Department of
FINANCE

Newsletter Sponsored By
Access National Bank
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PAMPLIN FINANCE
EMPOWERING FUTURE FINANCIAL LEADERS
Access National Bank
progressive business banking

Access National Bank 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 Development Program and other professional positions. The company counts 15 Hokie graduates among its employment base of 300 and is actively recruiting to support continued expansion.

The bank serves emerging businesses with annual revenue of up to $50 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 cash management and internet banking capabilities. Private banking services are provided to executives of its business clientele and other professionals, including VT Finance officials in all capacities.

Reston, Virginia based Access National Bank has $650 million in assets and is a wholly owned subsidiary of Access National Corporation. The company is listed on NASDAQ Global Market under the symbol ANCX. One of the 15 Hokie graduates currently employed with Access National is Michael Clarke, CEO, and a 1983 graduate of VT Finance.

The bank may be reached at (703) 871-2101 or mclarke@accessnationalbank.com.
Letter from the Advisory Board Chair

When people think of Virginia Tech, once past the most recent sporting contest, many think of the VT motto of Ut Prosim (That I may serve) and tagline of Invent the Future. Much time and effort was given to developing those brand items for Virginia Tech, but much more must be given in support of their meaning.

Last spring when I was approached with the opportunity of membership in the Pamplin Finance Advisory Board I was excited about the opportunity to both serve and invent. I wanted to get involved, serve the department, advance its mission, invent new pathways and opportunities for the students and faculty, and enhance existing opportunities for the career placement of future graduates.

How can you invent the future?

- **Recruit VT Finance graduates.** A top priority of most businesses is finding good people to grow and support the business. With a nationally ranked, AACSB accredited business school what better place to find that new talent than in Blacksburg? The department has a strong curriculum designed to create tomorrow’s leaders.

- **Hire expertise for a project.** Faculty expertise can be hired to complete a special project, conduct research, or provide customized training and development programs for corporate staff or leadership.

While the Capital Campaign gets a lot of publicity, it’s not only money that makes VT successful. It’s engagement. I challenge you to determine how we, as members of the Advisory Board, and you, as fellow Finance graduates can make Ut Prosim and Invent the Future actionable. As part of our goal to function as an interactive forum, we and the department encourage your feedback, ideas and participation. Together, we can move the Hokie Nation forward and with the Department of Finance leading the way!

Michael W. Clarke (VT Finance 1983)
President and CEO, Access National Bank

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**That We May Serve**

Last November the board met and began developing a plan of action, the number one challenge that came out of those discussions was how to best make an impact in supporting the department’s mission of Empowering Future Financial Leaders. Our goal became the development of an interactive forum for feedback, networking, and outreach to the alumni and the business community that enhances the department initiatives for curriculum, placement and development.

**Ut Prosim**

How can you serve?

- **Visit campus and speak to a class.** This can make a huge impact on the students and can be a tremendous help to the faculty by illustrating real world application of their instruction.

- **Join a committee.** To name just a few: the Department Advisory Board, the SEED Advisory Board or the BASIS Advisory Board.

**Invent the Future**

The former and present department leadership has done an outstanding job of methodically building a reputation for quality and innovation that continues to enhance the value of a VT Finance degree and as a result making our degrees more valuable. Another goal of the Advisory Board is to continue to enhance that value in the spirit of advancing our collective interests. Said another way, we need capable graduates as much as they need us. Your involvement helps perpetuate our reputation and can deliver significant dividends to you and the students who will invent the future.
Opportunities Beyond Blacksburg

While much focus is always placed on curriculum, research, development and placement, there are always additional value-added propositions that occur away from the Blacksburg campus. Abundant international and U.S. travel opportunities are also available to students who are looking to stretch their learning boundaries.

Study Abroad

Since 1996 the Department of Finance has supported the Pamplin College of Business Fall Program in Europe that is associated with the University’s Center for European Studies and Architecture (CESA). This annual program in Riva San Vitale, Switzerland offers the introductory and international classes in Finance, Management, and Marketing. These six classes, along with three study abroad credits, make up a 21 credit hour program for the participants. According to Peter Bailey "For the proactive business student who is looking for a challenging learning environment coupled with unparalleled travels through the beautiful countries of Europe - Riva [San Vitale] was by far the best semester at VT!"

The fall 2008 program will also mark the 15th anniversary of Finance Department involvement, and again this year, as in each of the previous years, the finance classes will be taught by Dr. G. Rodney Thompson. Dr. Thompson estimates that the number of Virginia Tech students who have taken finance classes at CESA now exceeds 500. As a testament to the added value that this program brings, Trent Byerly says that "Riva is like The Apprentice, The Amazing Race, Survivor, and Jim Cramer’s Mad Money rolled into one."

In addition to the traditional coursework, the students are immersed in the culture through group travel during the semester. In recent years, and scheduled again for 2008, the students will have trips to Paris, Budapest, Prague, Munich, Venice, Rome, Florence, and Naples. In addition to visiting various business ventures such as a crystal factory near Prague they also learn about the business environment of Pompeii in 79 A.D. The group travel includes a VIP tour of the Parliament Building in Budapest, a visit to Dachau in Munich, and a tour of the islands of Venice.

While study abroad programs combine international exposure with traditional coursework, other students choose to engage in a variety of professional development opportunities. For several years members of SEED have attended the annual Redefining Investment Strategy Education (RISE) conference held at the University of Dayton. This conference has offered attendees the opportunity to listen to some of today's preeminent investment strategists including, Jack Bogle, Abby Joseph Cohen and Al Goldman. Additionally, this conference sponsors an optional portfolio competition for Universities with student-managed portfolios – such as the ones managed by our SEED and BASIS groups – as well as a Career Strategies Forum geared to exploration of career within capital markets and asset management.

One very motivated student understood that the best way to succeed in an industry was to understand the industry. Christina Smith attended not one but two Financial Planning Association (FPA) conferences and "gained much in terms of valuable insights and perspectives on the career field as well as job contacts." She also won two National Association of Personal Financial Advisors (NAPFA) scholarships – to offset the cost of registration and travel to two additional conferences. Finally, she participated in the "grueling" Ameriprise Financial Planning Invitational competition. She recognized that attending conferences differentiated her from other graduates and potential job seekers and she "decided that I could manage my academic work, part-time employment, a social life and the extracurricular learning opportunities."

In addition to short-term professional travel one of the best ways to understand an industry is to experience it on a daily basis. Many students are now supplementing their learning with professionally-challenging internships. Even acquiring the internship is becoming a learning experience. With multi-faceted, multi-staged interviewing processes recruiters are challenging students to prepare for entrance into the industry with the same vigor they would approach a final exam. Yusuf Abugideiri recently noted that he actually over-prepared for an interview. He had spent multiple days reviewing possible interview questions and studying relevant material in preparation for a third-and-final interview for a competitive placement in the northeast with a large, multinational employer. However, he knows that with increasing regularity recruiters are expecting graduates to have industry-related work experience. In his opinion “If you’re not ahead coming out of school, you are already behind.”

So whether it is through a study abroad experience, professional travel, or an internship, VT Finance students maximize their academic, professional, and personal development by looking beyond Blacksburg’s borders.
Do Market-Timing Hedge-Funds Time the Market?

Yong Chen

In a recent study entitled “Do Market-timing Hedge-funds Time the Market” published in the Journal of Financial and Quantitative Analysis in December 2007, Dr. Yong Chen together with Dr. Bing Liang from the University of Massachusetts examines whether hedge funds can successfully time the stock market. The question whether portfolio managers can forecast and time the market has long been asked in the investment world as well as explored by researchers. Most of academic studies that date back to at least the 1960s have found little evidence that managers of traditional funds such as mutual funds and pension funds possess timing ability. In their study, however, Chen and Liang argue that due to less regulatory oversight, hedge funds have much more investment flexibility than traditional funds, and thus if portfolio managers can time the market, the hedge fund industry should be a more natural place to locate such ability. Indeed, the authors show strong evidence of timing ability based on a sample of 221 hedge funds that claim themselves to be market timers.

Return Differences between Trading and Non-trading Hours: Like Night and Day

Michael Cliff

This work is done jointly with Michael Cooper from University of Utah, and Huseyin Gulen from Purdue University. In this paper, we use transaction-level data and decompose the US equity premium into day (open to close) and night (close to open) returns. We document the striking result that the US equity premium over the last decade is solely due to overnight returns; the returns during the night are strongly positive, and returns during the day are close to zero and sometimes negative. This day and night effect holds for individual stocks, equity indexes, and futures contracts on equity indexes and is robust across the NYSE and Nasdaq exchanges. Night returns are consistently higher than day returns across days of the week, days of the month, and months of the year. The effect is driven in part by high opening prices which subsequently decline in the first hour of trading. In addition, overnight returns are strongly positive from Friday close to Monday open, a result that is at odds with the previously documented "weekend" effect of negative weekend returns.

The Effect of Firm Age, Past Performance, and Market Conditions on Momentum Profits

Raman Kumar

Prior studies have provided evidence on the existence of momentum profits that can be earned by buying stocks that have exhibited the highest returns over the past 3 to 6 months, and selling stocks that have the poorest performance over the period. A study, conducted by Jungshik Hur and Raman Kumar, shows that momentum profits are larger for smaller firms and for younger firms (firms whose stocks have been trading for 3 years or less). While stocks that have been trading for more than three years earn momentum profits only under rising market conditions, younger stocks appear to earn momentum profits under practically all market conditions. The study also shows that the momentum profits are larger when the stock market is recovering from negative market conditions, and they are greater for the subset of firms that exhibited the worst longer term past performance. Overall, the results of the study suggest that momentum profits can be maximized by focusing on stocks of younger and smaller firms that have exhibited a very poor long term past performance (e.g. over 2 year period ending 12 months before the trading date), but have exhibited a very strong short term performance (e.g. over the previous 6 months).
Constrained Capacity and Equilibrium Forward Premia in Electricity Markets

Carl J. Ullrich

Wholesale electricity prices are subject to severe price spikes. It is not uncommon for prices to increase (and subsequently decrease) by a factor of 40-50 within a single day. Electricity retailers must buy electricity provided by investment banks. It is well documented that IPO deal volume varies significantly over time. If equity underwriting capacity cannot be adjusted fully and fairly quickly, the busiest times in the IPO market could be associated with an excess demand for the services of the investment banks by prospective IPO firms. In preliminary empirical tests I find evidence for the existence of bottlenecks in the IPO market. For instance, IPO firms match with uncharacteristically low reputation investment banks when higher reputation ones are working at full capacity. In addition, withdrawals become more likely during those times even though valuations typically tend to be relatively high. Theoretically, excess demand should lead to higher compensation for the providers of a given good or service, which appears to take place in the IPO market through higher total commissions and higher underpricing. Overall, capacity bottlenecks have a real impact on the IPO process and lead to inefficiencies in the allocation of resources.

In the volatile wholesale market and resell to retail customers at fixed prices. Thus electricity retailers are subject to severe price risk. How do retailers protect themselves from exposure to electricity price spikes? This paper develops an equilibrium model for pricing short-term forward contracts written on wholesale electricity prices. Forward prices are driven by retailers hedging activities. When retailers expect high spot electricity prices, they optimally increase forward purchases, thereby driving up forward prices. The model predicts that retailers should be willing to lock in a loss (i.e., agree to a purchase electricity at a forward price in excess of the fixed retail price) in order to avoid the possibility of being exposed to a price spike and incurring a very large loss.

Faculty Research

Capacity Bottlenecks May Impact IPO Market

Ozgur (Ozzie) Ince

In my most recent research project I investigate whether the market for initial public offerings suffers from occasional capacity bottlenecks in the supply of IPO underwriting services provided by investment banks. It is well documented that IPO deal volume varies significantly over time. If equity underwriting capacity cannot be adjusted fully and fairly quickly, the busiest times in the IPO market could be associated with an excess demand for the services of the investment banks by prospective IPO firms. In preliminary empirical tests I find evidence for the existence of bottlenecks in the IPO market. For instance, IPO firms match with uncharacteristically low reputation investment banks when higher reputation ones are working at full capacity. In addition, withdrawals become more likely during those times even though valuations typically tend to be relatively high. Theoretically, excess demand should lead to higher compensation for the providers of a given good or service, which appears to take place in the IPO market through higher total commissions and higher underpricing. Overall, capacity bottlenecks have a real impact on the IPO process and lead to inefficiencies in the allocation of resources.

CFA Candidate Club

As a follow-up action to the recently approved CFA track curriculum, the department has established, in consultation with the CFA Institute that considers it as a prototype for a worldwide network, a CFA Candidate Club in order to help the students prepare for the June exam. Dr. Meir Schneller, assisted by Dr. Randy Billingsley (both CFA charterholders) is leading a group of students through a two semester long CFA review course. The group meets on a weekly basis – for 90 minutes each – to discuss material that is not fully covered by courses required in the CFA track.

While envisioned for undergraduates seeking careers in investment analysis and management, the current group includes two MBA candidates as well. The club had 12 original members and according to Dr. Schneller “the students are top of the crop,” but as a testament of the rigor of the program only eight students remain after the first semester.

Once the candidates have successfully completed the program they will be eligible for scholarship from the CFA Institute toward Level I costs. These scholarships would reduce the students’ cost by approximately $700.
Ms. Leanne Brownlee, Senior Program Support Technician, has been with the Department of Finance since October 1998, which makes her by far the most senior staff member. From the moment she joined the department her positive attitude and willingness to take on additional responsibilities has made her an asset to our department. During the last two years when there was some turnover in the department office, Leanne took on new responsibilities, learning what was needed to keep the office running as smoothly as possible while we were understaffed. She assumed overall responsibility for the office, and spent a great deal of time training new administrative staff.

“Leanne is amazing.” When the faculty were asked to rate Leanne, there was not a single negative or neutral comment. Comments included “never shirks”, “gone beyond what is expected”, “best secretary in 10 years”, “excellent work on a timely basis”, “takes initiative to find better ways to do the work”, etc. Leanne has been an incredible asset to the department and the university. These are all reasons why everyone would agree that she is very deserving of her recent Staff Employee of the Week Award and the accompanying nomination for the President’s Award for Excellence. Please join us in congratulating Leanne on this achievement.

New Donor Support

Mr. Michael Kosciusko (Managing Director, Bank of America, NYC) and a 1987 Finance Alumni recently pledged $50,000 to endow a Finance Department Fund for Excellence. An endowed fund set up in this manner allows the Finance department to use the proceeds to take advantage of opportunities or to fund initiatives that the department would otherwise not be able to do. Financial support of this nature provides a sense of accomplishment and acts as a certification of the department’s mission and success. The Finance department would like to thank Mr. Kosciusko for his generous support.

Accomplishments

Finance Placements are Setting the Pace

The department is pleased to announce that we are seeing continued improvement in the placement statistics for our graduates. The median salary was $42,250 for 2004-05 and $45,000 for 2005-06, which increased to $47,000 for 2006-07. This shows an annualized salary increase of nearly 5.5% and compares favorably externally and very favorably internally. Externally the top 25 business schools, as ranked by Business Week in a recent survey, posted a group average increase of 5.8%. Internally, there was no significant improvement in salaries for any of the other departments in the last one year. Similarly, the percentage of students employed has also improved each year: from 69% in 2004-05 to 83% in 2006-07.

New Research Ranking

In a recent publication by Academic Analytics, which developed a Faculty Scholarly Productivity Index that is being used by Virginia Tech for internal, department-level evaluation, the Finance Department was ranked fourth among the 70+ Virginia Tech departments. On a national level the department was among the top nine Finance departments alongside Wharton (U. Penn), Stern (N.Y.U.), and Kellogg (Northwestern). We would like to thank all who are involved with our mission as we continue to become a more highly recognized department within the university and the nation.

Teaching Evaluations

Finance faculty received very high student evaluations, without grade inflation. The median student evaluation for 3000 level courses was 4.22 for Fall 2007 and Spring 2006 semesters, 4.34 for 4000 level courses, and 4.56 for MBA courses. These high evaluation scores reflect the students’ overall satisfaction with the finance faculty. We believe that high teacher evaluations are the result of our commitment to students. Students not only understand our commitment but also realize the job opportunities for Finance graduates. Not surprisingly, within the College, Finance had the highest number of juniors and seniors in 2006-2007. As seen in years past, this number continues to grow.
On April 23rd We Prevailed - For They Came Back!

So much has already been written about the tragedy that occurred on this campus on April 16, 2007. The words of Nikki Giovanni still ring in our ears, echoing down through time as a self fulfilling prophecy we work every day to create.

We Invent The Future

“We will continue to invent the future
Through our blood and tears
Through all this sadness
We are the Hokies
We will prevail”

Just as nothing could have prepared us for what happened, nothing could have prepared us for the response!

We Will Prevail

The world turned its eyes to us, grieved with us and offered us a flood of love and support. There were many unsung heroes of that day, from those who walked into that tragic scene and fought for every life they could, to those who called with words of support, sent letters and cards and never let us forget we weren’t alone. However the greatest of unsung heroes that day, and the days that followed, were the students – for they came back.

As we came back to campus the day after the shooting, when President Bush came to offer his words of sadness and support, we watched as parents flooded campus, packed up their children and took them home. Many of us watched and wondered what would become of our campus, our classes and the remainder of the semester. We did not want to be here – alone, but not alone – back on campus where reporters roamed in the places were students had been just the day before. A strange silence descended at the wrong time of year.

We debated all the possibilities. Who wouldn’t understand parents wanting to keep their children safe at home given the choice? Then when the University announced its decision to allow students take the grades they currently had and not return many of us expected that would be it – we expected the silence to remain.

No one knew what to expect on April 23, 2007. We posted welcome signs on the doors; faculty, administrators and staff took their places in the halls and common areas to act as greeters and counselors; and we waited. But that was not it; the silence would not remain – not for us and not for the students – for they came back.

Our students came back. Heads held high, prepared to learn, returning back to face this tragedy, they reminded us just what it meant to be a member of this Hokie Nation. Our community is strong because of our students. Together we are

Virginia Tech!