

The Exchange

NEWS FROM THE FINANCIAL ECONOMICS INSTITUTE AT CLAREMONT MCKENNA COLLEGE

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New Directors at the FEI

SINCE ITS INCEPTION, THE FEI HAS grown significantly under the leadership of Professor Janet Smith. This spring, however, Professor Smith was appointed the new Dean of the Robert Day School of Economics and Finance. As a result, the FEI is pleased to announce that Eric Hughson, the Don and Lorraine Freeberg Professor of Economics, has been selected as the next Director of the FEI. Professor Hughson will be joined by Lisa Meulbroek, the Fritz B. Burns Chair in Financial Economics, who has been named the new Associate Director for the Institute.

Eric Hughson, who joined the CMC economics faculty last fall, has previously held academic appointments at the University of Colorado, Boulder, University of Utah, University of British Columbia, California Institute of Technology, and Carnegie Mellon University. He received a B.S. in Mechanical Engineering from Massachusetts Institute of Technology and an M.S. and Ph.D. in Finance from Carnegie Mellon. Since arriving at CMC, Professor Hughson has taught two sections of Investments and one section of Corporate Finance and has been responsible for leading the finance faculty recruiting efforts. As a result of his work, CMC will welcome three new finance faculty members in fall 2008.

Lisa Meulbroek began teaching finance at



Eric Hughson



Lisa Meulbroek

CMC in 2003. She was previously a professor of finance at Harvard Business School and has taught a variety of courses including Corporate Finance and Advanced Corporate Finance at CMC. Professor Meulbroek also supervises several senior theses and administers the Financial Economics Sequence research project requirement. Her research has been focused on executive compensation, risk management, and insider trading. Professor Meulbroek received her Bachelors degree from the University of Chicago and a Ph.D. from Massachusetts Institute of Technology.

We are excited to introduce Professors Hughson and Meulbroek as the new leaders of the FEI and look forward to their contributions as the FEI continues to establish itself as an integral part of the CMC educational experience. ▲



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

In This Issue:

PG 2: The Future of Securities Fraud Litigation Conference

PG 3: List of conference participants and New York City Networking Trip

PG 4: Tinsley Lowe '08 reviews Professors William O. Brown, Jr., J. Harold Mulherin and Marc D. Weidenmier's article on "Competing with the NYSE"

PG 5: End of article review and Spring 2008 Student Research Analysts

PG 6: Scott Arnold '09 interviews FEI Board Advisor Joseph H. Petrowski P'08 and summary of Laura Starks' lecture

PG 7: Alex Reichert '11 interviews FEI Board Associate Susan Matteson King '85 and summary of Josh Lerner's lecture

PG 8: Recognizing FEI Seniors and Upcoming Events

The Future of Securities Fraud Litigation Conference

Friday, February 8, 2008

Sponsored by: LRN-RAND Center for Corporate Ethics, Law, and Governance and the Financial Economics Institute, Claremont McKenna College



Eric Helland

THE FUTURE OF SECURITIES FRAUD Litigation Conference was held on Friday, February 8th at the Claremont Graduate University's Drucker School of Management. Hosted by the Financial Economics Institute and the LRN-RAND Center for Corporate Ethics, Law, and Governance, the conference provided a unique perspective into the law and economics of financial market regulations, with an emphasis on the Securities and Exchange Commission. The conference, which was generously underwritten by Jones Day and Entwistle & Cappucci, attracted over 60 attendees, including accomplished professors, members of the SEC, and various analysts from top law firms.

Pamela Gann, President of Claremont McKenna College, welcomed everyone to the conference and introduced Prof. Janet Smith, the Von Tobel Professor of Economics and Dean of the Robert Day School of Economics and Finance, who explained the day's activities. The conference included two morning sessions that were followed by a luncheon and practitioner panel at CMC. The conference continued with a final session at the Drucker School and concluded with a reception and dinner at Harvey Mudd College.

The topic for the morning's first session was "Plaintiffs, Settlements and Litigation Reform." The session was chaired by the U.S. Securities and Exchange Commission's Cindy R. Alexander. Speakers during this session included Eric Zitzewitz, of Dartmouth College, who presented his paper "An Eliot Effect? Prosecutorial Discretion in Mutual

Fund Settlement Negotiations, 2003-07,"

Adam Pritchard, who teaches at the University of Michigan, summarized his paper "The Screening Effect of the Private Securities Litigation Reform Act," and Lynn Bai, a Professor at the University of Cincinnati, discussed her paper "There are Plaintiffs and...There are Plaintiffs: An Empirical Analysis of Securities Class Action Settlements." Following the presentations, Ms. Alexander offered her comments and criticisms which were followed by a lively discussion.

After a brief refreshment break, the second session, focusing on market efficiency, reliance, and damages, was chaired by Michael Perino, the Dean George W. Matheson Professor of Law at St. John's University School of Law. Prof. Perino's primary areas of scholarly interest are securities regulation and litigation, corporations, and complex litigation. The first presentation was given by Prof. Alicia Davis Evans of the University of Michigan and was entitled "Do Investors' Gains and Losses from Securities Fraud Equal Out Over Time? Some Preliminary Evidence." The following paper, "The Paradox of 'Fraud-on-the-Market' Theory," was presented by Richard L. Smith of Claremont Graduate University. The second session concluded with a presentation of the paper called "A Simple, Nonparametric Approach to Asymptotically Valid Inference in Single-Firm Event Studies with One Event Date" by Prof. Jonathan Klick of Florida State University. Prof. Perino challenged some of the papers' findings and complimented others on their results. After opening the discussion to all participants, many comments offered further ideas for analysis while others provided constructive criticism.

Following the second session, the participants were escorted to the Claremont McKenna College Marian Miner Cook Athenaeum for a luncheon. During lunch, John C. Coffee, the Adolf A. Berle Professor of Law at Columbia Law School and the Director of the Center on Corporate Governance of Columbia University, provided the conference's keynote address. The talk, which was entitled "Accountability, Competition and Collusion: The Dilemma of the Securities Class Action," included a discussion of a paper that Professor Coffee recently completed regarding the role of

attorneys in class action lawsuits.

Prof. Coffee's presentation was followed by a practitioner panel which addressed current issues in securities fraud litigation. The panelists included Vincent Cappucci, a Partner at Entwistle & Cappucci; Prof. Brad Cornell, a Senior Consultant at CRA International and a professor at California Institute of Technology; James Farrell, a partner at Latham & Watkins, LLP who specializes in securities litigation and professional liability; Larry Fine, Senior Vice President of AIG; and David Tabak, Senior Vice President of NERA Economic Consulting. The panel was moderated by Eric Landau, a Partner at Jones Day who specializes in securities and shareholder litigation. Following the panel, CMC students escorted the participants back to the Burkle Building at the Drucker School of Management.

Stanford University's Michael Klausner, the Nancy and Charles Munger Professor of Business and Professor of Law, chaired the third and final session which centered on securities litigation and corporate governance. Prof. Klausner shared his expertise in corporate law and corporate governance while discussing papers by the University of Alabama's Prof. Anup Agrawal ("Insider Trading Before Accounting Scandals"), the University of Washington's Prof. Jonathan M. Karpoff ("The Determinants of Managerial Decisions to Cook the Books"), Boston College's Christopher Baum and UHY Advisors' James G. Bohn ("Securities Fraud Class Actions and Corporate Governance: New Evidence on the Role of Merit"), and Eric Helland ("The Impact of the Securities Litigation on the Directors' Labor Market") who is a Professor at Claremont McKenna College and the Associate Director for Research at the RAND Institute for Civil Justice.

Following the conference, students and participants dined at Harvey Mudd's Green Room and enjoyed a Mexican fiesta. Robert Reville, a Senior Economist and Director of the RAND Institute for Civil Justice, provided an informative and entertaining presentation following dinner. The conference ended on a successful note, with many praises from the participants regarding the conference, the topics covered, and the professional attitudes of the Claremont McKenna students. ▲

The Future of Securities Fraud Litigation Conference Presenters

- ▶ **Anup Agrawal**
University of Alabama
- ▶ **Cindy R. Alexander**
U.S. Securities and Exchange Commission
- ▶ **Lin (Lynn) Bai**
University of Cincinnati
- ▶ **Christopher F. Baum**
Boston College and DIW Berlin
- ▶ **Vincent Cappucci**
Entwistle & Cappucci, LLP
- ▶ **Atreya Chakraborty**
University of Massachusetts, Boston
- ▶ **John C. Coffee**
Columbia Law School
- ▶ **Bradford Cornell**
CRA International and California Institute of Technology
- ▶ **Alicia Davis Evans**
University of Michigan
- ▶ **James Farrell**
Latham & Watkins, LLP
- ▶ **Larry Fine**
AIG
- ▶ **Jonah Gelbach**
University of Arizona
- ▶ **Eric Helland**
Claremont McKenna College and RAND Corporation
- ▶ **Jonathan M. Karpoff**
University of Washington
- ▶ **Michael Klausner**
Stanford University
- ▶ **Jonathan Klick**
Florida State University
- ▶ **Eric Landau**
Securities & Shareholder Litigation Group, Jones Day
- ▶ **Michael A. Perino**
St. John's University School of Law
- ▶ **Adam C. Pritchard**
University of Michigan
- ▶ **Richard L. Smith**
Claremont Graduate University
- ▶ **David Tabak**
NERA Economic Consulting
- ▶ **Eric Zitzewitz**
Dartmouth College

2008 FEI New York City Networking Trip



Sixteen CMC students toured Wall Street in January 2008.

DURING THE WEEK OF JANUARY 14-18, 2008, the Financial Economics Institute sponsored the fifth annual New York City Networking Trip which provided an invaluable learning experience for sixteen sophomores and juniors who aspire to work in finance after graduation. The students participated in several activities that enabled them to explore an array of career opportunities in finance while establishing contacts with CMC alumni and friends of the College.

During the week, the students visited six firms including: Deloitte Consulting, Goldman Sachs, The Capital Group Companies, Taconic Capital Advisors, Kohlberg Capital Corporation, and Morgan Stanley. The students also reviewed a private equity "deal book" with representatives of The Compass Group.

The week's activities began with an introductory dinner hosted by President Gann at The University Club. Students interacted with several FEI Board Members and alumni who graciously answered the students' questions and offered insight regarding life after CMC. The dinner was followed by a presentation by Charles Calomiris, the Henry Kaufman Professor of Financial Institutions at Columbia University's Graduate School of Business.

On Tuesday, students had breakfast at Deloitte Consulting before participating in a photo shoot in the area surrounding Wall Street. They spent the afternoon at Goldman Sachs and attended a CMC Alumni Association Cocktail Reception hosted by Susan Matteson King '85 and Kristen Edgreen '98 at The Yale Club on Tuesday evening. The reception drew

several members of the CMC community and was well attended by students, alumni, and CMC faculty. The evening gave students an opportunity to interact with alumni, establish contacts, and openly ask questions outside of a formal business setting.

On Wednesday, students visited The Capital Group Companies and Taconic Capital Advisors. While at Taconic Capital, the students also met with representatives of The Compass Group. Students enjoyed free time to explore New York City on Wednesday evening.

On Thursday, the final day of events in New York City, students visited Kohlberg Capital Corporation and Morgan Stanley. As a conclusion to the week, Brian Dennis '97, Assistant Director of the FEI, took students to dinner at Luna Piena.

The New York City Networking Trip succeeded in providing students with exposure to a variety of financial firms. The students learned about consulting, investment banking, sales and trading, asset management, private equity, hedge funds, and business development corporations. They will undoubtedly benefit from these visits as well as the opportunity to meet extensively with CMC alumni who have established themselves in successful careers in NYC. These relationships will be invaluable for the students 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. ▲



▲ **William O. Brown, Jr.** is an Associate Professor in the Department of Accounting and Finance at the University of North Carolina at Greensboro. He is also the current Department Head. He specializes in financial management, financial markets, and investments.



▲ **J. Harold Mulherin** is a Professor in the Banking and Finance Department at the University of Georgia. He specializes in mergers, acquisitions, and restructuring.



▲ **Marc Weidenmier** is the William F. Podlich Associate Professor of Economics and the George R. Roberts Fellow in the Robert Day School of Economics and Finance at Claremont McKenna College. Weidenmier specializes in monetary and financial history.

Competing with the NYSE

Forthcoming Publication in the Quarterly Journal of Economics

William O. Brown, Jr., J. Harold Mulherin, and Marc D. Weidenmier

Summarized by Tinsley Lowe '08, FEI Student Research Analyst

THE NEW YORK STOCK EXCHANGE (NYSE) has been around since 1792 and has grown to become the second largest securities trading market in the world, next to the NASDAQ. However, recently global capital markets and emerging electronic communications networks have become threats to the NYSE dominant market share. In order to lower the level of competition, the NYSE merged with the leading company of new technology (Archipelago) and the leading cross border exchange (Euronext). However, two main questions arose in response to these mergers: is competition viable and were the mergers beneficial to investor welfare? To help answer these questions, Brown, Mulherin, and Weidenmier studied the historical example of stock market competition between the Consolidated Stock Exchange and the NYSE.

Over the years, the NYSE has not been faced with much competition. In the late 19th and early 20th centuries, local security stocks were traded in the same city in which they were financed and owned. Furthermore, trading tended to centralize in one location, so there was limited competition within cities. Exchanges were not trading shares from the same companies, and therefore the NYSE did not have to worry about competition. However, from 1885 to 1926, the NYSE was faced with direct competition from the Consolidated Stock Exchange.

The Consolidated Stock Exchange was the product of two mergers. First, in 1883 the New York Mining Stock Exchange and the National Petroleum Exchange merged. Excluded from the merger was the New York Petroleum Exchange (which changed its name to New York Petroleum Exchange and Stock Board). In September 1884, the New York Petroleum Exchange and Stock Board began trading stock listed on the NYSE. The New York Mining Stock and National Petroleum Exchange followed in February 1885 and began trading NYSE listings as well. In March 1885, the two exchanges decided to merge and formed the Consolidated Stock and Petroleum Exchange (a.k.a. the Consolidated Stock Exchange).

Over its years of operation, the Consolidated averaged 23 percent of NYSE volume, trading the more liquid of NYSE listings. It attracted investors with lower commissions, odd lot trading, and longer settlement periods. The NYSE tried to implement measures to limit the ability of the Consolidated to gain market share. However, they were unable to completely eliminate the

competition between the two security trading markets, which continued until 1926 when the Consolidated Stock Exchange was forced to close due to accusations of fraud.

To examine the effect of competition between the two exchanges, the authors studied the changes in bid-ask spreads of the NYSE listings traded on both exchanges. They used regression analysis with two dependent variables measuring bid-ask spreads (absolute and relative) and a binary independent variable which took the value of one when the Consolidated Stock Exchange was operating. Controls for firm-specific and overall market factors were included so that the effects of competition could be isolated. Below is the basic model used:

$$SPREAD_{it} = \alpha_0 + \beta_1 VOL_{it} + \beta_2 CLOSE_{it} + \beta_3 STDEV_i + \beta_4 COMP_t + \beta_5 WVOL_{it} + \beta_6 CALL_t + \beta_7 SHARE_{it} + \beta_8 CONC_t + \varepsilon_{it}$$

The time interval was constrained to 60 weeks before and after the initiation of the Consolidated Exchange due to a temporary discontinuation of bid-ask spread reporting by the NY Times (the source of bid-ask spread data used by the authors). The analysis found that with and without company fixed effects, both absolute and relative bid-ask spreads were significantly lower when competition was present (-10.8 percent and -12 percent respectively).

An alternative hypothesis was that spreads may have been lower in the early 1880s before the Consolidated Exchange opened in response to the threat of competition. To improve the analysis, two binary variables were added to the regressions which took the value of one after the 1883 merger of the New York Mining and National Petroleum Exchange (May 1, 1883) and after the New York Petroleum and Stock Board began trading NYSE stocks (September 20, 1884). The original binary for competition was again statistically significant and negative in all regressions, while the 1883 merger binary was never significant and the 1884 trading binary was negative and significant only when firm specific fixed effects were included. Therefore, the authors concluded that the previous analysis may have underestimated the full effects of competition, with the actual overall decline from competition ranging from 15.6 percent to 16.5 percent.

In order to determine whether or not the

Financial Economics Institute Spring 2008 Student Research Analysts

During the spring 2008 semester, seventeen Student Research Analysts assisted faculty members with research projects. The following is a list of students, the topics they researched, and their faculty advisors:

SCOTT ARNOLD '09, *Time-Series Variability in Historical Risk Premia*, with Professor Eric Hughson and *Does Risk Matter? Corporate Insider Transactions in Internet-Based Firms*, with Professor Lisa Meulbroek.

ASAF BERNSTEIN '08, HMC, *An Examination of Common Financial Statement Adjustments and Corporate Bond Spreads*, with Professor George Batta, Professor Ananda Ganguly and Professor Joshua Rosett.

NICK BURNETT '09, *The Impact of Major Gifts on Colleges and Universities*, with Professor Joshua Rosett.

TEJAS GALA '09, *Understanding the Effects of Competition on Stock Markets*, with Professor Marc Weidenmier.

TINSLEY LOWE '08, *Insider Trading and the Subprime Mortgage Crisis*, with Professor Lisa Meulbroek.

BREMNER MORRIS '09, *Equity Misvaluation and Corporate Failure Prediction*, with Professor George Batta.

CHRISTOPHER PENKA '08, Forthcoming *Entrepreneurial Finance*, 3rd edition (John Wiley & Sons), with Professor Janet Smith.

CATHERINE POWERS '08, *Managerial Efficiency and Decision-making: Evidence from Major League Baseball*, with Professor Janet Smith.

ALEXANDER REICHERT '11, *College Admissions Process with a Specific Focus on Early-Applicant Program*, with Professor Janet Smith.

KURT SHELINE '08, *Seasonal Anomalies in the Equity Markets*, with Professor Eric Hughson.

NICHOLAS SPARKS '10, *Japan's IPO Experiments: Entrepreneurial Finance*, with CGU Professor Richard Smith.

THOMAS SPILLER '09, *Asset Bubbles in Experiments*, with CGU Professor Paul Zak.

ASEEM VYAS '08, *Relationships Between Large and Small Firms in the Biotechnology and Pharmaceutical Industries*, with Professor Darren Filson and Professor Marc Weidenmier.

BRITNEY WATSON '09, *The Value of Financial Statement Recasting for Credit Risk Assessment*, with Professor George Batta and Professor Ananda Ganguly.

FELICIA WU '08, *Upward and Downward Biases in Financial Information*, with Professor Ananda Ganguly.

YANG (AMANDA) YANG '10, *Environmental Accounting: Financial Reporting of Environmental Related Issues and Sustainability*, with Professor Marc Massoud.

SOPHIE ZENG '09, *Does Labor Disclosure Provide Useful Information? The Case of Analysts' Forecasts*, with Professor Joshua Rosett.



Back row, from left: Aseem Vyas '08, Scott Arnold '09, Tinsley Lowe '08, Chris Penka '08, Yang (Amanda) Yang '10. Front row, from left: Alexander Reichert '11, Nicholas Sparks '10, Nick Burnett '09, Asaf Bernstein '08 (HMC).

Competing from page 4

results were driven by overall changes in equity markets, the regression analysis was applied to the Boston Stock Exchange, which was considered a quasi-control group (different stocks, same industries). The analysis showed similar relationships, but the competition binary was not significant. The coefficient was less than half the size of the competition coefficient for the NYSE, suggesting that the observed relationship between Consolidating trading and NYSE spreads was the result of competition. Other concerns included the possibility that the longer window was capturing an unexpected trend in bid-ask spread

and that the effect of competition depended on characteristics of the firms. Both were tested and resulted in similar findings to the previous analyses.

To examine the effects on consumer welfare overall, the authors calculated transaction cost savings of buying stock on the Consolidated and NYSE while competition was present. By using the competition coefficient estimates from the regression analysis, they estimated that over the 42-year stock market rivalry, competition saved NYSE investors 7.9 billion dollars and Consolidated Exchange investors 1.7 billion dollars (both measured in dollars today). That's a total increase of 9.6 billion dollars in consumer welfare. It's important to note that this is an

upper bound estimate (authors assumed that if the Consolidated Exchange did not exist, the stock transactions would have still occurred but on the NYSE), however it is evident that investors did benefit from the presence of competition.

Overall, it is clear that the empirical analysis offers strong evidence that the direct competition between the Consolidated Stock Exchange and NYSE lowered bid-ask spreads on the Big Board. The NYSE responded to both future and actual competition, suggesting that competition can increase investor welfare by forcing large security trading markets to provide better prices. Even though they try to push out competition, the constant threat of it drives down bid-ask spreads. ▲

FEI Board of Advisor Profile: Joseph H. Petrowski P'08

President and CEO, Gulf Oil

By Scott Arnold '09, FEI Student Research Analyst and 2007-2008 BGI/Larson Asset Management Fellow



Joseph Petrowski

What is your current role at Gulf Oil?

I currently serve as the president and CEO of Gulf Oil and focus mainly on strategy. My job is to find the right people, place them in key operating roles, and make sure that everyone is serving the best interests of shareholders and customers. I am hands-on, however, and I like to immerse myself in every aspect of the business—operations, analysis, marketing, trading, etc. While my background is in trading, I am still very involved in coaching and recruitment, making sure that we develop the right culture.

Could you talk a little bit about Gulf Oil as a company? What are the dynamics behind your business?

Gulf Oil is the remnants of the original Gulf Oil, which was founded in Texas by the Mellon banking family in 1901, and was at one point the 5th largest corporation in America. While Gulf Oil has over 7 billion in revenues, it is not a vertically integrated oil company like Chevron or Shell. Its business areas—terminals, marketing, distribution, and retail—do not include exploration or extraction. Gulf oil is “fuel agnostic” in that we are an energy provider, whether that is petroleum or natural gas. With an eye to the future, we are

considering plans involving ethanol, biodiesel, and hydrogen power. Given the volatility and expense of petroleum-generated energy, we are forced to remain “fuel agnostic.” We focus both on how we are going to deliver 250,000 barrels tomorrow and what our customers will demand in five years.

How is Gulf Oil positioned to take advantage of future growth opportunities?

We have extremely profitable cash flow as well as a reasonable capital structure. Given that our owners are very conservative and the management team is very disciplined, until recently we were called “under-levered.” Given the difficult credit market conditions, we still have attractive financing available to us. We typically raise between 20 and 30 million a year in new capital. Our reputation with our lenders is our most valuable asset in the capital-raising process. We maintain this reputation by communicating honestly with our lenders, as well as remaining very transparent. We explain how each one of our projects will make money, and we maintain a high degree of liquidity. We do not deal in collateralized debt obligations with a knockout option.

How do you handle risk management at Gulf Oil?

Risk management is really about honesty, openness, and transparency. We keep open books, meaning that everyone knows what

positions a trader has or doesn't have. In addition, we have tried to establish a culture that provides effective risk management. We have systems and protocols, however, these are nothing more than “diet books on the shelf” without the proper culture. Some of the oldest trading firms in the world, like Dreyfus or Cargill, have survived mostly because of the culture on their trading floors. I sit on the trading floor, not in a corner office. My managers all sit on the trading floor and we are very involved with the day-to-day operations. If we do not understand the security we are buying, we won't buy it and put it on our books.

How did you first develop an interest in the petroleum industry and where did you start your career?

I wrote my senior thesis on the petroleum industry at Harvard. I had worked at Sunoco and Gulf Oil gas stations as a teenager and was fascinated by the business. After college, I worked for Louis Dreyfus trading commodities. It was a great experience, and I learned a multitude of skills including marketing, credit, politics, accounting, and back-office operations.

Given that you have a Bachelor's from Harvard, what drew you to the Financial Economics Institute at CMC?

While I was visiting my daughter at CMC, I met Professor Janet Smith and I was very impressed with her and the Financial Economics Institute. I have always loved markets, and I think that an education in markets is extremely important.

Do you have any advice for young people entering the workforce from a small liberal arts college like CMC?

Do not worry about what your first job title is, just make sure you develop skills. And by skills, I mean the ability to analyze, organize, and sell. This is where a liberal arts education is useful, as it gives you the framework to develop these abilities. There are universal business principles and applicable skills. Any business person needs to be able to read a balance sheet, deal with a customer, set up an effective billing system, value a company, understand how a trading operation works, and understand how capital markets function. The biggest mistake kids make is to come out of school thinking that they know everything. Business has a nuance and a feel that must be learned over the course of a career. ▲

Corporate Governance and Social Responsibility: What Do Investors Care About?



Laura Starks

LAURA STARKS IS the Charles E. and Sarah M. Seay Regents Chair of Finance and Director of the AIM Investment Center in the McCombs School of Business at the University of Texas at Austin. Her teaching interests include global

performance of portfolio managers and the role of institutional investors in markets and corporate governance. She is or has served as Associate Editor of the *Journal of Finance*, *Review of Financial Studies*, *Journal of Financial Services Research*, *Journal of Financial Research*, *Financial Management*, *Contemporary Finance Digest* and *AB ANTE*, *Estudios en Direccion de Empresas*.

She is currently serving on the Board of Directors of the American Finance Association and the Western Finance Association. She serves on the Board of Trustees and is Past President of the Financial Management Association.

Professor Starks' Athenaeum talk was part of the Financial Economics Institute Speaker Series. ▲

financial strategies, investments, valuation theory, and financial management. In her Athenaeum presentation, Professor Starks discussed several social responsibility issues that shareholder activists are raising with corporations.

Professor Starks' research has focused on the evaluation, compensation and

FEI Board Associate Profile: Susan Matteson King '85

Managing Director of Retail Marketing, Legg Mason, Inc.

By Alexander Reichert '11, FEI Student Research Analyst



Susan Matteson King

Can you please describe your career path and explain your current role at Legg Mason?

I joined the financial analyst program at an investment bank immediately following graduation. During the first several years I began

to work with financial institutions, in particular asset management companies. Following 9 years in New York and 4 years in Hong Kong, I decided to join my favorite client. During the next 7 years, I ran a marketing team and led an operating business unit. Following the sale of the business unit, I joined Citigroup Asset Management. A few months later, CAM was acquired by Legg Mason. I've been running the Marketing Department for US Distribution following the completion of the merger. As head of the Marketing Department, I manage a team of 85 professionals managing brand, advertising, product communication and value added offerings for all products sold to retail investors (mutual funds, separately managed accounts, closed-end funds, variable annuities, and alternative investment products). We produce approximately 7,000 pieces annually in print, web, and electronic format.

How did you choose to become involved with the marketing and operational side of the asset management business? What made you decide to follow such a path?

I wish many of my career opportunities had been planned! Like many people, I dove into an opportunity and brought my investment banking background (financial analysis, negotiating, managing) to the business. I have stayed on this path because I enjoy working with my colleagues. I remain interested in the work and I'm happy coming to work every day.

In your opinion and through your own personal experiences, what are the advantages of a liberal arts degree?

A liberal arts degree provides a powerful foundation for flexibility in the workplace. The broad range of skills means you have more tools to draw upon if career changes are presented. Studying abroad during my junior year provided me with a life-changing experience that broadened my world view, and created much for sensitivity and interest in the world around me. Many liberal arts institutions offer a diverse range of experiences in and out of the classroom that provide students with broad perspectives

and diverse experiences that help them make better decisions and take more chances as they grow.

What would you say was the greatest source of adversity you have faced in your career to date?

I've been very lucky in that I've had a number of mentors who have helped me navigate business throughout my career. I have not experienced discrimination or bias to any great extent. Market cycles have created the greatest challenges during my career, but mentors have helped me develop ways to cope through those difficult times.

The question of an MBA is currently a hot topic for students looking for the next step after college. With the job market weakening, do you think recent graduates will benefit more from working for two years at an investment bank or completing an MBA?

Following the stock market crash of October 1987, I was faced with a similar dilemma: to continue working in the investment bank or leave to pursue an MBA. I chose to continue working. I was well positioned with several years of bear market experience when the market recovered. The experiences of weathering difficult times have been invaluable during subsequent turmoil and market volatility. Pursuing an MBA, particularly in volatile times, can be a great opportunity, especially if you want to change careers or industries.

What does it take to be successful and effective in the financial sector?

In my experience, hard work, self confidence, a strong desire to excel, strong communication skills, and an optimistic attitude are helpful to anyone, whether working in the financial sector or any other environment. CMC prepares its students to be critical thinkers and to master written and oral communication skills regardless of career path.

What has motivated you to remain so actively involved with CMC since you graduated?

I am grateful for the opportunities an education at CMC provided to me. I would not be living the life I have if the people at CMC hadn't impacted my life. I am eager to give back to CMC so that others may have fulfilling life-changing experiences similar to those I had.

What one action taken in college do you think would have benefited your career advancements the most?

Becoming fluent in a language other than English would have had the greatest impact on my career.

Do you have any advice for current CMC seniors as they launch into life after college?

Stay in touch with classmates, faculty, and friends from CMC. ▲

The Great Debate: Private Equity and Its Impact on the Global Economy



Josh Lerner

PRIVATE EQUITY has attracted unprecedented attention in the past two years. These funds—which buy using equity and debt, restructure, and sell companies—have been both lauded as long-run investors who

help firms and criticized for their myopic outlook and outsized profits. This talk explored who these shadowy actors are, how they work, and what their impact on the larger economy is. The talk highlighted research findings from a project recently completed under the umbrella of the World Economic Forum.

Josh Lerner is the Jacob H. Schiff Professor of Investment Banking at Harvard Business School, with a joint appointment in the Finance and Entrepreneurial Management Units. Much of Professor Lerner's research focuses on the structure and role of venture capital and private equity organizations. He also examines technological innovation and how firms are responding to changing public policies. He founded, raised funding for, and organizes two groups at the National Bureau of Economic Research: Entrepreneurship and Innovation Policy and the Economy. His work has been published in a variety of top academic journals.

The Financial Economics Institute sponsored Lerner's Athenaeum talk as part of the FEI's Speakers Series. ▲

Congratulations Class of 2008!

THE FINANCIAL ECONOMICS INSTITUTE WOULD LIKE TO CONGRATULATE the graduating seniors of 2008. The following is a list of seniors who completed the Financial Economics Sequence and the titles of their theses:

LOUIS ALBANESE, *Indulging in Bad Times: Investigating Sin Stock Returns in Recessions*

ASAF BERNSTEIN, HMC, *Can a Lender-of-Last-Resort Stabilize Financial Markets? Lessons from the Founding of the Fed*

ROSHUNDA CALHOUN, *Goodwill Hunting: Goodwill Recognition and Earnings Management Since SFAS No. 142*

KRISTEN CROUSE, *An Exploration of Environmental Accounting and the Valuation of Companies That Environmentally Report*

JONATHAN DELICH, *Forecasting Market Returns Based on Lagged Volatility: Do VX and VXN Have Predictive Ability in a Lagged Setting?*

FAN DU, *An Empirical Study of the Impact of Intangible Assets on the Sustainability of Firm-Specific Profits*

YASMIN ENTEKHABI, *Unrecognized Land Value Appreciation: A Look at the Spread Between Book and Market Valuation*

ALEXANDER HILL, *The Impact of Financial Development on Economic Growth: A Case Study Including Argentina, China, Greece, and India*

DANIEL JÄGER, *An Empirical Examination of the Impact of Material Weakness Disclosure Under Section 404 on the Value Relevance of Reported Earnings*

PHILIP KAESTLE, *A Quantitative Analysis of Climate Change: Cointegration Testing to Determine Causation and Projecting Future Costs of Achieving A Sustainable Climate*

ROBERT KURISU, *The Penny Pilot Program: Effects of Pricing Equity Options in Penny Increments*

TINSLEY LOWE, *Chronically Underperforming Firms and Institutional Monitoring: Does Increased Monitoring Influence Performance?*

ROBERT LULOW, *The Effect of World Bank Investment, Foreign Direct Investment, and Domestic Investment on Economic Growth*

ERIC MICHAELS, *Bringing down the Housing Market: Should the Federal Reserve Have Altered Monetary Policy in Response to the U.S. Real Estate Bubble?*

DAVID NOBLE, *Labor Relations and the Troubling State of Major League Baseball*

CHRISTOPHER PENKA, *Convertible Debt's Function in Linking the Current and Future Financing Needs of Firms*

JESSICA PERRI, *Investing in the Super Bowl—Stock Returns and Commercials*

CATHERINE POWERS, *Managerial Turnover and Organizational Efficiency: The Pursuit of Alpha in the Context of Major League Baseball*

KARTHEEK RAJU, *Impact of Microfinance: A Study of Its Distribution and Its Effects on Output and School Enrollment in Andhra Pradesh*

LUKE REDFERN, *Stock Market Sentiment in China: The Impact on Time Deposits and Share Prices*

MEG SAKURAI, *The Impact of the New Company Law on Japanese Stock Valuation*

VALAY SHAH, *International Diversification: An Out-of-Sample Study of Portfolio Optimization Using Analysts' Earnings Forecasts*

CINDY THIO, *CEO Finance Background: Effect on Firm Dividend Policy*

ASEEM VYAS, *The Effect of University Endowment Spending on Institutional Quality*

FELICIA WU, *Insider Trading on Credit Default Swaps*

BLAKE ZACHARIAS, *Insider Anticipation of the 2007 U.S. Subprime Crisis*

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Upcoming Events

End-of-Year Luncheon

MAY 15, 2008

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.

New York City Networking Trip

JANUARY 12 – 16, 2009

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.



Bauer Center, Room 321
500 East Ninth Street
Claremont, CA 91711-6400

Phone: (909) 607-0042

Fax: (909) 607-0088

E-mail: FEI@cmc.edu

Website:

<http://www.claremontmckenna.edu/feil>