

**INSTITUTE FOR QUANTITATIVE  
RESEARCH IN FINANCE®**

**SUMMARY**

**SPRING 2006 SEMINAR  
APRIL 2 – APRIL 5, 2006**

**PALM BEACH**

**THE BREAKERS  
, FLORIDA**

## I. INTRODUCTION, SUMMARY AND CONCLUSIONS

Nick Hall, Director of the Saddlebrook Wellness Center, delivered the opening address at the Spring 2006 Seminar of The CGroup<sup>®</sup>, discussing ways of dealing with stress, and some of the reasons for the ways in which we perceive reality.

Jonathan Berk followed up on his explanation in 2003 for mutual fund flows, with a new model using manager compensation and ability to explain closed end fund discounts, as well as a number of puzzling features of closed end funds. The model is based on rational behavior, but leaves some room for behavioral explanations.

Robert Engle discussed downside investment risk and offered practical ways to identify and measure it. He emphasized the need to deal explicitly with asymmetric volatility, particularly in credit instruments.

Andre Feroold compared the managements and relative success of the Harvard and Yale endowments, and led a discussion of Harvard strategies for the future. Following Yale's successful program was one possibility. Another was finding opportunities where other institutions are not looking.

Frank Diebold described the importance and practicality of separating and measuring the jump component of volatility. The continuous component is relatively easy to measure and predict, and prediction can be improved by filtering out the unpredictable jumps.

Kenneth Winston presented methods of measuring and controlling risk in portfolio management. He discussed predicting volatility and focused in particular on long-short portfolios.

Vheer Bhansali urged the inclusion of macroeconomics in financial modeling, and offered a variety of examples, including economics motivated forecasts of the term structure.

George Chacko described a new method for modeling liquidity risk and showed that this risk is real and priced and not diversifiable. Accessibility risk in rarely traded instruments can be useful when trading data are lacking.

Andrew Fidd and Mark Ferrari presented an analysis of opportunities for investment in movies. Ferrari described his valuation model and the factors that make for success.

Ned Elton and Marty Gruber offered an evaluation of the performance of 401(k) plans, focusing primarily on the quality of choices offered to plan participants. The plans did well compared to random choice of investment funds but not so well compared to passive portfolios.

Michael Brennan discussed dynamic portfolio optimization and the value of the dividend discount model for forecasting long run returns. He showed a further model to determine the implied intermediate returns.

## TABLE OF CONTENTS

### Page Introduction and Summary

1. I Know What to Do, Why Don't I Do It?

1

Speaker: Nick Hall, Director, Saddlebrook Wellness Center

### Portfolio and Risk Management

2. A Rational Model of the Closed-End Fund Discount

2

Speaker: Jonathan Berk, Professor of Finance, Haas School of Business,  
University of California at Berkeley

3. Downside Risk and Its Implications for Financial Management

3

Speaker: Robert Engle, Professor of Finance, Leonard W. Stern School of  
Business, New York University

4. Harvard, Yale and the Future of Investing

5

Speaker: Andre F. Perold, Sylvan C. Coleman Professor of Financial Management  
Harvard Business School

5. Roughing it up: Including Jump Components in the Measurement,  
Modeling and Forecasting of Return Volatility

6

Speaker: Francis X. Diebold, W.P. Carey Professor of Economics,  
School of Arts and Sciences, University of Pennsylvania

6. Buy Side Risk Management

8

Speaker: Kenneth J. Winston, Chief Risk Officer,  
Morgan Stanley Investment Management

7. Putting Economics (Back) Into Quantitative Models

10

Speaker: Vheer Bhansali, Head of Analytics, FIMCO

8. Liquidity Risk in the Corporate Bond Markets

12

Speaker: George Chacko, Associate Professor of Finance,  
Harvard Business School

9. Returns to Portfolios of Movies

13

Speakers: Andrew Ridd, Managing Partner, Rocinea Management LLC  
Mark Ferrari, Director of Research, Rocinea Management LLC

**10. Participant Reaction and the Performance of Funds Offered by 401(k) Plans**

16

Speakers: Edwin Elton, Nomura Professor of Finance, Leonard N. Stern  
School of Business, New York University  
Martin J. Gruber, Nomura Professor of Finance, Leonard N. Stern  
School of Business, New York University

**11. Persistence, Predictability, and Portfolio Planning**

17

Speaker: Michael Brennan, Emeritus Professor  
Anderson School of Management, UCLA