

**INSTITUTE FOR QUANTITATIVE
RESEARCH IN FINANCE®**

SUMMARY

**AUTUMN 2006 SEMINAR
OCTOBER 15 – 18, 2006**

**BACARA RESORT AND SPA
SANTA BARBARA, CALIFORNIA**

I. INTRODUCTION, SUMMARY AND CONCLUSIONS

Harry Markowitz made the first presentation at the fortieth anniversary Autumn 2006 Seminar of The Q-Group®. He offered a brief discussion of the CAPM, commenting on the unrealistic assumptions of the model, described a realistic mean/variance model, and went on to present a simulation model of his own.

Bill Sharpe followed, with another equilibrium simulation model, describing the model and showing an application. The model is available on his website.

Ronald Kahn, and Richard Grinold, both of Barclays Global Investors, discussed the optimal gearing for long-short portfolios and attribution of returns from a portfolio.

Stewart Myers described the effects of opaqueness (poor disclosure) on risk perceptions in a number of markets, showing that the R-squared for firms in those markets was high whether or not investor protections characterized the market.

Niall Ferguson gave the after-dinner speech, pointing out the similarities in the globalization of the 1880 to 1914 period to the present globalization and posed the question where the latter may lead.

Bob Merton reviewed the inadequacy of analytical tools for risk management and discussed what can be accomplished by derivative securities.

Myron Scholes discussed risk transfer from a hedge fund point of view, including the task faced and the resources needed.

Peter Bernstein reflected on his observations fifteen years ago on investment theory and practice, and commented on what he sees at present and discusses in his new book.

Richard Thaler presented new evidence to show that irrational investor behavior is alive and well even in open market settings including the National Football League draft.

Jack Treynor followed up on his inflation presentation in the Fall of 2002 with a warning that central bank response to indications of inflation can be seriously mistaken, as in Japan in the 1990s, and explained why. A declining workforce in Europe presents a specific challenge.

Martin Leibowitz presented some evidence that P/E ratios decline with extremes of real interest rates, both low and high, and offered an explanation and a planning model.

TABLE OF CONTENTS

Presenting the “All Stars” of Investment Strategies	Page
1. Market Equilibrium in a NonCAPM World	1
Speaker: Harry M. Markowitz, Nobel Laureate, Fellow of the Institute and President, Harry Markowitz Company	
2. Equilibrium Simulation	2
Speaker: William F. Sharpe, Nobel Laureate, Fellow of the Institute, STANCO 25 Professor of Finance, Emeritus, Stanford University, Chairman, Financial Engines, Inc.	
3a. Flirting With Danger: Optimizing Leverage and Shorting	4
Speaker: Ronald N. Kahn, Barclays Global Investors	
3b. Attribution: A Unified, Portfolio Based Approach	6
Speaker: Richard Grinold, Barclays Global Investors	
4. Capital Allocation	7
Speaker: Stewart C. Myers, Gordon Y. Billard Professor of Finance, MIT Sloan School of Management	
5. Sinking Globalization: What Could Go Wrong?	9
Speaker: Niall Ferguson, Laurence A. Tisch Professor of History, Harvard University	
6. On the Implications of Modern Risk Management for Equity and Credit Analysis	10
Speaker: Robert C. Merton, Nobel Laureate, Fellow of the Institute and John and Natty McArthur University Professor, Harvard Business School	
7. A Speculator’s Look At Risk Management	11
Speaker: Myron S. Scholes, Nobel Laureate, Fellow of the Institute and Managing Partner, Oak Hill Platinum Partners	
8. Capital Ideas: Out of This World Or In The Thick Of It?	12
Speaker: Peter L. Bernstein, President, Peter L. Bernstein, Inc.	
9. What’s New and Old In Behavioral Economic And Finance?	14
Speaker: Richard H. Thaler, Professor of Behavioral Science and Economics, University of Chicago	
10. Will The Phillips Curve Cause World War III?	16
Speaker: Jack L. Treynor, President, Treynor Capital Management, Inc.	
11. The Franchise Cycle	18
Speaker: Martin L. Leibowitz, Managing Director, Morgan Stanley	