SIF End-Of-The-Year Wrapup

By Elliot Lee, CMC ’05

It has been quite an experience joining Danny Cahir in leading the Student Investment Fund this semester. “The Fund” offers a great learning experience for students to work collectively as portfolio managers, actively investing an endowment of over $125,000 in the stock market. More than just a learning experience, S.I.F. has a strong history here at CMC. For Dan and me, following in the footsteps of Ashvin Dhingra, Andrew Meyers, Drew Van Pelt, Tom Robertson, and even Harry McMahon, has been a great honor.

We have had a successful four month stretch. This is primarily due to the efforts of our members who prepare research statements and proposals for every meeting. The members of our management team (there are too many to name here) all deserve a strong pat on the back for working hard to making significant progress with every decision.

To elaborate for any readers unfamiliar with the S.I.F. setup, the Fund is limited to long positions in domestic stocks. While this does receive an occasional gripe from members who have a great short opportunity or an option consideration, this is most likely in the best interests of the fund. By limiting our scope we can really focus on key concepts and produce sound industry analysis as well as a good balance of quantitative and qualitative diligence. We also look for any opportunity to use our young pop-culture expertise to our advantage. A decision to hold a position in Abercrombie and Fitch in February has since provided a 25%

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CMC Faculty Spotlight

An interview with this issue’s featured economics faculty member, Professor Lisa Meulbroek

We took some time to get nice and cozy with a fresh face in the Economics Department, Prof. Lisa Meulbroek. Don’t be intimidated by her amazing credentials and all those vowels in her last name, she’s just a Midwesterner who likes her Country and her Western

McK: Where were you born and where did you grow up?

LM: I was born in upstate New York, but I am primarily a product of the Midwest, from the suburbs of Chicago.

McK: Were your parents economists or academics? If not, what was their profession?

LM: My mother was a high school guidance counselor and my father was an engineer turned manager.

McK: When did you first become interested in economics and what triggered your interest?

LM: Sam “Seat Beltsman” Peltzman, the professor of my first micro course, must
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take the credit or blame. He found evidence that mandatory seat belt use increased pedestrian deaths, an intriguing unintended and unanticipated consequence of a law designed to increase safety. That, combined with his sartorial penchant for mixing plaids and patterns, made economics seem interesting.

McK: Which universities did you attend and why did you choose those educational institutions?

LM: Honestly, a good deal of serendipity led me to the University of Chicago for undergrad. But looking back I consider it my great good fortune to have attended; I still treasure what I learned there. I attended the Massachusetts Institute of Technology for graduate school. Obviously, fun was not a consideration.

McK: If you were not teaching economics, what would you be doing?

LM: I’d like to be a dancer. A good dancer.

McK: What is your current research about?

LM: How to best compensate managers and other employees. I’m hoping for a raise.

McK: What can CMC do to improve its U.S. News and World ranking?

LM: I’m not sure that we should be focusing on the ranking per se as much as concentrating on providing the best education possible. Focusing too much on the ranking tends to backfire; the wrong things get emphasized.

McK: Describe a “good CMC student.”

LM: Well, an oversimplification would be hard-working, eager (or at least willing) to learn, and gracious enough to laugh at my jokes. Beyond that, I’ll have to rely on the Supreme Court’s definition of pornography (I’ll know one when I see one).

McK: Which single person (non-economist) do you admire the most and why?

LM: My favorite this week is Martha Stewart, the political prisoner.

McK: What is the most recent book (academic or not) you read? What is your favorite book?

LM: I’m in the middle of Madeline Albright’s memoirs. As for favorites, I’d have to go with The Little Engine that Could.

McK: What is your favorite movie?

LM: It’s too difficult to name just one. Among my favorites are films with Gene Kelly dancing, Frances McDormand acting, and M. Night Shyamalan or the Coen Brothers directing.

McK: What kind of music do you listen to?

LM: Country AND Western

McK: What do you do for fun?

LM: Steeped deep in the Protestant ethic, I try not to have too much fun. But when forced, I enjoy biking, hiking, dancing, Chassagne-Montrachet, reading, and the X-Files.

Finance Sequence for Economics Majors

For those students interested in gaining more knowledge about the rapidly evolving and innovative field of finance, CMC offers a sequence in Financial Economics. It is designed for students interested in pursuing careers in the financial sector and/or graduate education in economics, finance, and related fields.

The sequence has a rigorous quantitative focus and is designed to complement majors in economics, economics-accounting, and mathematics, as well as dual majors having an economics component. Under the auspices of the Financial Economics Institute, students complete the sequence, which is noted on the transcript, thereby attesting to their solid understanding of the discipline.

The sequence, developed in the context of CMC’s liberal arts curriculum, consists of four parts: completion of prerequisite courses in mathematics, statistics, and economics; two core finance courses; three additional electives; and an oral defense of an independent research project (or senior thesis) that addresses a financial economics topic.

Summer Research Assistants for 2004:
Justin Hance
Eva Nazarewicz

For More Information, contact the Finance Institute at extension 77365 or email Program Director Janet Smith at JSmith@mckenna.edu
return as members believed that negative press would not significantly affect operations that target the high-school and college age group. The portfolio as a whole still maintains some diversifiable risk and as the group’s efforts continue we should be able to find strong positions that will not only meet our desired return on investment but also will cut against that risk.

We were lucky enough to have not just one club advisor this semester but two. Joe Cardoza, Chief Investment Officer for CMC, is the official shepherd of the Fund, but as members of Professor Brown’s Investments and Valuations course, Dan and I regularly reached Professor Brown for advice as well.

One of the greatest challenges for us in leading the Fund so far was following some of the techniques implemented by David Swensen, C.I.O. for Yale’s endowment. Swensen’s efforts at Yale created an annual return of 16% over the past 10 years, outperforming any institutional fund over that time period. This has landed Yale in second place in total value behind Harvard. Swensen’s technique depends upon alternative investments and it is described in his book “Pioneering Portfolio Management”.

While S.I.F. was unable to take advantage of Swensen’s proposed opportunities for arbitrage in fixed-income or the higher premiums through illiquid investments, we did find much to gain in his organization technique. Swensen’s group comprises roughly 20 staff members. They operate on a level playing field where all members understand the investment strategy as well as their responsibilities to the group and how things interact.

With an influx of new members this semester, we found ourselves with a diverse group of thirty students, freshman to seniors with varying levels of economics and finance background. Getting everyone on the same page was central in achieving well-oiled machine status.

Last but not least, some of the brightest spots in this past spring were due to special visits by Leigh Crawford and Suzanne Nora Johnson. In small group meetings, Fund members had the opportunity to pick the brains of these successful business people to gain from their experiences in the real world. Leigh Crawford ’94, Co-Founder and Chief Investment Officer of Mesa Capital Management and 12 year veteran from TCW, provided tremendous insight into the world of hedge-funds and the thought process for investment valuation. His words really helped to point us in the right direction. Suzanne Nora Johnson is the head of the Global Investment Research Division for Goldman Sachs and is also an MD there. Her perspective and descriptions of her wide range of experiences helped us to better think about the intricacies of different industries and to challenge traditional methods to achieve success. Both speakers were very impressive and helpful to the Fund on a group and personal level.

The Fund is always looking for ways to improve research abilities and further streamline operations. We can still use more interested and motivated students. If this sounds like something you want to hear more about, then e-mail either dcahir05@mckenna.edu or elee05@mckenna.edu.

The road less traveled: Getting your Ph.D.

By Dustin Beckett, ’04

Hey all you future CFO millionaires and Business Leaders of America! Think you’re pretty good at economics, do you? Chances are you’re right, so let me suggest an alternate future for you: consider going to graduate school for an economics Ph.D.

There are over three million reasons why this could be a good idea for you. Here are three: a future in economics can be interesting, dynamic, and well-paid. That’s right, an economist’s job is not all money and numbers like you may have heard. Rather, an economist’s field of study is practically endless. If you can observe it, an economist can study it, and as such, an economist’s work never get boring. Additionally, if you love finance, don’t let that stop you. An economics Ph.D. can be the best path to understanding and practicing finance, and it can be lucrative too.

But here’s another reason for you as a CMC student to apply to graduate school: the professors will love you for it. I can’t explain why exactly; perhaps they’re tired of getting the same old consulting and banking inclined students, or maybe there’s something more paternal (maternal) about it, and the CMC profs like seeing students following in their footsteps. It is only about once every three or four years that a CMC economics student decides to pursue a Ph.D. Certainly, such a student must seem like a breath of fresh air. Whatever the reason, CMC profs eat it up, and do a lot to help you out.

When I mentioned last winter that I wanted to go to graduate school, my economics advisor went to work for me and got me an internship in the Princeton economics department. When I asked one of my other professors for a letter of recommendation, she had two others collaborate to write sections of their own. And whenever I see my professors in the halls, they’re always quick to ask how things are going and offer their assistance. There is no question that CMC economics professors love it when one considers to go for econ grad school.

When I decided I wanted to be an economist, I benefited immeasurably thanks to the faculty in the economics department. When it comes time for you to make decisions for your own future, consider doing the same.
**5th Annual Economics Awards Banquet**

Our 5th Annual End of Academic Year Awards Night will be held on **Tuesday, May 4, 2004**, at the Athenaeum (starting at 5:30). **All students, but especially the Economics majors, are invited and should contact Professor Keil (MKeil@mckenna.edu) to sign up for the dinner**

*We will be announcing the awards for*

**Outstanding Senior, Junior, Sophomore**
**Outstanding Senior Thesis**
**Outstanding Statistics Project**
**Outstanding Achievement in Quantitative Economics**
**Winner of the Robert Day Venture Capital Award, and others.**

*Finally, there will be the induction of 15 students into the Economics Honors Society (Omicron Delta Epsilon), and the presentation of this year’s Economics Honors Students.*

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**“The Investment Banking Industry in the year 2010”**

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**Biography of Guest Speaker, Harry McMahon**

Harry McMahon serves as Vice Chairman of Merrill Lynch & Co. and is a member of the executive committee of the Firm’s Global Markets and Investment Banking Group. Harry joined Merrill Lynch in 1983 and prior to his move to Los Angeles in 1989, he held senior positions in both Capital Markets and Corporate Finance. From 1996 to 2002, he was Co-Head of Global Corporate Finance, overseeing all Corporate Client activities in Consumer Products, Healthcare, Media, Technology, and Telecommunications.

His broad base of client experience has included being the team leader on over 250 projects involving either Corporate Finance or Mergers and Acquisitions advisory work. From 1975 to 1983, McMahon worked for the Northern Trust Bank of Chicago in the areas of International Cash Management, Commercial Lending and Corporate Finance.

He currently serves on the Board of Trustees of Claremont McKenna College, where he is also Chairman of the Henry Kravis Leadership Institute. He serves on the Board of Trustees of St. John’s Hospital, and on the Board of Directors of Bet Tzedek, the largest legal services charity in Los Angeles; and on the Vestry of St. Matthew’s Church in Pacific Palisades.

He received an MBA with a concentration in Finance from the University of Chicago Graduate School of Business in 1980, and a BA with concentrations in Economics and International Relations from Claremont McKenna College in 1975. He and his wife, Jacquie, have four children.