

FINANCIAL MATTERS

DEPARTMENT OF FINANCE ... *Adding Value*

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From the Department Head

Dear Alumni,

In his wonderful book, *The House of Morgan*, Ron Chernow documents the ascendancy of the transaction over relationships in finance during the past thirty years. The collapse of the sub-prime mortgage market and the ensuing credit crunch are indications to me that this pendulum has swung too far. No matter how sophisticated our technology and models, there is still a need for relationships to guide financial capital. Much of the current sub-prime fiasco results from mortgage lenders—with no capital at stake—originating loans as transactions, with no relationship to the homebuyer. Financial capital and relationships link the decisions we make today to the future and as such serve to mitigate some of our self-destructive tendencies.

Education is a form of capital. We do ourselves a

tremendous disservice if we view learning as a transaction instead of seeing it as a relationship. When I meet with our new undergraduate majors, first-year MBAs, Master's in Finance class, and our new Ph.D. students, I explain to them that they are entering the first phase of a lifelong relationship with The University of Arizona and the Finance Department. Their lives will be much richer if they continue to develop this relationship. Our alums come to find one another and new student talent most efficiently by maintaining relationships with the department. We who teach the students know their relative strengths and as we have ongoing relationships with recruiters, we can facilitate the best match between our students and professional opportunities.

To those of you who have maintained your relationship with the department I am delighted with—and grateful for—your involvement. To those who have not given back to your alma mater, I invite you to start. We grow stronger with each forged relationship. Each of our alums is enhanced by our reputational capital, so it makes sense to help us to build that capital. This is the essence of our relationship. Let's work to make it an enduring one.

Thank you,

Christopher Lamoureux
Diamond Professor of Finance



Welcome New Faculty Member Assistant Professor Iva Kalcheva

Dr. Ivalina Kalcheva joined the Department as an assistant professor in Fall 2007. Professor Kalcheva obtained her Ph.D. from University of Utah (Finance, 2007). Her theoretical and empirical research centers on the overlap between market microstructure and classical fields in finance—asset pricing and corporate finance.

In a recent paper titled "Liquidity Biases in Asset Pricing Tests," Kalcheva presents evidence of a significant upward bias in the estimated returns premium for illiquidity that is attributable to microstructure-based noise in stock returns. The paper introduces a simple correction for the bias and finds evidence of a significant return premia for illiquidity after the correction. Kalcheva's paper "International Evidence on Cash Holdings and Expected Managerial Agency Problems" was published in the *Review of Financial Studies* (2007).

Professor Kalcheva is currently teaching *Investments* (FIN 421) for the second semester finance major juniors and *Empirical Methods in Finance* (FIN 525), a core course for the finance master's students.

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Did you know?

- ◆ 108 master's students, including seven dual MBA/MMF students, have received degrees since the program started in the Fall of 2001.
- ◆ The *Applied Investment Management* class has a return to date of 6.1% annualized, beating the benchmark (3.3% annualized) since inception of the portfolio in 2000. The portfolio holdings are now valued at \$909,000.

Department News and Numbers

Undergraduate Programs

Approximately 148 juniors and 142 seniors are declared finance majors. Six seniors graduated in August 2007 and 38 in December 2007, receiving bachelor's degrees. Another 108 graduated in May 2008. A total of 21 finance majors graduated with honors this year.

Master's in Finance (MMF)

There are currently 34 active students in the master's program; 25 are studying in the Fixed Income track and nine in the Corporate Finance track. One recent master's project on a fixed income topic, completed under the supervision of professor Chris Lamoureux, addressed the comparison of arbitrage-free models of bond pricing via design and implementation of an object-oriented Java software. Graduates from last year's program were hired as financial analysts by companies such as Christensen and Associates in Hong Kong and Barclay Global Investors in San Francisco, and as trainees in programs such as the FBI training program in Quantico, Virginia.



Andrew Zhang

Ph.D. Program

Two new students began the doctoral program last fall and the Department currently has nine doctoral students in the program. Andrew Zhang completed requirements for his degree in Spring 2008. Associate professor William Maxwell supervised Andrew's dissertation, "Distress Risk Premia in Stock and Bond Returns," and it won the "Best Asset Pricing Award" and a \$1,000 prize at the 2008 Midwest Finance Association, San Antonio conference. Starting Fall 2008, Andrew is joining the University of Nevada, Las Vegas as an assistant professor of finance.

Focus on 2007-08 FMA President Max Burke and Warren Buffett Visit

When Max Burke (BSBA May 2008) took over leadership of the Eller College student chapter of the Financial Management Association in Fall 2006, the club had only four members. Burke quickly recruited top finance students into the club's executive board, increasing its visibility with students and starting the resurgence of the chapter. Add the unique opportunity for FMA members to visit Warren Buffett in Omaha, Nebraska, last November, and the club has grown to roughly 120 members.

Burke began his tenure as president by taking on all of the day-to-day responsibilities of the chapter, from inviting and organizing bi-weekly guest speakers of leading finance professionals to organizing receptions to kick off the meetings. As the club and the executive board grew, Burke was able to delegate these recurring responsibilities and move from "doing it all" to executive planner and leader.

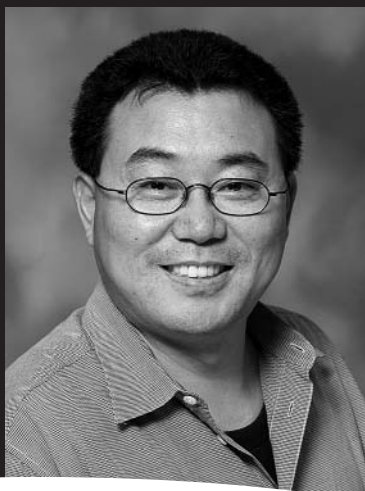
With his new focus on leading the student chapter, Burke called upon a contact of then-FMA vice president Ganes McCulloch (BSBA 2008) who put the Eller College FMA chapter high on the list of student groups invited to visit Warren Buffett each year. Over 125 students expressed interest in the trip.



Max Burke (left) with Warren Buffett, CEO of Berkshire Hathaway

Due to the huge demand, interviews were required and the students demonstrating the most knowledge of Berkshire Hathaway were selected for the trip. In late November, 74 students, accompanied by associate dean of Undergraduate Programs Pam Perry and finance department lecturer Arvind Singh, traveled to Berkshire Hathaway headquarters to meet the financial wizard.

FACULTY NEWS



Focus on

Associate Professor George Jiang

George Jiang received his Ph.D. in economics from the University of Western Ontario in 1996, and joined The University of Arizona as an assistant professor in the Department of Finance in 2001. Since joining the department, George has received several grants, including The University of Arizona Foundation Spring 2005 Faculty Small Grant and a Q-Group Research Grant.

Jiang has researched extensively in the area of interest rate modeling, option pricing, volatility forecasting, and

capital market efficiency. In his Ph.D. dissertation, he proposed a nonparametric approach for the estimation of diffusion processes and applied it to the pricing of interest rate derivative securities. Jiang's current research focuses on jumps in asset prices. Jumps represent a particular type of movement, with unusually large magnitude, in asset prices. Collaborating with scholars as far away as in the U.K. and as close by as in the Eller College, Jiang's research includes constructing statistical tools to identify jumps in asset prices, examining economic causes of such jumps, as well as analyzing their impact on market efficiency. His research can help shed new light on our understanding of capital market efficiency and investor behavior.

Jiang's research articles have been published in academic journals such as the *Review of Financial Studies*, *Journal of Financial Economics*, *Journal of Financial and Quantitative Analysis*, and *Journal of Derivatives*, and presented at the American Finance Association (AFA) and American Economic Association (AEA) annual meetings. He has also served as discussant, session chair, and member of program committee of various conferences.

In December, the Korean Securities Association recognized Jiang and co-author and assistant professor Tong Yao with an award for their working paper "Stock Price Jumps and Cross-Sectional Return Predictability." The award was given at the International Conference on Asia-Pacific Financial Markets in Seoul. "In this paper, we separate small changes in stock prices from large and infrequent changes, known as jumps, in stock prices," explains Jiang. "We document that return differences across stocks of different size, book-to-market ratio, and liquidity are largely realized in the form of jumps. The paper further examines the implications of such patterns on asset pricing theory and portfolio optimization."

Dr. Jiang currently teaches FIN422, *Risk Management and Derivatives*, a senior finance major elective course, and FIN602, *Dynamic Asset Pricing Theory*, a core course for the finance doctoral students.

"Mr. Buffett has an amazing presence and a great sense of humor," Burke said. "It was inspiring to see one of the richest, most successful people in the world have such a cordial, down-to-earth attitude. He stressed the importance of 'going with your passion' and suggested to 'do what you would do if you were independently wealthy.'"

Eller students had the opportunity to ask questions. McCulloch reported that no questions were "off-limits (with the exception of Berkshire's prospective near-term investments) and the Oracle of Omaha candidly responded to each." Another tidbit offered by Buffett, "Be around people you admire."

Thanks to the inspiration of Burke and fellow executive board members, FMA offered an amazing learning experience to 74 of its members and is well positioned to serve as a source of information and inspiration to finance majors and all undergraduates with a passion for finance in the years to come.

Faculty Awards

Lecturer Arvind Singh was honored with the 2008 Eller College Tom Moses Award for Outstanding Student Organization Advisor for his role as advisor of the Financial Management Association, UA Student Chapter. This is a student nominated award, presented to Singh to honor his involvement and contributions to the club that helped lead the organization to great achievements. In particular, he helped the organization grow from five members just two years ago to over 110 students in attendance at meetings. Additionally, he has provided the executive board with significant professional contacts for guest speakers at the chapter meetings.



Arvind Singh

Associate professor Tom Bates received the 2007-08 Scrivner Teaching Award for excellence in teaching and service to the finance department. This award is presented by the UA Foundation and the Department in honor of Gary Scrivner, who retired in 2006 from his position as Vice President of Finance and Administration with the UA Foundation. Bates has made significant contributions to the teaching efforts of the department, the education of Eller College finance students, and the Executive MBA program.



Tom Bates

Undergraduate Scholarship Awards

This year's recipients of the George W. Coleman Endowment Scholarship are **Matthew Gipple** and **Jonathan Adler**. These scholarships are awarded to upper division finance majors demonstrating exceptional academic ability and dedication to careers in finance through the generous donation of Mrs. Mary Coleman, in honor of her husband, Dr. George W. Coleman. Matthew Gipple is a finance major interested in asset management and corporate law. In 2007, he founded WildCat Book Club, voted UA's Best New Club in 2007. Jonathan Adler is also a finance major. In 2007, he spent the summer at an internship with Goldman, Sachs in the private wealth management division.

Mr. and Mrs. Joseph Cacioppo, Jr. donated funds for a scholarship in business. This year's recipient is **Max Burke** (see article on page 2).

George Gregson sponsored a scholarship for an upper division student in finance with a strong GPA. **David Platt** is this year's recipient.

Lawrence J. Robbins ('62) donated funds for scholarships to upper division finance majors pursuing careers in real estate and finance. This year's recipients are **Charlene Berglund** and **Jason Hunt**. Jason is a finance major and will start his career with Alvarez & Marsal in Phoenix, Arizona. Jason co-created the ELITE Program at Eller, "a new program that helps selected incoming freshmen prepare for the cohort and their career."

Steven Soboroff, UA alum, established a scholarship in honor of Joseph K. Eichenbaum to recognize the accomplishments of a finance major. **Jason Hunt** is this year's recipient.

Through the generosity of The A.C. Simon Foundation and in memory of A.C. and Bernice P. Simon, long-time residents of Tucson, **Timothy Hart** received this scholarship for a student interested in finance. After completing his BSBA in finance, Timothy plans to work in corporate finance and project planning.

The generous donations of Virginia and Mark Klafter and Glen Stickler allowed the department to award two additional scholarships to **Charlene Berglund**.

The Weiler Scholarship and Samuel H. Woods/Roy H. Long Realty Scholarship recipient is **Valdy Tjong**, a finance major with extensive training in mathematics. Valdy is planning to start his career as an investment analyst. He completed his honors thesis under the direction of Dr. Chris Lamoureux, department head.

Established by Keith McKenzie to recognize the accomplishments of his son, Logan McKenzie, the Logan Keaton McKenzie Scholarship recognizes **Michael Ryan Brown** this year for his academic ability and dedication to a career in finance. Ryan is also pursuing a dual major in entrepreneurship and plans to start and run his own company after graduation.

Through the generosity of Dr. Thomas C. Moses' widow, Dorothy Moses, and family members, **Michael Ryan Brown** has been recognized for his academic success. The Moses Scholarship is especially meaningful to the department as it honors our late colleague Tom Moses, who was deeply committed to student success.

Through the generosity of Steven Soboroff in memory of his father, Irving E. Soboroff, and Gerald and Dolores Olney in memory of their son, Michael Shawn Olney, the department awarded two scholarships to **Christopher Penick**. Christopher completed an internship at The Vanguard Group and looks forward to becoming a CFA charter member. His goal is to become a fund manager.

With funds provided by Henry E. Dahlberg, the Dahlberg Scholarship recipients are **Jason Hunt**, **Austin Shelton**, and **Allen Sipe**. Austin Shelton is a finance major and plans a career as an equity derivatives trader. Allen Sipe is a finance major who is interested in corporate finance. He is an avid fan of UA's basketball and football teams.



Jonathan Adler



Michael Ryan Brown



Matthew Gipple



Timothy Hart



Jason Hunt



Christopher Penick



Austin Shelton



Allen Sipe



Valdy Tjong

Undergraduate Student Awards

Charlene Berglund was awarded the Outstanding Finance Senior Award for Spring 2008. Charlene completed a double major in Finance and Entrepreneurship, achieving a 4.0 cumulative GPA and served as the corporate relations board member for the student chapter of the Financial Management Association (FMA). She has actively participated in other student organizations such as UA Students in Free Enterprise (SIFE), acting as vice president of competition, and in community activities such as Foundation for Animals in Risk (FAIR). Charlene was recognized with awards including the UA Spirit of Discovery and Provost Academic Scholarships, and the Intel Corporation Eller Scholarship. Charlene will begin her career in the San Francisco Bay area after graduation.



David Platt was awarded the Finance Department Head's Award for Academic Distinction for Spring 2008. David completed a double major in Finance and Entrepreneurship with a 4.0 GPA. He is the recipient of several awards and was the treasurer and alumni chair of Alpha Epsilon Pi Fraternity and an active member of the student chapter of the Financial Management Association. He is preparing for the CFA Level 1 Exam and will start his career with Stifel Nicolaus & Co.-Baltimore in the analyst program.



Maxwell Burke was awarded the \$2,000 Fielding-Singh Award for a 2007-08 finance senior. Maxwell (Max) completed a degree in finance with an International Business Certificate and a 3.8 GPA. He received several scholarships, including the Joseph and Mary Cacioppo Scholarship in Business and the Lovitt & Touche Leadership Scholarship Award. Max served as the president of the Financial Management Association for the past two years. He was instrumental in organizing a visit with Warren Buffett for a group of finance undergraduates in Fall 2007 (see page 2). Max will be joining Credit Suisse in New York City.



Khuong Tran was awarded the Outstanding Finance Senior Award for Fall 2007. Khuong's accomplishments as a finance major at Eller College include achieving a 4.0 GPA in his major courses and being truly engaged with his classes and the course material. Khuong has been an active representative of the department in volunteer work with Tucson Community Volunteers and the Arizona State Museum. Khuong appreciated learning "how effective and efficient we can be if we know how to work together." He will represent the Finance Department and Eller College well as he begins his finance career as an investment banking analyst in Vietnam.



Benefactors

Thank you to all of our alumni and friends who have supported the Finance Department, Eller College, and The University of Arizona with donations. The Department directly raised over \$55,000 to date in Fiscal Year 2007-08 to support students and faculty.

We wish to thank the following individuals for their contributions to support departmental operations:

Platinum

(\$5,001 or more)

Kevin Kneafsey
James and Gail Peyton

Gold

(\$1,001-\$5,000)

Ralph DeCesare
Dan Fapp
Leo Roop
Arvind Singh and Cynthia Fielding-Singh

Silver

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William Lomicka

Bronze

(\$250-\$500)

Dave Brady
John Holliman
Tucson Society of CFA Institute
Loretta Peto

Brass

(up to \$250)

Larry Aldrich
The Arizona Senior Academy
Robert Butler
Hallie Federman
Mike Hanson
Spencer Jarvis
Charles Ruscher
Lex Sears
James Smith

Throughout the year, our alumni, donors, staff, faculty, students, and corporate partners make countless contributions to the Eller College. These generous partnerships and commitments help us strengthen our mission, achieve excellence, and educate students.

As the College continues to advance and grow, we hope you will make a commitment to invest in the future of the Department of Finance.

Your gift provides opportunities for our students and faculty that would not otherwise be available. For more information, or to make your pledge online, visit www.InvestinEller.com. (Please be sure to select "Other" under "Designation" and type-in "Finance Department" to ensure that your online gift is delivered correctly.)

Yes!

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I/We wish to make a tax-deductible gift of \$ _____ to Eller College of Management DEPARTMENT OF FINANCE

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Where are you?

A L U M N I U P D A T E F O R M

Have you been promoted or changed jobs?

Please share news of your work, family, and adventures with us. We will include your news on our *Alumni Notes* page of the Department website at www.finance.eller.arizona.edu/alumni/notes.aspx. You can bring us up to date on your activities by filling out the form at www.finance.eller.arizona.edu/alumni/updates.aspx, emailing the information to us at financeinfo@eller.arizona.edu, or mailing the department.



Department Website & Alumni News

Learn more about Department news and activities at:

www.finance.eller.arizona.edu

Keep current on faculty and student awards, faculty research, new courses, graduation and much more.

Comments and suggestions are welcome.

Eller College Alumni Community!

The Eller College Alumni Community, part of the UA Alumni Association's Wildcat Corner, features alumni-maintained class notes, directory, discussion groups, events calendar, career advisory network, and more. Register and log in at

www.EllerCommunity.com.