis 2015; Romito 2015). This influx of capital, in absolute dollars and pace of growth, has caused many to wonder whether activists truly create shareholder value and, if

so, if the value generated is sustainable. Numerous studies of activist interventions prior to 2009 reveal significant stock price gains around the time of activist arrival and positive longer term buy-and-hold abnormal returns as well. The question remains, however, whether those trends have continued as volume of transactions and number of activists have increased post the recent global financial crisis. In this report, we perform an empirical analysis focused on a hand-collected dataset of 1,088 activist interventions from 1995-present. This dataset includes all 13D filings, as well as Under the Threshold activist campaigns. First, we analyze stock price returns for this group over short- and long-term periods and find that activists continue to unlock shareholder value in recent deals comparable to that of earlier ones. We then perform a proprietary regression to identify which factors drive the most successful returns. Such insights should prove informative for investors employing an activist strategy and companies looking to manage areas of vulnerability."

ALEXANDER HUESING

Crude Oil Volatility during the Shale Revolution

"The purpose of this paper is to offer a review of the history of oil in order to build an understanding of the factors that make the commodity innately volatile. Then, we explain the recent development of US shale production, which may threaten to disrupt the status quo in oil markets. In the last decade, markets have endured two price collapses that are historic both in their frequency and individual magnitudes; however, recent volatility has remained low. We hypothesize that the shale revolution in the United States may have played a role in this new trend. Following the tradition of Pindyck (2004), we utilize a GARCH model in order to analyze crude-oil price volatility since 2004. In order to measure the effects of the shale revolution, we leverage a major news shock in August 2013, at which time Pioneer Natural Resources made the single largest announcement of new retrievable shale reserves in history. We find that the news announcement had a positive effect on the conditional variance of oil and a negative effect on daily returns. The limitations of our instrument for shale production constrain our interpretation of these results,

preventing any definitive conclusions about shale companies' possible role as a volatility-reducing swing producers."

KANISHK KAPUR

Is the Accruals Anomaly More Persistent in Firms With Weak Internal Controls?

"In 1996, Sloan identified the accruals anomaly, in which the negative relationship between the accruals component of current earnings and subsequent stock returns can be exploited to generate excess returns. One would expect the accruals anomaly to dissipate and ultimately disappear as investors take advantage of the now-public information. However, nearly two decades later, it persists as one of the most prominent and contentious anomalies; its magnitude of current and future excess returns still remain controversial. The main reason for its persistence is that extreme accrual firms possess characteristics that are unappealing to most investors. These characteristics, which include insufficient analyst coverage, high idiosyncratic volatility and the presence of institutional constraints, are generally more pronounced in firms with weak internal controls. This paper finds that the accruals anomaly persists at a higher magnitude in firms with weak internal controls. This higher magnitude of excess returns survives the Fama-French five-factor (2015), the Stambaugh-Yuan four-factor (2017) and the Hou, Xue and Zhang (2015) q-factor models."

BRYAN LYNCH

The Effect of Gender Diversity on Liquidity Risk and Bank Performance

"The value add of gender diversity in the financial services industry has been overlooked. From providing capital for businesses to financing mortgages, it goes without question that financial institutions play a most critical role in the function of the economy. Our study poses a potential solution for managing the immense responsibility of these entities. The financial crisis of 2008 awakened the public to the high levels of risk that banks endure in the practice of their business. Banks often rely on a liquidity cushion in order to mitigate the risk of financial distress. Liquidity consists of the cash and other liquid assets that banks retain for times of unexpected

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demands for cash. Financial institutions often vary in their levels of liquidity due to different risk tolerances and appetites for return. This thesis contributes to existing literature by looking into the role that gender diverse boards play in managing liquidity risk and its transparent effect on bank performance. Through an analysis of seventy-four global, regional, small, mid and large-cap commercial banks, we concluded that increased gender diversity results in increased liquidity and decreased risk to bank assets. In the process, we also test the effect of increased liquidity on bank performance, as it would likely be a concern for shareholders.

GENO QUAID

Event Study of Amazon Entering New Markets and the Effects on Incumbent Firm Stock Prices

“This paper examines the effect on incumbent firms of industries which Amazon.com, Inc. enters. Using event study methodology, this paper tests the returns for incumbent firms on the day Amazon announces entrance into their industry. The paper studies the effects on two portfolios for each industry, a market capitalization weighted and an equally weighted. Each portfolio’s expected return is computed using the market model and then compared to actual returns to find the abnormal return. The results are mixed. Five industry portfolios have significant 1 – day abnormal returns and 2 – day CAR while the six other industries show no significance in either metric. The results prompt a discussion and logic? behind the markets response to Amazon entering new markets. The leading explanation of the industries that saw effects is the time in which Amazon entered.”

BENJAMIN SACKS

Model Specification for CMBS Loan Default: A Retrospective Look at CMBS Performance Through the Great Recession

“This paper examines CMBS loans originated from 2004 to 2007 in order to find the correct model specifications for loan default during the Great Recession. The data controls for loan-to-value, debt-service coverage ratio, debt-yield, loan rate, loan spread, term lengths, loan origination year, asset class, refinance or acquisition, and

demographic data of state income and sales tax rates, state education spending per pupil, education rates by MSA, unemployment rates by MSA, and median household income by zip. The study affirms existing research that LTV and debt yield are significantly correlated with default probability, found a strong relationship between loan rate, but not spread on default, affirmed industry knowledge that lodging is generally the riskiest asset class, and found that education levels in an MSA can significantly explain loan default rates. There was limited significance in regression results for unemployment rates, education spending, and median income on default probability and no evidence of default correlation with sales or income taxes. The study also provides evidence that during economic bubbles with skewed assets valuations, debt-yield becomes a more useful metric compared to LTV.”

LATISHA SHAH

Institutional Ownership in Relation to the Mandatory Audit Firm Rotation Rule and its Effect on Audit Quality

“Previous studies have concluded that mandatory audit firm rotation (MAFR) has not been successful in controlling the outcomes of the auditor-client relationship. Additionally, the literature concludes that high institutional ownership enhances audit quality through monitoring the management-auditor relationship. This paper hypothesizes that better corporate governance in terms of high institutional ownership percentage will enhance audit quality during a MAFR regime. Since countries that have implemented MAFR in the past have their data in their local languages, I use the special case of Arthur Andersen clients based in the US as my treatment group. I carry out a descriptive statistical analysis and run linear OLS regressions with discretionary accruals as a proxy for audit quality as my dependent variable. Results suggest that the percentage of institutional ownership does not have a significant impact on audit quality in a MAFR regime.”

AARUSHI TIBREWALA

Risk and Returns: The Impact of Political Risk on Financial Returns in Emerging and Developed Markets

“This paper studies if a change in political

risk has a significant impact on the stock returns of countries. Additionally, the paper assesses if this change in political risk impacts stock returns differently in emerging and developed countries. The paper conducts a risk based portfolio analysis and a linear cross-sectional regression analysis in order to find a conclusive result. The portfolio analysis, which replicates a study carried out by Diamonte, Liew, and Stevens (1996), reveals that there is a difference in the impact that change in political risk has in developed and emerging countries. The regression analysis finds that change in political risk does impact stock returns but there is no statistically significant difference in this impact between emerging and developed countries. The regression analysis also finds that the existing level of risk does not significantly affect the impact that growth in political risk has on stock returns.”

SHRUTI TOPUDURTI

Determinants of Flows Between Active and Passive Equity Investments

“Active versus passive investing is a popular topic within the investment community and beyond. In particular, many are concerned with fund flows in and out of active and passive investments. Existing research suggests that recent returns are a reason for the capital flow from active to passive and that fees also impact flows negatively. With U.S. equity mutual funds as a proxy for active investing and U.S. equity ETFs as a proxy for passive investing, I show that prior month flows have a positive and significant relationship with current flows for both ETFs and mutual funds, as well as for flows from ETFs to mutual funds. I also show that mutual fund monthly returns have a positive relationship with flows of mutual funds and flows from ETFs to mutual funds, while ETF monthly returns have a negative relationship with flows from ETFs to mutual funds. This supports prior literature. I also find that the differential in mutual fund and ETF returns ($r_{MF} - r_{ETF}$) is insignificant and negative for net fund flows into ETFs. I find a generally positive relationship between mutual fund expense ratios and flows into mutual funds, as well as with flows from ETFs to mutual funds. Finally, I find a negative relationship between ETF expense

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ratios and flows into ETFs, as well as with flows from ETFs to mutual funds. The relationships between expense ratios and flows mostly contradict prevailing literature, except for the relationship between ETF expense ratios and ETF flows. This suggests passive investors are potentially more price-conscious than active investors, as passive investors experience negative flows as expense ratios increase, while flows into mutual funds do not have that relationship with expense ratios. Higher fees for mutual funds may also suggest a change in the composition of mutual funds, as funds

similar to ETFs exit and new mutual funds become even more active.”

DANIEL WALKER***Returns to Buying Winners and Selling Losers: A Look at Cryptocurrencies***

“This paper is, to my knowledge, one of the first ever to examine the effectiveness of price momentum trading strategies applied to cryptocurrencies. Using aggregate OHLCV (Open, High, Low, Close, Volume) data on cryptocurrency pairs from Poloniex, Bittrex, and Bitfinex, I apply Jegadeesh and Titman’s classic J-month/K-month momentum trading strategy, reporting annual returns with and without

incorporating trading fees. Portfolios are resampled daily, weekly, and monthly, testing lookback and holding periods ranging from one day to one year. The results show that trading cryptocurrencies using momentum strategies derives returns that rapidly increase the more often portfolios are resampled, with the exception of weekly portfolios. However, after incorporating trading fees, returns between high and low frequency J/K portfolios become more comparable, though daily strategies still bring the highest fee-adjusted returns at about 10% annually. This paper adds to the very limited research on momentum factors within the cryptocurrency market.” ▲

FEI Affiliated Faculty Research

Selected 2017-2018 publications by faculty members affiliated with the FEI:

- ▶ “Deflationary Pressures Today: The Chinese, Japanese and Spanish Cases Compared,” **Richard C.K. Burdekin**, with research assistance provided by Xinyi Hu ’19, *The Chinese Economy*, forthcoming.
- ▶ “Quantifying the Impact of the November 2014 Shanghai-Hong Kong Stock Connect,” **Richard C.K. Burdekin**, and Pierre L. Siklos, *International Review of Economics and Finance*, forthcoming.
- ▶ “A First Look at Brexit and Global Equity Markets,” **Richard C.K. Burdekin** and **Eric Hughson**, with research assistance provided by Jinlin Gu ’17, *Applied Economics Letters*, Vol. 25, No. 2 (2018), pp. 136-140.
- ▶ “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), pp. 287-304.
- ▶ “Deflations in History,” **Richard C.K. Burdekin**, in Stefano Battilossi, Youssef Cassis and Kazuhiko Yago (eds.), **Handbook of the History of Money and Currency**, New York: Springer, 2018, in press.
- ▶ “Where Are All the Innovators Hiding?” **Darren Filson** and Michelle Chamberlain, *Talent Quarterly: The New Thinking Issue* (December 2017), p. 40-47 (follow-up webinar available at talent-quarterly.com)
- ▶ “The Performance of Global Film Franchises: Installment Effects and Extension Decisions,” **Darren Filson** and James H. Havlicek ’14, *Journal of Cultural Economics*, forthcoming.
- ▶ “Do Nonprofits Encourage Environmental Compliance?” **Laura E. Grant** with Katherine K. Grooms, *Journal of the Association of Environmental and Resource Economists*, Vol. 4, No. S1, Sept. 2017, Part 2.
- ▶ “Does It Matter Who Pays for Auto Injuries?” **Eric Helland**, with Paul Heaton, forthcoming *Journal of Risk and Insurance*.
- ▶ “Medicare Secondary Payer and Settlement Delay,” **Eric Helland**, with Jon Klick, *Journal of Empirical Legal Studies*, 15(2):356-377.
- ▶ “Multi-Level Selection in Litigation Data: A Bounds Approach,” **Eric Helland**, with Jungmo Yoon, *Journal of Institutional and Theoretical Economics* (JITE), 174(1), 115-130, 2018.
- ▶ “Maybe There’s No Selection of Disputes for Litigation,” **Eric Helland** with Daniel Klerman and Yoon-Ho Alex Lee, *Journal of Institutional and Theoretical Economics* (JITE), 174(1), 143-170, 2018.
- ▶ “Contingent Fee Litigation in New York City,” **Eric Helland** with Daniel Klerman, Brendan Dowling, and Alexander Kappner, *Vanderbilt Law Review*, 70(6): 1971-1992, 2017.
- ▶ “Estimating Effects of English Rule on Litigation Outcomes,” **Eric Helland** with Jungmo Yoon, *Review of Economics and Statistics*, 99(4): 678-682, 2017.
- ▶ “The Rise of Exporting By US Firms,” **William Lincoln** and Andrew McCallum, *European Economic Review*, 102 (2018), p. 280-297.
- ▶ “Pirate’s Treasure,” **William Lincoln** and Jenny Lin, *Journal of International Economics*, 109 (2017), p. 235-245.
- ▶ “Analysis of Stigma and Bank Credit Provision,” **Angela Vossmeier**, with research assistance provided by Amy Ingram ’17, *Journal of Money, Credit and Banking*, forthcoming.

Where Will FEI Students Be Working?

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

Financial Economics Sequence and BA/MA Seniors:

EMILY BASSETT, Investment Banking Analyst, **Prager & Co.**, San Francisco, CA

ABHISHEK BIYANI, Director, **Fascino Exports Pvt. Ltd.**, Kolkata, India

BHAVIKA BOORAGADDA, Client Services Associate, **First Republic Wealth Management**, Palo Alto, CA

CARA BRINSTER, Associate, Valuation & Business Analytics, **BDO USA, LLP**, San Francisco, CA

JACK BROWN, Research Analyst, **Financial Technology Partners**, San Francisco, CA

VICTOR BUNCE, Investment Banking Analyst, **Harris Williams & Co.**, San Francisco, CA

AMBRISH CHITRE, Investment Banking Analyst, **Rothschild**, New York, NY

TIMOTHY DE SILVA, will be attending the **MIT Sloan School of Management** in Cambridge, MA for a PhD in Business Administration

KENDALL GREENBERG, Risk Analyst, **Deutsche Bank**, New York, NY

KANISHK KAPUR, Investment Analyst, **ISME ACE & ART Capital**, Mumbai, India

AMMAR KARMALI, Investment Banking Analyst, **Cain Brothers**, New York, NY

CLARA MADSEN, Product Analyst, **PIMCO**, Newport Beach, CA

JOSEPH MALGESINI, Financial Analyst, **Apple**, Cupertino, CA

ARYA NAKHJAVANI, Financial Analyst, **EKN Development Group**, Newport Beach, CA

GENO QUAID, Associate, **Boston Consulting Group**, Los Angeles, CA

LAUREN ROSENBERGER, Specialist, Treasury Capital Markets, **Charles Schwab**, San Francisco, CA

BEN SACKS, Analyst, **Hamilton Realty Finance**, Dallas, TX

LATISHA SHAH, Analyst in the Banking and Finance sector, **GQR Global Markets**, Los Angeles, CA

RAVI SHAH, Investment Banking Analyst, **Cain Brothers**, San Francisco, CA

SHRUTI TOPUDURTI, Analyst – Investment Assistant, Core Equities, **J.P. Morgan Chase & Co.**, New York, NY

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

Financial Economics Sequence Juniors — Summer Positions:

PATRICIO AGUILAR, Risk Analyst, **Deutsche Bank**, New York, NY

HANNAH BERG, Performance and Analytics Intern, **State Street**, Sacramento, CA

SIMON BJERKHOLT, Revenue Generation Intern in the Athletics Department, **UC Berkeley**, Berkeley, CA

ALEXANDER HOUY, Private Equity Analyst Intern, **Kata Capital Partners**, New York, NY

JAMES KENEALLY, Intern in the Corporate Finance Segment, **FTI Consulting**, Los Angeles, CA

NIKOLAOS PAPAGEORGIOU, Investment Banking Summer Analyst, **AXIA Ventures Group**, Athens, Greece

LAN PHAN, Technology M&A Investment Banking Summer Analyst, **Citi**, San Francisco, CA

JACK SVARD, Summer Investment Analyst, **Cambridge Associates**, San Francisco, CA

YUJIA YAO, Business Operations Intern, **Techtronic Industries**, Hong Kong, China

2017-2018 BMGI/Michael Larson Asset Management Fellows Post Graduation Employment and Summer Internship Information

SAMARTH CHAWLA '19, Investment Banking Summer Analyst, **Lincoln International**, Los Angeles, CA

JOHN EVERETT '19, Investment Banking Summer Analyst, **Moelis & Company**, San Francisco, CA

ROMA FOREST '19, Summer Investment Banking Analyst, **Bank of America Merrill Lynch**, Los Angeles, CA

JENNIFER MACE '19, Summer Analyst in the Global Investment Research Division, **Goldman Sachs**, New York, NY

JOSEPH SCHEUER '19, Investment Banking Summer Analyst, New York, NY

JONATHAN SHAW '18, Analyst, **Qatalyst Partners**, San Francisco, CA

Congratulations to the FEI Summer 2018 Research Analysts:

AHMED BILAL '19, Economics/Mathematics dual major with a Computer Science Sequence

SHU BIN '19, Economics/Mathematics dual major with a Computer Science Sequence

XUBIN (HAVEN) SHI '21, Economics and Environmental Analysis double major with the Financial Economics Sequence

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

LANGNING (LORRAINE) ZHAO '21, Economics and Computer Science double major

Congratulations to the 2018-2019 BMGI/Michael Larson Asset Management Fellows:

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

ROMA FOREST '19, Economics/ Master's Program in Finance

REEVE GROBECKER '19, PPE (Philosophy, Politics and Economics)/Economics dual major

JIA JIAN (BLAZE) LI '19, Economics/History dual major

JENNIFER MACE '19, Economics major with the Financial Economics Sequence

ALEXANDER MCKENNA '20, Economics/Psychology dual major with the Financial Economics Sequence

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

TANISHA SHETH '20, Economics/Mathematics dual major with the Financial Economics Sequence

The mission of the Financial Economics Institute is to provide unique research, curricular and extracurricular opportunities engaging the Claremont Colleges in both the theory and practice of financial economics. The FEI administers three programs directed at these objectives. First, the FEI supports collaborative, advanced student/faculty research in financial economics and overlapping disciplines. Second, the FEI oversees the Financial Economics Sequence, a unique curriculum grounded on rigorous quantitative courses in a liberal arts context, preparing students for career opportunities in finance. Third, the FEI sponsors activities for the broader community, including oversight of the Student Investment Fund, provision of databases, space and hardware for multiple purposes, and support for conferences, workshops, internships, networking trips and other events.



FINANCIAL ECONOMICS
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