

The Exchange

NEWS FROM THE FINANCIAL ECONOMICS INSTITUTE AT CLAREMONT MCKENNA COLLEGE

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Director's Report

by Joshua Rosett



Joshua Rosett

DESPITE THE many challenges we all face, I am happy to report that the FEI has continued its full slate of activities this Spring and Summer, and even enhanced them to compensate for lost outside opportunities normally available to students during the Summer. This has been a team effort, and we benefitted from the great support of BMGI, many Robert Day School faculty members who oversee student projects, the Dean's office, CMC's Information Technology Services, the Soll Center for Student Opportunity, the great work by Nancy Faust coordinating so much of what needed to be done to carry on, and many others. Student/faculty research underway at the time the campus was closed continued to the end of the semester. We held our usual Senior Thesis Defense at the end of the semester via Zoom. With Associate Director Professor Batta and Nancy Faust directing traffic, the session came off without a hitch, though a few students attending from China and India had to wake up pretty early! With support from the Soll Center, BMGI, and several RDS faculty willing to take on more than the usual numbers, we enhanced our Summer Institute research opportunities to include 17 student Research Assistants, all working remotely. In past years we typically had between 5 and 7 students working during the Summer. We also worked with BMGI to

choose new BMGI Fellows for next year.

Several of our important Spring semester events occurred before the campus closure. These include the New York City networking trip (see article in this edition), the Student Investment Fund/FEI Finance Conference (see article in this edition), and the Spring meeting of the FEI Associates, including extensive presentations by and oversight of the Student Investment Fund. The only Spring event we lost was the BMGI Pitch Competition, scheduled for April. This event is always one of the highlights of the year for the FEI, and we look forward to its resumption next year.

This is my final report, as my term of six years as FEI Director ended at the start of the new academic year on July 1. The Institute is central to the mission of the college, and I am grateful I had the opportunity to contribute to it. My previous report included some of the findings from the external review of the Institute completed last year, including the large numbers of students and faculty served through our programs. I owe thanks to so many people who make what the FEI does possible. The Board of Advisors (listed nearby) and BMGI provide the vast majority of the funding supporting all we do for students and faculty. Through the Board meetings and work of many committees of the Board, every aspect of our programming has been evaluated and re-evaluated over time to ensure we effectively deliver on our mission. The Board also played a key role in the external review last year. I

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FINANCIAL ECONOMICS
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particularly thank Jim McElwee '74 P'12, Alan Heuberger '96, and John Shrewsberry '87 P'24 for serving as Board Chairs during my time. The FEI Associates provide important support for both our provision of data, and their time and care overseeing the Student Investment Fund have become essential to the continuous improvement of the Fund's operations, including great advice on how the fund can enhance the educational opportunities it offers for its members. David Brown '00 served as the first Chair of the Associates, and played a key role shaping their effective activities. I am grateful that John O'Brien '02 took over as Chair this year. John has been a very active and effective member of the group, and served as the liaison between the Associates and the Board of Advisors for several years. The Soll Center has played a central role, particularly in coordinating and co-sponsoring the NYC trip each year. BMGI has provided so much support for our programming, both

financially through sponsorship of several of our programs, but also through their events on campus. Both Associate Dean Shana Levin, who oversees the Institutes, and Dean of Faculty Peter Uvin have been so supportive of all we have done.

I owe special thanks to four people here at CMC. First, Professor George Batta was highly effective as Associate Director in managing so much of what the FEI does, particularly as an expert on data, evaluation of students at many points each year, participation in the NYC trip, and perhaps mostly for his thoughtful insights on the many decisions we have had to make over time. Second, Professor Eric Hughson, though not formally on the FEI administrative staff, has voluntarily contributed extensively to what we do, including participation in many of the student evaluation activities we do each year and attendance at every NYC trip. Finally, both Nancy Faust and Terri Van Eaton before her truly ran the Institute. They both handled so much responsibly with great efficiency, and

moreover were a delight to work with. I am honored to have worked with these dedicated people, and to call them friends.

Finally, I am happy to introduce the next FEI Director, who began his term on July 1. Professor Nishant Dass comes to CMC from the Scheller College of Business at the Georgia Institute of Technology. He has taught International Finance and Financial Management, and has a strong interest in FinTech. At Georgia he served on a committee launching an interdisciplinary program designed to advise students on startup ideas, and has overseen many student-founded startups in fields as diverse as agriculture and robotics. He is also an important researcher in the field of corporate finance, with publications in many of the top journals. His energy, background in scholarship, teaching, and leadership working with students on entrepreneurial ventures make him ideally suited to lead the FEI in new directions over the next several years. I look forward to seeing where he takes the FEI. ▲

Claremont Finance Conference

By Josh Tatum '21, Director of External Events, Student Investment Fund

THIS PAST FEBRUARY, PRIOR TO THE COVID Outbreak, the Financial Economics Institute and the Student Investment Fund hosted the 6th annual Claremont Finance Conference. On Friday, February 14th, over 100 students, professors, and alum alike attended two main events created to help inform and educate attendees with different investment techniques and particularly delve into the intricacies of value investing. The conference started with a main afternoon panel with four different speakers from completely different financial backgrounds and concluded with an Athenaeum dinner and main event talk about value investing.

The afternoon panel this year included David Brown '00 (Portfolio Manager at Hawkridge Management), Kurt Keilhacker (Managing Partner at TechFund Europe), Munir Alam (Founder of Sentinel Dome Partners), and Christopher Bloomstran (President of Semper Augustus Investments Group). CMC's Professor Darren Filson (Robert Day School of Economics and Finance) moderated the panel of these four speakers. The panel began with all of the speakers providing some background on their career and their current role. Since all four speakers had also come from liberal arts colleges, they also explained how these educational backgrounds helped prepare them for a career in investing. From there, the panelists began to discuss their different firm's investing strategies

and how their firms tried to stand out and make themselves unique. Finally the speakers then shared their opinions on timing strategies and how to know when the market may finally realize a company's fundamental value. After the panel, the panelists and students stayed around for refreshments and had more personal Q&A with one another.

After the panel concluded, the conference continued at the Athenaeum for drinks and appetizers before the dinner. The main speaker for the Ath dinner was Christopher Bloomstran. Mr. Bloomstran founded Semper Augustus in 1998 and he now exercises a value-driven research methodology that evaluates businesses as a private investor would do when buying an entire company. His talk was titled, The Imperative of NO: The Luxury of Patience. In his talk, Mr. Bloomstran explored the different reasons to not invest in a business. He dove into the types of checklists that his company goes through in a fundamental analysis. He talked about business understandability, the components of defining business quality, and ultimately the importance of paying the right price with any investment. After the talk, students were able to engage in Q&A until the conclusion of the evening.

The Student Investment Fund would like to acknowledge the generous contributions from the Financial Economics Institute and all speakers that made this event possible. ▲

2020 New York City Networking Trip

By Simon Alexander '22 and Laky Li '21

THIS JANUARY, THE FINANCIAL Economics Institute and the Robert Day Scholars Program sponsored the 16th annual New York City Networking Trek. In the final week of winter break, two juniors and sixteen 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. Beth Milev '05 (Director of the Robert Day Scholars Program & Scholar Communities), Amy Flanagan '11 (Assistant Director of External Relations), Eric Hughson (Don and Lorraine Freeberg Professor of Economics and Finance), and George Batta (Associate Professor of Economics) accompanied the students on their visit.

The first day started off with a quick subway ride from midtown to Wall Street, where the students went to visit Deutsche Bank, a German multinational investment bank and financial services company. The visit started with a panel led by CMC alumni Sam Ross '08 (Vice President) and included CMC alumni Alexander Carvalho '17 (Investment Banking Analyst) and Steven Limandbhratha '14 (Investment Banking Associate). Students had an opportunity to learn more about the investment bank and

the principles that the firm implements in daily practice. After the panel, students were able to network and talk with both CMC alumni and other analysts that were invited to the presentation.

Following the Deutsche Bank visit, students headed out to the famous Charging Bull on Wall Street near the New York Stock Exchange. The group met with photographer Anibal Ortiz who took several photos with the trek throughout the city.

After the photoshoot, the group moved to the Jane Street office where they were greeted by Kristen Chang (Campus Recruiter). Jane Street is a global proprietary trading firm. Then a panel consisting of Development group members Ben Kurchin (Business Development) and Tiffany Lee (Business Development) answered questions about the firm while the students enjoyed lunch overlooking the water. The panel was then followed by a tour of the Jane Street office including the trading floor and the many on-site facilities that are available to employees. Students each received a Jane Street t-shirt on the way out of the office.

Directly across the street was Goldman Sachs, a multinational investment bank and financial services company. Students headed up to the meeting room and were greeted by a panel of CMC alumni from across several

divisions in the firm. This group included Kaitlyn Kelleher '17, Blaze Li '19, Emma Houston '19, Peter Michelsen '99, Christine Mann '87, David Alvillar '01, Jake Glasser '17, and Patrick Bollinger '16. Students learned about what each of the divisions did, ranging from wealth management to investment banking and had the opportunity to ask questions.

Day two of the trek started with a visit to BDT Capital, a merchant bank that provides long-term capital and advice to families and founder-led businesses. The group was led by Jim Head (Partner). The presentation consisted of a brief overview of what the firm does and how it stands out amongst financial institutions for the services it provides for its clients and then followed by an in-depth analysis of one of their portfolio companies, Kind LLC, where students actively participated in providing reasoning behind the decision to invest in the company.

The group then headed over to Atalaya Capital, founded by CMC alumni Ivan Zinn '96. Mr. Zinn discussed the hedge fund industry and what Atalaya does as a firm, while providing insight on the future of the finance industry and advice to the students. The group also met with Meaghan Haugh, one of the investment professionals at the firm, and she discussed her experiences of working at the firm after graduation. The visit concluded with a fun game where students answered questions about financial markets and relevant news to win prizes ranging from an Atalaya hat to a bottle of wine.

Following the visit to Atalaya, the group headed to Moelis, a global independent investment bank. They were greeted by Brian Callaci P'20 (Managing Director) and a panel of investment professionals who discussed the daily activities of a Moelis investment banker and what to expect out of a summer internship at the firm. The group then had the opportunity to ask questions before networking with the bankers for the remainder of the visit.



CMC Students on the NYC Networking Trip.

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The final visit of the day was Cain Brothers, a boutique investment bank that focuses exclusively on health care services and related industries. CMC alumni Mackenzie Bradford '19 (Investment Banking Analyst) discussed her experiences at Cain Brothers alongside Danielle LeBenger (Senior Vice President), Benton Au (Investment Banking Associate), and Adam Taitz (Investment Banking Analyst) and Alexandra Clemens (Investment Banking Analyst). Students learned more about healthcare banking and the culture at the firm before having the opportunity to network with the presenters at the firm.

The first firm that the students visited on the third day was D.E.Shaw, a global investment and technology development firm. Patricia Wu (Recruiter) and James Ramseur (Human Capital) gave students a presentation on the firm overview, the core principles, and the company culture. They also took the students on a tour of the company's office, where students could feel the company culture of "moving fast and having higher standards."

Next, the group visited Perella Weinberg Partners, an independent, privately owned, global financial services firm providing corporate advisory and asset management services to clients around the world. Peter Weinberg '79 (Founding Partner, Chief Executive Officer) came to welcome the students and talked about his experiences in the financial service industry. Simon Clark (Executive Director) gave the group a firm overview, which was followed by a panel session that was facilitated by Adam Kallaus (Director). The group enjoyed lunch at the firm, while panelists Steffan Larcoran (Investment Banking Analyst), Eli Nobler (Investment Banking Analyst), Emily Ross (Investment Banking Analyst), and Reena Xue (Investment Banking Analyst) shared their experiences.

The group next visited Kohlberg Kravis Roberts, an American global investment firm. Henry Kravis '67 (Co-Founder) hosted the group in a boardroom, overlooking Central Park and New York City. The students listened to Mr. Kravis' experiences at CMC, his career path after graduating

from CMC, and his values on leadership and social entrepreneurship. Mr. Kravis also answered some questions from the group and gave them some advice on how to navigate life after CMC.

The final visit of the day was Rothschild & Co, a multinational investment bank and financial services company. Since the professionals worked across different divisions, Amberish Chitre '18 (Investment Banking Analyst), Maegan Wang (Investment Banking Analyst), Michael Wilcheck (Vice President), Stephanie Mellert (Restructuring Investment Banking Analyst), and Jonathan LaSala (Vice President) first described to the group what they work on and what their typical working day looks like. Then they each briefly introduced a case that they have worked on at the firm. Jacquelyn Teller (recruiter) also introduced the group to their summer internship program. The visit ended with a Q&A session.

The fourth day started with a presentation by Chainalysis, a fintech firm that helps government agencies, cryptocurrency businesses, and financial institutions engage confidently with cryptocurrency. The presentation was hosted at the hotel where the students were staying. The session started with Tim Galbraith '87 (Principal and Founder at Innovation Beta, LLC) sharing his career experiences in the financial services industry. Then he introduced Dan Briere (Strategic Initiatives), who further demonstrated what cryptocurrency is and how Chainalysis impacts the industry in a positive way. This presentation gave students a different perspective of the industry.

The group then visited the Federal Reserve Bank. Chloe Hauenstein '14 (Supervisory Associate) and Katherine Femia '06 (Manager, Markets Group Analytical Development) hosted the students. They each briefly shared their experience after CMC, both having moved between private and public sectors. The group asked questions regarding recent policies, history of the Fed, and the hosts' career experiences and life advice. Heather Loeb (Rotational Analyst Coordinator) was also invited to the session to introduce their rotational internship program.

Then, the group visited Evercore, a global independent investment banking advisory firm. With Megan Pooley (Recruiting Associate) facilitating the meeting and asking questions to the professionals, Brian Landeros '18 (Investment Banking Analyst), Naina Mullick '17 (Senior Analyst), Kyle Mulligan (Real Estate Capital Advisory), Ronald Diu (Investment Banking Analyst), Alberto Reyes (Investment Banking Analyst), and Rich Cutshall (Associate) shared their answers. The panel session was further followed by a networking session, where students got the chance to talk to the professionals more closely and ask questions.

The final visit of the day was Morgan Stanley. Phil Crawford '15 (Investment Banking Associate), Melanie Paty '15 (Manager, Global Sustainable Finance) and Scott Ashby '95 (Managing Director) hosted the group. Phil talked about the importance of finding what one is truly passionate about and working with one's passion. Melanie shared the company's value on sustainability and her personal experiences working with sustainability. Scott gave the group some life advice at and after CMC.

Thursday evening, many local alumni joined the students, Student Opportunity Center staff, and professors for a networking reception at cloudM Bowery, a beautiful rooftop bar. The reception was hosted by Doug Peterson '80 (President and CEO of S&P Global). The event allowed the students to meet and connect with distinguished former CMC students and gain insight into a diverse array of careers.

The 16th annual New York City Networking Trip was a huge success. Many students spent the Friday of the trek scheduling coffee chats with professionals that they had spoken to during the trip. Many 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. ▲

Financial Economics Institute

Spring 2020 Student Research Analysts

During the Spring 2020 semester, thirty-four 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:

KARTIKEYA AGARWAL '22 worked with Professor Matthew Delventhal on a project that studies the impact of trade on a country (Spain) catching up to the industrial leader (the United Kingdom). Along with other analysts from the FEI and the Lowe Institute, assisted in creating a database for Spain's trade records from 1850 to 2000 and writing a Python program to automate some of the data entry into the spreadsheets.

SIMON ALEXANDER '22 (BMGI/Larson Fellow) worked with Professor Janet Smith on a research project analyzing Venture Capital fund performance and trends in reported IRR and TVPI metrics. This project mainly used PitchBook data across hundreds of funds and also looked into discrepancies between General Partner and Limited Partner reporting.

ABBAS ALI '22 worked with Dr. Stan Oklobdzija to analyze and create a Google Sheets dataset on California Environmental Quality Act (CEQA) lawsuits.

ALEXANDER ALSOP '21 is the Bloomberg tutor in the FEI Lab.

MATIAS ALVARADO '22 worked with Professor Batta to create a working Stata script analyzing debt covenant violations in levered companies. Specifically, working towards creating an investment strategy pertaining to those findings.

RAJ BHUTORIA '22 worked on two projects, one with Professor Eric Helland to analyze multi-district litigation and legal procedures related to the on-going opioid epidemic, using web-scraping and automated data collection methods. And with Professor George Batta to create algorithms to analyze credit agreements, automate data collection from government data repositories, and develop forecasting stochastic models. Specifically, both projects involved a strong knowledge of law and accounting combined with an advanced understanding of R/Python/Node.js to develop analysis and collection algorithms.

COLEMAN CORNELL '21 (Terri Van Eaton Fellow) worked with Professor Benjamin Gillen on a project regarding the precision of subset optimization for portfolio allocation. In addition, he produced a MATLAB package for the Markowitz Critical Line Algorithm to quickly find portfolios along the efficient frontier.

ANTHONY DERAS '20 worked with Professor Ricardo Fernholz on a commodity trading project, testing different portfolios and allocations to see which strategy would produce the highest risk adjusted return.

AVNIKA GUPTA '22 worked with Professor Angela Vossmeier to construct a database of roughly 9000 banks which left the banking system in the Great Depression due to failure, distressed mergers, voluntary liquidation, and more. The database aids research on the impact of the resolution of banks on the real economy in pre- and post-FDIC eras.

MATTHEW HINES '22 worked with Professor Julio Garin on a project that explores the relationship between climate change and the expansion of large corporations over time, using the ski industry as a case study. In the future, the project will hopefully be expanded to examine industries that are more impactful to a country's overall economy and GDP, helping to determine how climate change is affecting the macroeconomy; and worked with Professor Julio Garin to analyze patterns in wage gaps on a gender and racial basis. The research hopes to fill a gap in research on this subject that uses recent results to analyze wage gaps based on household data and spousal income disparities, focusing specifically on changes in wage gaps over time and the potential impacts of different policy actions.

VERA KRATZ '21 (Terri Van Eaton Fellow) worked with Professor Julio Garin on the impact of climate change on privatization. By studying ownership in the ski industry and data on weather conditions, the project hopes to find a connection between climate change and the expansion of large corporations over time. If proven successful, the project hopes to expand to other industries as well to show the overall impact of climate change; and worked with Professor Julio Garin on examining the gender wage gap, focusing on differences in race and marital status. This project hopes to be the beginning of more research into how the wage gap has changed over time across specific groups, and the impact certain policies might have on this change.

WILLIAM LI '21 (BMGI/Larson Fellow) worked alongside Professor Eric Hughson to develop the multi-chapter material accompanying Professor Hughson's FIN340 Investments course, a CMC offering that teaches the financial basis of portfolio theory, asset pricing theory, bond pricing, and portfolio performance evaluation.

YIPING (SARAH) LU '20 worked with Professor Richard C.K. Burdekin completing research on the stock market effects of the 1962 Cuban Missile Crisis with collection of historical commodity price data.

ALEXANDER MCKENNA '20 (BMGI/Larson Fellow) was the Excel tutor in the FEI Lab.

SAHANA NARAYAN '23 worked with Dr. Stan Oklobdzija on researching bias in official titles and summaries given to ballot initiatives at the California state level. Specifically, this involved coding the initiatives on a series of dimensions to form a quantitative measure of how controversial the ballot measures are.

LUKE OSTRANDER '21 worked with Professor Eric Hughson compiling data from the New York Curb Exchange and the Out-of-Town Exchange between 1927 and 1928.

Student Research Analysts from page 5

KARINA PARK '22 worked with Dr. Stan Oklobdzija to develop a quantitative measure of ballot initiative summary biases. She codes summaries for order bias, word use bias, example bias, extra information bias, and overall bias; and worked with Dr. Stan Oklobdzija on an analysis of lawsuits regarding the California Environmental Quality Act and legal challenges to new housing construction in California since 2010 in order to examine the roots of the housing crisis in American cities due to wealthy homeowners' influence on local political institutions.

SIDHANT RASTOGI '23 worked with Professor Benjamin Gillen on a project to implement regression-based techniques for estimating mean-variance optimized portfolio weights and sampling error using sample moments in MATLAB.

DAWSON RECKERS '21 worked with Professor Matthew Delventhal on a project aiming to capture the effects of globalization on the country of Spain since 1849. As part of the semester-long project, he created a translation database of Spanish trade terms and phrases.

MATTHEW SAN LUIS '23 worked with Professor Eric Helland on a project building (collecting data) a comprehensive dataset of Opioid cases in the federal MDL by systematically coding the individual opioid case characteristics, including the parties, date filed, jurisdiction, attorneys, claims asserted, the relief sought, case outcomes, and causes of action. Using this data, we will be able to examine how the lawsuit trajectory has changed over time in terms of geographic distribution, claims asserted, plaintiffs, defendants, and outcomes.

GUILLERMO SANTOS '22 worked with Professor Helland analyzing different types of lawsuits that are often involved in multidistrict litigation (MDL) procedures. In partnership with Claremont McKenna's Policy Lab and other students at the FEI, he is organizing and collecting large data sets that will be utilized to calculate the market size of awarded punitive damages involved in MDL opioid lawsuits.

CHANCE SEARS '21 worked with Professor Fan Yu and Professor George Batta on a literature review of credit default swap contracts. Specifically, this involved transferring data from top financial journal articles concerning CDSs into an excel spreadsheet with the goal of optimizing time during the review process; and worked with Professor George Batta on developing a trading strategy that involves predicting debt covenant violations. Specifically, using R to manipulate datasets containing bond characteristics.

TANISHA SHETH '20 (BMGI/Larson Fellow) 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 in 1939 and make comparisons to structures prevalent during the Great Depression period and currently.

HALLIE SPEAR '22 worked with Professor Angela Vossmeier on a project analyzing the interconnectedness of the banking system before and after the Great Depression in order to understand how bank interdependence can be positive or negative for the banking system.

She assisted with data analysis, digitizing old files, data scrubbing, and other tasks in order to aggregate the information about the 15,000 banks that failed or merged with other banks from 1929-1939.

EMILY SPIELMANN '22 worked with Professor Angela Vossmeier on a project studying how roughly 9,000 bank failures altered the network of financial institutions during the Great Depression and the impact on systemic risk.

SETH TAYLOR-BRILL '20 worked with Professor Benjamin Gillen on the testing and implementation of a strategy for building portfolios of securities through subset optimization.

DANIEL WANG '22 worked with Professor Andrew Finley on a project related to individual tax avoidance by collecting data to measure variation in political orientation of congressional representatives across states and over time; and worked with Professor Florian Madison, conducting literature reviews on projects related to firm life-cycle financing strategies and the intersection between political instability and dollarization. He also provided referee services to existing work on entrepreneurial finance and bilateral trade on asset markets under private information.

WILLIAM WANG '23 worked with Professor Pierangelo De Pace of Pomona College, investigating the tail-end dependencies of cryptocurrencies, and their relationship with other equities & global assets. He used MatLab and Microsoft Excel to build financial models that represent how volatile growths of crypto-markets affect one another, and potential risk-based portfolio shortfall.

ZIXUAN (EVELYN) WANG '22 worked with Professor Benjamin Gillen on the extraction and analysis of fundamental data, in order to incorporate fundamentals into clustering and macro data into existing projects.

YANJIN (COSMO) YANG '21 worked with Professor Eric Hughson on his investments textbook, both editing it making it more readable for students in econ 139 and fin 340. His main contribution was in helping to present technical material in a manner most easily comprehended by students in the class.

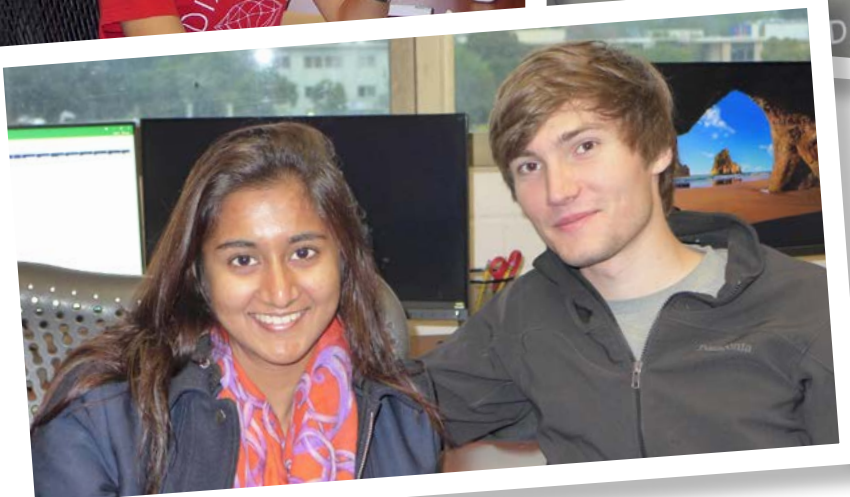
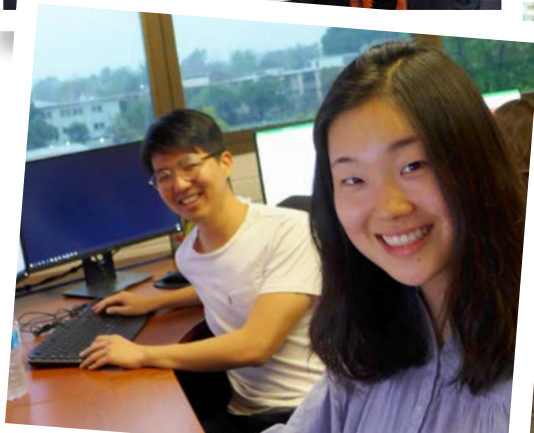
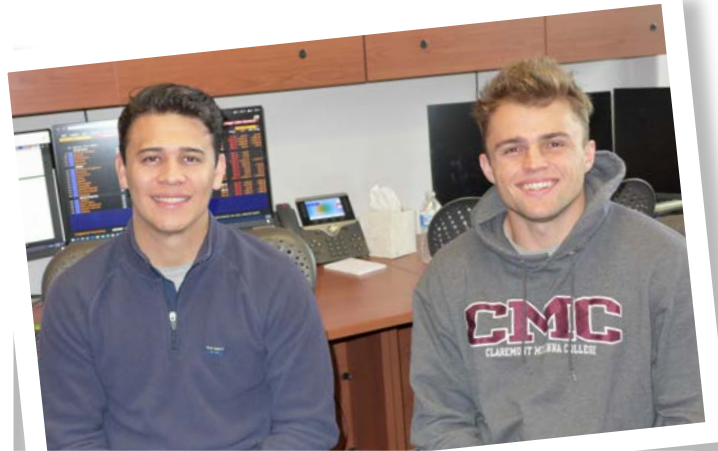
JERI (RAIZEL) YU '22 worked with Professor Matthew Delventhal in quantifying the potential economic impact of a trade slowdown by analyzing trade data sets between Spain and Great Britain in the 19th-20th Century.

HAOHAN ZHANG '21 worked with Professor Benjamin Gillen on a project that constructs complete subset portfolios using subset optimization. The algorithm is particularly useful in settings with many securities and short return histories and its robust performance against existing asset allocation strategies is proved by simulation and backtest experiments.

WILLIAM ZHOU '23 worked with Professor Helland on a project analyzing different counties involved in opioid lawsuits as well as peremptory challenges in the Los Angeles Superior Court.

JINGCHENG (ERIC) ZHU '20 worked with Professor Benjamin Gillen on simulation and backtesting of portfolio performances involving Bayesian moment estimation methods under the mean-variance optimization, and subset resampling optimization. ▲

FEI Research Analysts in the Lab



Spring 2020 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:

JACOB BAIN, BA/MA

Investigating the Relationship Between Interest Rates and Lodging Reit Returns: Analyzing the Variability After the Global Financial Crisis

"This thesis examines the relationship between interest rate changes and lodging REIT returns. Interest rates are measured by U.S. Constant Maturity Treasury Bonds ranging in maturity from one to ten years. Lodging REIT returns are measured

through the Dow Jones U.S. Hotel and Lodging REIT Index, which began trading in 2008. Other benchmarks are included for comparison with both metrics such as Baa Corporate Debt Credit spreads and the S&P 500 Hotel, Resorts, and Cruise Lines Index. Past literature examines the relationship between traditional REITs and interest rate shifts but fails to deeply interrogate the lodging sector relationship. This paper builds on existing literature by updating the data period and utilizing different REIT proxies via the indexes mentioned above. I also seek to confirm the work of previous literature regarding lodging sector market outperformance. Finally, this paper adds analysis of how shifts in Baa Credit spreads impact the lodging sector in particular. This thesis uses data from Capital IQ and a traditional derivation of a Fama-French multi-factor model to conduct analysis. My findings suggest that both lodging REITs and equities outperform the market over the sample period. I also find that there is evidence for the relationship between REIT returns and five-year yield changes. In contrast, there appears to be no evidence for a link between long-term rates and REIT returns. My results indicate that previous literature surrounding the relationship between credit spreads and REIT performance holds for the lodging sector on all statistical levels."

TYLER CHEN, BA/MA

A Re-Examination of the Interest Rate Sensitivity of Business Development Company (BDC) Stock Returns

"This paper examines the interest rate sensitivity of Business Development Companies (BDCs). The results of this study are intended to provide insight to investors about the feasibility and timing of investments in BDCs. The paper also aims to shed more light on BDCs in general, including their growth since 1980 and their unique features that set them apart from other investment vehicles. Similar to prior literature that has examined interest rate sensitivity of financial companies and high

dividend yielding stocks, this paper employs a two-factor model to determine whether BDC returns are sensitive to changes in short, medium, and long-term interest rates. Building off of another paper by Park (2012), I use monthly data from January 2012 through December 2019 to conduct this study. Using a sample of 44 publicly traded BDCs, this study estimates the sensitivity of BDC returns to movements in stock market and interest rates. Contrary to Park (2012), it finds that BDCs are only sensitive to short-term interest rates, not medium or long-term rates. It also finds positive coefficients on short, medium and long-term interest rates implying that an increase in interest rates leads to higher BDC returns. Finally, it concludes with a summation of the results and provides information on the practicality and timing of BDC investments."

CHRISTIAN CURCIO, FES

Analyzing the Minute by Minute Price Reactions to the SP500 future Index Following President Donald Trump's Tweets

"In recent event study literature, economists conduct a series of tests to see if there are abnormal returns for stock prices in the days following tweets from President Donald Trump. Despite their findings, I feel they lack to prove the economic importance of the tweet in the modern market. Due to advancements in technology and information mediums, traders, investors and financial practitioners can analyze and trade on news in seconds. The true test of economic significance is not found in the days after the event, it is found in the minutes after the event. In order to find potential economic significance, I conduct three statistical tests; the T-test for abnormal returns, a series of regressions to see actual change in returns and predictive probability to see what is the likelihood of abnormal returns occurring given a specific event. In all three tests, no conclusive evidence can

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be found for the sample data. Despite this, I feel this study provides good groundwork to testing for abnormal returns in ultra short term event studies, as well as determining if an event can serve as some type of indicator to price change. By doing these two things, one can determine the economic significance of an event.”

SAMUEL GARVIN, BA/MA***The Effect of Signaling Activity by Commodity Producing Companies on Future Operating Performance and Future Commodity Returns***

“While there exists vast literature on the signaling effect of share repurchases, share issues, insider purchases, and insider sales on a company’s own future equity returns, there has been no exploration into the signaling effect of these activities on closely related asset returns. This paper analyzes the effect of signaling by commodity-producing companies on the future returns of the underlying commodity itself. Aggregating data in the gold and oil industries, I develop a model that predicts future commodity returns based on prior signaling activity. I find some evidence that these activities have statistically significant predictive power on future commodity returns, but economic significance is simply not there. I also find that this signaling activity is validated by changes in future operating performance metrics.”

YIPING (SARAH) LU, BA/MA***Predicting Recovery Rates using Machine Learning Algorithms: the Relative Usefulness of Alternative Methods***

“This study evaluates the performance of linear model trees to forecast recovery rates of defaulted bonds. The linear model trees are built based on regression trees, with a linear regression model in each leaf. I use bond characteristics, firm characteristics, industry indicators, and macroeconomic indicators as explanatory variables. The relevance of explanatory variables is assessed using the Mutual Information Feature Selection method. The results show that the linear model trees present better out-of-sample forecasts of

recovery rates in comparison with some other widely-used models.”

ALEXANDER MCKENNA, FES***Explaining Stock Returns Surrounding Novel Drug Approvals Using Drug and Firm Characteristics***

“Novel drugs contain ingredients that have never been approved by the Food and Drug Administration (FDA). These innovative drugs serve previously unmet medical needs and help advance clinical care by providing therapies never before marketed in the United States. I construct a unique cross-sectional dataset of novel drug approvals between 2015-2019 to estimate how certain drug and firm attributes are correlated with stock price movements upon approval. Both holding period returns (HPRs) and cumulative abnormal returns (CARs) are examined. The average HPRs and CARs for the sample of 105 novel drugs are calculated and compared to non-novel drug stock HPRs and CARs in pre-announcement, announcement, and post-announcement windows. My results suggest that while novel drug stocks do not receive a statistically significant HPR premium in any of the three windows relative to non-novel drug stocks, the announcement window CAR is significantly higher for novel drug stocks than it is for non-novel drug stocks. In my paper, the overall direction and magnitude of stock price movements in the three windows observed in my paper closely resemble those found in previous studies on non-novel drug stocks. The average HPR for my sample of novel drugs is positive and statistically significant in the pre-announcement window (9.13%) and announcement window (5.28%). However, the expected return of holding through the regulatory decision is likely negative when factoring in the large downside of rejection that is found in the previous literature on non-novel drug rejections. Therefore, the most lucrative strategy for investors in novel drug stocks (in terms of HPRs) is selling one day prior to announcement. For CARs, the expected return in the event window is positive, although the true downside for novel drug rejections is not known. In my analysis, several firm and drug attributes explain higher stock price movements in

the three event windows. Pre-selecting which stocks to hold through announcement based on these specific characteristics allows investors to increase returns around FDA novel drug approvals. For example, a stock that is pre-revenue and has a novel drug approval that is fast tracked can expect to receive a HPR of 62.7% in the [0,1] announcement window. In the pre- and post-announcement windows, most of the variation in stock prices is explained by movements in the Biotechnology Index, though several characteristics such as breakthrough drug status are correlated with higher HPRs and CARs as well. During the event window of approvals, however, stocks no longer follow the behavior of other biotech and pharma stocks. A number of firm and drug attributes have statistically significant and positive effects on returns, including drugs that are fast tracked or designated for pediatric use, and firms that are headquartered in the US and not trading near a 52-week high. Therefore, my paper suggests that investors can select novel drug stocks based on a variety of firm and drug attributes to increase the expected holding period return and cumulative abnormal return during the pre-announcement, announcement, and post-announcement windows of FDA novel drug approvals.”

TANISHA SHETH, FES***A Choice Model for Correspondent Banking Relationships***

“Employing a granular hand-collected dataset, this paper studies the formation of local financial networks as a consequence of one of the largest bank failures during the Great Depression. The collapse of the National Bank of Kentucky caused ripples throughout the interbank network as 233 banks were faced with the decision to form new connections to reallocate reserves. Tracing over 1600 institutional linkages between 1929 and 1934, I evaluate the decision-making process of commercial banks under a nested logit framework. I find that peer effects and other regional metrics, contrary to national connectivity measures, act as principal determinants in network formation. Further, I show how

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the connections selected influenced bank survivorship.”

COLTON SMITH, BA/MA

A Further Investigation into the Prevalence of the Winner's Curse Using Post-Great-Recession Data

“This study analyzes the prevalence of the winner's curse in the mergers and acquisitions market using Post-Great-Recession data. To analyze the prevalence of this phenomena, I calculate cumulative abnormal returns over four event windows: at time zero when the transaction occurs, and six, twelve, and twenty-four months' post-transaction. I also calculate normal returns through each of these periods to use as a benchmark for the cumulative abnormal returns. I then tested whether industry (broken down by NAICS code) and experience (whether a firm has engaged in multiple transactions through our sample period) have an effect on the cumulative abnormal returns, and therefore the prevalence of the winner's curse, of firms after a merger or acquisition. The results of this study show that experience and most industries do not have a statistically significant impact on cumulative abnormal returns. These results show that the winner's curse is still extremely prevalent in the mergers and acquisitions market as average cumulative abnormal returns are overwhelmingly negative in all regressions ran and samples pulled.”

LUDE RONG, FES

Financial Market Reactions to Violation Disclosures from the Pipeline and Hazardous Materials Safety Administration

“This paper investigates how the stock market reacts to public disclosures of environmental and safety violations based

on information from the Pipeline and Hazardous Materials Safety Administration (PHMSA), the main federal agency that regulates energy and hazardous materials transportation in the oil and gas sector. Using an event study methodology, I find no evidence of negative abnormal returns following the announcement of PHMSA violations between 2002 and 2018. Nevertheless, I find empirical evidence consistent with pre-announcement information leakage and differential impacts based on the type of enforcement action issued by PHMSA and the relative size of the proposed penalty.”

SAMUEL WILLETT, FES

Investor Reactions to the Greenhouse Gas Reporting Program

“Around the world there is a growing awareness and desire to take action concerning Greenhouse Gas emissions (IPCC 2014). There is a wide range of literature that establishes a negative relationship between environmental stewardship and valuation. This is based on a variety of factors from toxic chemical release to environmental rankings to Greenhouse Gas emissions. My objective is to add to existing literature by examining the valuation impact of the Greenhouse Gas Reporting Program implemented by the EPA in 2010. Results of this thesis do not differ from previous research but fail to establish a statistically significant negative return for firms included in the Greenhouse Gas Reporting Program. There is, however, a statistically significant relationship between total emissions for a firm and their cumulative abnormal return in the period examined. My results show that this particular release of information does not act as a surprise to the market for the entire sample or even subgroups of the Greenhouse Gas Reporting Program.”

JINGCHENG “ERIC” ZHU, FES

Robust Backtesting Analysis Evaluating Different Moments Estimation Strategies with Subset Optimization in Large US Equity Universe

“Asset allocation has been around longer than people's imagination. “Let every man divide his money into three parts, and invest a third in land, a third in business and a third let him keep by him in reserve.” Written in the Talmud, people have already come up with asset allocation strategies for investing as early as 1200 B.C. With the increasing variety of financial asset available to the hands of investors, asset allocation strategies have also evolved from simple division among land, business and reserve to something much more concrete and sophisticated. Harry Markowitz first introduced the mean-variance optimization framework in 1952, which yields portfolio weights that maximize return over risk. Despite its vital theoretical importance, in real practice, the algorithm with no constraints often generates lopsided portfolio weights that cluster around best and worst performing stocks. Such extreme positions would turn out to generate great loss due to its heavy weights on a handful of assets compared to the total asset universe, and such poor out-of-sample performance is contributed by the estimation error embedded in sample mean and covariance from historical return data. Historically, advanced estimation strategies for input parameters have been shown to improve such performances (DeMiguel 2009). In addition to estimation improvement, subset optimization has also been shown to improve out-of-sample portfolio performance (Gillen 2016). Hence, this paper aims to combine two approaches together and see if such combination would yield even better performances.” ▲

Where will students be working?

Financial Economics Sequence and BA/MA Seniors:

JACOB BAIN (BA/MA), Lodging Capital Markets Analyst, **Newmark Knight Frank**, New York, NY

DYLAN BYRD (BA/MA), Financial Consultant, **Houlihan Lokey**, San Francisco, CA

TYLER CHEN (BA/MA), Investment Banking Analyst for the Financial Sponsors Group, **Deutsche Bank**, San Francisco, CA

CHRISTIAN CURCIO (FES), US Equities Trader, **Trillium Trading**, New York, NY

SAMUEL GARVIN (BA/MA), Finance Analyst, **Apple**, Cupertino, CA

CONNOR GASKIN (FES), Consumer Banking Leadership Rotational Program, **Discover Financial Services**, Chicago, IL

CONNOR LEHNER (FES), Research Analyst, **The Brattle Group**, San Francisco, CA

AUSTIN LONG (BA/MA), Business Analyst, **Deloitte Consulting**, San Francisco, CA

YIPING "SARAH" LU (BA/MA), Pursuing Dual Masters in Financial Engineering and Statistics, **Claremont Graduate University**, Claremont, CA

PHOEBE MADSEN (BA/MA), Analyst, **BDT Capital Partners**, Chicago, IL

CHARLES MANGUM (FES), Technology, Media, and Telecom Investment Banking Analyst, **Wells Fargo Securities**, New York, NY

NICK PIBL (FES), Investment Banking Analyst, **Perella Weinberg Partners**, New York, NY

LUDE RONG (FES), Pursuing Masters in Atmosphere/Energy in the Department of Civil and Environmental Engineering, **Stanford University**, Stanford, CA

TANISHA SHETH (FES), Investment Banking Analyst, **Bank of America Merrill Lynch**, Los Angeles, CA

COLTON SMITH (BA/MA), Consultant, **FTI Consulting**, Los Angeles, CA

JINGCHENG "ERIC" ZHU (FES), Pursuing Masters of Science in the Computational Science Program, **Carnegie Mellon University**, Pittsburgh, PA

Financial Economics Sequence and BA/MA Juniors – Summer Positions:

ALEXANDER BARKER (FES), Investment Banking Summer Analyst, **Harris Williams**, San Francisco, CA

RUYAN CHU (BA/MA), Summer Analyst, **JP Morgan**, Hong Kong, Hong Kong

COLEMAN CORNELL (FES), Summer Analyst, **Parala Capital**, Pasadena, CA

MAXWELL DAWSON (BA/MA), Restructuring Intern, **FTI Consulting**, New York, NY

RISHI RAJ DEVA (FES), Credit Rating Summer Analyst, **S&P Global Ratings**, New York, NY

BENJAMIN FIGUEROA (FES), Research Assistant, NLP Machine Learning, **CMC Summer Research Program**, Claremont, CA

STUTI GROVER (FES), Investment Banking Summer Analyst, **Bank of America**, Los Angeles, CA

CHRISTOPHER HU (BA/MA), Tax Consultant Intern, **Deloitte**, San Francisco, CA

DECLAN JUDGE (BA/MA), Summer Intern, **TrailRunner International**, Truckee, CA

GEUN "KEVIN" KIM (BA/MA), Brand Manufacturing and Intl. Business Analyst, **Niagara Bottling, LLC.**, Diamond Bar, CA

PATRICIO MADERO (FES), Quantitative Analyst Intern, **InverCap**, Monterrey, Mexico

CHANCE SEARS (FES), Forensic & Integrity Services Intern, **Ernst & Young**, Los Angeles, CA

XUBIN "HAVEN" SHI (FES), Investment Banking Analyst, **Citigroup**, San Francisco, CA

MICHAEL "MATT" SILL (BA/MA), Summer Analyst, **Portage Point Partners**, Chicago, IL

2019-2020 BMGI/Michael Larson Asset Management Fellows

Post Graduation Employment and Summer Internship Information

SIMON ALEXANDER '22, Summer Analyst, **Edgebrook Partners**, Los Angeles, CA

JOSHUA DORMAN '20, Associate Consultant, **EY-Parthenon**, San Francisco, CA

WILLIAM LI '21, Investment Banking Summer Analyst, **Global Technology Group**, **Citi**, San Francisco, CA

ALEXANDER MCKENNA '20, Investment Banking Analyst, **Morgan Stanley**, Los Angeles, CA

TANISHA SHETH '20, Investment Banking Analyst, **Bank of America Merrill Lynch**, Los Angeles, CA

FEI Affiliated Faculty Research

Selected 2019-2020 publications by faculty members affiliated with the FEI:

- ▶ “From Shanghai to Sydney: Chinese Stock Market Influences on Australia,” **Richard C.K. Burdekin**, with Ran Tao, forthcoming, *Finance Research Letters*
- ▶ “Chinese Liquidity Effects on the Australian Macroeconomy, 2002–2017,” **Richard C.K. Burdekin**, with Ran Tao, research assistance provided by Xinyi Hu ’19, *Applied Economics*, Vol. 52, No. 18 (2020), pp. 1973–1985
- ▶ “Macroeconomic Drivers of Chinese ADRs: Home Country vs. US Effects,” **Richard C.K. Burdekin**, with Junjie Zhang, *The Chinese Economy*, Vol. 52, No. 4 (July–August 2019), pp. 342–357
- ▶ “Deep Flaws in a Mercury Regulatory Analysis,” **Mary F. Evans**, with Joseph Aldy, Matthew Kotchen, Meredith Fowlie, Arik Levinson, and Karen Palmer, *Science* 368(6488): 247–248, 2020
- ▶ “Using Revealed Preference Methods to Estimate the Value of Reduced Mortality Risk: Best Practice Recommendations for the Hedonic Wage Model, **Mary F. Evans**, and Laura O. Taylor, forthcoming, *Review of Environmental Economics and Policy*
- ▶ “External Auditor Responses to Tax Risk,” **Andrew R. Finley**, J. Abernathy, E. Rapley, and J. Stekelberg, forthcoming, *Journal of Accounting, Auditing, and Finance*
- ▶ “The Effect of Large Corporate Donors on Nonprofit Performance,” **Andrew R. Finley**, C.M. Hall, E. Harris, and S. J. Lusch, forthcoming, *Journal of Business Ethics*
- ▶ “The Information Content from Releases of the Deferred Tax Valuation Allowance,” **Andrew R. Finley** and A. Ribal, *Journal of American Taxation Association* 41 (2): 83–101, 2019
- ▶ “Employee Movements from Audit Firms to Audit Clients,” **Andrew R. Finley**, M. Kim, P. T. Lamoreaux, and C. S. Lennox, *Contemporary Accounting Research* 36 (4): 1999–2034, 2019
- ▶ “Estimating Racial Differences in Wrongful Conviction Rates,” **Eric Helland**, with David Bjerck, forthcoming, *Journal of Law and Economics*
- ▶ “Tort Liability and the Market for Prescription Drugs,” **Eric Helland**, with Darius Lakdawalla, Anup Malani, and Seth Seabury, forthcoming, *Journal of Law, Economics and Organization*
- ▶ “The Role of Ideology in Judicial Evaluations of Experts,” **Eric Helland**, research assistance provided by Jack Gersteberger ’17, Yutao James Jiang ’19, Kaitlyn Kelleher ’17, Andrew Lindquist ’19, Abigail Schantz ’18, Hamsa Srikanth ’19, Aarushi Tibrewala ’18, Geroge Vojta ’17, and Peter Welch ’18, forthcoming, *Journal of Law and Economics*
- ▶ “Does It Matter Who Pays for Auto Injuries?” **Eric Helland**, with Paul Heaton, *Journal of Risk and Insurance*, 86(4): 947–972, 2019
- ▶ “The price of boardroom social capital: The effects of corporate demand for external connectivity,” **Yun Liu**, with S. P. Ferris and D. Javakhadze, research assistance provided by Zijin “Lydia” Fu ’18, *Journal of Banking and Finance* 111 (2020), 105729
- ▶ “Capital flow reversals, sudden stops, and international reserve adequacy,” **Thomas D. Willett**, with Levan Efremidze and Ozan Sula, *International Journal of Financial Research*, No. 1, 2019, pp 53–67
- ▶ “International Capital Flows and the Independence of China’s Monetary Policy,” **Thomas D. Willett**, with Yanzheng Wang and Xiumin Li, *The Chinese Economy*, Vol.52, 2019, issue 4 pp 300–317
- ▶ “China’s Global Interdependence: International Reserves, Capital Inflows, Financial Market Transmission, and Exchange Rate Determination”, **Thomas D. Willett**, with Richard C.K. Burdekin, *The Chinese Economy*, Vol.53, 2019, pp295–299
- ▶ “Contagion from the crises in the Euro-zone: where, when and why?” **Thomas D. Willett**, with Eric Pentecost et. al., *The European Journal of Finance*, 2019, 25:14, pp1309–1327
- ▶ “Capital controls and currency crises: revisited: A political economy analysis,” **Thomas D. Willett**, with Eric Chiu), *Emerging Markets Trade and Finance*, May 2019. pp1–21
- ▶ “Unifying Gaussian Dynamic Term Structure Models from a Heath-Jarrow-Morton Perspective,” **Fan Yu**, with Haitao Li and Xiaoxia Ye, forthcoming, *European Journal of Operational Research*
- ▶ “Property Investment and Rental Rate under Housing Price Uncertainty: A Real Options Approach,” **Fan Yu**, with Honglin Wang and Yinggang Zhou, forthcoming, *Real Estate Economics*
- ▶ “Modeling Municipal Yields with (and without) Bond Insurance,” **Fan Yu**, with Albert Lee Chun, Ethan Namvar, and Xiaoxia Ye, *Management Science* 65(8), 3694–3713 (2019)
- ▶ “The Impact of Trade Reporting and Central Clearing on CDS Price Informativeness,” **Fan Yu** with Miriam Mara and Lu Zhu, *Journal of Financial Stability* 43, 130–145 (2019)

Congratulations to the FEI Summer 2020 Research Analysts:

SOMESWAR "SOMU" AMUJALA '23, Economics and Computer Science

NATHANIEL BRASWELL '23, Economics and Cognitive Science double major

RAJ BHUTORIA '22, Economics and Government with Computer Science Sequence

KATHERINE CHEN '23, Economics and International Relations with Data Science Sequence

JORDAN ESRIG '23, Economics and Computer Science dual major

MIGUEL GARCIA '22, Economics and Mathematics dual with Computer Science Sequence

SAM HARRISON '22, Economics and Master of Arts in Finance

YUSUF ISMAEEL '21, Mathematics and Economics dual with Data Science Sequence

ADAM KOSZUT '23, Economics and Mathematics with Financial Economics Sequence

GRACE LU '23, Economics with Financial Economics Sequence

YINGHE "MEI" '21, Economics and International Relations dual with Data Science Sequence

MELANIE MOORE '21, Economics Major

JAY MORRIS '23, Economics and Mathematics dual major, with Data Science Sequence

EMILY SPIELMANN '22, Economics Major

JOHN "WILL" WALLACE '23, Economics and Philosophy dual with Financial Economics Sequence

LANGNING "LORRAINE" ZHAO '21, Economics and Computer Science

WILLIAM ZHOU '23, Economics with Financial Economics Sequence

Congratulations to the 2020-2021 BMGI/Michael Larson Asset Management Fellows:

SIMON ALEXANDER '22, Economics major with the Financial Economics Sequence

ALEXANDER ALSOP '21, Economics with Master of Arts in Finance

BROOKLYN BUTTON '22, Economics and Mathematics dual major with the Financial Economics Sequence

JUAN DIEGO HERRERA '21, Economics and Computer Science double major

WILLIAM LI '21, Economics and Mathematics dual major with Computer Science Sequence

KARINA PARK '22, Science Management with Data Science track and Financial Economics Sequence



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