

The Exchange

NEWS FROM THE FINANCIAL ECONOMICS INSTITUTE AT CLAREMONT MCKENNA COLLEGE

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Director's Report



Eric Hughson

THIS YEAR, THE FEI embarked on its fifth year—and my first year as director. The FEI is the finance research arm of the Robert Day School of Economics and Finance. Since its inception, nearly one hundred students have been associated with the FEI as Research Analysts, completing projects in conjunction with faculty members from the Claremont community. Further, the FEI provides data and other research support for the faculty. It also sponsors public lectures by respected finance academics at the Athenaeum—this year, our speaker series will feature Darrell Duffie of Stanford University, who is an expert in credit risk. Finally, the FEI sponsors a conference every two years on a topic of interest to students, finance academics, and finance professionals. Our last conference, in Spring 2008, was a joint conference with the LRN-RAND Center for Corporate Ethics, Law, and Governance on *The Future of Securities Fraud Litigation*. We also co-sponsored the *PEIF Political Economy of International Finance* conference that was

held at Scripps College last spring. This conference rotates among a select group of schools, including Harvard, Berkeley, Michigan, Georgetown, and Emory. The support for these activities is made possible by generous contributions from our Board of Advisors and Associates and the BGI Fellowship Program, which provides support for faculty-student research on investment management topics. Our research efforts have resulted in articles published in outlets such as *The Quarterly Journal of Economics*, *The Journal of Finance*, *The Journal of Financial Economics*, *The Journal of Law and Economics*, *The Journal of Banking and Finance*, *The Journal of Financial and Quantitative Analysis*, *The Journal of Corporate Finance*, *Applied Financial Economics*, and *Financial Management*.

Because of the Robert Day gift, this year we were able to hire three new faculty members in finance: Professors Amir Barnea, Henrik Cronqvist, and Fan Yu. Although they have been here only a short time, they are already getting to know our CMC students in a number of ways. All three are working with students on FEI-sponsored

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

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research. In addition, Professor Cronqvist is teaching two sections of the research seminar, Econ 180, as well as another advanced finance elective, and is supervising FEI students on thesis projects. Professor Yu is currently teaching two sections of investments and supervising students on thesis projects. Professor Barnea comes to us most recently from the University of Texas, where he was an assistant professor. His PhD is from the University of British Columbia. He is an expert in empirical corporate finance, and has been working recently on whether the connections of a corporate board of directors influence corporate performance. He also has written about the efficacy of corporate social responsibility. Professor Cronqvist was an assistant professor at The Ohio State University,

having received his PhD at the University of Chicago. He is an expert in both empirical corporate finance and behavioral finance. Professor Yu had been an associate professor at Michigan State University, having also taught at the University of California, Irvine. He received his PhD from Cornell University. He is an expert in credit risk and is interviewed elsewhere in this issue.

Our three new faculty will not only teach in the new Master's of Finance program at the Robert Day School, but they have also enabled us to greatly expand the number of electives available to those undergraduates taking the Financial Economics Sequence. There are currently 87 such students, including 32 seniors currently enrolled. In addition to last year's offerings in corporate finance and advanced corporate finance, we have Professor Cronqvist's new course on advanced corporate finance, which focuses on corporate governance, and

Professor Yu's new course on derivatives.

Finally, we are very pleased to welcome new Board Associates Brian Badertscher '96 and Nicholas Shurgot '95 and Advisors Justin Hance '06 and Grant Kvalheim '78 P'12. Mr. Badertscher is a Managing Director at Bank of America Securities, which he joined in 1998 to help found the Equity Derivatives business. Mr. Shurgot is a Senior Vice President at Trinity Capital, LLC. Trinity is a boutique investment banking firm providing a wide range of financial advisory services to middle market firms, including M&A, distressed advisory and restructuring, valuations and fairness opinions and private placements of debt and equity. Mr. Hance is an Investment Analyst with Cascade Investment. Finally, Mr. Kvalheim is the retired Co-President of Barclays Capital.

Eric Hughson, Director, FEI ▲

2008 – 2009 BGI/Larson Asset Management Fellows

The BGI/Larson Asset Management 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:



Scott Arnold '09

Scott, a senior at Claremont McKenna College, is majoring in Economics and plans to complete the Financial Economics Sequence. Originally from San Juan Capistrano, California, he grew up in Lafayette, California. Scott has returned to his native Southern California roots for college. In addition to working as a BGI Asset Management Fellow at the Financial Economics Institute, he serves as the Chief Executive Officer of the Student Investment Fund and INVE\$T. This past summer, Scott was an intern at Morgan Stanley & Co, Inc. where he worked in the Mergers & Acquisitions Group. In the summer of 2007, he worked on transactions in Mergers & Acquisitions and Leveraged Finance at UBS Investment Bank in Los Angeles. After graduation, Scott will be joining Banc of America Securities as an investment banking analyst in their Los Angeles office.

CMS Track and Field, the Student Investment Fund, and the Rose Institute of State and Local Government. He interned this summer at Cascade Investment in Kirkland, Washington and will be working there full-time after graduation.



Nick Sparks '10

Nick is a junior at CMC dual majoring in Economics and Literature, and plans to complete the Financial Economics Sequence. Originally from La Cañada, California, Nick is a Southern California native who grew up playing sports and Frisbee golf. In addition to working as a Research Analyst for the Financial Economics Institute, Nick is the Principal of Media & Gaming for the Student Investment Fund, Head of the Public Relations group for the Claremont Finance Conference, and a defender on the Stag's Soccer team. After graduation, Nick plans to work in finance.



Doug Fagan '09

Doug is a senior at CMC. He is pursuing an Economics major with the Financial Economics Sequence. Originally from Woodcliff Lake, New Jersey, Doug spent eleven years living in Singapore before attending CMC. Doug heads the internationals group of the Student Investment Fund and helped organize October's Claremont Finance Conference. Last summer, Doug interned at Cascade Investment in Kirkland, Washington and will be returning full-time after graduation.



Yang (Amanda) Yang '10

Amanda is a junior at CMC majoring in Economics and Mathematics with the Financial Economics Sequence. She was born and grew up in Beijing, China. This past summer she worked at Houlihan Lokey Howard & Zulin Investment Banking Services in New York City in Corporate Finance Group. In addition to working at the FEI, Amanda is also a Baker-Lowe Scholar of the Lowe Institute of Political Economy and a Kravis de-Roulet Conference Fellow of the Kravis Leadership Institute. She is the Co-President of the Student Alumni Relations Committee of CMC and involved with various extracurricular activities such as the Student Investment Fund and the Claremont Finance Conference.



Peter McGah '09

Peter is a senior at CMC. He is pursuing a dual major in Economics and Classical Studies along with the Financial Economics Sequence. Peter is from Leawood, Kansas and has been involved with

The Market for Corporate Control and the Cost of Debt

Accepted for publication by the Journal of Financial Economics

Fan Yu (Claremont McKenna College), Jiaping Qiu (DeGroote School of Business at McMaster University)

Summarized by Scott Arnold '09, FEI Student Research Analyst and 2008-2009 BGIL Larson Asset Management Fellow

HENRY KRAVIS, THE BUYOUT KING of *Barbarians at the Gate* fame, suggested that 2004-2006 were the years of the golden age of private equity and mergers & acquisitions. The availability of cheap financing, or “leverage,” allowed buyout firms and other acquirers to go after larger targets in ever more public transactions. Given the glut of leveraged transactions in 2005, 2006, and 2007, a significant body of research studying the effects of corporate decision-making on bondholder wealth has emerged. While the dominant corporate objective is the maximization of shareholder wealth, the outright expropriation of bondholder wealth in many leveraged transactions has driven a legal backlash from bondholders. Especially in response to the Canadian court’s initial decision in the Bell Canada case, bondholder wealth redistribution has become an increasingly relevant topic. In relation to the market for corporate control (mergers & acquisitions), the effects on bondholder wealth are still largely untested.

In *The Market for Corporate Control and the Cost of Debt*, Jiaping Qiu and Fan Yu investigate the effects of state anti-takeover laws on the cost of debt. Specifically, the authors examine the enactment of business combination laws between 1985 and 1991. Business combination laws are “second-generation”—they come into effect after initial corporate control laws and specifically limit the activities of corporate raiders and buyout firms—and are very stringent. They identify three distinct effects that could affect bondholders and therefore the cost of debt after the passage of business combination laws: the “quiet life” effect, the “coinsurance” effect, and the “increasing leverage” effect. Using an analysis of credit spreads—a measure of the difference between the interest rate on a “risk-free” treasury instrument and a corporate debt instrument—and their reaction to the passage of business combination laws, Qiu and Yu test the magnitude of each of these effects.

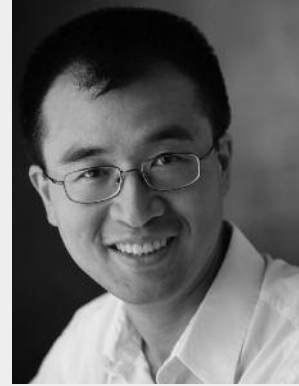
The “quiet life” is identified as the effect of the market for corporate control on managerial preferences and decision-making. In the absence of an active corporate control market, shareholders cannot rely on a merger

or acquisition to remove bad management and instead must engage in costly shareholder activism. The “quiet life” effect describes this phenomenon. Prior research has described the market for corporate control where managers compete for the “privilege to manage a firm’s resources.” This research also shows that the “quiet life” effect does not exist in a competitive market, because poor management teams would be quickly recognized and controlled by shareholders. Therefore, the “quiet life” effect only affects the cost of debt in a noncompetitive market.

The “coinsurance” effect takes place in an actual takeover as the acquirer’s and target’s risk profiles change during a corporate event. A change in the risk profiles causes a change in the credit spread. The effect states that when two firms with imperfectly correlated cash flows combine, there is a reduction in total risk because of the principle of diversification. Empirical evidence supports this by indicating a statistically significant positive excess return to bondholders around the takeover announcement.

The final effect, the “increasing leverage” effect, suggests that hostile takeovers cause management to expropriate bondholder wealth. Management does this by increasing leverage or inefficiently using liquid assets to fend off the takeover. In addition, if the hostile takeover is a leveraged buyout, leverage will increase dramatically, causing bondholder losses.

By using business combination laws, Qiu and Yu use a completely exogenous measure of the market for corporate control. In using this exogenous measure, they establish the complex relationship between these three effects. They compare the change in credit spread at the time the law is passed for firms that are affected to the change in credit spread for firms that are unaffected, holding constant other determinants of the credit spread. Qiu and Yu find that the “quiet life” effect is associated with an increase in the credit spread in all but the most competitive industries. The passage of anti-takeover laws misaligns shareholder and management interests by making the market for corporate control less active. The “coinsurance” effect



▲ **FAN YU** is an Associate Professor of Financial Economics at CMC who has many interests including investments, derivatives, fixed income securities, and credit risk modeling.

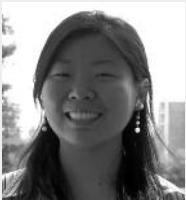
is not present in investment grade firms (high quality borrowers); however, speculative grade firms (low quality borrowers) show a highly significant increase in the credit spread. This suggests that bondholders expect steep losses in “coinsurance benefit” in takeovers where the target already has speculative grade debt. The “increasing leverage” effect is not statistically significant when controlling for other factors, suggesting that during this sample period bondholders were generally not concerned about being expropriated by leverage-increasing takeovers. This last finding appears to be at odds with recent studies that use a firm-level corporate governance index to examine the effect of the market for corporate control on bondholder wealth.

In the past three years, the surge in leveraged buyouts and similar transactions has made the redistribution of bondholder wealth a significant topic of discussion. Because corporations are managed in the interest of the equity holders, the effects on bondholder wealth have been less documented than issues affecting shareholders. Qiu’s and Yu’s paper provides a significant addition to the growing body of literature surrounding determinants of bondholder wealth. ▲

Financial Economics Institute 2008 Summer Research Analyst Internship Projects



Alex Bonnett '09



Freya Lee '09



Nikolas Miller '10



Jane Pan, HMC '09



Benjamin Preskill,
HMC '09



Nicholas Sparks '10

ALEX BONNETT '09

Faculty Advisors: Henrik Cronqvist and George Batta

PROJECT 1: Analysis of Corporate Debt Structure Pre and Post IPO

- Used SEC Edgar database to collect debt information and notes from both pre IPO and post IPO financial statements
 - Created database of over 600 companies' debt structure information from years 1996-2004
-

FREYA LEE '09

Faculty Advisors: Richard Burdekin, George Batta, and Janet Smith

PROJECT 1: US ADR discounts of firms listed on the Taiwan Stock Exchange

- Gathered and plotted data from Bloomberg and the Taiwan Stock Exchange on closing prices, trading volume, exchange rates, market capitalization, and P/E ratios
 - Calculated the ADR discount for the firms
-

PROJECT 2: Portability of Star Winemakers' Performance (continuation of Jane Pan's project)

- Collected background information of award-winning winemakers and wineries
 - Prepared correspondence with winemakers and wineries to retrieve missing information
-

PROJECT 3: The True Indebtedness of Companies

- Used Stata, Excel, and data from Moody's Financial Metrics to gather information on non-standard public adjustments made to liability categories
-

PROJECT 4: Ranking Economics Departments

- Collected facts on economics faculty members at top liberal arts colleges, assembled curricula vitae, and gathered information about scholarly publications
-

PROJECT 5: Thomson One Banker Data Manual

- Identified a sample of firms that repriced executive stock options in 2007 using Thomson One Banker

NIKOLAS MILLER '10

Faculty Advisors: Ananda Ganguly and George Batta

PROJECT 1: Financial Statement Presentation Project

- Researched the ongoing FASB and IASB 'Presentation Project' to determine current progress and opinions about the joint agency project in preparation for lab experiments which will be designed and run during the fall semester
-

PROJECT 2: Pro Forma and Analyst Adjustment Project

- Hand-collected data for a quarterly and an annual subsample of the company, debt analyst, and equity analyst adjustments to GAAP earnings which included categorical classifications of the adjustments
 - Collected earnings data from Compustat and merged it with data from Moody's and FirstCall
-

PROJECT 3: Bloomberg Tutorial

- Created a tutorial for obtaining data of foreign firms; retrieved daily return data for these firms and relevant stock market indices off of the Bloomberg terminal
-

JANE PAN, HMC '09

Faculty Advisors: George Batta and Joshua Rosett

PROJECT 1: Forecasting Bankruptcy and Defaults

- Used Lexis Nexis to identify company default dates and categorize the default events
 - Used CRSP, Compustat, and I/B/E/S to collect financial data on each company
 - Used Stata to merge data and calculate residual-income value to price ratio
-

PROJECT 2: Portability of Star Winemakers' Performance

- Gathered preliminary data on star winemakers and winery characteristics to determine whether the winemakers' skills are firm-specific or not

BENJAMIN PRESKILL, HMC '09

Faculty Advisors: Lisa Meulbroek, Eric Hughson, Marc Weidenmier, and George Batta

PROJECT 1: National Banking System

- Gathered data pertaining to crisis events in the national banking system in the late 19th and early 20th centuries. Compiled data from books into an Excel spreadsheet and then organized the spreadsheet

PROJECT 2: Dataset Analysis

- Performed a pivot-table analysis on a large dataset correlating months with interest rates (among other parameters)

PROJECT 3: Error Finding Mission

- Validated Asaf Bernstein's (HMC '08) code from his thesis project, "Can A Lender-of-Last-Resort Stabilize Financial Markets? Lessons from the Founding of the Fed"

NICHOLAS SPARKS '10

Faculty Advisor: Eric Hughson

PROJECT 1: Beta Estimation Techniques

- An evaluation of Marshall Blume, Oldrich Vasicek, and Merrill Lynch's beta estimation techniques. Used Stata regressions of historical stock returns on market returns for individual firms, grouped in various fashions, to determine the average deviations of the above techniques from the ordinary least squares predictions

PROJECT 2: Event Study

- An event study of bond downgrades on bond prices, credit default swap prices, and stock prices ▲

Claremont Finance Conference

October 3, 2008

By Yang (Amanda) Yang CMC '10, FEI Student Research Analyst and 2008-2009 BGI/Larson Asset Management Fellow

THE SECOND ANNUAL CLAREMONT Finance Conference continued the success of last year's Wall Street Weekend. The one-day event was held in the McKenna Auditorium on CMC's campus, on Friday, October 3, 2008, and attracted students, alumni, and professors from all of the Claremont Colleges.

It started with an introduction by Professor Janet Smith, Dean of the Robert Day School of Economics and Finance at CMC. In the morning, the conference featured an Alternative Assets Panel, during which Wei Li from Whitebox Advisors, Peter Sasaki from Logos Capital Management, and Jeff Heitzman from Chicago Trading Company talked about hedge funds and asset management. Professor Ludwig Chincarini of Pomona College moderated this panel and related the discussion to the current financial crisis.

Following the first panel, Harry McMahon (CMC '75), Vice Chairman of Merrill Lynch and Chair of CMC's Board of Trustees, gave a presentation on the future of the investment banking industry. The informative talk addressed issues regarding the turmoil in the financial industry and provided insight on the future trends of the business.

After a brief break, the conference moved to the Athenaeum where a keynote address was given by Henry Kravis (CMC '67), a Founding Partner of leading private equity firm, Kohlberg Kravis Roberts & Co. After lunch, he talked about KKR, private equity, and his career path. Mr. Kravis also provided the students with valuable advice.

After transitioning back to the McKenna Auditorium, the conference continued with the second panel which focused on private

equity. Panelists included Trevor Parris from Freeman Spogli & Co., Anthony Polazzi from Sun Capital Partners, Mike Sekits from JAM Equity Partners, and the moderator was Professor Henrik Cronqvist of the Robert Day School of Economics and Finance at CMC. The panelists discussed the on-going financial crisis and its effect on the private equity industry.

The conference concluded with a networking reception in McKenna Auditorium. With over one hundred students in attendance and significant alumni participation, the conference was a success. It provided students with exposure to the financial industry, while the panelists offered insight and advice for students interested in a career in finance. It also provided a platform for great opportunities to network with alumni working in finance.

The conference was solely planned and organized by students from across the five undergraduate Claremont Colleges. The Planning Committee members were Scott Arnold (CMC '09), Faye Andriejanssen (CMC '09), Doug Fagan (CMC '09), Nicholas Sparks (CMC '10), Yang (Amanda) Yang (CMC '10), Yuchen Zhang (CMC '10), Thomas Church (Pomona '09), Levon Balayan (Pomona '09), Matt Jensen (Pomona '10), Holly Poole (Scripps '09), and Rishad Manekia (HMC '09). The conference received generous sponsorship from the Robert Day School of Economics and Finance at CMC, the Financial Economics Institute at CMC, the Economics Department at Pomona College, Sagehen Capital Management at Pomona College, the Scripps Student Investment Fund, and the Chicago Trading Company. ▲

FEI Board of Advisors Profile: Philip B. Flynn '79

Vice Chairman and Chief Operating Officer, Union Bank of California

By Nicholas Sparks '09, FEI Student Research Analyst and 2008-2009 BGI/Larson Asset Management Fellow



Philip B. Flynn '79

CAN YOU PLEASE DESCRIBE YOUR CAREER PATH SINCE GRADUATING FROM CLAREMONT MCKENNA COLLEGE?

After graduating with a degree in Lit in 1979 and doing odd

jobs, including cleaning pools around Claremont, I joined Union Bank in January of 1980. I went through the management training program for a couple of years. The program required proficiency at the intermediate accounting level so I took some courses at UCLA Extension during this time.

In 1982, I joined the Energy Capital Services Division and progressed rapidly to the VP level in 1984 and SVP and manager of the division in 1987. I was very involved in the early days of financing alternative energy projects.

I continued to manage our Energy business for the next ten years or so and became an EVP in 1997. After that I ran Commercial Banking for a few years, and was the Chief Credit Officer for three years starting in 2000. In 2004, I was promoted to Vice Chairman and ran all of our wholesale lending businesses. In 2005, I assumed my current role of Chief Operating Officer and was elected to the Board of Directors.

I am thus approaching my 29th anniversary at Union Bank of California.

WHAT ASPECTS OF YOUR EDUCATION AT CMC HAVE HAD THE MOST IMPACT ON YOUR CAREER?

A couple of things come to mind. CMC's emphasis on writing and critical analysis was a great grounding for me. I found that even with my non-business related degree I could quickly get to the heart of issues and present my analysis and recommendations quickly. Also, the emphasis on leadership at the school prepared me well for my varying leadership roles at the Bank. For example, I had the opportunity to be an RA at CMC.

COULD YOU PLEASE EXPLAIN YOUR ROLE AND RESPONSIBILITIES AS VICE CHAIRMAN AND CHIEF OPERATING OFFICER OF UNION BANK OF CALIFORNIA?

Briefly, my job is to provide leadership to most of the Bank's people. I oversee all of the various businesses that make up our \$62 billion company and its almost ten thousand employees. I provide coaching and counseling to my managers, who oversee the specific business units, such as Commercial Banking, Retail Banking, etc. I also oversee the IT and Operations areas, which provide all of the back office support. I am heavily engaged with the CEO on strategic issues and bank-wide decision making.

WHAT ORIGINALLY ATTRACTED YOU TO FINANCE, AND WHAT DO YOU ENJOY MOST ABOUT YOUR JOB TODAY?

To be honest, I was not sure what I wanted to do upon graduation and had a vague plan to go to Grad school and get an advanced degree in English. Instead, I joined the bank's training program because both of my parents were bankers and I was therefore familiar with the industry. My stepfather had worked for Union Bank so I knew a lot about the company and knew about its highly regarded training program, which was willing to take (and still does take) undergrads with liberal arts majors. I did not realize at the time I would be at the Bank my whole career, but I found the work challenging and rewarding and still do.

I most enjoy working with a group of talented associates and frequently meeting across the whole company with our employees and customers. One of the great things about being a banker is working with company owners and managers across all kinds of industries.

WITH STRESSED FINANCIAL MARKETS, A RAPIDLY CHANGING REGULATORY ENVIRONMENT, AND THE ACQUISITION OF UNIONBANCAL CORPORATION (THE PARENT HOLDING COMPANY OF UNION BANK OF CALIFORNIA) BY MITSUBISHI UFJ FINANCIAL GROUP, INC., WHAT WILL BE THE MOST SIGNIFICANT CHALLENGES TO OPERATIONAL MANAGEMENT IN THESE TIMES OF CHANGE?

We have been experiencing once in a lifetime turbulence, with incredible and rapid government intervention in the markets. Fortunately, Union Bank has avoided the big potholes that have impacted some of our competitors, such as subprime lending,

securitization, credit default swaps, etc. In fact, we have been able to take advantage of the turmoil and grow loans, deposits and revenues; since we have ample capital and are confidently weathering the crisis, we are viewed as a healthy and safe bank. That said, the economy is in dire shape, and we have been building our reserves in anticipation of more tough times ahead.

MUFG just bought out the remaining third of our shares that were previously traded on the NYSE; we are now 100% owned. We were fortunate to sell the remainder of the company at \$73.50 per share, \$2 more than the previous all time high at a time when many financial institutions are trading at enormous discounts to their previous highs.

Going forward as a private company, we will need to maintain the management discipline that we have had in the past as a public company with outside investors and analysts closely tracking and questioning our results and decisions.

AS A SENIOR MANAGER AND MEMBER OF THE BOARD OF DIRECTORS, WHAT QUALITIES DO YOU THINK A FIRM SHOULD POSSESS TO ENSURE EFFECTIVE CORPORATE GOVERNANCE?

There are many aspects to effective corporate governance. Open, honest dialogue between management and directors is critical. Directors have to feel confident that they can probe and question management and get straightforward answers. Management also has to volunteer information that directors should have, even when they are not specifically asked for the information.

WHAT ADVICE WOULD YOU OFFER TO ECONOMICS, ACCOUNTING, OR FINANCE STUDENTS GRADUATING INTO THIS TIGHT JOB MARKET?

For graduates interested in finance or accounting, the job market is going to be tough. In particular, the "fad" jobs at hedge funds and private equity firms are likely to be few and far between. Commercial banks like us will still be hiring undergrads, as will the accounting firms and, to some degree, the remaining investment banks. Be patient, we always have to weather business cycles, and this one will pass as well. ▲

FEI Board Associate Profile: Carol Hartman '86

Principal, The Hartman Group

By Maria Löhner, CMC '10, FEI Student Research Analyst



Carol Hartman '86

WHAT IS YOUR CURRENT ROLE AT THE HARTMAN GROUP? WHAT BROUGHT YOU TO START THE HARTMAN GROUP?

In 1994, I founded and currently manage The Hartman Group; a Retained Executive

Search Consulting firm. The Hartman Group works with senior leadership of companies on executive search, organizational strategy and competitiveness projects. We also provide strategic career planning services to senior executives. Prior to doing executive search I had a successful career in corporate finance and institutional client services. At one point I was contacted by a recruiter for a senior position with a financial institutions group. While I was in the process of evaluating the potential job, I realized that I had the skills to do executive search. I was good at connecting with and evaluating people, I was systematic and strategic in my approach to business, and I was entrepreneurial. I explored the executive search industry and decided it was a fit. So I started The Hartman Group.

HOW DID YOU FIRST DEVELOP AN INTEREST IN EXECUTIVE SEARCH?

The search firm that was recruiting me to a senior role at another investment bank suggested that I might consider working with them as a search consultant when I was not interested in the position. I had always been matching friends and colleagues together; it seemed like a natural step. I saw a great new opportunity to do something new and would be able to leverage my work in the financial services industry.

WHAT WOULD YOU SAY WAS THE GREATEST SOURCE OF ADVERSITY THAT YOU HAVE FACED IN YOUR CAREER TO DATE?

As a search consultant, I have purposely decided to remain independent. Several large firms have engaged me in discussions to “buy” The Hartman Group. It has been tempting. Without the brand name that those global firms have, I occasionally lose assignments that I want badly. As my search practice becomes more focused on the very senior levels of client companies, that brand becomes less critical. Reputation carries more weight.

WHAT IS THE MOST REWARDING PART OF YOUR JOB?

Over 15 years, I have developed a thorough process that includes strategic assessments that align business needs with the right leadership. Great results have led to great clients.

When someone I have placed is identified as an expert in the media or is steadily promoted, that also gives me a lot of satisfaction.

It has also been very rewarding to come back to CMC and help graduating seniors see their first job search as a piece of a larger plan. By coming back to campus, I meet such talented students and it has been an amazing experience to provide strategy and tactics for finding a great first job.

WHAT DIFFERENTIATES YOUR FIRM FROM OTHER EXECUTIVE SEARCH COMPANIES?

- The advantages of being a boutique.
- A focus on client satisfaction.
- Genuine interest in taking the deep dive into solving my clients' business issues.

The most important differentiation is the size of my firm. While I occasionally hire researchers, I never delegate candidate and client contact. I also provide complete transparency of the search process to clients. Many firms stop recruiting when they think they have an adequate slate of candidates and rely too heavily on their own limited database instead of customizing the search strategy based on the unique needs of the client or the particular issues in an industry. With some exceptions, the best candidates are usually happy and successful and too busy to look around. They aren't interested in another job, but could be motivated by a compelling situation.

I think that a great search is about understanding a client's needs, identifying the key competencies and experience needed and recognizing a candidates fit with the corporate culture. It is also about making sure that the process is disciplined and honest. I make sure that clients move toward solving their business needs. This means that in addition to Hartman Group deliverables, I help clients complete their activities to move the process forward. One client coined the phrase that he was “being Hartmanized.”

I place a high value on “time to completion” and “completion rate.” While

some organizations are not sure what they are looking for; this often happens with new positions, the process that I lead clients through defines the needs and we are able set a strategic plan. Recently, a leading asset management firm engaged me to recruit the new Head of Retirement Income Product Management. They believed that the search would take a year. In less than 45 days, the successful candidate had his first interview with the firm.

WHAT ONE ACTION TAKEN IN COLLEGE DO YOU THINK WOULD HAVE BENEFITED YOUR CAREER ADVANCEMENT MOST?

I should have gotten my MBA. The opportunity cost always seemed too high, but looking back, I should have done it anyway. I also regret not going to Asia as a student or younger professional. I have been twice in the last 2 years and can't wait to go again.

And I will always appreciate the mentorship from Professor Massoud; which is the greatest CMC treasure for me. Stay in touch with the professors that you connect with.

WHAT ADVICE DO YOU HAVE FOR CURRENT CMC SENIORS WHO ARE READY TO START THEIR CAREERS?

Four things:

“Be careful with your brand.” Do not expose too much of your personal life to co-workers or employers. Set high standards about what you share of yourself to potential employers. Remember information on the internet lives forever.

“Master what is in front of you.” This means show up for work, be professional, be on time and no whining. Do more than what is expected so you are ready when you are asked to complete more difficult work. Focus on how well you are doing your job, not on the next opportunity. If you do a great job, believe me, you will be noticed.

“Never Lie.” Be honorable. If you make a mistake, acknowledge and fix it. Do not get involved with office politics. Do not gossip. Do not speculate on the unknown. You will be respected.

“Be patient for your success.” It sure would be a shame if your career peaked when you were 22 years old, wouldn't it? ▲

Financial Economics Institute

Fall 2008 Student Research Analysts

During fall 2008, nineteen Student Research Analysts are assisting faculty members with research projects. The following is a list of students, their faculty advisors, and a brief description of the research:

SCOTT ARNOLD '09 is working with Professor Eric Hughson and they are researching long-run performance of seasoned equity offerings using a new methodology in constructing a long-run event study.

ALEXANDER BONNETT '09 is working with Professor Henrik Cronqvist performing an analysis of how corporate debt heterogeneity changes once a company makes its IPO. Alex is categorizing pieces of debt by type, maturity, priority, covenants, etc., by using information in the footnotes of financial statements.

CHRISTOPHER BRIGHAM '09 is working with Professor Ludwig Chincarini at Pomona College. The main paper they're working on is entitled "Are Weather Derivatives Necessary?" They're examining the role of weather derivatives as a hedge against weather events and whether they contribute significantly to a diversified portfolio.

NICK BURNETT '09 is working with Professor Joshua Rosett on a project that is looking at firms that disclose internal controls deficiencies under Sarbanes-Oxley

404. Specifically, they are looking at how such a disclosure affects the performance and operations of the firm going forward.

HARSHVARDHAN CHOWDHARY '10 worked with Dean Janet Smith during the first half of the semester. This project involved looking at how U.S. private colleges and universities compete against each other for early applications using median SAT scores of applicants and geographical distances between these colleges as measures. For the second half of the semester, Harsh is working with Professor Fan Yu on a project which involves constructing a database of individual component credit spreads for the CDX Index, a credit market index of 125 North American investment-grade issuers.

NATHAN DOCTOR '11 is working with Professor George Batta on a project that focuses on the portability of human capital in the wine industry. They are looking at the world's top performing winemakers, keeping track of their movements between wineries over time, and analyzing their contribution to wine quality to determine the degree to which performance is transferable across organizations.

DOUGLAS FAGAN '10 is working with Professor Eric Hughson and is collecting data on exchange rates and trade statistics to determine the effect of the Federal Reserve on trade.

KRISTINE GRIGSBY '09 is working with Professor Sven Arndt on a project about the credit crisis in the U.S. and its global repercussions. The project examines the cross-border propagation of financial instability in a portfolio-balance model of the open economy. It is in part theoretical, embedding non-governmental asset markets into an open-economy macro model, and in part empirical, with a focus on the United States and several of its key trading partners.

KEVIN HESLA '09 is working with Professor George Batta on assessing the effect that political uncertainty and the persistent threat of nationalization has on key financial indicators for companies in Venezuela.

FREYA LEE '09 is working with Professor George Batta and Dean Janet Smith. Professor Batta's project involves investigating the portability of star winemakers' performance. Specifically, they are trying to see whether star winemakers' performance declines as they move from one winery to the next and whether the moves affect the value of the wineries. For Professor Smith's project, they are ranking the economics departments of the top liberal arts colleges of the United States by tracking the impact of the professors' research on the greater academic community. The ranking will include the number of times the papers of the professors have been cited and the quality of the publication.

MARIA LÖHNER '10 is working with Professor Eric Helland to collect data on the value of regulatory preemption of pharmaceutical litigation to the industry. The research is relevant to a current case in the Supreme Court, *Wyeth vs. Levine*.

NIKOLAS MILLER '10 is working with Professor Ananda Ganguly to create a Research Subjects Pool that will be used for a series of Experimental Research Projects. These experiments, which will aim to understand economic decision making in specific scenarios, will take place throughout the remainder of this semester and continue into next semester.



Back row, from left: Freya Lee '09, Christopher Brigham '09, Nikolas Miller '10, Nicholas Sparks '10.
Front row, from left, Yang (Amanda) Yang '10, Jane Pan HMC '09, Maria Löhner '10.

JANE PAN, HMC '09 is working with Professor Paul Zak at CGU. The project she is working on involves programming the trust game and asset market bubble in z-tree (Zurich Toolbox for Ready-made Economic Experiments) for future neuroeconomics experiments.

ALEXANDER REICHERT '11 is working with Professor Darren Filson to construct a data set of R&D pipelines and alliances in the biopharmaceutical industry for the purpose of investigating how court decisions impacting intellectual property rights have affected alliance formation and new drug introductions.

NICHOLAS SPARKS '10 is working with Professor Eric Hughson, continuing their two summer projects: 1. Beta Estimation Techniques—A continued evaluation of Marshall Blume, Oldrich Vasicek, and Merrill Lynch's beta estimation techniques, with emphasis on the statistical assumptions of the models. 2. An event study of bond downgrades on bond prices, credit default swap prices, and stock prices.

JENNIFER VOLK '11 is working with Professor Henrik Cronqvist on a project concerning public companies' executives' compensation, before and after these companies are bought out by private equity firms. Jennifer has read the 10-Ks of each company in the study and is collecting the data on specific elements of the executives' employment agreement.

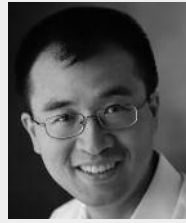
BRITTNEY WATSON '09 is working with Dean Janet Smith. They are examining the effects of inflation targeting on asset prices in developing countries.

YANG (AMANDA) YANG '10 is working with Professor Sven Arndt on a project about the credit crisis in the U.S. and its global repercussions. The project examines the cross-border propagation of financial instability in a portfolio-balance model of the open economy. It is in part theoretical, embedding non-governmental asset markets into an open-economy macro model, and in part empirical, with a focus on the United States and several of its key trading partners.

SOPHIE ZENG '09 is working with Professor Joshua Rosett on a research paper on Balance Sheet Disclosures and Stock Holder's Reactions during Quarterly Reviews. ▲

Fan Yu, Associate Professor of Financial Economics

By Christopher Brigham '09, FEI Student Research Analyst



Fan Yu

WHAT ORIGINALLY GOT YOU INTERESTED IN FINANCE?

I guess it's really a question of "who" rather than "what." I was a physics graduate student at Harvard around 1994, and my girlfriend (now wife) made me read Paul Samuelson's introductory textbook. A year later, I helped a Cornell professor prove an extended version of the put-call parity for option pricing. I was hooked after that.

HOW HAS YOUR BACKGROUND IN PHYSICS HELPED IN YOUR STUDIES OF FINANCE?

It helped immensely. I began programming in BASIC in high school in China (with donated Apple IIs) and learned FORTRAN in college. Everyone wanted to study science and math then because that was considered cool. When I was in physics I did mostly numerical analysis, which fit right in with finance because you can't do financial modeling without math and programming.

DO YOU HAVE ANY PARTICULAR INTERESTS IN THE WORLD OF FINANCE?

I am mostly interested in how the credit market works and what determines the pricing of credit. The credit default swap market has supplied most of the ideas and data for my research projects. I would like to see it survive the downturn. It will probably become something like the CBOT or CME, which are better regulated than the OTC format.

GIVEN THE CURRENT STATE OF THE FINANCIAL INDUSTRY, WHAT ADVICE DO YOU HAVE FOR CMC STUDENTS LOOKING TO PURSUE FINANCIAL CAREERS?

Don't be afraid to think outside of the box. CMC students are probably better trained and connected than 99% of all college students. Be creative with your talent.

WHAT ARE YOUR HOBBIES? WHAT DO YOU DO WHEN YOU'RE NOT TEACHING AND RESEARCHING?

I often run, though very slowly, up

College Avenue, to keep myself fit. I also play the "Asian" sports, like table tennis and badminton. My new hobby is playing Wii tennis with my nine-year-old son. We are both "pros" now and have a pretty even head-to-head record.

HOW ARE YOU FINDING THE STUDENTS AT CMC SO FAR?

The perfect student would be someone who is intellectually curious, eager to learn, and ready to participate. I used to be quite happy with just one or two students like that in my class. At CMC, my satiation point is a lot higher.

IF YOU WEREN'T TEACHING FINANCE, WHAT WOULD YOU BE DOING?

The combination of teaching and research is the most rewarding job in my opinion. I am not sure if I would give it up for anything else. Now, if I can convince some of you to put up with a few more years of poverty.

WHICH CLASSES ARE YOU TEACHING THIS YEAR? ARE THERE ANY THAT YOU AREN'T CURRENTLY TEACHING BUT WOULD LIKE TO TEACH IN THE FUTURE?

This year I am teaching investments and derivatives. I've always wanted to teach something related to the world of fixed income. First of all, it's my own research area. Second, developing this course would help me evaluate an entire research area and hopefully lead to better ideas.

IF YOU COULD RECOMMEND ONE BOOK ON ECONOMICS OR FINANCE TO STUDENTS, WHAT WOULD IT BE AND WHY?

I would recommend Peter Bernstein's books ("Against the Gods" and "Capital Ideas"). These books help put a face on all those names you learned in an investments course, and they are fun and intellectually challenging at the same time.

IF YOU HAD \$1,000,000 TO INVEST RIGHT NOW, WHAT WOULD YOU DO WITH IT AND WHY?

Since I probably won't need this money in another 20 years and the world is not about to end, I will put it into an index fund with minimal expenses. ▲

FEI Affiliated Faculty Research

Selected 2008 publications by faculty members affiliated with the FEI:

- ▶ “The Implications of Integration for Globalization: Production and Trade,” (*Sven Arndt*), presented at a conference on The Implications of Integration for Globalization at Wilfrid Laurier University, Canada, forthcoming in a special issue of the *North American Journal of Economics and Finance*
- ▶ “Stock Market Sentiment and the Draining of China’s Savings Deposits” (*Richard C.K. Burdekin* and Luke Redfern’08), *Economics Letters*, forthcoming
- ▶ “China’s Rise and Future Prospects for the Renminbi,” (*Richard C.K. Burdekin*), *The Chinese Banker*, 2008/10, pp. 104-107 (in Chinese)
- ▶ “US ADR and Hong Kong H-Share Discounts of Shanghai-Listed Firms” (*Richard C.K. Burdekin* with Gregory C. Arquette and William O. Brown, Jr.), *Journal of Banking and Finance*, Vol. 32, No. 9 (September 2008), pp. 1916-1927
- ▶ “What Has Driven Chinese Monetary Policy Since 1990? Investigating the People’s Bank’s Policy Rule” (*Richard C.K. Burdekin* and Pierre L. Siklos), *Journal of International Money and Finance*, Vol. 27, No. 5 (September 2008), pp. 847-859
- ▶ “Financial Market Reactions to the Overthrow and Annexation of the Hawaiian Kingdom: Evidence from London, Honolulu and New York” (*Richard C.K. Burdekin* with Leroy O. Laney), *Cliometrica*, Vol. 2, No. 2 (July 2008), pp. 119-141
- ▶ “A Case Study on Risk Management: Lessons from the Collapse of Amaranth Advisors, L.L.C.,” (*Ludwig B. Chincarini*), *Journal of Applied Finance*, Spring/Summer, 2008
- ▶ “Flexible Insurance for Separate Accounts,” (*Ludwig B. Chincarini*), *ICFAI Journal of Risk and Insurance*, July, 2008
- ▶ “Large Shareholders and Corporate Policies,” (*Henrik Cronqvist* and Rüdiger Fahlenbrach), forthcoming, *Review of Financial Studies*
- ▶ “Do Entrenched Managers Pay Their Workers More?,” (*Henrik Cronqvist*, Fredrik Heyman, Mattias Nilsson, Helena Svaleryd, and Jonas Vlachos), forthcoming, *Journal of Finance*
- ▶ “Covariation Assessments with Costly Information Collection in Audit Planning: An Experimental Study,” (*Ananda R. Ganguly* and Jacqueline Hammersley), forthcoming, *Auditing: A Journal of Practice and Theory*
- ▶ “Cooperation in the Classroom: Experimenting with Research Joint Ventures,” (*Michelle Goeree* and Jeroen Hinloopen), forthcoming, *Journal of Economic Education*
- ▶ “The Tradeoffs between Regulation and Class Actions: Evidence from Insurance Litigation,” (*Eric Helland* and Jonathan Klick), *Journal of Tort Law*, 1(3): Article 2, 2008
- ▶ “Imported Product Recalls: Implications for Offshore Production Activities and Contingent Liabilities,” (*Marc F. Massoud*, Cecily Raiborn and Mitchel Raiborn), forthcoming, *Journal of Corporate Accounting and Finance*
- ▶ “Would a Stock Be Any Other Ticker Smell as Sweet?,” (Alex Head, *Gary Smith* and Julia Wilson), forthcoming, *Quarterly Review of Economics and Finance*
- ▶ “The Real Dogs of the Dow,” (Anita Aurora, Lauren Capp and *Gary Smith*), *The Journal of Wealth Management*, 10 (4), 2008, 64-72
- ▶ “Harvesting Capital Gains and Losses,” (*Gary Smith* and *Margaret Hwang Smith*), forthcoming, *Financial Services Review*



Sven Arndt



Richard Burdekin



Ludwig Chincarini



Henrik Cronqvist



Gary Smith



Janet Smith



Margaret Hwang
Smith



Richard Smith

- ▶ “Tobin’s q,” (**Gary Smith**), *The New Palgrave Dictionary of Economics*, second edition, Larry Blume and Steven N. Durlauf, eds., Hampshire, UK: Palgrave Macmillan, 2008
- ▶ Houseconomics, (**Gary Smith** and **Margaret Hwang Smith**), Pearson/Financial Times, 2008, 214 pages
- ▶ “Public Information, IPO Price Formation, and Long-run Returns: Japanese Evidence,” (Kenji Kutsuna, **Janet Kibolm Smith** and **Richard Smith**), forthcoming, *The Journal of Finance*
- ▶ “Competing with NYSE,” (William O. Brown, J. Harold Mulherin, and **Marc D. Weidenmier**), forthcoming, *Quarterly Journal of Economics*
- ▶ “Trade and Empire,” (Kris Mitchener and **Marc D. Weidenmier**), forthcoming, *Economic Journal*
- ▶ “Supersanctions and Sovereign Debt Repayment,” (Kris Mitchener and **Marc D. Weidenmier**), forthcoming, *Journal of International Money and Finance*
- ▶ “Currency Mismatches and the Costs of Finance: Lessons from an Exogenous Exchange Rate Depreciation,” (Michael D. Bordo, Christopher Meissner and **Marc D. Weidenmier**), forthcoming, *Journal of International Money and Finance*
- ▶ “The Baring Crisis and the Great Latin American Meltdown of the 1890s,” (Kris Mitchener and **Marc D. Weidenmier**), *Journal of Economic History*, 2008, 68:462-500
- ▶ “Can Interest-Bearing Money Circulate? A Small Denomination Arkansas Experiment, 1861-1863,” (**Richard C.K. Burdekin** and **Marc D. Weidenmier**), *Journal of Money, Credit, and Banking*, 2008, 40:233-240
- ▶ “Testing the Unstable Middle and Two Corners Hypotheses,” (Penny Angkinand, Eric Chiu, and **Thomas Willett**), forthcoming, *Open Economies Review*
- ▶ “Managing the Monetary Consequences of Reserve Accumulation in Emerging Asia,” (Alice Y. Ouyang, Ramkishen S. Rajan, and **Thomas Willett**), forthcoming, *Global Economic Review*
- ▶ “Political Influences on the Costs of Banking Crises in Emerging Market Economies: Testing the U-Shaped Veto Player Hypothesis,” (Penny Angkinand and **Thomas Willett**), forthcoming, *Macroeconomics and Finance in Emerging Market Economies*
- ▶ “The RMB Debate and International Influences on China’s Money and Financial Markets,” (Priscilla Liang, Alice Ouyang and **Thomas Willett**), forthcoming, in James Barth and John Tatom, eds., China’s Emerging Financial Markets: Challenges and Opportunities, Milken Institute
- ▶ “A New Framework for Analyzing Adequate and Excessive Reserve Levels Under High Capital Mobility,” (Jie Li, Ozan Sula and **Thomas Willett**), in Yin-Wong Cheung and Kar-Yiu Wong, eds., China and Asia, Routledge, 2008
- ▶ “Testing Hypotheses About the Asian Contagion: Evidence from the Bond and Stock Markets,” (Priscilla Liang and **Thomas Willett**), *Journal of Applied Business Economics*, 2008
- ▶ “The Market for Corporate Control and the Cost of Debt,” (Jiaping Qiu and **Fan Yu**), forthcoming, *Journal of Financial Economics*
- ▶ “Moral Markets: The Critical Role of Values in the Economy,” (**Paul Zak**, ed.), forthcoming, *Princeton University Press*



Ananda Ganguly

Michelle Sovinsky
Goeree

Eric Helland



Marc Massoud



Marc Weidenmier



Thomas Willett



Fan Yu



Paul Zak



These students were selected to participate in the January 2009 NYC Networking Trip. Back row, from left: Jake Richardson '10, Christopher Moy '09, Stephen Andron '10, Michael Widmann '10, Nathan Doctor '11, and Nicholas Sparks '10. Front row, from left: Yuchen Zhang '10, Kyle Casella '10, Maria Löhner '10, Clare Hove '09, Max Davison '09, and Jonathan Khil '11. Not pictured: Alexander Bonnett '09, Kyle Kuh '10, Freya Lee '09, and Keren Michelson '10.

Upcoming Events

New York City Networking Trip

JANUARY 12 – 16, 2009

Sixteen 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.

FEI/Alumni Cocktail Reception

FEBRUARY 20, 2009

The California Club, Los Angeles, CA

FEI-Sponsored Marian Miner Cook Athenaeum Talks

Dates TBD

FEI-Sponsored Seminars

Dates TBD



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