DEPARTMENT OF FINANCE

Newsletter Sponsored By

Access National Bank
progressive business banking

These students will manage $4 million for the Virginia Tech Foundation.

Details on page 3.

BASIS (Bond And Securities Investing by Students)

Page 3 BASIS: Bond And Securities Investing by Students
Page 4 Award Winning Faculty
Page 5 Research Spotlight
Page 6 New Faculty
Page 7 Department News
Access National Bank has sponsored this newsletter to facilitate the convergence of common interests. The bank handles corporate and personal banking services for VT Finance Alumni and seeks to expand that client base. For the past several years, the bank has provided real world outreach support to VT Finance academic staff. Access National actively recruits VT Finance graduates for its Corporate Training Programs and other professional positions. The company counts 11 Hokie graduates among its employment base of 250 and is actively recruiting to expand its staff.

The bank serves emerging businesses with annual revenue of up to $35 million located mostly in the Mid-Atlantic Region. The bank provides asset based lines of credit, business acquisition, term debt financing, and commercial real estate loans. Loan sizes are $50,000 to $10 million. The company provides extensive asset management and internet banking capabilities. Private Banking services are provided to executives of its business clientele and other professional, including VT Finance officials in all capacities. Important private banking services include residential mortgage loans, loans for business investment and construction loans.

Reston, Virginia based Access National Bank has $525 million in assets and is wholly owned subsidiary of Access National Corporation. The company was listed on NASDAQ-NM in July 2004 under the symbol ANCX. One of the 11 Hokie graduates currently employed with Access National is Michael Clarke, CEO, a 1983 graduate of VT Finance.

The bank may be reached at 703-871-2101 or mclarke@accessnationalbank.com.
Bond and Securities Investing by Students (BASIS)

New Student Group Addresses Industry Needs in Fixed Income and Structured Products

Should VT finance students know more about the fixed income markets? Should the finance department take heed of recent reports of expanded hiring in fixed income?

We believe the answer to both questions is YES. Accordingly, the Finance department developed and helped fund an innovative response by establishing a new student-managed investment organization that is dedicated to investing real money in a diversified portfolio of debt instruments. Fourteen students are currently participating in what is called Bond and Securities Investing by Students (BASIS).

BASIS’s mission is to provide educational opportunities, on behalf of the Virginia Tech Foundation, through successful implementation and profitable operation of a student-led, fixed-income investment fund. Formed in Fall 2004, BASIS students obtained Foundation approval in May 2006 to manage a $4.3 dollar portfolio that invests in investment grade corporate bonds, U.S. Treasury and Agency issues, government-sponsored enterprise bonds, as well as U.S. dollar denominated sovereign bonds. The BASIS fund will be one of the most significant undergraduate student-managed funds devoted solely to debt instruments in the country.

The goal is to manage prudently the Foundation’s investment dollars by focusing on appropriate techniques in portfolio risk management to achieve the best return possible as compared to the Lehman Brothers Government Credit Index. The Investment Policy Statement, while written in accordance with the Foundation’s, was researched and written by the students. An investment committee was formed to oversee the general operation and to provide a macro-economic point-of-view to each of the five, two-person investment analysis teams.

BASIS is—at its heart—the educational arm of our enterprise designed to provide students with the practical experience for investing in the large and unusually dynamic marketplace that has spawned innovations such as collateralized mortgage obligations, Treasury STRIPS, and mortgage backed securities. The debt markets are larger than the stock market, and the fixed-income and structured-product job opportunities have seen rapid recent growth.

BASIS students will graduate from the investment program with a stronger understanding and appreciation for analysis, decision-making, performance evaluation, and portfolio management that will make them highly sought after by the financial industry. Gaining experience using services such as Bloomberg and other tools used by professionals means that students can contribute on the job as soon as they arrive after graduating. You are welcome to participate in our students’ endeavor by supporting BASIS with your time. We are currently seeking industry professionals to serve on the BASIS Advisory Board. Together we can make Virginia Tech’s students the most competitive contributors in the highly sophisticated markets for debt instruments.

Contacts:
Faculty advisor: George Morgan
Current co-CEOs: Josh Allen and Kevin Pitchford

The Finance Club

This year the Finance Club continued to provide a setting for finance majors to develop the social skills they need to succeed. The Finance Club holds socials, recruiting sessions with firms interested in hiring finance majors, and sponsors alumni speakers where members get the opportunity to learn from and network with Virginia Tech grads who have succeeded in the business world. On the purely social front, the Finance Club also puts on events such as bowling and other social gatherings.

For more information on the Finance Club, please visit: http://www.finance.org.vt.edu/index.php
The Department of Finance is committed to providing our students with top quality education both inside and outside the classroom. In pursuit of this goal, our faculty actively engages in cutting edge research, keeping abreast of the latest information, as well as creating it. We further believe that the awards and consistently high teacher evaluations are the result of our commitment to students. Access to faculty, faculty responsiveness to student questions and concerns, transparency of grading, and overall educational value have all been reasons cited by students as the basis for the high evaluations. Not surprisingly, within the Pamplin College of Business, the Finance department has been the most popular for several years.

For the 2005/2006 academic year the Finance department faculty received very high student evaluations. The median student evaluation for 3000 level courses was 4.34, 4.16 for 4000 level courses, and an amazing 4.61 for 5000 “graduate” level courses. These high evaluation scores reflect the students’ overall satisfaction with the finance faculty based on the aforementioned reasons. In recognition of this dedication to teaching, our faculty has been awarded a variety of awards at the college-, university- and state-level.

Our department is also home to the 1999 State Council of Higher Education for Virginia (SCHEV) Outstanding Faculty Award winner, Dr. Arthur Keown. Dr. Keown, an R. B. Pamplin Professor of Finance, currently teaches Introduction to Finance to over 750 undergraduate students and is consistently one of the department’s most highly-rated Professors. He has been awarded the Certificate of Teaching Excellence five times, the Alumni Teaching Award in 1995 and was inducted into the Academy of Teaching Excellence the same year. Also in the Academy of Teaching Excellence are Dr. Rodney Thompson (’88), and Dr. Vittorio Bonomo (’93). All three of these outstanding faculty members have also received the prestigious Wine Award for teaching excellence, named for William E. Wine, former Rector of the Board of Visitors and Alumni Association President.

Dr. Randall Billingsley’s primary teaching area is in Investments and Derivatives. He has taught Executive Development courses on Investment Analysis in the US, Europe and Asia. He has participated in the development and teaching of the Finance Track of a continuing education program at Pamplin. He has taught CFA Review courses for the Schweser Study Program in the US and Europe.

Two-time winner (’00 and ’03) of both the Pamplin College and Virginia Tech Certificates of Teaching Excellence, Dr. Greg Kadlec has taught investments in the undergraduate, MBA, and Ph.D. programs. His student teaching evaluations are consistently among the highest in the college, but his accolades do not stop at the classroom door. His eight year involvement as a faculty advisor to SEED, a student-managed investment portfolio with $4 million in assets, continues to play an important role in the placement of Pamplin graduates at some of the most prestigious investment management firms in the country.

Dr. Dilip Shome currently teaches Investment Banking to MBA and undergraduate students. He has won several teaching awards at Virginia Tech. He is a two-time winner of the Teaching Excellence Award, winner of the Ph.D. Teaching Award, and winner of the University Certificate of Teaching Excellence. He has taught many different courses at the undergraduate, MBA and doctoral levels.

In addition to winning the Wine Award for Teaching Excellence, Dr. Rodney Thompson is a three-time winner of the University Certificate of Teaching Excellence, and five-time winner of the College Teaching Excellence Award. Dr. Thompson is an outstanding teacher who is currently teaching International Finance. He has taught many different courses at both the undergraduate level and graduate level. He is the faculty leader for several ongoing study-abroad programs, including annual trips to Riva, Switzerland, South Africa, and East Asia.
Research Spotlight

“Good stewards, cheap talkers, or family men?...”
Forthcoming in the Review of Financial Studies by Huseyin Gulen, et.al.

Arturo Bris, Huseyin Gulen, Padma Kadiyala, and P. Raghavendra Rau examine a sample of 125 equity mutual funds that closed to new investment between 1993 and 2004. They find that funds close following a period of superior performance and abnormal fund inflows. Fund managers raise their fees when they close to compensate managers for losses in income due to the restrictions in size imposed by the fund closure decision. Managers reopen when fund size declines. However, they do not earn superior returns after re-opening, suggesting that the fund closure decision does not provide information about superior fund managers. The paper is available at http://www.pamplin.vt.edu/finance/Faculty/hg/MutualFund-Closures.pdf.

Index Changes and Unexpected Losses to Investors in Index Funds

Dr. Vijay Singal and his co-authors (Honghui Chen and Gregory Noronha) find that, due to arbitrage around the time of index changes, investors in S&P 500-linked funds lose between 0.03% and 0.12% annually, while investors in Russell 2000-linked funds lose between 1.30% and 1.84%. In dollar terms, the investor losses in the two types of index funds mentioned are in the billions of dollars a year. These losses are an indirect result of the predictability (especially apparent in the Russell 2000) and/or pre-announcement (as is the case of the S&P500) of index changes. The ability to foresee change in the index creates the opportunity for a wealth transfer from index fund investors to arbitrageurs. The arbitrageurs can pre-purchase (or pre-sell) the stock of companies that are to be added to (or removed from) the index thus raising the stock price ahead of its inclusion in the index and increasing the cost of the stock to the index fund.

Attributable to this work, Dr. Singal has been recently quoted in the Wall Street Journal (twice), Barron’s, and in Investment News.

Faculty in the Media

► New York Times (March 12, 2006) – Dilip Shome and Vijay Singal’s research (jointly with Mahesh Pritamani) on currency risk was quoted.

► The Roanoke Times (July 15, 2006) – Janine Hiller was quoted in connection with a story on children’s online privacy. This marks at least the fifth time in recent history that a newspaper has requested Dr. Hiller’s remarks on the Children’s Online Privacy Protection Act (COPPA).

► The Roanoke Times (July 25, 2006) – Raman Kumar was quoted in an article about the much debated impact of the proposed HCA buyout on the availability of health care in the region.

Special Thanks To Our 2006 Donors!
The Department of Finance would like to express its sincere thanks to all the generous donors who have supported our program.

David Spotswood Allen ▲ Brian Dimitri Almond
Mike Clarke ▲ Robert A. Evans ▲ Thomas F. Gosnell ▲ Jason C. Hall ▲ Sylvia Conway
Hudgins ▲ Russell J. Herakovich ▲ Christopher A. Myers ▲ Allen L. Pyle ▲ Eric Clifton
Rommell ▲ George Robert Vaughn

SEED
SEED has outperformed its benchmark (S&P 500) in each of the last five years. However, this year’s performance was extraordinary - its best ever relative to the benchmark. SEED earned 19.54% during 2005-06 (April-March), beating the S&P 500 by 780 basis points. Drs. Randy Billingsley and Art Keown are the co-advisors of SEED. SEED manages an equity portfolio of about $4 million on behalf of the Virginia Tech Foundation – one of the largest non-class credit portfolios run by students in the country. Since the SEED experience is useful for students, the size of SEED group has gradually been increased to about 25 students.

For more information:
http://www.seed.pamplin.vt.edu/index.html
Dr. Mike Cliff’s appointment as Assistant professor of Finance marks his return home. In 1993 he graduated from Virginia Tech with a B.S. in Finance. He then spent three years working as an analyst at First Annapolis Consulting before getting his Ph.D. in Finance from the UNC–Chapel Hill. He previously taught at the undergraduate, M.B.A, and Ph.D. level at Purdue University and was recognized as a distinguished teacher in the M.B.A. program. Since returning to Pamplin, Mike has focused on developing and teaching a new core finance class in the undergraduate program. He was recently appointed as Director of the Doctoral Program and will be teaching a Ph.D.-level investments seminar.

Mike’s research focuses mostly on investment topics. A pair of recent papers examines the role of analysts’ stock recommendations. One article concludes that the stock recommendations provided by Wall Street analysts are tainted by the conflict of interest from investment banking, as claimed by Elliot Spitzer. The other provides evidence that firms going public can entice their underwriter to cover the stock price by allowing under pricing.

Dr. Alexei Ovtchinnikov came to Virginia Tech in July 2004 from Purdue University, where he completed his Ph.D. in finance. Prior to joining Purdue, Alexei lived in California where he completed an MBA from the University of California (UC)–Riverside and his B.A. in Business Economics from UC–Santa Barbara.

Alexei’s research focuses on corporate finance. He studies firm investment and financing policies in the environment of irrational capital markets. In a recently completed working paper, Alexei documents that information asymmetries, bankruptcy costs, and underinvestment incentives have a significant effect on the firm’s investment decisions. However, he finds little evidence that stock misvaluation affects the firm’s investment.

Dr. Ozgur “Ozzie” Ince joined our faculty this semester after receiving a Ph.D. in finance from the University of Florida in spring, 2006. He earned his M.S. in mechanical engineering from the University of Michigan and his B.S. in mechanical engineering from Istanbul Technical University.

Ozzie’s research interests include equity offerings, investment banking, and payout policy. His current research focuses on the efficiency of the initial public offerings (IPO) pricing process and the agency problems between IPO firms and the underwriters. He has a forthcoming article that examines the quality and integrity of equity data from Thomson Datastream.

Ozzie’s teaching interests are primarily in corporate finance and investments. He taught a senior level undergraduate course in investments at the University of Florida while pursuing his doctoral degree.

Dr. Emir Hrnjic joined our faculty this semester from Tulane University where he completed his Ph.D. in finance. He also spent a semester at the University of Maryland, College Park as one of the many students displaced by Hurricane Katrina. While at Tulane’s Freeman School he taught undergraduate courses in investments and financial management and was recognized with membership in the Dean’s Teacher Honor Roll. Prior to joining Tulane, Emir lived in Kuala Lumpur, Malaysia where he completed his B.A. in business administration.

Emir’s research is in corporate finance where his expertise is in analyzing the role of investment banks in initial public offerings (IPO) and the mergers-acquisitions process. His current research focuses on long-term institutional shareholders and the purchase of IPO shares. A recent paper—IPO Underpricing to Buy Holdings—develops a measure of institutional reputation and documents that investment banks “buy” long-term institutional holdings through underpricing.
During 2005 - 2006 the Department of Finance hosted 27 academic presentations. Below is the list of presenters for Fall 2006.

- August 25, Jason Hur, Virginia Tech
- September 8, Marius Popescu, Virginia Tech
- September 20, Lily Xu, Virginia Tech
- September 22, Amit Goyal, Emory University
- October 6, Sattar Mansi, Virginia Tech
- October 20, Michael Schill, UVA/Darden
- October 27, Randy Billingsley, Virginia Tech
- November 3, Richard Evans, Boston College
- November 10, Marc Lipson, UVA/Darden
- November 17, Gokhan Sonaer/Ajay Bhootra
- December 1, Puneet Jaiprakash, Virginia Tech

New Placement Advisor

In August, the Finance Department hired Derek Klock as an Instructor of Finance and Career/Placement Advisor. Derek, who has both his BS and MBA from Virginia Tech, has previously taught several classes for the department while he worked for 5 years in retail banking and brokerage. Derek will also be responsible for alumni relations, including the coordination of alumni visits to campus, in addition to his teaching and student advisory role.

Derek brings pride and energy to the position and is willing to assist you in any way possible. You may contact him at (540) 231-4419 or at ddklock@vt.edu to schedule a visit to campus.

New Alumni Director

This past May, the Pamplin College of Business and the Virginia Tech Alumni Association appointed Bonnie Gilbert as the Director of Alumni Relations. Bonnie has held academic and career advising positions at Virginia Tech’s Academic Advising Center and the Department’s of Hospitality & Tourism Management, Communications, and Building Construction.

She is here to assist you with any of your alumni needs. Please feel free to contact her at bgilbert@vt.edu or (540) 231-9551.

For additional alumni information please visit www.alumni.vt.edu.

Helping students develop into contributing members of a profession is not an easy task, but the Finance Department does it as well as, if not better than, any other department in the Pamplin College of Business. For four of the last five years, finance students have been awarded the Pamplin College of Business Young Alumnus Award. This award is given each spring at the College awards ceremony to a Pamplin alumnus who has graduated within the last 10 years. The award is based on professional contribution and is bestowed by the Dean of the College, Richard E. Sorensen in conjunction with the Alumni Association.

The 2007 recipient of the award is Marshall Minor a graduate of the class of 2000. Mr. Minor is currently with MGM Mirage as Assistant Vice President of Corporate Finance. In this position Marshall is responsible for reviewing and monitoring the financial performance of all properties as well as exploring growth opportunities and assisting with investor and banking relations.

Prior to joining MGM Mirage Marshall worked for Silver Pacific Advisors in Las Vegas as a Senior Investment Banking Associate. He was responsible for managing mergers, acquisitions, and financing transactions for gaming and real estate companies based in the Southwest. His previous experience includes working as a Senior Financial Analyst for AIG SunAmerica in Los Angeles, California developing project financing strategies and preparing comprehensive financial analysis for AIG’s real estate investments, and as an Investment Banking Analyst in the Telecom and Media sector for Salomon Smith Barney in New York City.

He joins a distinguished list of previous award winners from the Finance Department that include: Cedric Reynolds (’03) who is employed by Bunge Foods, Jay Rosenstock (’04) who is with Sony Corp., and Mike Neese (’05) who works for Altria.
Awards & Scholarships

**College awards for graduating seniors:**
- College Service Award – Allison Davis

**Department Awards:**
- Finance Student of the Year
  Brandon Phibbs (FIN/ECON)
- FMA Achievement Award
  Alex Karjavine (FIN)
- Accenture Scholarship – Richard Knecht (FIN)
- Chase Manhattan Banking and Real Estate Finance Scholarship – Thomas Piontek (FIN)
- Curtis A. and June Haworth Thompson Scholarship – Lydia Sumner (FIN/MKTG)

**Scholarships for returning students:**
- William M. Hahn Memorial Scholarship – Ashley Leah Maxfield (FIN/ACIS), Jeffrey Mettam (FIN/ECON), Eric Zakrzewski (FIN/BIT)
- Mr. and Mrs. Leonard Starr, Jr. Scholarship
  Brian Colleran (FIN)
- John W. Hansen Memorial Scholarship
  Christina Vu (FIN/MGT)
- Willis P. Blackwood Scholarship – Stacey Fuller (FIN/ACIS), Joshua Friedman (FIN)
- Leonard L. Brown Scholarship
  Adam Jensen (FIN, Corps of Cadets)

Support the Department

Financial contributions to the department have been increasing, and are always welcome. Remember that no amount is too small. Send your tax-deductible contributions to Department Head, Department of Finance (0221), 1016 Pamplin Hall, Blacksburg, VA 24061.

- Pete Ellison Memorial Scholarship
  Lynn Anderson (FIN/MGT)
- Cathy Faoro Memorial Scholarship
  Stephanie Harvey (FIN/MKTG)
- George E. Foresman Memorial Scholarship
  Sarah Kellogg (FIN)
- Walter W. Horner Memorial Scholarship
  Andre Cortbawi (FIN)
- Pamplin Junior Merit Awards
  Anne Huang, Sonali Kripalani (FIN)
- Inez T. Ripley Scholarship
  Kristina Harrison (FIN/ACIS)
- SEED Scholarship – Miles Green (FIN)
- Wachovia Leadership
  Megan O’Rourke (FIN/ACIS)
- BB&T Scholarship – Erica Roberson, Ross Hartman (FIN)
- Wachovia Employees Scholarship – Ashton Wilson (FIN/ECON/ACIS)