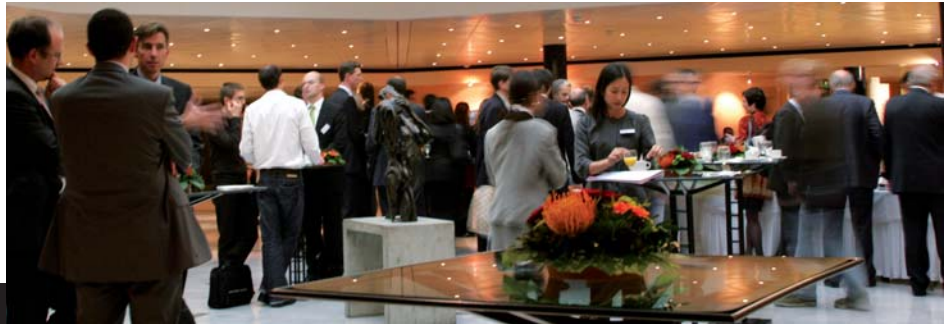


Newsletter

NR. 5
JANUARY 2009



EDITORIAL

Turn up, think through

By Harry Hurzeler

The past year has seen the Swiss Finance Institute expand its international profile as we cement our partnerships with, among others, NYU Stern School of Business, Singapore Management University and with the many executives joining our new international program the Senior Management Program in Banking.

Of course, these developments in our organization could not have come at a more challenging time. But it is precisely at such times that finance executives need to expand their perspective beyond institutional boundaries, as they search for solutions to these challenges.

Arguably, we need look no further than the recent performance of our most critical financial institutions to find evidence for this need. Financial institutions have attracted some of the finest minds. Yet we find ourselves confronted with many more questions than these institutions appear to have answers for. How can we develop critical voices that might help us avoid the next crisis?

The Institute recently had the honor to assemble leading academics and finance practitioners at our annual research and knowledge transfer event, the Annual Meeting, to discuss this very issue.

>> p.2

NEWS

The Academy plays its part in the future of finance

Plans for a further 19 faculty appointments and a string of well-attended knowledge transfer events herald the arrival of the Swiss Finance Institute as a point of active exchange between academia and the finance industry.

Distinguished academics and industry leaders contributed to a lively debate on "Finance in the wake of the subprime crisis" at the Third Annual Meeting last November. The event assembled faculty from the newly launched Executive MBA in Banking and Financial Institutions Management including Professor Tom Cooley (pictured, left), who represented our academic partners at the NYU Stern School of Business.

According to Professor Cooley, research can augment the traditional case study approach to executive education. "It is hard to imagine how someone can prepare for the next level in Management just by studying the way business is being done," explained Cooley. "Research is inherently forward looking and it is that forward looking habit of mind that singles out a manager for success".

>> p.2



Tom Cooley, Marcel Rohner, Jes Staley, Chester Spatt and Peter Thal Larsen at the Third Annual Meeting

>> Editorial

The event provided an open forum for more than 200 distinguished members of the Swiss financial community to raise questions, and receive candid answers, from the likes of UBS Group CEO Marcel Rohner, NYU Stern Business School Dean Tom Cooley, former SEC Chief Economist Professor Chester Spatt and JP Morgan Chief Executive Officer of Asset Management Jes Staley.

Among the many questions posed, Swiss Bankers Association Chairman Pierre Mirabaud asked why banks were prepared to bear such exaggerated risks when their very functioning is dependant on the reputation to protect investors from harm? Institute director of research Professor Rajna Gibson asked what would be the impact of the financial crisis on the practice of quantitative risk management in tomorrow's banking industry?

And Chester Spatt asked why so few within industry managed to step back and ask themselves how banks could have enlarged their profits so dramatically in recent years? Professor Spatt spoke about how universities provide a unique environment for critical thought. Where can we foster critical voices to avoid the next crisis? Universities and other research institutes might be a good place to start.

Many people appear to be flocking to a consensus about the need for greater regulation of banking and finance. But should we not first ask ourselves why the existing regulation failed to provide the protection it promised?



There is probably no substitute for meeting on neutral academic territory and re-thinking the workings of our financial institutions, large and small, to face the challenges ahead of us.

Harry Hürzeler,
SFI Director of Executive Education

>>

Recognition

This year's best doctoral paper award has gone to Laurent Frésard, University of Neuchâtel. Each year the SFI also awards a prize to the 3 best doctoral presentations made at the annual Doctoral Workshop. The awards have been made to Jan-Peter Kulak, Rodolfo Prieto and Bogdan Stacescu. And a new private banking prize, sponsored by Banque Privée Espirito Santo, has been awarded to Institute faculty member Olivier Scaillet along with his research collaborators Laurent Barras, and Russ Wermers.

Professor Scaillet will coordinate the 2009 meeting of the Society for Financial Econometrics (SoFiE), to be hosted this year by the Swiss Finance Institute on June 10-12. Last year's SoFiE meeting, held at New York University, attracted much media attention when the plenary presentation advocated that government policy makers adopt a benchmark approach to assessing systemic risk.

Coming up

Institute faculty have launched a new communications channel to bring research insights to industry

in the form of the Occasional Publication Series. The first two papers in the series are *Trust! Why it Has Been Lost and How to Regain It* by Didier Sornette and *The Risk on Banks' Books* by Antonio Foglia.

Distinguished presenters at our recent industry seminars and alumni events included Swiss National Bank Board member Thomas Jordan, Wegelin managing partner Otto Bruderer and SIX Group CEO Urs Rueggsegger. More than 200 senior bankers arrived at a 7am industry seminar to hear Dr Jordan's presentation that included a description of the National Bank's response to the financial crisis.

Finally, two new private banking seminars will be offered in 2009. Developing Private Banking is a specialized management seminar to be held in June and Investing Private Wealth, scheduled for October, presents insights into investment opportunities for private wealth. And after celebrating its 10th anniversary last year, the 11th International Private Banking and Wealth Management Retreat will be held on September 13-17. ♦



: EMBA launch

Professor Tom Cooley, Dean, NYU Stern School, describes the new Executive MBA in Banking and Financial Institutions Management Program at an information event held at the Widder Hotel, Zurich, on November 19.

The inaugural Program will commence on Sunday August 23, 2009. ♦

Mark your calendars...

June 10-12, 2009
Second Annual Society for Financial Econometrics meeting,
University of Geneva

: Being There – Third Annual Meeting of the Swiss Finance Institute

The Annual Meeting assembled more than 200 distinguished academics and finance practitioners at the Credit Suisse Forum, Geneva, on November 18, 2008.



Marcel Rohner explains how low interest rates created an exceptionally strong call for yield



Jes Staley, CEO of JP Morgan Asset Management, suggests that securitization will not return in its historical form for years to come



From left: UBS Group CEO Marcel Rohner, Institute Managing Director Jean-Pierre Danthine and NYU Stern School Dean Tom Cooley



Patrick Odier, Foundation Board Member of the Swiss Finance Institute, addresses attendees



Chester Spatt, Carnegie Mellon University, discusses how the response from US policy makers has been rapid, yet somewhat lacking in clarity



Jes Staley (left) speaks with attendees after the roundtable event



Institute Foundation Board member Dr Philipp Halbherr awards the prize for the best doctoral paper to Laurent Frésard

: Meeting highlights

With so many crucial financial developments still fresh in memory, the highlight of the Third Annual Meeting was a roundtable discussion on finance in the wake of the crisis. Panelists (see photos, opposing page) provided candid responses to questions from Financial Times Banking Editor Peter Thal Larsen and from the audience.

What are the lessons to be learned from the financial crisis?

According to researchers Tom Cooley and Chester Spatt, US policy makers were prompt in their recent responses to the crisis. But as Professor Spatt pointed out, creditors were not provided with adequate information about how the proposals would actually work. Jes Staley echoed this sentiment when he commented that "bad news is not the worst thing for the market to hear. No news is far worse".

Rajna Gibson, Institute Director of Research, asked the panel about the place of quantitative finance in the crisis. Professor Spatt responded, "Did financial engineering fail? Not really, but some important things were not taken into account," including counterparty risk. "The financial system appears to have neglected some very simple rules," commented Marcel Rohner.

A question from the audience about rating agencies raised much debate, as was reported by several newspapers in the days following the event. Professor

Spatt explained that ratings came to be perceived almost as a kind of proxy for financial advice. "This is an odd model," commented Spatt, "because we turn to asset managers to deliver different perspectives on investment".

The roundtable was not the only chance to listen to financial opinion leaders during the day-long research and knowledge transfer program. For example, researchers Olivier Scaillet and newly appointed Amit Goyal cast a critical eye on delegated portfolio management. Their research highlighted issues with the cost and risk management practices of institutional fund managers, and the ever diminishing evidence that actively managed mutual funds beat the overall market.

The 2008 Annual Meeting of the Swiss Finance Institute was jointly organized with research partner FINRISK (Swiss National Science Foundation centre for research in Financial Valuation and Risk Management) and industry partner Geneva Financial Center. ♦

: Learning from the best in Executive Education



From left: Harry Hurzeler, Tom Cooley, Della Bradshaw, Benoit Dumont, Patrick Odier and Chester Spatt

What will be the impact of the financial crisis on executive education? How can academic insights be combined with real world applicability to strengthen financial institutions and their management? These were among the questions posed at a panel discussion, organized by Director of Executive Education Dr Harry Hurzeler, entitled Developing Financial Leaders.

A highlight of the Institute's Third Annual Meeting in November, the panel discussion attracted distinguished finance experts from academia and industry. The panel acknowledged the need to enhance human capital in the face of recent events. Indeed, panelist Tom Cooley, Dean of the NYU Stern School, believes that we have arrived at "the ultimate teaching moment" for education in finance.

Certainly, all agreed that there are lessons to be learned from the crisis. Swiss Bankers Association board member Patrick Odier emphasized that these lessons go beyond learning from the mistakes that have been made. The current situation, he argues, also provides an opportunity to "learn from the best"; to learn from those parts of the financial sector that seem to have avoided the worst outcome.

Panel and audience agreed that an education in banking and finance requires a degree of specialization. The 'one size fits all' general MBA mode is probably insufficient according to Della Bradshaw, Financial Times Business Education Editor, who chaired the panel. Professor Cooley argues that this is especially true for those who must manage critical financial institutions in the increasingly complex and interconnected world economy. And panelist Chester Spatt highlights the need to strengthen critical thinking in management education.

Those that can, should

A question from the audience focused the discussion on this issue by asking whether today's financial institutions might be revealing a limitation in management's ability

to cope with the sheer size of global financial institutions. Professor Cooley was emphatic in his reply that "highly able people exist that are competent to lead large organizations". However, he argues, the task of developing these people is not properly addressed in all but the very best of today's corporations.

With pressure on human resources budgets, Della Bradshaw wound up the discussion by recounting an apocryphal conversation with a Silicon Valley CEO about the value of business education. Why invest in an MBA for the best employees, the CEO was asked, when they might use the education to leave for another company? "Better that", came the reply, "than not to invest and to have them stay".

The discussion panel Developing Financial Leaders featured Patrick Odier (Managing Partner, Lombard Odier Darier Hentsch; Board Member, SBA), Tom Cooley (Dean, NYU Stern School of Business) Benoit Dumont (Board Chairman, JP Morgan Suisse), Chester Spatt (Carnegie Mellon University; Former Chief Economist, US Securities Exchange Commission) and Harry Hurzeler (Director of Executive Education and COO, Swiss Finance Institute), and was held at the Third Annual Meeting of the Swiss Finance Institute in Geneva on November 18, 2008.

A special information event was held the next day in Zurich to describe the newly launched Executive MBA in Banking and Financial Institutions Management, which is jointly offered by NYU Stern School of Business and the Swiss Finance Institute. ♦

: SFI research profile: Professor Olivier Scaillet

Swiss Finance Institute researcher Olivier Scaillet enjoys a good statistical challenge and his recent discovery about US mutual funds is important news for those trying to pick the right fund manager. Scaillet's prize winning research benefits investors by revealing when financial performance can be attributed to chance alone; to luck that is bound to run out in the longer term.

A staple of the traditional personal investment portfolio, the declining fortunes of the US mutual funds industry have affected investors around the world. Research conducted by SFI Research Fellow Olivier Scaillet charts this decline and proposes a method to screen-out fund managers that are least likely to perform in the longer term. "Our analysis suggests that less than 1% of today's mutual fund managers are truly skilled once fees are taken into account".

The novel screening method is easy to apply and can be performed using standard spreadsheet software. Historical performance is analyzed to estimate the statistical reliability of the performance of each fund. "Think of the method as one of those modern weather forecasts that presents tomorrow's forecast alongside an estimate of how likely the forecast will be correct," explains Scaillet.

Rainy day man

The New York Times published a story on the research last summer and Scaillet found himself embroiled in a debate with Internet bloggers about whether statistics were really needed to pick the right mutual fund. The exchange between Scaillet and the bloggers is quite revealing. When faced with a good fund manager, argue the bloggers, it is obvious who is good and who is bad.

Yet this is precisely the motivation for Scaillet's research. The number of US mutual funds on offer has increased from fewer than 400 in 1989 to more than 2000 today.

According to Scaillet, this growth in choice has overwhelmed investors. Shrewd investors know that past performance must be evaluated carefully when choosing among funds with attractive yields in the latest performance rankings.

But no one has the resources to do this two thousand times.

Open up

Scaillet's research is particularly relevant for investors in Switzerland, where private banks use an "open architecture" philosophy in which investors are free to choose their own fund managers. The open architecture approach has obvious advantages for an investor seeking impartial advice. Scaillet's method brings a clear benefit to these investors by automating the process of pre-screening funds on a reliable, statistical, basis.

Working with his academic collaborators in the UK and US, Scaillet has begun to research another application for the pre-screening method; this time in the hedge fund space. "As has been the case with mutual funds over the last decade, the hedge funds industry finds itself being managed by a growing number of relative newcomers," explained Scaillet.

Professor Olivier Scaillet holds a Swiss Finance Institute Research Fellowship and leads the FINRISK project on Quantitative Methods in Finance. ♦



Olivier Scaillet (pictured) and his research collaborators Laurent Barras, Imperial College London and Russ Wermers, University of Maryland have been acknowledged for the research described here with the Banque Privée Espírito Santo and Swiss Finance Institute 2008 private banking prize. The research has been published in the paper "False Discoveries in Mutual Fund Performance: Measuring Luck in Estimated Alphas". ♦

IMPRESSUM

A publication of the Swiss Finance Institute. The Swiss Finance Institute Newsletter is published twice a year with contributions from Institute staff and faculty.

Editor: Tobe Freeman

To subscribe: www.sfi.ch/getnews

swiss:finance:institute

Swiss Finance Institute
Walchestrasse 9
CH-8006 Zurich
www.SwissFinanceInstitute.ch
tf@sfi.ch

*The Swiss Finance Institute
wishes you the best for the coming year!*