JOIM Conference Series

Individual and Institutional Investment Management Issues

March 16 - 18, 2014
The Westin San Diego
400 West Broadway, San Diego, CA

Sunday, March 16th

Attire: coat and tie

5:30pm	*Reception*	
6:00pm	*Dinner, Ballroom*	
7:00pm	*Welcome Remarks*	H. Gifford Fong
7:15pm	*Keynote Speaker:*	Harry M. Markowitz, Harry Markowitz Co.
		Consumption, Investment and Insurance in the Game of Life

Monday, March 17th

Attire: business casual

Breakfast, Crystal Ballroom Foyer
8:00am - 9:00am sponsored by **STATE STREET GLOBAL EXCHANGE**

General Sessions, Crystal Ballroom

9:00am - 10:15am	*Speaker:*	Martin Leibowitz, Morgan Stanley
		Duration Targeting and Yield Convergence
	Discussant:	Vineer Bhansali, PIMCO
10:15am - 10:45am	*Break*	
10:45am - 12:00pm	*Speaker:*	Jack J. Treynor, Treynor Capital Management, Inc.
		Limits on the Level of Demand a Country Can Afford
	Moderator	Martin Leibowitz, Morgan Stanley
12:00pm - 1:30m	*Lunch (at leisure)*	
1:30pm - 2:00pm	*Ice Cream Break*	
2:00pm -3:15pm	*Speaker:*	Russell Fuller, Fuller & Thaler Asset Management
		In Search of a Better "Alternative Index"
	Discussant:	Sharon Hill, Delaware Investments
3:15pm - 3:45pm	*Break*	
3:45pm - 5:00pm	*Speaker:*	Sanjiv Das, Santa Clara University
		Social Network Modeling in Finance
	Discussant:	Frank Jones, San Jose State University
5:00pm	Reception, Crystal Ballroom Foyer	

Tuesday, March 18th

8:00am - 9:00am	Breakfast, Crystall Ballroom Foyer	

General Sessions, Crystal Ballroom

9:00am - 10:15am	*Speaker:*	Lawrence E. Harris, University of Southern California *Maker-Taker Pricing Effects on Market Quotations*
	Discussant:	Will Kinlaw, State Street Associates
10:15am - 10:45am	*Break*	
10:45am - 12:00pm	*Speaker:*	Terrance Odean, University of California, Berkeley *What Risk Factors Matter to Investors? Evidence From Mutual Fund*
	Discussant:	Jose Menchero, MSCI
12:00pm - 1:00pm	*Lunch (at leisure)*	
1:00pm - 1:30pm	*Ice Cream Break*	
1:30pm - 2:45pm	*Speaker:*	Kenneth Blay, 1st Global *Tax-Cognizant Portfolio Analysis: A Methodology for Maximizing After-Tax Wealth*
	Discussant:	Alan Tarver, Frost Investment Advisors
2:45pm - 3:00pm	*Break*	
3:00pm - 4:15pm	*Speaker:*	Seoyoung Kim, Santa Clara University *Designed for Failure? Risk-Return Tradeoffs and Risk Management of Structured Investment Vehicles*
	Discussant:	Bruce N. Lehmann, University of California, San Diego

Next Conference will be held:

September 21 - 23, 2014
The Westin Verasa
Napa, CA

JOIM Conference Series
Advisory Board & Program Committee

Program Committee

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JOIM Conference Series, Fall 2014 – Biographies

Harry M. Markowitz, Harry Markowitz Co.,
Keynote Speaker
Dr. Harry Markowitz has applied computer and mathematical techniques to various practical decision making areas. In finance: in an article in 1952 and a book in 1959 he presented what is now referred to as MPT, "Modern Portfolio Theory." This has become a standard topic in college courses and texts on investments, and is widely used by institutional investors and financial advisors for asset allocation, risk control and attribution analysis. In other areas: Dr. Markowitz developed "sparse matrix" techniques for solving very large mathematical optimization problems. These techniques are now standard in production software for optimization programs. Dr. Markowitz also designed and supervised the development of the SIMSCRIPT programming language.

SIMSCRIPT has been widely used for programming computer simulations of systems like factories, transportation systems and communication networks. In 1989 Dr. Markowitz received The John von Neumann Award from the Operations Research Society of America for his work in portfolio theory, sparse matrix techniques and SIMSCRIPT.

In 1990 he shared The Nobel Prize in Economics for his work on portfolio theory.

Vineer Bhansali, PIMCO
Discussant
Vineer Bhansali is a managing director and portfolio manager in the Newport Beach office. He currently oversees PIMCO's quantitative investment portfolios. From 2000, he also headed PIMCO's firmwide analytics department. Prior to joining PIMCO in 2000, he was a proprietary trader in the fixed income trading group at Credit Suisse First Boston and in the fixed income arbitrage group at Salomon Brothers in New York. Previously, he was head of the exotic and hybrid options trading desk at Citibank in New York. He is the author of numerous scientific and financial papers and of the books "Bond Portfolio Investing and Risk Management," "Pricing and Managing Exotic and Hybrid Options," "Fixed Income Finance: A Quantitative Approach" and the most recent book, "Tail Risk Hedging". He has 23 years of investment experience and holds a Ph.D. in theoretical particle physics from Harvard University. He has a master's degree in physics and an undergraduate degree from the California Institute of Technology.

Kenneth Blay, 1st Global
Speaker
Kenneth A. Blay serves as the Director of Research for 1st Global. He leads asset allocation research and investment policy recommendations for the firm's investment management platform. He has played an instrumental role in the development of 1st Global's efforts in portfolio management, investment due diligence, capital markets analysis, and the establishment of the Investment Management Research Group which today oversees the firm's portfolio management research. Kenneth has worked extensively with Dr. Harry Markowitz on portfolio analysis, risk management, and various research initiatives including tax-cognizant asset allocation. He is a co-author with Dr. Harry Markowitz of "Risk-Return Analysis: The Theory and Practice of Rational Investing - Volume I."

Sanjiv Das, Santa Clara University
Speaker
Sanjiv Das is the William and Janice Terry Professor of Finance at Santa Clara University's Leavey School of Business. He previously held faculty appointments as Associate Professor at Harvard Business School and UC Berkeley. He holds post-graduate degrees in Finance (M.Phil and Ph.D. from New York University), Computer Science (M.S. from UC Berkeley), an MBA from the Indian Institute of Management, Ahmedabad, B.Com in Accounting and Economics (University of Bombay, Sydenham College), and is also a qualified Cost and Works Accountant.

He is a senior editor of The Journal of Investment Management, co-editor of The Journal of Derivatives, and Associate Editor of other academic journals. Prior to being an academic, he worked in the derivatives business in the Asia-Pacific region as a Vice-President at Citibank. His current research interests include: the modeling of default risk, machine learning, social networks, derivatives' pricing models, portfolio theory, and venture capital. He has published over eighty articles in academic journals, and has won numerous awards for research and teaching. His recent book "Derivatives: Principles and Practice" was published in May 2010. He currently also serves as a Senior Fellow at the FDIC Center for Financial Research.

Russell Fuller, Fuller & Thaler Asset Management
Speaker
Russell J. Fuller, CFA, is President of Fuller & Thaler Asset Management, an investment advisory firm that specializes in exploiting behavioral biases and currently manages approximately $2 billion for U.S. and European institutional firms. He holds a B.A. in English literature, a M.B.A. degree and a Ph.D. in finance from the University of Nebraska. He has published a textbook on investments, two monographs for AIMR (CFA-I), and over 40 journal articles. His last academic position was Chairman of the Finance Department at Washington State University. He has also held faculty positions at the University of British Columbia, and the University of Auckland.

Russ has served on several Editorial Boards and as a member of the Board of Directors for the Security Analysts Society of San Francisco. In 2006 he was designated a "Distinguished Member" of the San Francisco CFA Society.

Sharon Hill, Delaware Investments
Discussant
Sharon Hill is Senior Vice President and heads the firm's equity quantitative research team and is a member of the firm's five person asset allocation committee, which is responsible for building and managing multi-asset class portfolios. Dr. Hill joined Delaware Investments in 2000 as a senior programmer/analyst within the IT department, and then moved to the equity group as a quantitative analyst before assuming her current position. Before joining the firm, she worked as a professor of mathematics at Rowan University, and as a software developer for Bloomberg where she focused on fixed income applications. Dr. Hill holds a bachelor's degree, with honors, in mathematics from the City University of New York at Brooklyn College, as well as a master's degree and Ph.D. in mathematics from the University of Connecticut. Her academic publications include work on water waves, complex spring systems, and global investments. She is a member of the Society of Quantitative Analysts and a member of the program committee of the Journal of Investment Management.

Lawrence E. Harris, University of Southern California
Speaker
Larry Harris holds the Fred V. Keenan Chair in Finance at the USC Marshall School of Business. His research, teaching, and consulting address regulatory and practitioner issues in trading and investment management. He authored Trading and Exchanges: Market Microstructure for Practitioners, a widely regarded "must read" for entrants into the securities industry. Professor Harris served as SEC Chief Economist from 2002-2004. He currently serves as lead independent director of Interactive Brokers (IBKR), chairman of the Clipper Fund, and research coordinator of the Q-Group. Dr. Harris received his Ph.D. in Economics from the University of Chicago. He is a CFA charterholder.

Frank Jones, San Jose State University
Discussant
Frank J. Jones is a Professor, Department of Accounting and Finance, San Jose State University; and Co-Chairman, Private Ocean Wealth Management. At San Jose State University, he teaches undergraduate courses in Portfolio Management; and also graduate courses in Business Valuation and Venture Capital. He spent 23 years on "Wall Street," during the last thirteen of which was an Executive Vice President, and Chief Investment Officer, Guardian Life Insurance Company; and President, Guardian Park Avenue Portfolio, a '40 Actual mutual fund. Frank was also on the board of the International Securities Exchange for ten years, being Vice Chairman when it conducted its IPO and Chairman when it was acquired by Duetsche Borse. Frank has a M.S. from Cornell University in nuclear engineering and a PhD. from Stanford University in economics.

Seoyoung Kim, Santa Clara University
Speaker
Seoyoung Kim is an assistant professor of finance at Santa Clara University. Her research interests include executive compensation, turnover, and performance evaluations as well as board composition/structure and the unintended byproducts of regulatory changes thereof. Her more recent work involves the optimal restructuring of distressed debt, and she has also done work concerning the rating standards applied to structured finance deals. Prior to joining Santa Clara University, Seoyoung held a faculty appointment at Purdue University. A graduate of Rice University (B.A. in mathematics), she earned her Ph.D. in finance from Emory University.

Will Kinlaw, State Street Associates
Discussant
Will leads the portfolio and risk management research team at State Street Associates, which is State Street's partnership with leading academics from the Harvard Business School and MIT's Sloan School of Management. State Street Associates is a pioneer in developing and applying innovative portfolio construction techniques to enhance returns while managing tail risk. The team undertakes customized advisory analysis and develops practical investment strategies for hundreds of State Street clients worldwide, including sovereign wealth funds, hedge funds, investment managers, pension plans, and endowment funds. Will joined State Street Associates in 2002.

Will was awarded the 2013 Peter L. Bernstein Award and the 2013 Bernstein/Fabozzi Jacobs Levy Award for his article, Liquidity and Portfolio Choice: A Unified Approach, co-authored with David Turkington and Mark Kritzman. Will holds an M.S. in finance from the Carroll School of Management at Boston College and a B.A. in Economics from Tufts University. His articles have been published in the Journal of Portfolio Management and the Journal of Asset Management.

Bruce N. Lehmann, San Diego University
Discussant
Bruce N. Lehmann is a professor of finance and economics in the Graduate School of International Relations and Pacific Studies of the University of California, San Diego. Prior to joining IR/PS in 1992, he was on the faculty of the Department of Economics and the Graduate School of Business at Columbia University for eleven years. Professor Lehmann is a specialist in financial economics, with expertise in the pricing of capital assets, their volatility, and the markets in which they trade. His main research interests include empirical tests of asset pricing models, the analysis of short-run stock price fluctuations, and the microstructure of securities markets, with recent emphasis on the behavior of Japanese financial markets. Lehmann is the author of numerous articles in leading scholarly journals, including the Journal of Finance; the Journal of Financial Economics; Macroeconomic Dynamics; the Quarterly Journal of Economics; and the Journal of Econometrics.

Lehmann is founding co-editor of the Journal of Financial Markets and has served as associate editor of the Review of Financial Studies and the Review of Quantitative Finance and Accounting. He has served as a director of the Western Finance Association, a member of the Scientific Advisory Board of Investment Technology Group, Inc. and on the boards of directors of First Boston Investment Funds, Inc. and of BEA Associates, Inc. Lehmann currently serves on the Investment Advisory Board of the University of California Retirement System and Endowment and on the Investment Committee of the UC San Diego Foundation. He has earned many honors and distinctions: he was a Batterymarch Fellow, the most prestigious award given to scholars in finance; an Olin Fellow at the National Bureau of Economic Research; and a National Fellow at the Hoover Institution on War, Revolution and Peace at Stanford University. He is the only person to receive all three distinctions. He is currently actively exploring early stage drug development based on the megafund concept. He earned his A.B. in economics and history magna cum laude from Washington University and his M.A. and Ph.D. degrees in economics from the University of Chicago.

Martin L. Leibowitz, Morgan Stanley
Speaker
Martin L. Leibowitz is a managing director with Morgan Stanley Research Department's global strategy team. Over the past eight years, he and his associates have produced a series of studies on such topics as asset allocation, policy portfolios, rebalancing strategies, asset/liability management, and duration targeting in bond portfolios. Prior to joining Morgan Stanley, Mr. Leibowitz was vice chairman and chief investment officer of TIAA-CREF from 1995 to 2004, with responsibility for the management of over $300 billion in equity, fixed income, and real estate assets. Previously, he had a 26-year association with Salomon Brothers, where he became director of global research, covering both fixed income and equities, and was a member of that firm's Executive Committee. Mr. Leibowitz received both A.B. and M.S. degrees from The University of Chicago and a Ph.D. in mathematics from the Courant Institute of New York University.

Mr. Leibowitz has received three of the CFA Institute's highest awards: the Nicholas Molodowsky Award in 1995, the James R. Vertin Award in 1998, and the Award for Professional Excellence in 2005. In October 1995, he received the Distinguished Public Service Award from the Public Securities Association, and in November 1995 he became the first inductee into The Fixed Income Analyst Society's Hall of Fame. He has received special Alumni Achievement Awards from The University of Chicago and New York University, and in 2003 was elected a Fellow of the American Academy of Arts and Sciences. Mr. Leibowitz serves on the investment advisory committee of Singapore's GIC, the Harvard Management Corporation, the Carnegie Corporation, the Rockefeller Foundation, and the Institute for Advanced Study in Princeton, NJ.

Jose Menchero , MSCI
Discussant
Jose Menchero is Managing Director and Head of Portfolio Analytics Applied Research at MSCI. Jose's current research focuses on applying quantitative methods to solve practical investment problems in the areas of factor modeling, risk analysis and portfolio construction. Before joining MSCI, Jose was Head of Quantitative Research at Thomson Financial, where he worked on performance attribution, risk attribution, and factor risk modeling. Prior to entering finance, Jose was a Professor of Physics at the University of Rio de Janeiro, Brazil. Jose is a CFA charterholder and holds a PhD degree in Theoretical Physics from the University of California at Berkeley.

Terrance Odean, University of California, Berkeley
Speaker
Terrance Odean is the Rudd Family Foundation Professor and Chair of the Finance Group at the Haas School of Business at the University of California, Berkeley. He is a member of the Journal of Investment Consulting editorial advisory board, of the Russell Sage Behavioral Economics Roundtable, and of the WU Gutmann Center Academic Advisory Board at the Vienna University of Economics and Business. He has been an editor and an associate editor of the Review of Financial Studies, an associate editor of the Journal of Finance, a co-editor of a special issue of Management Science, an associate editor at the Journal of Behavioral Finance, a director of UC Berkeley's Experimental Social Science Laboratory, a member of the Russell Investments Academic Advisory Board, a visiting professor at the University of Stavanger, Norway, and the Willis H. Booth Professor of Finance and Banking. As an undergraduate at Berkeley, Odean studied Judgment and Decision Making with the 2002 Nobel Laureate in Economics, Daniel Kahneman. This led to his current research focus on how psychologically motivated decisions affect investor welfare and securities prices.

Alan Tarver, Frost Investment Advisors
Discussant
Alan is a Regional Portfolio Manager for Frost Investment Advisors and oversees the investment policies and procedures relating to portfolio management including joint managing efforts of asset allocation strategies. Additional responsibilities are managing client portfolios. He received a bachelor of arts degree in economics from the University of Texas at Austin, a master's of international management from Thunderbird and a master's of business administration in finance from Arizona State University. He has over 16 years of investment experience, is a holder of the right to use the CFA designation, and a member of the CFA Institute.

Jack L. Treynor, Treynor Capital Management
Speaker
In addition to teaching investment courses, working as a money manager, Mr. Treynor has been a general partner or director of certain investment companies. Along with William Sharpe, Robert Merton, Harry Markowitz and others, he is a Distinguished Fellow of the Institute for Quantitative Research in Finance. Treynor on Institutional Investing, Wylie (2007), is a collection of his writing published in Financial Analysts Journal, Journal of Investment Management, Journal of Business, the Journal of Finance, the Harvard Business Review; 18 of his papers have been anthologized.

JOIM Conference Series, Fall 2014 – Presentation Abstracts

Harry M. Markowitz, Harry Markowitz Co.
Consumption, Investment and Insurance in the Game of Life

The present paper amplifies on a proposal in Markowitz (1991) which argues that financial decisions for the individual or family should be considered as part of the "game as a whole" which the individual or family plays out. Even reducing this game to its essentials, it is surely too complex to solve analytically, therefore requires computer simulation to think through. The object analyzed is the nuclear family consisting of an unattached individual, a couple, or a family with children and perhaps a residing elder. Typically in the course of events, the residing elder (if any) dies or is placed in a nursing facility; the children leave home to set up their own nuclear families; the original family then consists of husband and wife. One spouse dies; one survives. When the remaining spouse dies the subject family's wealth is distributed to heirs and charity, and the game of life is over for the subject family. We look to a Rational Decision Making (RDM) economic unit for guidance for recommended behavior, rather than describing a real (perhaps dysfunctional) family unit.

Kenneth Blay, 1st Global
Tax-Cognizant Portfolio Analysis: A Methodology for Maximizing After-Tax Wealth

The most prevalent methods of incorporating taxes in the portfolio construction process are the preliminary adjustment of asset allocation inputs for taxes and the post-optimization application of asset location heuristics. We argue that these methods are unsatisfactory in that they fail to address taxation dynamics that result from investment and consumption dependent illiquidities. Tax-Cognizant Portfolio Analysis (TCPA) is proposed as a methodology that addresses these issues while seeking to maximize expected after-tax wealth for given levels of risk. TCPA achieves this through the use of simulation methods to assess the impact of portfolio turnover, sequence of investment returns, and wealth consumption decisions on after-tax wealth outcomes from taxable, tax-deferred, and tax-exempt accounts.

Sanjiv Das, Santa Clara University
Social Network Modeling in Finance

While it is well known that syndication is extensively used in venture capital (VC) financing, less is known about the composition of VC syndicates. We present new evidence on this issue. While VC firms have a large pool of syndicate partners to choose from, they tend to draw from smaller groups of partners that we call VC communities. We implement new techniques to uncover these groups and use them to understand preferences driving syndicate partner selection. We find a complex pattern in which preferences for dissimilar partners to extend influence coexist with preferences for similarity in terms of functional style on dimensions of industry, stage, and geographic specialization. The spatial loci of community clusters suggest that syndicates compete through differentiation and specialization rather than generalized skills relevant to young firm financing. Community backed ventures are more likely to exit successfully. Our results are consistent with learning-by-doing or incomplete contracting models of VC investing in which familiarity aids learning and enhances trust and reciprocity.

Russell Fuller, Fuller & Thaler Asset Management
In Search of a Better Alternative Index

"Alternative Index" strategies have been a successful investment innovation, gaining billions of dollars in new asset inflows. Chow, et. al., (2011) examine 7 of the more popular alternative index strategies using return and fundamental data for the 1,000 largest US stocks: They report that all 7 alternative indexes have higher returns, but generally higher volatilities, than the benchmark S&P 500, and all 7 alternative indexes have higher Sharpe ratios than the benchmark.

We replicated their results, obtaining similar results Then we present a new alternative index that uses a single fundamental variable, ROE, which should be related to a stock's return over time. We use the same optimization procedures used in forming MVPs, but rather than minimizing the variance of stock returns, we minimize the variance of the stocks' ROEs. Thus, we obtain what we call the fundamentally most stable portfolio (FSP). FSP dominates all 7 alternative indexes in Chow (2011) on most every relevant dimension of risk and return. Thus, FSP represents a potentially superior alternative index strategy.

Lawrence E. Harris, University of Southern California
Maker-Taker Pricing Effects on Market Quotations

The exchange maker-taker pricing scheme affects incentives to take or make markets resulting in narrower bid-ask spreads. This study traces the effect of maker-taker pricing on stock quotations. The analyses consider distributions of quotation sizes, values implied from these sizes, and changes in these sizes and values. The results help inform the current debate on whether tick sizes should be made smaller for actively traded low price stocks. They also shed light on various problems associated with maker-taker pricing and its cousin taker-maker pricing, which allows traders to engage in sub-penny quotation behavior that legally violates the spirit of Regulation NMS.

Martin L. Leibowitz, Morgan Stanley
Duration Targeting and Yield Convergence

Many bond portfolios are managed so as to maintain a roughly constant maturity or duration. As rates move over time, the price losses (or gains) in such "Duration Targeted" portfolios will be offset by higher (or lower) yield accruals, so that the annualized returns ultimately converge back towards the original yield values.

Seoyoung Kim, Santa Clara University
Designed for Failure? Risk-Return Tradeoffs and Risk Management of Structured Investment Vehicles

We model the design of a structured investment vehicle, specifically, its capital structure, leverage risk controls, and the rollover frequency of senior debt. We find that instead of providing safety, stringent risk management controls can accelerate the chances of failure and that senior-note ratings are very sensitive to leverage controls, oftentimes more so than to the riskiness of the collateral pool. We also find that the expected losses on senior notes become increasingly sensitive to collateral risk when leverage controls become more stringent, particularly under shorter roll-over horizons. We propose possible avenues of mitigating senior note risk through contingent capital.

Terrance Odean, University of California at Berkeley
What Risk Factors Matter to Investors? Evidence From Mutual Fund Flows

When selecting an actively managed equity fund, investors seek to identify fund managers who are able to generate positive risk-adjusted performance (alpha). To assess risk-adjusted performance, investors must apply a model of risk when ranking funds; thus, we can infer the risk model that investors use by the fund choices that they make. Based on this observation, we analyze the sensitivity of fund flows to alphas calculated using competing models of risk: market-adjusted returns, the Capital Asset Pricing Model (CAPM), the Fama-French three-factor model (which adds size and value factors), and the Carhart four-factor model (which adds a momentum factor). We first find that the CAPM based alpha better explains fund flows than the three or four-factor alphas. We then decompose fund performance into five categories (1) four-factor alpha and returns that can be traced to the (2) market (beta), (3) size, (4) value, and (5) momentum tilts of the fund. We find that investors are most sensitive to a fund's alpha. Fund returns that can be traced to size, value, or momentum are discounted, but not much (with sensitivities ranging from 67-84% of that observed for alpha). However, fund returns that can be traced to the market beta of the fund are heavily discounted (with a sensitivity less than 25% of that observed for alpha). These results indicate that investors care about market risk when evaluating mutual funds, but most do not treat factor returns as compensation for risk when evaluating the performance of actively managed mutual funds.

Jack L. Treynor, Treynor Capital Management, Inc
Limits on the Level of Demand a Country Can Afford

Textbooks recognize the importance of demand failure; a very different problem textbooks don't recognize is limits on the level of demand a country can afford. The capacity of tradables plant determines the level of demand consistent with trade balance. The capacity of home goods plant determines the level of demand consistent with stable home goods prices. Because it reduces plant capacity, failure to save and invest results in chronic trade deficits, chronic inflation, or chronic unemployment.

Spring 2014 JOIM Conference Attendees

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Final version will be posted on the conference website

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