

The Exchange

NEWS FROM THE FINANCIAL ECONOMICS INSTITUTE AT CLAREMONT MCKENNA COLLEGE

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NYC Networking Trip January 8-12, 2007

IN EARLY JANUARY, THE FINANCIAL Economics Institute sponsored the fourth annual New York City Networking Trip which provided an invaluable learning experience for fifteen sophomores, juniors, and seniors who have aspirations to work in the financial services industry after graduation. Events throughout the week allowed students to explore an array of career opportunities in finance while establishing contacts with CMC alumni and friends of the college.

Upon their arrival in NYC, students attended an introductory dinner hosted by President Gann and Julie Spellman Sweet '89 at Cravath Swaine & Moore, LLP. Students benefited substantially from the strong alumni presence, as FEI Board Members and alumni graciously answered students' questions and offered insight regarding life after CMC.

During the week, the group visited six

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Back row, from left; Jeffrey Cram '08, Scott Arnold '09, Philip Kaestle '08, David Noble '08, Louis Albanese '08, Asaf Bernstein '08, Blake Zacharias '08, Ramon Torres '08, and Aseem Vyas '08; Front row, from left; Brittany Ruiz '08, Catherine Powers '08, Henry Kravis '67, Felicia Wu '08, Chris Brigham '09, Darren Oh '09, and Ryan Hibbard '07.



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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firms: Kohlberg, Kravis, Roberts, & Co. (KKR), Bear Stearns, Millbrook Investment Management Co., First Albany Capital, Deloitte Consulting, and Goldman Sachs.

One of the most eagerly anticipated events of the trip, a visit to KKR and breakfast with Henry Kravis '67, was a highlight for many students. Mr. Kravis, a founding member of KKR, amicably shared his experiences as a pioneer in private equity and leverage buyouts with students and welcomed questions and discussion. Meeting with Mr. Kravis served as a reminder of the strength and benefits of belonging to the CMC community.

Following the KKR visit, the students met with Tim Galbraith '87 who hosted the students for lunch at Bear Stearns. Mr. Galbraith, a Managing Director in Bear's asset management division, gave students an overview of the firm while providing insight regarding the unique culture of the investment bank. Mr. Galbraith also arranged an



From left; Ryan Hibbard '07, Asaf Bernstein '08, and Catherine Powers '08.

informative question and answer session between students and Bear Stearns Analysts who provided an understanding of the life of first and second year analysts.

The students' second day in NYC concluded at a CMC Alumni Association Cocktail Reception hosted by Susan Matteson King '85 and Kristen Edgreen '98 at The Yale Club. The reception drew several members of the CMC community and was well attended by students, alumni, and CMC faculty. The evening gave students a valuable opportunity to interact with alumni, establish contacts, and openly ask questions outside of a formal business setting.

The students began the next day with a



From left; Joseph Vencil '85, Chris Brigham '09, Darren Oh '09, Michael Kaufman, and Ben Fawkes '09.

visit to Millbrook Investment Management Co. where they were hosted by Christopher Mailman, President and Chief Investment Officer. Mr. Mailman and his colleagues introduced students to the analytics, management, and operations involved in running a fund of hedge funds. The intriguing

presentation offered students a unique opportunity to learn more about an alternative, and perhaps less well-known, career path in the financial sector.

After receiving exposure to the hedge fund industry, the students visited First Albany Capital where Christina Valauri, Managing Director and

Director of Equity Research, hosted the students. The visit enabled students to learn about the inner workings of a smaller investment bank and offered a thorough introduction to equity research. Presentations by Bankers and Research Analysts gave students a balanced perspective of the roles and responsibilities within banking.

The final day of events in NYC began with a visit to Deloitte Consulting where Michael Epstein, a Senior Manager in Deloitte's Los Angeles office, hosted the students. After a brief introduction to Deloitte Consulting and the consulting industry as a whole, students participated in a question and answer session with a panel of Deloitte

Business Analysts, including Austin Kiessig '06. As the only consulting firm students visited on the trip, the presentations by Deloitte Consulting gave students valuable insight regarding careers in consulting, the experiences of Business Analysts, and the fundamental differences between consulting and banking.

The company visits concluded with a trip to Goldman Sachs where Cody Smith '79, Managing Director, and David Alvillar '01, a Vice President in the Equities Division, met with the students. Mr. Smith and Mr. Alvillar introduced students to the organization and culture of Goldman Sachs as well as an array of opportunities within the bank. Mr. Smith and Mr. Alvillar drew on relevant personal experiences to highlight the primary differences between the buy and sell sides of banking and also provided general insight for life after CMC. The visit to Goldman Sachs was a privilege for students as it gave them firsthand knowledge of the inner-workings of a large distinguished investment bank.

The success and benefits of the fourth annual New York City Networking Trip are apparent in the satisfaction of the students, faculty, and alumni that participated. The New York City Networking Trip exposed students to an array of career opportunities and allowed them to network within the CMC community. They will undoubtedly benefit from these experiences as they continue at CMC and after graduation. Ongoing alumni support for the Financial Economics Institute not only reflects the strength of the CMC community and the advantages of a CMC education, but is ultimately responsible for the success of endeavors such as the New York City Networking Trip.

By Catherine Powers '08, FEI Student Research Analyst

Bubble, Bubble, Where's the Housing Bubble?

Brookings Papers on Economic Activity, 1, 2006: 1-50

Margaret Hwang Smith and Gary Smith

Summarized by Scott Arnold '09, FEI Student Research Analyst

“HOUSING PRICES EXPLODE!” AND “America, headed the way of the Tokyo Real Estate Bubble” are two examples of headlines that have crossed newspapers in America in the past five years as economic pundits and reporters worry about a bubble in residential real estate. After significant research and a novel approach to home valuation, Margaret Hwang Smith and Gary Smith of Pomona College conclude in their paper, *Bubble, Bubble, Where's the Housing Bubble?* in the *Brookings Papers of Economic Activity*, that home prices are actually closer to intrinsic values now than they ever have been.

A bubble is defined as a sharp increase in the price of an asset or group of assets that attracts buyers and leads to further price increases. This increase is then followed by a collapse, which results in a financial crisis. The main difference between a bubble and a justified increase in prices is the speculative focus on an increase in prices rather than an asset's future cash flow. Speculators buy an asset not for its cash flow, but in order to sell it at a higher price to an even greater fool.

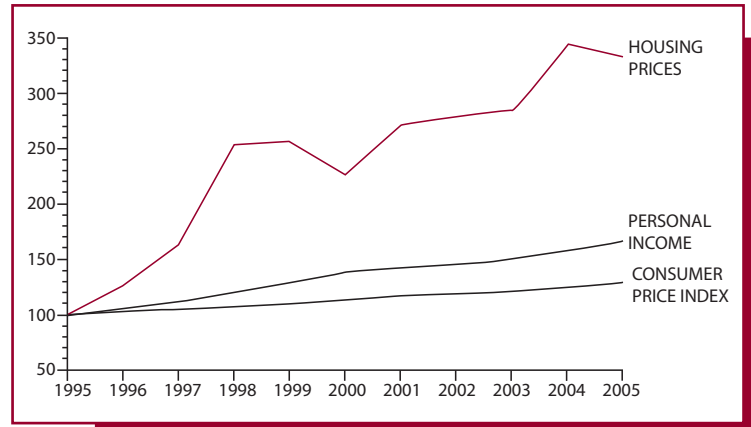
Most housing bubble proponents point to the large increase in home prices relative to historical prices. The authors contend, however, that the housing market is inefficient because it is made up of naïve, one-time buyers who don't know how to estimate the value of the cash flow

from a home. Instead, buyers look at “comps,” a comparison with the prices of nearby homes with similar characteristics. Comps tell buyers what others have paid for similar homes recently, but not the fundamental value of a home.

Unlike the stock market, arbitrage is difficult in the residential housing market because of the high transaction costs and because arbitrageurs cannot get the tax benefits from owning a home unless they actually live in it. In addition, it is costly to monitor rental properties from afar. Therefore, the widespread use of comps and the difficulty of arbitrage can cause market prices to wander from their fundamental values with no auto-correction mechanism.

Once they had established that housing prices were not always in line with fundamental values, the authors were left with the large problem of accurately estimating the fundamental value of residential properties. Most other studies assume that historical prices reflected the fundamental values of the residential homes, and conclude that if prices are higher than they used to be, then they must be too high. The authors contend that historical home prices were, in fact, mostly below fundamental values.

The authors looked at ten real estate markets across the country, including Los Angeles, San Francisco, Boston, Chicago, New Orleans, Atlanta, Indianapolis, and Dallas. In each city, they found matched pairs of very similar homes that had been purchased and rented in the summer of 2005. By comparing matched pairs, they were able to estimate the rental savings for home buyers. The rental savings are the largest, but not the only, source of cash inflow or outflow. They also estimated transaction costs, the down payment, insurance, maintenance, taxes, and mortgage payments. Once they had estimates of the cash flow, they valued homes the same way that stocks or bonds are valued: by adding up all future cash flows and discounting them back at a specified rate or, alternatively, calculating the internal rate of return (IRR). Using various horizons, only San Francisco seemed bubbly. Home



prices in New Orleans, Atlanta, Indianapolis, and Dallas were actually substantially below fundamental values in the summer of 2005.

The federal government's OFHEO price index—which uses repeat sales and refinancings to estimate changes in the prices of comparable homes—was 10.9 percent higher in the fourth quarter of 2006 than it was in the summer of 2005, but home prices did soften in 2006. The OFHEO price index in the fourth quarter of 2006 was only 5.9 percent higher than in the fourth quarter of 2005 and only 1.1 percent higher than in the third quarter of 2006. When a bubble pops (like the bubbles in Beanie Babies or dot-com stocks), prices collapse because there is no cash flow to justify buying a Beanie Baby or a money-losing dot-com stock. People only bought Beanie Babies and money-losing dot-com stocks to sell at a higher price. If there is not going to be a higher price, there is no reason to buy. Homes are very different in that there is a cash flow—the rental savings—that gives people a good reason to buy. If home prices did fall substantially, renters would have an even better reason to buy homes.

Overall, housing prices have increased in the past several years and are now much closer to fundamental values. Until recently, it was advantageous in all ten of these markets to buy rather than rent. That is still true in much of the country. Whether it is true in a specific market depends not on historical prices or comps, but on whether the net rental savings are large enough to justify the price for a household that intends to live in an area for many years.

By the way, that scary graph is not really housing prices; it is the price of Berkshire Hathaway stock. Does the fact that Berkshire Hathaway's price is higher than it used to be mean that it is a bubble?



Margaret Hwang Smith is an Assistant Professor of Economics at Pomona College, and specializes in statistics,

microeconomics, technology adaptation, and corporate and personal finance.



Gary Smith is the Fletcher Jones Professor of Economics at Pomona College and an FEI affiliated faculty

member, who specializes in economics, investments, financial markets, and statistics.

Banking Relationships and Access to Equity Capital Markets: Evidence from Japan's Main Bank System

Journal of Banking and Finance, 31, 2007: 335-360

Kenji Kutsuna, Janet Kiholm Smith, and Richard Smith

Summarized by Chris Brigham '09, FEI Student Research Analyst

IN RECENT YEARS, THE US BUSINESS world has been intensely focused on ethical decision making by corporate leaders. The avoidance or full disclosure of potential conflicts of interest has finally become not only recommended, but mandatory. In a similar movement after the Great Depression, controversies surrounding alleged abuse by commercial banks in securities underwriting resulted in the Glass-Steagall Act (The Banking Act of 1933). In 1999, just prior to the recent ethical movement, these provisions were repealed, with congressional hearings indicating that the potential benefits of improved access to underwriting outweigh the potential conflicts of interest when banks are involved in both lending and underwriting services.

Previous studies of banking relationships and underwriting markets have not found evidence of conflicts of interest. However, they have tested forms of securities offerings in which informational asymmetries are less likely to be material than in IPOs. In addition to that, little evidence has been found that can be used to examine how relationships with banks affect access to equity capital markets.

In their paper, "Banking Relationships and Access to Equity Capital Markets: Evidence from Japan's Main Bank System," in the *Journal of Banking and Finance*, Kenji Kutsuna of Kobe University, Janet Kiholm Smith of CMC, and Richard Smith of CGU analyze the effects of banking relationships on IPOs in Japan. The Japanese banking structure provides a valuable source of data because it differs from that of the US. During the period of the study, commercial banks in Japan were prohibited from direct involvement in investment banking activities. However, unlike in the US, commercial banks, investment

banks, and other firms could be in relationships surrounding a main bank.

In post-war Japan, the financial system was dominated by banks due to the government's favoring of bank financing and its tight regulation of securities markets. In this system, firms developed a close relationship with a specific bank, often called a "main bank" relationship. This led to *keiretsu* structures, in which investment banks and commercial banks are related to each other and to a set of companies by overlapping ownership and management.

The Japanese IPO market in the late 1990s was studied because informational asymmetries were likely to be material and because Japan was experiencing increased financial system stress, which in turn created a greater incentive for bankers to behave opportunistically. The authors point out that this "stack[ed] the deck in favor of finding evidence of conflicts."

Between 1995 and 1999, two different regulatory regimes governed the IPO process. From 1995-1997, issuers were required to use a hybrid auction procedure in which a portion of the issue (usually 50%) was to be offered in a discriminatory auction. The demand information from that auction was then used to set an issue price for the remaining shares. During this regime, underwriter fees were fixed at an artificially low 3.4% of gross proceeds. Since late 1997, issuers have been permitted to use the auction method or a book-building method similar to that of the US, which uses road shows and other pre-marketing methods to assess demand and determine the offer price. Underwriters play a much more significant role using this method. Remarkably, since shortly after its introduction, this method has been selected in

Japan by all issuers.

The data for the study included all 484 JASDAQ IPOs from 1995 through 1999. Of these, 321 occurred during the auction regime and 163 during the book-building regime. Due to the significant differences between means and medians in the data, the authors examined the effects of main banking relationships separately for the two regimes.

The authors found that while average issue size (in terms of market capitalization) was similar in both regimes, it had a higher variance, a significantly lower median, and a more highly skewed distribution in the book-building regime. They also found that the percentage of issues involving related investment banks was low during both regimes. This finding is consistent with the view that *keiretsu* relationships are weakening. The percentage of issuers using major underwriters was found to be high in both regimes, which suggests that issuers faced tradeoffs between the benefits of main bank relationships and the benefits of using a major underwriter.

The effects of main bank relationships were also investigated. The main bank affiliations of investment banks were based on the commercial bank's holdings of equity in the investment bank as of March 1999. The authors compared the mean difference between the number of main-bank-related IPOs to the number that would be expected by chance if banking relationships were insignificant. The 45 related IPOs during the auction regime are significantly higher than the 19.2 expected and the 23 related IPOs during the book-building regime are also significantly higher than the 10.7 expected.

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Kenji Kutsuna is a Professor of Entrepreneurial Finance at Kobe University, and specializes in entrepreneurial finance, small business finance, entrepreneurship, venture capital, and IPOs.



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 a Professor of Financial Management and the Associate Dean at the Peter F. Drucker Graduate School of Management at Claremont Graduate University. An FEI affiliated faculty member, he specializes in corporate finance, entrepreneurial finance, and risk management.

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Further, the authors found that an issuer's relationship with an investment bank was affected by the issuer's locality. For instance, in the Tokyo prefecture, 42.7% of issuers were affiliated with major underwriters whereas only 15.2% of issuers in other prefectures were affiliated with major underwriters. Outside of Tokyo, issuers were more likely to have main banks affiliated with smaller investment banks or to have commercial banks without a main bank relationship with an investment bank.

Examining the effects of using related versus unrelated investment banks, the authors found that there were no significant differences in underwriter fees as a percentage of offer price. They also found that issuers tended to engage their related investment banks unless they selected an investment bank with a large market-share. This is consistent with the hypothesis that banking relationships increase capital market access for small firms. The percentage that used major underwriters in both regimes was significantly higher than that which would have occurred had all issuers used their related investment banks.

In addition, during both regimes, issuers who used related investment banks were significantly more likely to be related to major underwriters. This suggests that the choice to

use a non-related investment bank is partly caused by the firm not having a relationship with a major underwriter. Also, if a firm uses a non-related investment bank, that investment bank is likely to be a major underwriter.

By testing returns for 1- and 12-month periods after the IPO, the authors also examined whether related or non-related investment banks were more likely to artificially support issue prices, whether related investment banks were more likely to conceal negative information from investors, and whether investors rationally provided for conflicts of interest in IPOs underwritten by related investment banks. The returns were not significant for either regime in any of these comparisons.

To examine possible self-dealing, the authors analyzed the differences in the use of proceeds by issuers using related versus non-related investment banks. The data showed no significant differences in either regime in the percentages of total proceeds allocated to secondary sales of shares. Also, issuers were not found to be significantly more likely to use primary proceeds to redeem outstanding debt in either regime.

Consistent with the hypothesis that bank relationships increase capital market access, the authors found that issuers have a greater

tendency to select their related investment banks in book building. It appeared that when related investment banks tried to exploit their bargaining power too much, issuers simply used non-related investment banks. Therefore, the authors found no significant difference between total issue cost and underpricing of issues using related and non-related investment banks in either regime.

These results support and extend those of studies of banking relationships in the US. This study suggests that main bank relationships to investment banks are valuable to issuers, do not appear to give rise to conflicts of interest, and give small firms making small issues greater access to equity capital markets. Overall, these findings are important for policymakers who are concerned about potential conflicts of interest and other negative effects of close relationships between commercial banks and investment banks. Since these findings were obtained in highly stressed financial markets, it stands to reason that in less stressed, more "normal" markets, there might be less concern about conflicts of interest emerging due to banking ties. These new insights into the existence of conflicts of interest should be good for the business community as they support arguments against the overregulation of banking relationships.

**ANDREW LO**

February 13, 2007

By Maria Löhner '10, FEI Student Research Analyst

Lizard Brains and the Stock Market: An Evolutionary Synthesis of Rational and Behavioral Finance

ANDREW W. LO, THE HARRIS & Harris Group Professor of Finance at the MIT Sloan School of Management, spoke at the Marian Miner Cook Athenaeum as the spring lecturer for the Financial Economics Institute's Speaker Series.

In an engaging speech, Professor Lo discussed the conflict between behavioral economics and the Efficient Markets Hypothesis, the notion that market prices incorporate information rationally and instantaneously. Reviewing the evidence for and against market efficiency, he described a new framework capable of reconciling

rational and behavioral finance by applying the principles of evolution, such as competition, adaptation, and natural selection, to financial interactions. Professor Lo argued that market participants do not always make rational decisions. Rather than trying to optimize, most people simply "satisfice." Additionally, he said that market participants use heuristics developed by trial and error to make decisions. Finally, he discussed the effects of evolution on financial decision-making.

Professor Lo has written extensively about finance. In addition to articles in

numerous finance and economics journals, he is also co-author of *A Non-Random Walk Down Wall Street* (2001) and *The Econometrics of Financial Markets* (1996). Furthermore, he is an associate editor of the *Financial Analysts Journal*, the *Journal of Portfolio Management*, the *Journal of Computational Finance*, and the *Review of Economics and Statistics*.

Professor Lo earned his Ph.D. from Harvard University and served on the finance faculty at the University of Pennsylvania's Wharton School and MIT's Sloan School of Management. He is also the Director of MIT's Laboratory for Financial Engineering.

FEI Board of Advisors Profile: Brent R. Harris '81

Managing Director, PIMCO

By Asaf Bernstein, HMC '08, FEI Student Research Analyst



What is your current role at PIMCO?

PIMCO is one of the largest fixed income managers in the world,

managing over \$667 billion dollars. I am currently Chairman of PIMCO Funds, our U.S. mutual fund company. I also direct and oversee PIMCO's commodity and real return trading desk.

How did you first develop an interest in finance and investing?

Well, my interest in commodities started early; around high school. I became intrigued by energy and the family business in gasoline retailing. I also developed an interest in meat trading and financial futures. While at CMC, I also became fascinated with interest rates and with the fixed-income markets. Specifically, listening to Professors Rutledge, Sweeney, and Meigs speak at the old Athenaeum, and working with them later on at the Claremont Economics Institute (CEI), fostered an interest in the macroeconomic drivers of financial markets. PIMCO revealed a whole new world in understanding and positioning trades and products in fixed income, and given my interests, it may not come as a surprise that I found this opportunity very appealing.

What is the greatest challenge you have had to overcome in your career?

The greatest challenge I've had is managing the dissonance of being contrary at the right and bleakest time. This is harder than you think. We are programmed as humans to make decisions under uncertainty with our "older" brains, and our rational cortex has a tough time overcoming these primordial instincts. Arbitrage opportunities are made most abundant by periods of high volatility, uncertainty, and upheaval, and I had to learn how to accurately judge an event without having the benefits of critical distance.

You've been quoted as saying, "The severe

underperformance of active equity managers has raised the whole issue of performance for all asset managers, including bond managers." What does it take to be an effective bond manager?

The stated goals of all asset managers should be liability matching and long-run real returns with the intent of increasing purchasing power. These days achieving this requires a collection of trading desks skilled in alpha extraction in each area of the bond market (governments, mortgages, high yield, foreign, TIPS, et al.) and knowing how to blend them optimally depending on their pricing, and a perspective view of the macroeconomics that will drive their forward prices. A strong manager will be in tune with the "nature" of the market, its major players, and metrics. They must have a deep and thorough understanding of the fundamental, technical, and behavioral forces that drive market movement. Just being right isn't good enough. Identifying that the housing market will fall is worth very little, if you can't specify whether residential or commercial sectors will fall, how far they will fall, and when they will fall. More qualitatively, a great manager must be thoughtful and thorough, and have a desire to question assumptions. They must be introspective enough to channel proper actions under the weight of mass emotion.

You have an MBA from Harvard Business School and a CFA. For students considering pursuing a career in finance, what are the benefits of pursuing an MBA versus a CFA or are there great merits for having both?

The MBA is today's calling card for an interview on Wall Street or money management. A CFA is secondary, and fills in some gaps in investment knowledge. A Ph.D. in finance is also an excellent degree; and increasingly valued for financial engineering.

Speaking of degrees, how do you think you have benefited from the liberal arts education you received while at CMC?

While at CMC I received two educations: one

in the classroom and one on my own, and they have both been integral in my subsequent finance career. Obviously the core knowledge in finance is critical, but the world of finance is ever-changing and growing. Textbooks are static, and the desire and need to learn on your own is critical if you want to have a successful career in finance. In addition, I enjoyed my history and psychology classes and courses taken at Scripps on modern art and modern architectural history. These were among the best classes I ever took. One of my greatest hobbies continues to be architecture, which allows me to combine my love of finance (real estate) with my passion for modern art. I also highly valued the macroeconomic lectures by Professors Rutledge, Sweeney and Meigs at the old Athenaeum, and my later opportunities to work with John Rutledge and James Meigs at the Claremont Economics Institute (CEI). In fact, my first job out of college was with the CEI and my experience there has been instrumental to my career.

What advice do you have for current CMC students?

In finance, realize textbooks are not nearly as useful as case studies. Also, try to develop a strong background in market history, which needs to be self-taught. Do the contrarian thing – spend time in Honnold Library's Fiche Room and read newspapers from the 1930's and 70's to learn of true financial fear. Economic history books from the 30's are some of the best, as authors of the age were searching for answers, and the books, which resulted, were excellent. For a more recent publication I would recommend reading *Triumph of the Optimists* by Dimson, Marsh, and Staunton, since it reveals the actual historical performance of a variety of asset classes in a range of different countries and markets, showing that markets are sometimes subject to seizure, not long term buy and hold profits! Furthermore, try to open a small trading account. The market and how you react to it with real money is invaluable training, and something you will never learn in a book or a class.

Financial Economics Institute

Spring 2007 Student Research Analysts

During spring 2007, the Financial Economics Institute hired fourteen 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:

SCOTT ARNOLD '09, *The Effects of Institutional Myopic Investors on Research and Development and Advertising Expenditures*, with Professor Jenny Darroch

ASAF BERNSTEIN, HMC '08, *Incentive Alignment of Backdated Options*, with Professor Lisa Meulbroek

CHRIS BRIGHAM '09, *Construction of a Venture Capital Database*, with Professor Vijay Sathé; *Case Studies of Dot.Com Industries Affected by Venture Capital*, with Professor Richard Smith, Professor Murat Binay, Professor Roberto Pedace, and Joe Plotkin, CGU Graduate Student

EMILY CHOU '07, *A Test of the Fama Strategy*, with Professor Joshua Rosett

DANIEL JAGER '08, *Labor Disclosure and Accounting Information*, with Professor Gary Smith

JERRY LIN '07, *Investor Response to Corporate Sponsorships in the Olympics and the World Cup*, with Professor Janet Smith

MARIA LÖHNER '10, *The Merits of Securities Class Action Lawsuits*, with Professor Eric Helland and Paul Van Deventer '07

CATHERINE POWERS '08, *Road to Ruin: Issues in Corporate Governance and Organizational Decline*, with Professor Janet Smith

WILLIAM ST. CLAIR '07, *Intra-Industry Information Transfer Effects in the Oil Industry Following Downward Revisions in Proved Reserves*, with Professor Janet Smith

CHRIS URBAN '07, *Economics of the Ethanol Industry*, with Professor Janet Smith

PAUL VAN DEVENTER '07, *The Merits of Securities Class Action Lawsuits*, with Professor Eric Helland and Maria Löhner '10

ASEEM VYAS '08, *Why Do Controlling Families of Public Firms Hire Professional Managers to Run Their Firm?*, with Professor Sandy Klasa

ZIZHENG WANG '07, *Chronic Underperformance/Overperformance and Organizational Risk Taking*, with Professor Janet Smith

FELICIA WU '08, *Evaluating if Institutional Investors Value Corporate Governance and Social Responsibility; Predicting and Explaining the Behavior of Long-Run Underperforming Firms*, with Professor Murat Binay



Back row, from left; Chris Urban '07, Chris Brigham '09, Scott Arnold '09, Paul Van Deventer '07; Front row, from left; Will St. Clair '07, Jerry Lin '07, Aseem Vyas '08; Not Pictured; Asaf Bernstein '08, Emily Chou '07, Daniel Jager '08, Maria Löhner '10, Catherine Powers '08, Zizheng Wang '07, Felicia Wu '08.

Congratulations Class of 2007!

The Financial Economics Institute would like to congratulate the graduating seniors of 2007. The following is a list of seniors who completed the Financial Economics Sequence and the title of their thesis:

JACQUELYN BEAN

Determinants of Retail Pricing for U.S. Electric Utilities

TAKAYA BRUNNER

The Effect of Compensation Consultants and Why Companies Hire Them

MATTHEW COLVILLE

Trends in Pharmaceutical Pro Forma Reporting

JOHN ROBERT FIELD

Accounting Implications of Macroeconomic Influences on Trade Receivables

ZACHRY FRAGAPANE

Evidence of Collusion and Productive Efficiency in Airline Stock Reactions to Merger and Acquisition Announcements

RYAN HIBBARD

Measuring Market Efficiency in Selected Securities Fraud Cases: To Presume or not to Presume Investor Reliance at the Class Certification Stage

DANIEL JACOBSON

Exploring Private Entity Valuation Methodologies: A Case Study In Audio Books

JERRY LIN

Investor Response to Corporate Sponsorships in the Olympics and the World Cup

ILONA MOIZESCH

Earnings Management: A Look into CEO Incentive Based Compensation

SKYE MORLAND

Evidence of Momentum Displayed by Real Estate Investment Trusts

DANIEL NISHBALL

Virtual Worlds as an Economics Experimentation Tool

WILLIAM ST. CLAIR

Intra-Industry Information Transfer Effects in the Oil Industry Following Downward Revisions in Proved Reserves

MOHAMED TRAORE

Corruption and Capital Market Size

CHRIS URBAN

Ethnomics: Economic Analysis of the United States Ethanol Industry

PAUL VAN DEVENTER

Assessing the Merits of Securities Class Action Lawsuits through the Insider Trading Records of Named Defendants

ZIZHENG WANG

Chronic Underperformance/Overperformance and Organizational Risk Taking

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Upcoming Events

End-of-Year Luncheon

May 10, 2007

The Financial Economics Institute will celebrate the conclusion of another successful year with a luncheon that will include an acknowledgement of graduating seniors and a student presentation.

NYC Networking Trip

January 14-18, 2008

Fifteen CMC 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. Applications for the trip will be available from Bauer Center 321 in October.

Conference

2008

The Future of Securities Fraud Litigation



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