DEPARTMENT UPDATE FOR 2012 – SEMESTER 1

Professor Bruce Grundy

Department Update for 2012 – Semester 1

Excelling in Teaching and Research is the mantra of all universities and academics. Fortunately for the field of Finance teaching and research are a most natural combination: What we teach is the basis for applied work and what we research are the questions thrown up by those applications. The goal of this issue of the Department of Finance Newsletter is to showcase the practitioner heart of our discipline.

When a young academic proudly presents their first ever model to her colleagues the first question she will face from her colleagues is “But is it testable?” Those four words capture so much of what makes Finance the field that it is: What observed behaviours are you trying to explain or predict? What predictions does your model actually make? What does your model explain that simpler analyses overlook? If there are good answers to these questions, the model gives useful insights. If not, it is time to start again.

Successful programs require the right mix of academic researchers and practitioners who together focus on the challenges facing the financial sector today and into the future. The last newsletter spoke of Dr Lyndon Moore joining us after teaching at the University of Montreal and earning a PhD at Northwestern University. Since then Lyndon has introduced new subject into our Master of Finance and Master of Commerce (Finance) programs. The subject Financial Crises: A Critical Analysis examines crises and panics throughout history and the lessons that policy makers and market participants should draw. The subject examines the causes and consequences of the Asian financial crisis, LTCM, Enron, and the Global Financial Crisis and asks what types of regulation work, and which do not. The Department has also introduced a new doctoral subject squarely addressing the future of our discipline. Neurofinance and experimental finance are two new fields at the intersection of finance, economics, psychology, and neuroscience. The leader in this emerging field is Professor Peter Bossaerts of the California Institute of Technology (Caltech). Peter has accepted a Professorial Fellowship in the Department of Finance and will teach this new doctoral subject in biannual visits from 2012 to 2015. Also joining the Department on a full-time basis will be Liheng Xu (a graduate of Georgia State University) and Juan Sotes-Paladino (University of Southern California).

Illustrative of the contribution of practitioners to our professional Masters degrees one needs only to consider the case of the very popular teacher of Project Finance, Michael Ingwersen. Demand for this subject has boomed due largely to Michael’s great teaching and the infrastructure and mining booms. In 2013 the Department will introduce an additional stream of the subject in Semester 2 to complement the two streams taught by Michael in Semester 1. The additional stream will be taught by another leading practitioner in the field, Richard Tinsley, the President of International Advisory & Finance (IAF) a specialist in the Project Finance sector with experience in the infrastructure, resources, and power sectors in Australia, India and Africa.

Again recognizing the applied focus of Finance research, the Department’s 2012 Finance Down Under Conference was our most successful to date and featured the latest research on momentum trading strategies. The welcome address was presented at the Victorian Government Treasury and Finance offices and was one of the two fathers of the field, Sheridan Titman (University of Texas at Austin). Other keynote presentations were given by Toby Markowitz (Chicago), Mark Grinblatt (UCLA) and Ken French (Dartmouth) who were joined by Dr Don Hamilton of Plato Investment Management in a panel discussion of the practical feasibility and profitability of quantitative finance-based trading strategies. And since the conference Don has returned to the Department to talk with faculty and students about the future of quant driven money management strategies in Australia.

With the Department’s continuing focus on the contribution of Finance to the challenges of financing both corporate and government investment and the future retirement of today’s savers, we continue to optimize both our teaching and our research leadership in the region.
In this visit I would like to share some of the ways that we connect our program to the changing financial world. We adapt our pathways, and we pursue every avenue to keep our candidates up to date. These strategies are crucial for enabling cutting edge research that affects both practice and classroom.

Our program continues to expand, with six new candidates commencing studies with us during 2012. Increased recruiting efforts have begun to pay off handsomely, but we are never content. In fact, we are in the process of converting and expanding the PhD program pathway to reflect global best practices. As demands for ever more trained academic staff increase, so too must we broaden the base and increase the depth of our doctoral coursework. We are adopting a standard that will require a full two years of coursework for every PhD candidate. It takes this level of skills development to produce real cutting edge research. I will be sharing with you more details as we get closer to full implementation.

Another important avenue for up-to-the-minute currency is careful use of exchange programs. Two of our top candidates, Chelsea Yao and George Wang, are just completing a half year on exchange to the prestigious Stern School of Business at New York University. They return to us energized and eager to take their research to the job market and put the finishing touches on their formal theses. Both of these candidates are an excellent reminder that doctoral research is at least as much about solving empirical puzzles as it is about developing yet-to-be empirically examined models.

George’s research on fund performance and ways to detect and reward talent is an example of a thesis directly applicable to the practitioner realm of concerns. George’s results suggest that fund manager performance is clouded by the particularly volatile markets experienced in January. Fund managers should be very excited to see his results that demonstrate professionally managed funds appear not to underperform the market at all. Any appearance of overall underperformance seems driven by January-related noise and volatility in the markets.

Chelsea’s research on momentum strategies and their seasonalties has direct implications for practitioners of that art, refinements to trading that could enhance returns significantly. This area has received considerable focus so far this year in the department. The Finance Down Under Conference’s momentum all-star panel led directly to last month’s return by Don Hamson to the department. He gave a wonderful presentation to our doctoral students and led a discussion with them on the prospects of the quant industry in Australia.

The PhD may be a “nerdy” pursuit, but we nonetheless remain committed to seeking out ways to stay relevant to practice.

To receive invitations to alumni events and eComm, the regular Business and Economics e-newsletter, make sure that your details are up-to-date. You can do this via the University’s online alumni portal: http://alumni.online.unimelb.edu.au/mydetails. You can also get your free alumni email address for life if you haven’t signed up for one already.

HONOURS REPORT

Dr Ian O’Conner
Department of Finance

In a year when the annual NSW and ACT honours colloquia decided to give it a miss, it is time to reflect on the state of play in the finance honours year 2012. A highlight this year is the introduction of four new honours supervisors. Dr Sturla Fjesme, Dr Lyndon Moore, Dr Ning Gong, and Dr Jordan Neyland have added to the depth of research talent in the department this year. They were part of the inspiring staff research presentations at the annual honours retreat held last semester. Sturla has provided Scandinavian flavour to the research agenda by specialization in Norwegian market activity. Derrick Tan, and JingJing (Arena) Hu are each investigating initial public offerings (IPOs) using Oslo Stock Exchange, and the Norwegian Central Depository data, under the supervision of Sturla.

James Nugent, a student in the combined Finance and Economics honours year, is conducting finance research in Economics Experimental Laboratory (E2MU) this semester. James was no doubt inspired by the Experimental Economics subject he completed in third year. He is planning to conduct a laboratory experiment with a group of subjects to examine movements in the equity premium when evaluation periods vary. James is currently seeking ethics approval for the project. He is supervised by Dr Carsten Murawski. The experimental lab is jointly funded the Faculty of Business and Economics, the Department of Economics and the Victorian Government.
The Master of Commerce (Finance) is one of the Department of Finance’s flagship programs and accepts outstanding scholars with a specialisation in Finance. Admission to the MCom program is very selective. To be considered for admission applicants must achieve high scores on the GMAT or the GRE:

- Minimum quantitative score of 42 (GMAT) or 153 (GRE);
- Minimum verbal score of 31 (GMAT) or 152 (GRE);
- Minimum analytical writing score of 5 (GMAT) or 4 (GRE);

The program offers advanced academic training in finance. It includes the writing of a research report in which the students work independently to apply their knowledge, analytical skills as well as ideas and visions to answer current research questions. As such the MCom program provides not only rigorous training in finance but also real-world applications. Henry Wong, MCom (Hons), Assistant Portfolio Manager at the Victorian Funds Management Corporation, describes his experience as follows:

“...I still keep on referring back to those full stacks of notes, particularly in my first couple of years after graduating from the program, for real-world applications. I definitely won’t throw away my notes just yet!”

The new directors Dr André Gygax and Dr Jonathan Dark have continued to enjoy their roles as joint MCom directors. André has been responsible for admissions into the program, whilst Jonathan has taken responsibility for the remaining roles.

Further integration of the MCom and PhD programs has continued. For the first time, the current cohort of MCom students has completed the Research Methods subject. In the past, this subject has only been taught to the PhD students. As a result, we look forward to seeing an improvement in the quality of the MCom research projects.

The Department is also currently in the process of developing a four-year PhD program. This will involve two years of coursework. In the first year, students will be enrolled in the MCom program. After the first year they can complete their studies and graduate with an MCom degree. Alternatively, subject to meeting the performance requirements, students may elect to continue their studies and complete a PhD.

We see the next few years as an exciting time for the MCom program. We continue to look forward to the challenges ahead and will do our best to ensure that the MCom program continues to flourish.

Let us take this opportunity to congratulate the following students for their successful completion of the MCom program in Semester 2, 2011:

Naughton, Andrew John

**Analyst Recommendations and Investment**

Banks: Could you have used publicly available information to profit from failing banks during the Financial Crisis?

Cai, Xiang

Cross-listing and Operating Performance: Empirical Evidence from Chinese SOEs Cross-listed in Hong Kong.

Yap, Shuimin

Does Abnormally High CEO Compensation Affect Bank Failure Rates in the US?

Khan, Muhammad

Impact of Basel II on Bank Asset Portfolios in Australia

Han, Shiyuan

Smile no longer: Implied Volatility Modelling using a Single Factor Model – an empirical Study on Dow Jones Industrial Average Options

Lu, Ren

State Ownership Structure and IPO Underpricing in China Shanghai Securities Exchange: Analysis of Two Types State Shares

Yang, Minhua

Determinants of Housing Price Dynamics

An Yingrui

Equity-based compensation as incentive scheme for outside

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The Master of Finance has a long and proud history of having finance practitioners participate formally in providing lectures to students. At one end of the spectrum we have a tradition of providing a wide range of elective subjects where experienced practitioners have complete responsibility for a unit – such as in the subjects Finance Law, Bank Lending Practices and Financial Planning and Advising. We have also been fortunate to be able to call upon a wide range of industry practitioners to present to our students on specific topics. For example, students in the unit Mergers and Value Enhancing Strategies have been fortunate to attend presentations by bankers and consultants where the veil has been lifted on the way in which deals are initiated, structured and ultimately completed. Far from being a simple recitation of the background facts to a transaction, inevitably in these intimate forums (with recorders turned off) students are able to get a rare insight into both the daily frustrations and moments of glory that go towards making a successful career in capital markets.

Personally, I leave these presentations with a greater insight into the day-to-day implications of the subjects I teach - and a renewed appreciation for the generosity of the hearty band of practitioners who gracefully face - for the umpteenth time - the inevitable question from the student group.

“How many hours did you work last week?”

Dr Sean Pinder

Department of Finance

University of Melbourne
The Faculty of Business & Economics is internationally recognised for its academic achievements, the substance of its programs, the quality of its students, the leadership demonstrated by its alumni and its contribution to our local and global community.

Confident in our position, and in common with the world’s greatest schools and institutions, the Faculty is committed to working with alumni, friends and companies to secure philanthropic support and corporate sponsorship which will enable us to; promote excellence through world class research, facilities and scholarships; enhance access and opportunity through bursaries and student support; drive innovation through support for enrichment activities, research collaboration and new programmes of academic endeavour.

Support for the Department of Finance will ensure that we continue to attract the best and brightest minds to study and work in a stimulating environment within our Department, enabling us to continue to pursue research that can answer the critical questions facing the globe. More information on our ‘Invest: Excellence, Opportunity, Innovation’ fundraising, and the impact of the support we have received to date, can be found at www.fbe.unimelb.edu.au/invest.

There are many ways that you can support your Department – by making an individual, family or corporate donation; participating in our Faculty Annual Appeal; or by choosing to leave a bequest and creating a lasting legacy. If you would like any additional information, or if you would like to discuss your philanthropic or sponsorship ideas and needs in more detail please contact Ms Ali MacLeod, Development Manager on 03 9035 3302, or at ali.macleod@unimelb.edu.au.

FINANCE HONOURS ALUMNI DINNER 2012

Friday, 16 November 2012
6:30pm to 10pm
Grand Ballroom, The Hotel Windsor
111 Spring Street, Melbourne
Guest Speaker: Rami de Marchi - Vice President, Affinity Equity Partners
Cost: $50 per person (includes 3-course dinner and beverages)
To ensure you receive your invitation, please update your contact details via the University’s online alumni portal: http://alumni.online.unimelb.edu.au/mydetails

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