

# The Exchange

NEWS FROM THE FINANCIAL ECONOMICS INSTITUTE AT CLAREMONT MCKENNA COLLEGE

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## Director's Report

IT HAS BEEN GRATIFYING TO SEE THE Financial Economics Institute (FEI) become a premier program at Claremont McKenna College. The FEI, now in its third year, sponsors a curricular program (the Financial Economics Sequence) and supports data services and other research support for faculty. An integral part of the FEI is the Research Analyst Program that engages students in research projects supervised by faculty.

The Financial Economics Sequence, a series of rigorous and quantitative courses focused on finance, continues to attract student interest-- nearly 60 students have indicated their intention to complete the sequence. Employers and graduate programs have recognized the value-added from the curriculum and from the research opportunities for students. This past summer, five student interns worked full-time at the Institute on research projects with FEI affiliated faculty members from CMC, CGU, and Pomona. Twelve student research analysts have been hired to work during the 06-07 academic year. Recently published or forthcoming research



**Bloomberg Terminal in the FEI laboratory**

from our affiliated faculty appears in such prestigious outlets as the *Review of Financial Studies*, *Journal of Financial Economics*, *Journal of Law and Economics*, *Journal of Corporate Finance*, *Journal of Banking and Finance*, and *Financial Management*.

The FEI continues to sponsor activities to enrich the educational experiences of CMC students and to renew connections with alumni. Last summer, we sponsored a reception in San Francisco, hosted by Jim McElwee ('74), for local alumni and friends of the College. In September, the FEI Speaker Series hosted Professor Zvi Bodie, The Norman and Adele

See **Director** on page 2



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

## In This Issue:

**PG 2:** Acknowledging 2006-2007 BGI Fellows

**PG 3:** Highlighting 2006 Summer Interns

**PGS 4 & 5:** Alice Chang '07 analyzes Professors Angus, Brown, J. Smith, and R. Smith's research paper, "What's in Your 403(b)? Academic Retirement Plans and the Costs of Underdiversification"

**PG 5:** Financial Economics Institute Speaker Series: Zvi Bodie

**PG 6:** Kurt Sheline '08 analyzes Professor Rosett's research paper, "What Determines the Variability of Accounting Accruals?"

**PG 7:** Will St. Clair '07, interviews FEI Board Advisor, Cody J Smith

**PG 8:** Upcoming Events and Acknowledging FEI Student Research Analysts

**Director from page 1**

Barron Professor of Management at Boston University, who spoke to over 100 guests at the Marian Miner Cook Athenaeum. Professor Bodie discussed the importance of life-cycle investing and the meaning of risk. In February, Professor Andrew W. Lo, The Harris & Harris Group Professor of Finance at the MIT Sloan School of Management and the Director of MIT's Laboratory for Financial Engineering, will speak at the Athenaeum

as the spring lecturer for the FEI Speaker Series.

Future activities this year include the New York City Networking Trip which will provide 15 students with an opportunity to travel to NYC to meet with CMC alumni including top level executives at prominent firms. Companies students will visit include: Bear Stearns, Deloitte Consulting, Goldman Sachs, and Millbrook Partners.

In an effort to provide students with access to state-of-the-art databases, thanks to the financial support of our Board of Advisors, the FEI is pleased to announce the addition of a Bloomberg Terminal in the FEI laboratory. We invite you to visit our laboratory in Bauer 321 to explore this excellent data resource.

*Janet Kiholm Smith, Director, FEI* ▲

## 2006 – 2007 BGI Fellows

The BGI Fellowship program offers financial support and research experience for juniors and seniors at Claremont McKenna College who are interested in careers involving asset management and investment management. The recipients of this year's scholarships are:



**Jerry Lin**

*Jerry Lin* is a senior majoring in Economics-Accounting at CMC and will complete the Financial Economics Sequence. While his parents are originally from Taiwan, Jerry grew up in Lake Oswego, Oregon. During the spring, he plays for the CMS Men's Golf team. Jerry's work experience includes interning for Gould Asset Management in Claremont and Hang Seng Bank in Hong Kong, through the McKenna

International Summer Internship Program. During the past summer, Jerry interned with Lazard Freres & Co. in San Francisco.



**Chris Urban**

*Chris Urban* is a senior at Claremont McKenna College who will complete an Economics-Mathematics dual major with the Financial Economics Sequence. He is from Budapest, Hungary, but went to high school in New Jersey. On campus, Chris works as a Research Analyst for the Financial Economics Institute and has served as co-president of the Student Investment Fund and president of "Inve\$t". Over the summer, Chris

interned as an investment banking analyst at Credit Suisse in Los Angeles.



**Will St. Clair**

*Will St. Clair* is a senior at Claremont McKenna College. He is majoring in Economics and will complete the Financial Economics Sequence. Prior to his junior year, Will competed in the decathlon for the CMS Track and Field Team and currently remains active in the sport. His interest in the decathlon led him to study abroad in Athens, Greece at the International Center for Hellenic and

Mediterranean Studies in the fall of 2005. Will interned as an Associate Consultant with the Boston Consulting Group in Los Angeles last summer.



**Paul Van Deventer**

*Paul Van Deventer* is a senior at Claremont McKenna College. He is majoring in Economics and will complete the Financial Economics Sequence. Besides working at the FEI, Paul is also involved in the Chamber Choir. Through his work with the choir, he participates in CMC's Madrigal Feast each December. After graduation, Paul anticipates pursuing a career in business. Paul interned with Cascade Investment in

Kirkland, Washington last summer.



**Zizheng Wang**

*Zizheng Wang* is a senior at CMC majoring in Economics and Mathematics and will complete the Financial Economics Sequence. She is originally from Guangdong, China. On campus, Zizheng works as a Research Analyst for the Financial Economics Institute, an Educational Technology Assistant, and as an Economics tutor. After graduation, she hopes to complete graduate school and pursue a business career in China. This past summer, Zizheng interned with UBS Financial Services in Century City.

# Financial Economics Institute

## 2006 Summer Research Analyst Internship Projects

### ASAF BERNSTEIN

*Faculty advisor: Lisa Meulbroek*

**Project 1:** Analysis of the SEC investigation into the options backdating scandal

- Evaluated papers and news articles to understand the option granting patterns of firms that had been accused of backdating options
- Gained an understanding of valuation techniques for stock options, while specifically studying exotic style lookback options
- Wrote a program in C++ to evaluate options

**Project 2:** Refereed papers that had been submitted for two journals

*What did I learn?* I can now use SAS, Stata, eViews, Matlab financial analysis, VBA, C++, WRDS, Execucomp, CRSP, ABI Inform, Thomson Financial, and SSRN.

### ALICE CHANG

*Faculty Advisors: Yaron Raviv and Marc Weidenmier*

**Project 1:** Is there enough information available to determine the economic significance of the number of used cars imported by countries?

**Project 2:** Evaluation of NYSE seat prices

- Used Stata and EViews to evaluate data
- Obtained historical records of NYSE seat prices by researching the Inter-University Consortium for Political and Social Research (ICSPR) database

*What did I learn?* I developed an ability to use Stata, EViews, WRDS, advanced spreadsheet formulation in Excel, and advanced topics in econometrics such as GARCH analysis and principle component analysis.

### KRISTEN CROUSE

*Faculty Advisor: Vijay Sathe*

**Project:** Examination of the venture capital industry

- Utilized Thomson Financial's VentureXpert database to locate venture capital firms' round investments in various companies
- Gathered VC firm rankings to identify which firms have the best reputations
- Researched investments in various ventures including Webvan, Homegrocer.com, and Signio
- Analyzed venture capital firm investments to determine why firms become lead investors and why firms invest with certain companies and not others

*What did I learn?* I learned how to use VentureXpert, CRSP, Compustat, and WRDS, while developing my Excel graphing skills and computational skills.

### CATHERINE POWERS

*Faculty Advisors: Eric Helland, Gary Smith, and Manfred Keil*

**Project 1:** Assessed FEI's database needs and gathered research and pricing information in order to develop the Institute's collection of databases

**Project 2:** Utilized GAO dataset to evaluate financial restatements and their effects on litigation, SEC detection, and shakedowns

**Project 3:** Researched the Fama Strategy which identifies optimal investment opportunities using forward rates (rather than interest rates) which are derived from the information in the term structures of zero-bonds

**Project 4:** Compiled a database of property tax policy information from around the nation by navigating state and local government websites

**Project 5:** Used Lexis Nexis to research the national and Inland Empire housing markets between 1985 and 1991

*What did I learn?* I am now confident using CRSP, WRDS, and GAO data, and I have developed my problem-solving and organizational skills.

### KURT SHELINE

*Faculty Advisor: Joshua Rosett*

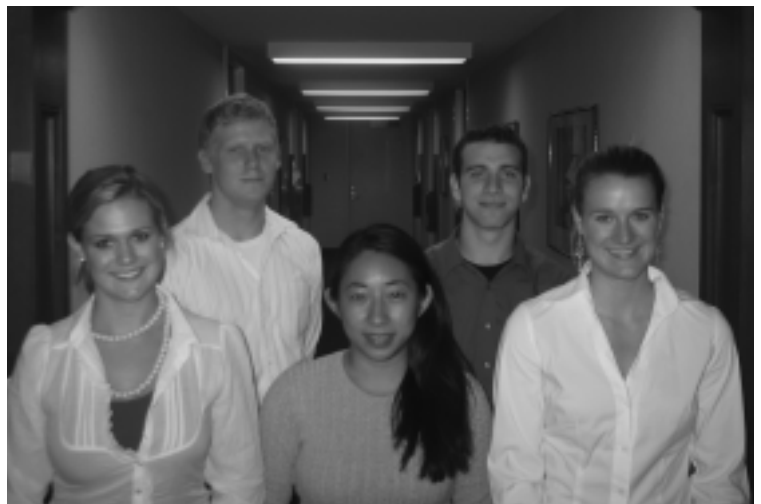
**Project 1:** Analyzing CEO's and their performance

- Completed and evaluated a CEO characteristics database to compare how a CEO's attributes affect company performance

**Project 2:** Researched Compliance Week database to find companies that have had problems with Sarbanes-Oxley compliance

**Project 3:** Collected data from state accountancy boards to determine the impact of the passage of the 150 Hour Rule for becoming a CPA

*What did I learn?* I gained experience using WRDS, Compustat, CRSP, Stata, and the Compliance Week database. I also became more proficient in Excel by learning how to create macros.



Back row, from left: Kurt Sheline '08 and Asaf Bernstein '08;  
Front row, from left: Catherine Powers '08, Alice Chang '07,  
and Kristen Crouse '08.

## What's in Your 403(b)? Academic Retirement Plans and the Costs of Underdiversification

Forthcoming, *Financial Management*

*John Angus, William O. Brown Jr., Janet Kiholm Smith, and Richard Smith*

*Summarized by Alice Chang '07, FEI Student Research Analyst*

RECENT CHANGES TO THE INTERNAL REVENUE CODE AND THE INSTatement of the Employee Retirement Income Security Act leave plan sponsors (employers) faced with the challenging task of balancing risk and return in regards to their employees' retirement savings opportunities. The debate over the optimal structure of retirement plans has crucial implications on the terminal wealth of academic employees and is directly concerned with the qualities of TIAA-CREF funds.

TIAA-CREF (Teachers Insurance and Annuity Association – College Retirement Equities Fund) currently manages over half of all 403(b) contributions and is the most popular manager among the top universities and colleges in America. In "What's in Your 403(b)? Academic Retirement Plans and the Costs of Underdiversification," Professors John Angus and Richard Smith of CGU, William O. Brown Jr. of University of North Carolina-Greensboro, and Janet Kiholm Smith of CMC examine the effects of reduced choice of 403(b) plan investment vehicles, specifically TIAA-CREF managed funds. Findings bear on the policy debate regarding the optimal structure of retirement plans (including how many investment choices to offer, liability exposure of plan sponsors, and autonomy of individuals in making investment decisions). The paper is forthcoming in *Financial Management*, the journal of the Financial Management Association.

Sponsors face potential litigation from two opposing challenges: first, if any employee who has many choices concentrates investments in narrow and risky asset classes, the sponsor may be subject to litigation because the employee was able to take excessive risk; or, if the permitted set of investment vehicles is overly restricted, asset classes that are important for achieving good investment performance may be excluded. Sponsors are responsible for making sure the employees have an adequately diverse array of investment choices while also monitoring that the risk-level of the available choices are appropriate.

In order to avoid potential litigation arising from failure to comply with the new policies, many institutions are opting to restrict retirement savings plans to the funds offered by TIAA-CREF. TIAA-CREF has been a popular choice because it offers a number of investment options and "free" monitoring of its investment vehicles. While this action can reduce the sponsors' monitoring and related expenses, the opportunity costs for employees can be high.

The authors find that an employee who uses the expanded menu could achieve more than twice the level of retirement wealth, assuming optimal portfolio rebalancing, and a typical work life. Historical data was used to compare the performance of the TIAA-CREF opportunity set to a larger set that includes several standard index funds. Results are generalized over a broad range of risk tolerance levels and financial sophistication.

The analysis is based on realized investment performance of TIAA-CREF funds over the 8.75 years beginning on April 1, 1997, and extending through December 31, 2005. These funds are compared to those of alternative manager Vanguard, which includes several standard index funds. The authors find that over a recent 8.75-year period, the menu of choices available from TIAA-CREF substantially underperformed what could have been achieved by the addition of a small number of index funds. They attribute this underperformance to the lack of key investment classes, and most importantly a value index, a small-cap index, an international equity index, and a Real Estate Investment Trust (REIT) index.

The authors show that the correlations among TIAA-CREF funds are always at least 0.86, and thus, the aggregate benefit of diversification is to reduce portfolio standard deviation by only about 3% (the greater the diversification benefit, the lower the portfolio standard deviation compared to the average of the underlying funds).

To examine the effects of risk aversion, the authors use a loss-avoidance value-at-risk (VAR) methodology. [VAR is defined as the probability that a risky portfolio will return less than the return from investing in a fund optimized to achieve a given level of risk, in this case, the CREF Money Market fund. Risk is measured as the annualized standard deviation of portfolio returns, and the authors consider three critical values of loss-tolerance.] The VAR method is implemented for simulating optimal portfolio rebalancing. If the critical value of returns for all risky portfolios is lower than the expected return for investing in the CREF Money Market fund, the Money



**John Angus** is the Dean of the School of Mathematical Sciences at Claremont Graduate University, and specializes

in probability, statistics, stochastic processes, and mathematical finance.



**William O. Brown Jr.** is an Associate Professor in the Department of Accounting and Finance at the Bryan School of

Business and Economics at the University of North Carolina at Greensboro, and specializes in financial economics and corporate finance.



**Janet Kiholm Smith** is the Von Tobel Professor of Economics at Claremont McKenna College where she serves as the

Director of the Financial Economics Institute and the Robert A. Day 4+1 BA/MBA Program, and specializes in industrial organization and new venture finance.



**Richard Smith** is Professor of Financial Management and Associate Dean at the Peter F. Drucker Graduate School of

Management at Claremont Graduate University, and specializes in corporate finance, entrepreneurial finance, and risk management.

Market fund is selected. Otherwise, the risky portfolio with the highest expected return is selected.

Figure 1 plots annualized mean returns and standard deviations, with TIAA-CREF funds on the left and Vanguard funds on the right. The authors find that TIAA-CREF funds not only had close to the lowest returns in comparison to funds with larger opportunity sets, they also had close to the highest total risk of investment choices. The CREF Growth fund has an estimated standard deviation of returns that is not significantly different from the highest-risk Vanguard index fund, and the fund also has the second-lowest realized equity fund return over the relevant period.

Using the VAR method, the authors determine long term differences among portfolios restricted to TIAA-CREF funds only, TIAA-CREF + Vanguard funds, and Vanguard funds only. Figure 2 shows the effect of compounding the expected annual return over investment horizons ranging from 10 to 40 years. For highly loss averse positions, the restrictions on investment choices have little effect, even for long horizons. But positions with high standard deviations

experience significantly lower returns due to the restrictions. The authors find that an employee who invests \$4,000 in a plan limited to the TIAA-CREF funds at the highest attainable risk level (13%) would have an expected retirement savings of \$108,000, compared to about \$265,000, which is the expected value of investing in TIAA-CREF + Vanguard or Vanguard funds only.

In macroeconomic perspective, if all TIAA-CREF participants were restricted to only TIAA-CREF over a forty-year horizon, the estimate of the terminal wealth loss is between \$700 billion and \$4.2 trillion, depending on the mix of investor sophistication levels. Another challenge for sponsors is providing acceptable options for employees with a wide array of financial knowledge.

The analysis in this paper is timely because recent mutual fund scandals and changes in the Internal Revenue Code have prompted plan sponsors (employers) to re-examine the set of investment options they make available to employees. An optimal approach might include different options for employees of different financial sophistication. ▲

Figure 1

Annualized Means and Standard Deviations of Returns by Investment Vehicle  
Based on Monthly data from April 1, 1997 to December 31, 2005

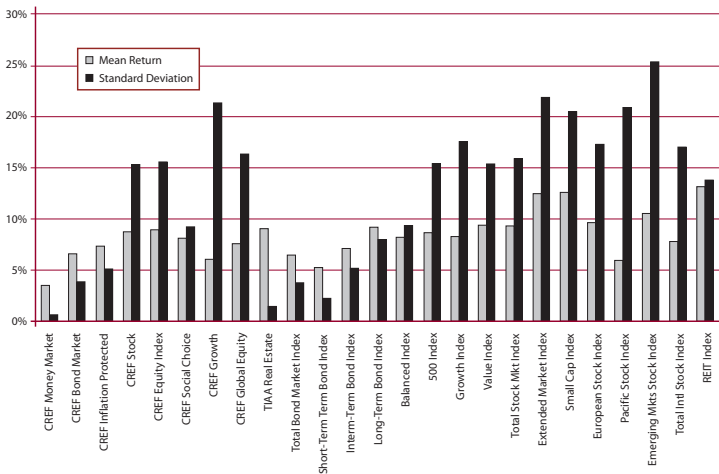
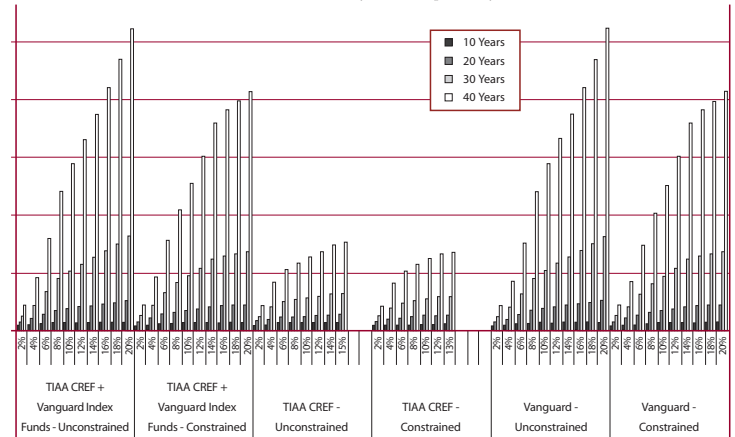


Figure 2

Cumulative Value of \$1 Invested at Various Risk Level in Alternative Portfolios  
Optimized based on realized returns from April 1, 1997 through December 31, 2005. Risk is measured as annualized standard deviation of portfolio returns. Constrained returns have maximum weights of one third in any fund except money



ZVI BODIE

September 25, 2006

By Paul Van Deventer '07, FEI Student Research Analyst

Life Cycle Investing in Theory and Practice

ZVI BODIE, THE NORMAN AND ADELE Barron Professor of Management at Boston University, spoke at the Marian Miner Cook Athenaeum as the fall lecturer for the Financial Economics Institute's Speaker Series.

Professor Bodie discussed widespread

incorrect financial advice in America and advocated sensible life-cycle investing. He criticized the popular financial wisdom that overestimates future equity gains, underestimates long-term equity risk, and ignores risk-free investments. He expressed his belief that large financial organizations, the press, and even the SEC are misleading the public in their financial advice. Professor Bodie predicted that innovations in financial products will reshape how individuals invest. Such products will enable investors to experience much of the upside of the stock market while being insured against the potential downside.

Professor Bodie has written extensively on investments and pension finance. He recently published a book about sensible financial planning for novice investors

entitled, *Worry Free Investing: A Safe Approach to Achieving Your Lifetime Financial Goals* (2003). In addition, the Financial Planning Association and the Society of Actuaries employ his textbook *Investments* (2004) as part of their official certification process. He wrote the textbook *Finance* (2000) with Robert C. Merton, a Nobel Prize-winning economist. In addition, Professor Bodie has authored books on pensions including *Financial Aspects of the U.S. Pension System* (1983), *Issues in Pension Economics* (1987), *Pensions in the U.S. Economy* (1987), and *Foundations of Pension Finance* (2001).

Professor Bodie received his Ph.D. from MIT and has previously taught at Harvard Business School and the Sloan School of Management at MIT. ▲

## What Determines the Variability of Accounting Accruals?

*Review of Quantitative Finance and Accounting*, 24, 2005: 313-334

Joshua Rosett et al.

Summarized by Kurt Sheline '08, FEI Student Research Analyst

EARNINGS MANIPULATION AND unethical accounting practices are serious financial issues that have become persistent problems in the corporate world. In recent news, Fannie Mae agreed to pay \$400 million to settle allegations that it had manipulated earnings. The company was accused of precisely hitting earnings targets each quarter and overstating reported income and capital by an estimated \$10.6 billion. Income had allegedly been “managed” to show smooth profit growth.

One possible explanation of managing earnings involves accounting accruals, which occur when there is a timing difference between economic activity and cash flows. For example, accruals allow a firm to recognize revenue for sales even if the cash has not yet been collected. Disassociating revenues and expenses from cash flows creates opportunities for firms to shift income between years to achieve goals other than accurate income measurement. The practice of discretionary accrual manipulation can be used by companies like Fannie Mae to manage earnings; in effect deceiving their investors in hopes of increased profit.

A potential indicator of this practice is accrual variability, which provides a measure of managers' accounting discretion. Unfortunately, the factors that drive this variability in accruals are inadequately understood. In the paper by Professor Joshua Rosett et al., “What Determines the Variability of Accounting Accruals?” this variability is discussed across firms and across time to analyze significant explanatory factors.

Examining accrual variability provides a measure of normal accounting discretion exercised by managers. To determine if a firm is engaged in earnings management, a comparison of current period accruals to their overall variability can be used. If the event-specific accruals go beyond the normal level of discretion exhibited by accrual variability, they can be considered “abnormal.” Accrual variability provides a benchmark measure of the general level of accounting discretion. A relatively large variability allows managers more accounting discretion in which earnings management would have to be significantly large for it to be detected. While discretionary earnings management may explain some accrual variability, other factors are certainly significant.

Based on regression analysis, the authors concluded that accrual variability decreases with firm size and increases with leverage, variability of cash flows, operating cycle, and growth. The study found that large firms with lower overall operating volatility have lower variability of

accruals. Larger firms also have less incentive to manage earnings than small firms because large firms are more politically sensitive and bear higher political costs once they are discovered to have managed earnings.

Cash flow variability was one of the key determinants of increased accrual variability. In volatile operating environments, accrual variability increases due to the desire to make earnings more informative or as a result of opportunistic earnings management. Operating cycles also impacted variability since accruals are used to reduce the timing and matching problems of cash flows. For example, a firm with a long operating cycle requires large modifications in working capital, causing cash flows to become less valuable as a measure of performance. In addition, higher leverage may alter earnings management behavior. As a firm's debt-to-equity ratio increases, managers become more likely to look towards income increasing accounting practices.

Industry type also accounts for a significant explanation to the variability of accruals. Highly regulated firms have low accrual variability since the potential costs of earnings management in a highly regulated environment are larger than those for unregulated firms. There are also significant differences across industries. For example, manufacturing and service industries have higher variability than other types of industries.

As shown in Figure 1, a striking trend is found in plotting accrual variability over time. Three models were used in the analysis of



▲ **Joshua Rosett** is an Associate Professor of Economics and Accounting at Claremont McKenna College, and specializes in financial reporting, intangible asset measurement, and firm valuation.

variability. In model 1c, which removes the mean effects, variability changes are much smoother and more prominent.

It is important to note that the economic effects considered in this paper represent nondiscretionary variation effects on accruals. If this variability is still somewhat successful in capturing discretion in earnings management, then the claim by Levitt (1998) – “earnings management is on the rise” is certainly valid.

It is obvious that earnings management is occurring in the financial world. When companies like Fannie Mae are found to be guilty of fraudulent practices, one wonders about underlying ethics. While accrual variability may be a sign of discretionary earnings manipulation, it certainly cannot ultimately explain this behavior. Perhaps as our understanding of accrual variability becomes more complete, we will be better able to identify those guilty of earnings management and purify the ethics of the corporate world. ▲

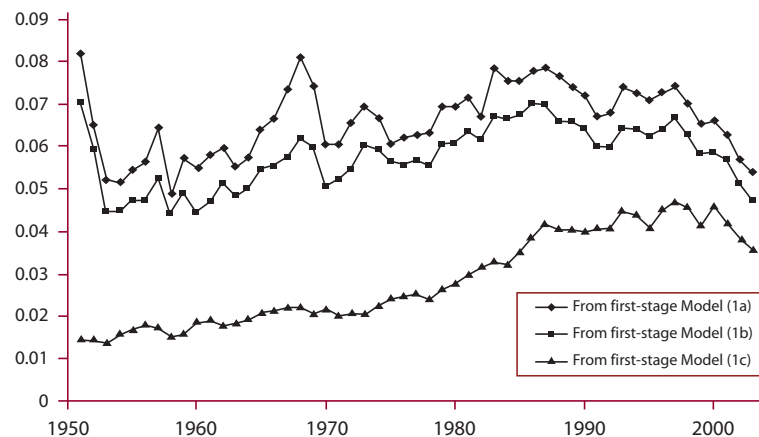


Figure 1. Changes in the variability of accruals over time. For each year, the variability of accruals is measured as the mean absolute value of the residuals estimated from the first-stage Model (1a):  $TA_{it} = a + \varepsilon_{it}$ , Model (1b):  $TA_{it} = \infty_0 + \infty_1 1/Assets_{i,t-1} + \infty_2 \Delta Rev_{it} + \infty_3 PPE_{it} + \varepsilon_{it}$ , Model (1c):  $TA_{it} = \infty_0 + \infty_1 1/Assets_{i,t-1} + \infty_2 \Delta Rev_{it} + \infty_3 PPE_{it} + \varepsilon_{it} + b'z_{it} + \varepsilon_{it}$

## FEI Board of Advisors Profile: Cody J Smith '79

### Goldman Sachs & Co.

By Will St. Clair '07, FEI Student Research Analyst

#### Can you please tell us about your current role at Goldman Sachs?

Well, it's really the same type of role I played when I started at Goldman Sachs, which has been giving advice on merger and acquisition situations to corporations. That's why I joined the firm and that's really what I've been doing the last 22 years. I help companies think about the financial and other merits of parting with businesses or trying to buy other business.

#### When you started at Goldman in 1984, did you have any idea that you would stay with the firm for so long?

First of all, let me say that the reason I went to Goldman was that I liked the people I met in the interviewing process; the caliber of the people and my perception of their willingness to teach me was higher than the other people I talked to. I wasn't just trying to be in investment banking, the other jobs I thought about taking were actually in venture capital and real estate. It was very much about trying to find a small group of people that I thought I could learn from who worked in situations that required thinking about entire companies, and that's what drew me. I grew up in Colorado and I actually hadn't spent much time in New York City before I came to work at Goldman. I really didn't think I would have the patience for New York for more than two or three years. I thought it would be fine to start my career that way and then go somewhere out west; I just haven't yet made it out west.

#### What would say has been the most challenging aspect of your work?

Well, for anyone thinking of a career in investment banking I would say that the challenge pretty much everyone comes face to face with in the beginning is what I'll call time management. There's always too much to do and you have to be thoughtful about what you choose not to do. It's very tough, especially for people that are used to always succeeding and always pleasing whoever they're working with or for because you just can't do it.

#### What has been the most rewarding aspect of your work?

There are a lot of rewarding aspects. I think the most rewarding is that, and it's a testimony to why I'm still doing this after 22 years, in general the work is really interesting. It's a mixture of art and science and every situation is a little bit different. There's always another layer of thought that you

can apply, and it's been pretty fascinating. Of course, part of why it has been so rewarding is because I've had the privilege of working with really talented people.

#### You received degrees in engineering from both CMC and Stanford, has that part of your education been particularly useful in your work?

I think it has, in part because in investment banking, but also out in the broader world, it's very useful to be numerate; to understand how to approach a problem analytically. That's not to say that every problem has an analytical answer, but just about every problem has an analytical framework that can help you understand it and make a decision. In addition to that, my particular background is industrial engineering, which is involved in manufacturing settings and I ran into a lot of situations where I thought I was more comfortable with the nature of my client's business than I might have been had I not had that engineering background.

#### What do you think is the value of a liberal arts degree for a graduate who wants to work in a finance-related field?

I think the value of a liberal arts degree is that the most important thing that education can help a person do is learn how to think and learn how to balance arguments. Learning to think critically about what data you have, what data you don't have, and what conclusions can safely be drawn is an invaluable skill, as is having some ability to understand the perspective of another person. Those are things that I think a liberal arts background can enhance. I would say finance is not different than most fields on those categories: the ability to think is primary and other on-the-job type skills or more focused, detailed skills can be learned by someone with good thinking and listening skills.

#### What sort of skills and characteristics do you look for when interviewing potential employees?

Truth be told, I'm not on the interview circuit anymore, but it depends on whether you're talking about an analyst position as opposed to what I'll call a career position. In either case, you're looking for people with intellectual curiosity, a high energy level, good thinking skills, and a sense of humor who enjoy working with people.

#### Some have started to question the value of an MBA; having one yourself, do you feel it no longer holds the same weight in the hiring process?

When I got out of business school in 1984, there was a little bit of a feeling that you needed to have an MBA to be in the applicant pool for certain positions. It wasn't so much that the MBA was going to give you training that was so important, it was a way for the employees to narrow the field. The selection criteria for the most competitive MBA programs were deemed to be useful selection criteria for these employers. That's still true in a number of fields and I also do think that the general management concepts that I was exposed to in business school have been useful and would still be useful to someone coming into investment banking. That said, the number of people that are going into trading and investing business as opposed to advice-giving business is much different now, and I think those employers may be less focused on whether somebody's got an MBA or not. The flip side is they're probably focused on whether a candidate has useful real world experience like at an investment bank. We see a lot of people, after two years as an analyst, go off to hedge funds or private equity funds and it's because their training is really valuable and their next employer isn't hung up over whether they have an MBA or not.

#### Apparently mountaineering is a big hobby of yours, what has been your most memorable hike to date?

I've done a lot of climbing and intend to do more as time goes on. The biggest recent memory was in 2003 with two of my brothers when I climbed Mount McKinley, which is more commonly known as Denali. That was a big effort; we did it with just the three of us. We didn't hire any guiding help and we were on the mountain for 21 days. It really would have been a terrific experience whether we got to the top or not, but we made it to the top, so that's an added bonus.

#### Do you have any trips planned for the near future?

We're talking about going down to South America: there are a lot of big mountains there, the highest is Aconcagua. I don't know if we'll try it this winter but if not this winter then next winter. That's the next noteworthy effort.

#### In closing, do you have any advice that you would like to share with current CMC students?

Enjoy your time at school because you'll be in the work-a-day world soon enough. ▲

## Financial Economics Institute Fall 2006 Student Research Analysts

DURING FALL 2006, THE FINANCIAL ECONOMICS INSTITUTE HIRED TWELVE Research Analysts to assist faculty members with research projects. The following is a list of students, the topics they are researching, and their faculty advisors:

**ASAF BERNSTEIN '08**, HMC, *Back-Dated Options*, with Professor Lisa Meulbroek

**CHRIS BRIGHAM '09**, CMC, *The Makings of Success in Venture Capital*, with Professor Vijay Sathe

**EMILY CHOU '07**, CMC, *The Fundamental Value of Single-Family Homes*, with Professor Gary Smith

**DANIEL JAGER '08**, CMC, *Efficiency Effects of the Composition of Boards of Directors in Europe and the United States*, with Professor Joshua Rosett

**JERRY LIN '07**, CMC, *Macroeconomic Variables as Determinants of Trends in MBA Applications*, with Professor Janet Smith

**CATHERINE POWERS '08**, CMC, *Corporate Social Responsibility, Institutional Investors and Transparency*, with Professor Murat Binay; *Organizational Structure and Inefficient Response to Secular Declines*, with Professor Janet Smith

**DANIEL SIMON '07**, CMC, *Behavioral Economics*, with Professor Paul Zak

**WILL ST. CLAIR '07**, CMC, *Intra-Industry Information Transfer Effects of Oil Reserve Revisions*, with Professor Janet Smith

**CHRIS URBAN '07**, CMC, *Quality of Earnings*, with Professor Janet Smith

**PAUL VAN DEVENTER '07**, CMC, *Research Securities Class Action Lawsuits*, with Professor Janet Smith and Professor Eric Helland

**ASEEM VYAS '08**, CMC, *Product Markets and Derivatives Use: Evidence from Local MSA Banking Markets*, with Professor Sandy Klasa

**ZIZHENG WANG '07**, CMC, *Hedge Funds*, with Professor Janet Smith



Back row, from left: Chris Brigham '09, Paul Van Deventer '07, and Dan Simon '07; Front row, from left: Chris Urban '07, Catherine Powers '08, and Jerry Lin '07; Not pictured: Asaf Bernstein '08, Emily Chou '07, Daniel Jager '08, Will St. Clair '07, Aseem Vyas '08, and Zizheng Wang '07.

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## Upcoming Events

### New York City Networking Trip January 8 – 12, 2007

Fifteen students will visit prestigious firms in NYC to gain exposure to various job opportunities in the financial markets and to establish relationships with CMC alumni working at these companies.

### Financial Economics Institute Speaker Series – Andrew W. Lo February 13, 2007

Andrew W. Lo is the Harris & Harris Group Professor of Finance at the MIT Sloan School of Management and the director of MIT's Laboratory for Financial Engineering. He is currently a governor of the Boston Stock Exchange, a research associate of the National Bureau of Economic Research, a member of the NASD's Economic Advisory Board, and founder and chief scientific officer of AlphaSimplex Group, LLC, a quantitative investment management company based in Cambridge, Massachusetts.



CLAREMONT MCKENNA COLLEGE

Bauer Center, Room 321  
500 East Ninth Street  
Claremont, CA 91711-6400  
Phone: (909) 607-0042  
Fax: (909) 607-0088  
E-mail: FEI@cmc.edu

Website: <http://fei.claremontmckenna.edu>