

**INSTITUTE FOR QUANTITATIVE  
RESEARCH IN FINANCE®**

**SUMMARY**

**SPRING 2009 SEMINAR  
MARCH 29 – APRIL 1, 2009**

**THE BREAKERS  
PALM BEACH, FLORIDA**

## I. INTRODUCTION, SUMMARY AND CONCLUSIONS

Jim Farrell delivered the welcoming address at the Spring 2009 Seminar of The Q-Group®.

The first presentation, on March 30, was given by Ken Froot, who began with the vicious cycle in risk capital, involving unwillingness at the supply end and further illiquidity, deleveraging and falling prices. Franklin Allen stressed the role of bubbles in stock and property prices that began the crisis. Individuals no longer know their true wealth and companies find it difficult to make decisions. He compared the crisis in Japan in the 1990s and suggested why unemployment is likely to be worse in the US.

Richard Lindsey focused on needed regulatory reform, identifying unsustainable macroeconomic policies and institutional weaknesses, and described a series of recent proposals, including his own, for reform. Brett Hammond led a discussion in which a variety of academics, money managers and others offered their own analyses of what has happened to precipitate the current crisis, and where we are now, raising more questions than answers but provoking vigorous discussion.

The Monday dinner speaker, Bill Gale of the Brookings Institution, offered a number of observations on how we got where we are and a critique of the new stimulus packages in housing and the financial sector. He concluded with his views on the prospects for the short, medium and long term.

Phillipe Jorion's presentation was titled "Credit Contagion from Counterparty Risk", and he showed the structure of contagion and explained in detail how credit contagion takes place. Martijn Cremers offered a challenge to the Fama-French and Carhart factor models as performance benchmarks, showing the results of using common indices based on the most widely followed index funds in different size categories.

Harrison Hong showed how arbitrageurs amplify price shocks, because the prices of highly shorted stocks are excessively sensitive to economic shocks.

Randy Cohen offered evidence that there do exist active managers able to identify high performing stocks, and described the circumstances that make it difficult for the superior selection to produce high performing portfolios.

Kent Smetters' topic was optimal portfolio choice over the life cycle, giving proper consideration for the role of Social Security. From a computationally challenging model he matched the actual investment behavior of investors over time and showed that the average household may already be holding a close to optimal portfolio.

Richard Evans explained the use and varieties of incubation in offerings of new mutual funds, its benefits to the fund family, and some reasons for investors' close scrutiny of fund performance during and after incubation.

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