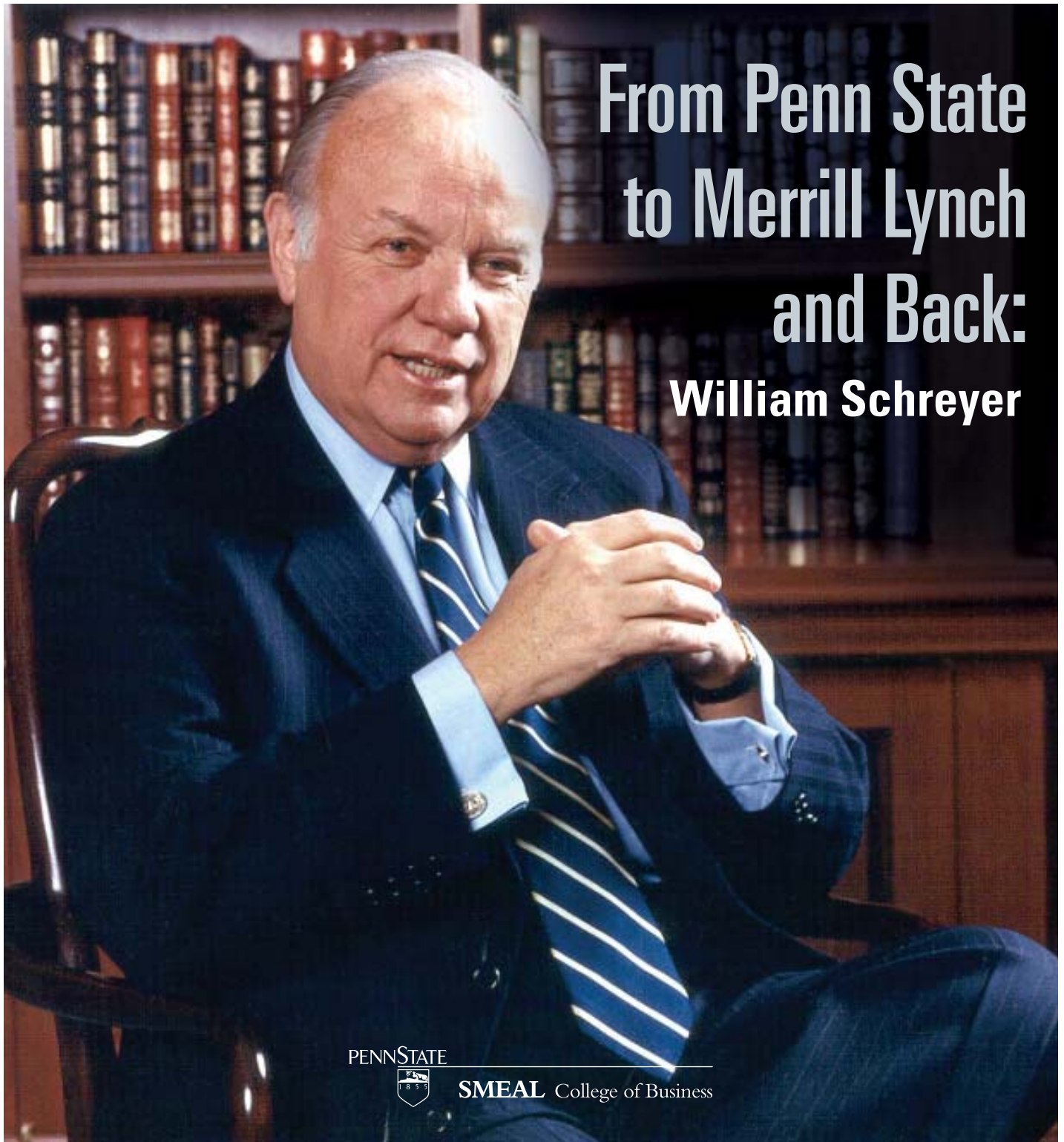


# LIONTrader

Volume 4

*The Official Newsletter of the Smeal College Trading Room*



**From Penn State  
to Merrill Lynch  
and Back:  
William Schreyer**

PENNSTATE



**SMEAL** College of Business

## FEATURED ARTICLES

### **The Trailblazing Life of William Schreyer..... 4**

Graduating in 1948 from Penn State University with a degree in Commerce & Finance, William Schreyer would go on to lead Merrill Lynch & Co. and help build it into one of the greatest financial services firms in the world. While Schreyer was a passionate and successful businessman, he also gave back tremendously to Penn State and currently continues to shape the direction of his beloved alma mater.

### **Charlie Smith: A Lifetime of Learning..... 9**

Born in Cape Town, South Africa, Charlie Smith would overcome odds to become the department head of Accounting/MIS and KPMG Professor of Accounting in the Smeal College of Business. Through a love of learning and travel, he found his way across the world and into the hearts of so many Penn State students, faculty, and alumni.

### **Trade Secrets: Smeal Students Win International Trading Competition ..... 15**

This past February, four Penn State students representing the Smeal College of Business traveled to Toronto to participate in the Rotman International Trading Competition. They competed against over 100 students from top business schools in a fierce competition designed to test their trading, portfolio, and risk management skills. When the final bell rang, the Smeal College students were standing alone in first place.



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# Director's Note



J. Randall Woolridge, Professor of Finance and the Goldman, Sachs and Co. and Frank P. Smeal Endowed University Fellow; Director of the Smeal College Trading Room

This issue of *LionTrader* is dedicated to William Schreyer to recognize his lifelong professional accomplishments, his dedication and generosity to Penn State, and his never-ending efforts to open up opportunities for Penn Staters on Wall Street.

And talking about opportunities for Penn Staters on Wall Street—this has been the best year ever for placement. At last count, over twenty undergraduate and MBA students have accepted job offers from Wall Street firms. And our placements have primarily been at the major firms — Merrill Lynch, Goldman Sachs, Bear Stearns, Citigroup/Salomon Smith Barney, and JP Morgan. I believe that there are several factors that have contributed to the great placements—Wall Street firms are hiring more this year; the Schreyer Honors College has been putting an emphasis on Wall Street careers; our alumni have been very loyal, and our students are networking with them more often through efforts like the Wall Street Initiative; and our students are

becoming better prepared to compete for Wall Street jobs due to their involvement with the Penn State Investment Association and the Smeal College Trading Room.

For the second year in a row, Smeal College students have won an international trading competition. In February, four students traveled to Toronto for the Rotman International Trading Competition. The two-day competition included student teams from over twenty schools from the U.S., Canada, and the U.K. The Smeal College team included Sachin Aggarwal (B.S. and M.S. in Finance), Jay Hammerstadt (B.S. in Finance), Mat Shopp (M.B.A.), and Brad Barnhorst (M.B.A., who also won the Smeal College-FTS Global Trading Competition last year). For their winning efforts, the students took away the first place prize of \$10,000. The only bad news was that the prize money was paid in Canadian dollars!

Two new developments are going to have a significant impact on the financial education of Smeal College students. In a major move forward for the Smeal College Trading Room, Dr. David Haushalter has been hired as the Administrative Director of the Trading Room. In this new position, David will oversee the day-to-day activities of the Trading Room, work with faculty to integrate their courses into the Trading Room, and develop and teach trading courses. David has a perfect background for this position. He comes to Penn State from Susquehanna International Group, LLP, where he was the Corporate Research and Educational Associate. David traded equity and foreign currency options before going back to school and earning a Ph.D. in Finance

from Purdue University in 1996. He was on the faculty at the University of Oregon before moving to Susquehanna in 2000. We are very excited to have David taking this position.

In another major development, the Smeal College is on the verge of announcing a formation of a student-managed investment fund (SMIF). There are over 100 colleges and universities that have SMIFs. But the Smeal College SMIF will be unique. Instead of having students manage a piece of the University's endowment, the funds invested by students in the "Nittany Fund" will come from investors. As of this writing, we are completing the legal work to form a Limited Liability Corporation (LLC) that will form the basis through which investment funds will be raised from accredited investors. Much of the structure and organization of the "Nittany Fund" follows the work of the Penn State Investment Association. The minimum investment will be \$25,000, and our target is to raise \$5 million for the students to manage. Between 20 to 25 student portfolio managers will be selected in the fall semester, and the funds will be invested beginning January 3, 2005. Additional details on the fund will be forthcoming soon.

On a final note, in this issue of *LionTrader* we are initiating a section titled *Alumni Notes*. Our objective is to let you know where our Wall Street alums are these days. If you have changed jobs or want to update your fellow alums on your whereabouts, send me an e-mail at [jrw@psu.edu](mailto:jrw@psu.edu).

—J. Randall Woolridge, Director of the Smeal College Trading Room

# *The Trailblazing Life of*

# William Schreyer



In 1948, a man by the name of William Allen Schreyer graduated from Penn State University with a degree in Commerce & Finance and a life full of successes ahead of him. He had a vision, a quick smile, a big heart, and a hunger to excel, qualities that would prove essential throughout his life and career.

Schreyer was born on January 13, 1928 in Williamsport, Pa., the same town where he would begin his life-long career for Merrill Lynch. His father ran the local Merrill Lynch office in Williamsport, a place he frequently visited in high school and where he became familiar with the financial services industry. After high school, it was no surprise that the young Schreyer decided to further his education. Choosing a college was a difficult decision. His father was partial to Bucknell University, where he had attended college, but a number of Schreyer's friends were attending Penn State. In the end, he decided to join Lion country, where he could be with his friends, get a good education, and enjoy the small town lifestyle in State College, which he was accustomed to from growing up in Williamsport.

At Penn State, Schreyer excelled from the start. He and five friends decided to join the Sigma Epsilon fraternity, of which he would later become the president. It was right after World War II, so there were many ex-GIs returning to attend college. This created an interesting atmosphere. The ex-GIs were older and a great source of learning. Schreyer specifically recalls one of his roommates, an engaging ex-Air Force Captain, from whom he learned a great deal about balancing fun with academics.

In those years, Schreyer recalls that much of the school life revolved around fraternities. The hotspots to gather with friends were some of the same places still frequented by students today, such as The Rathskellar and The Corner Room. He recalls the typical evening out routine at that time: "No one had cars, so I would walk to my friends' dorm to meet them. Then we would walk to The Corner Room, where I would usually order my favorite sandwich, the 'Ham a La Corner'. After eating we might walk around the streets before we would walk back to their dorm at the end of the night." Ironically, some friends lived in Atherton Hall, which has since become the home of the Schreyer Honors College.

Schreyer knew what he wanted to do before even starting college. He wanted to go to Harvard Business School to get his M.B.A. and then work in the financial services industry. He decided to go on the fast track at Penn State and complete his undergraduate degree a semester early in order to be eligible for enrollment in Harvard in fall 1948. With the assistance of Dean Pugh, he interviewed for enrollment, an interview he recalls as being "tough." He was accepted for enrollment a year later than he had wished, fall 1949. Because Schreyer was anxious to keep learning and stay ahead of the curve, he decided to return to Williamsport, Pa., and enroll in a new internship program with Merrill Lynch, a company with which he was very familiar.

Throughout the internship program, Schreyer rotated through different departments of the firm and, after two years, was made the assistant to a pension fund manager. He then transferred to Buffalo, N.Y., where he began work under a very demanding, but fair, manager and became an account

executive. It was from this manager that he learned the ropes of good management, qualities that he used as he moved up the ranks in the firm. One lesson he picked up from this gentleman was to get straight to the point in conversations. That manager used to caution, "You can talk to someone on the phone too much," and to this day Schreyer notes that he still is very short when speaking on the telephone. After a few years in Buffalo, he was called to duty to fulfill his ROTC Commission as 2nd Lieutenant in the Air Force.

While stationed in Germany for the armed forces, one of Schreyer's Generals found out he had worked in the securities industry. The General had some money he wished to invest, and asked Schreyer if he could be of assistance. He invested the General's money in a petroleum stock, and it tripled in a week. Word spread fast, and he began opening accounts in Merrill Lynch's Geneva office for other Generals. While he didn't receive any compensation, he sure was noticed. After completing his stint in the service, Schreyer went back to Buffalo, N.Y., and began Merrill Lynch's management training. Once completed, he transferred to New York City to become the sales director for Merrill's Metropolitan region offices. He turned around many troubled offices, and after three years, was quite known within the firm.

Up to this point, Schreyer had primarily worked in the Global Private Client division of the firm. In 1973, he was asked to be the chairman of Merrill Lynch Government Securities Inc., a subsidiary that operated as a primary dealer of U.S. government securities. He quickly learned the dealer business, and soon after was appointed to head all of the firm's capital markets operations. In 1978, Schreyer was made president of Merrill Lynch, Pierce, Fenner & Smith. He pushed for globalization and increased focus on the firm's investment banking business by assisting the firm

in its acquisition of White Weld & Co., a prestigious investment banking firm at the time. As president, he was always mindful of the firm's community responsibilities. He organized a Christmas Charity program that enabled elderly citizens to use Merrill Lynch's phone lines to call loved ones free of charge.

Schreyer became CEO of Merrill Lynch & Co., Inc. in 1984, and chairman of the board in 1985. His legacy is in Merrill Lynch's global expansion and profitability. He was also a most popular CEO, known for his tremendous relationship skills and friendships across the world.

William Schreyer not only helped build one of the greatest financial services firms in the world, but he has also contributed a great deal back to his old alma mater, Penn State. In 1997, he and his wife, Joan, donated \$30 million to fund the Schreyer Honors College in hopes of implementing the vision shared by President Graham Spanier—"to attract gifted students, provide them with a rich honors education, inspire them, and help open their eyes to global opportunities and civic and social responsibilities." The Honors College has been a great leap forward for Penn State and has attracted many highly motivated students with exceptional talents.



Joan and William Schreyer

But Schreyer's generosity has not stopped there, for he has also been a great benefactor to the Smeal College of Business. In addition to a lecture series, scholarships, and a library endowment, Schreyer has provided financial support for the Center for Global Business Studies. He also endowed the William A. Schreyer Chair of Global Management, Policies, and Planning which is currently held by Dr. Fariborz Ghadar, who is also director of the Center for Global Business Studies

Regarding Schreyer's endowment of a faculty chair, Judy Olian, Dean of Smeal College of Business states, "These special opportunities enable us to attract teachers and researchers with outstanding international credentials, and lift the reputation of the entire college."

Ghadar explains how Schreyer's endowment has advanced the research interests of the college, "The endowment has given the research center, students, faculty, and, of course, me the opportunity to explore and undertake research on business issues that shape the global business environment. Our research will ultimately enrich our classes, excite our students, and make sure our work remains relevant to the business practitioner."

In addition to Schreyer's significant financial support of the college and Penn State, he has personally influenced Smeal students through his frequent mentoring and participation in extracurricular events such as Smeal Survivor. He has also played the central role in increasing Penn State's visibility among Merrill Lynch recruiters. Because of his efforts, Penn State is now a target school for Merrill Lynch. Other Wall Street firms have since followed Merrill Lynch's lead, and now recruit at Penn State, opening doors for Penn State graduates seeking work on Wall Street.

—Jonathan Wyss, *Lion Trader*  
Managing Editor

# Smeal Beyond the Classroom

As the spring semester came to a close, Smeal continued to host and take part in an array of enriching activities. The college has always devoted substantial time and effort to providing its students with activities to enhance the overall learning experience and prepare them for the transition into the workforce. This past semester, Smeal involved itself in several dynamic programs: Conversation with Business Leaders, Smeal Survivor, the Arlene Shapiro Kaplan lecture series, and the Farrell Center for Corporate Innovation and Entrepreneurship. Each program aims at developing students' understanding of the real business world through various platforms.

As Smeal continues to foster the relationship between students and Wall Street alumni, **Conversation with Business Leaders** afforded students a wonderful opportunity to network. The event took place on April 29 in New York City at Credit Suisse First Boston's corporate headquarters. Although the occasion was targeted at Smeal alumni and the Board of Visitors, current undergraduate and graduate students were welcome to participate. The program focused on identifying talent and leadership in the corporate world and aligning those skills with the requirements of particular companies. The forum was led by four distinguished executives: Randy Battat, president and CEO of wireless internet concern Airvana; Stephen W. Delaey, CEO of electronics manufacturer Celestica; John Thompson, vice chairman of the executive search company, Heidrick & Struggles; and Patricia Sellers, Editor of *Fortune*.

Smeal hosted the fourth annual **Smeal Survivor** event on April 14. The event provided twelve students the opportunity to act as a CEO of an authentic publicly-traded company. The students took part in macroeconomic training through the renowned think tank, the Center for Strategic and International Studies (CSIS), in Washington D.C. They were exposed to the Seven Revolutions Initiative, a program that focuses on major economic trends expected to impact public policy and strategic business plans. These trends are forecast forward until the year 2025

and cover seven main areas: population, resource management, technological innovation and diffusion, generation and distribution of knowledge and information, economic integration, global instability and conflict, and the challenge of governance. Students prepared for the competition by developing a thorough understanding of his/her individual company and assessing the impact of the Seven Revolutions in the company's future.

The competition itself consisted of members of the Seven Revolutions Initiative intensely prompting participants with various scenarios. The students had to think quickly and effectively articulate to the audience and judges a strategic business plan to deal with the scenarios. Contestants only had a few minutes to formulate and present their responses and were judged by a panel including Dean Judy Olian and executives from Johnson & Johnson, C-Cor, and PNC Financial Services. Based



Conversation with Business Leaders: (l-r) John Thompson, Stephen W. Delaney, and Patricia Sellers (Not pictured: Randy Battat)



Conversation with Business Leaders: (l-r) John Thompson and Stephen W. Delaney (Not pictured: Randy Battat and Patricia Sellers)

on the thoroughness and practicality of the students' answers, the student CEOs either advanced through the three rounds or their company became bankrupt. Erik Peterson, the director of studies at CSIS, commented, "It is crucial that we prepare future leaders in business for potential crises and encourage them to think about over-the-horizon issues." Prizes this year included a first place prize of a ticket to the World Business Forum held in New York City valued at more than \$2,000 and provided by PNC Financial Services. This year's winner, Joe Hoelscher, acted as the CEO of Procter & Gamble and was prompted with questions regarding rising oil prices, the advancement of nano-technology, and the impact of outsourcing jobs. He believes that the event helps participants to distinguish between managing and leading a business.

## Tony Warren,

Farrell Clinical Professor  
of Entrepreneurship and  
Director, The Farrell Center  
for Corporate Innovation  
and Entrepreneurship



As part of the continuing **Arlene Shapiro Kaplan lecture series**, Julie Hembrook Daum recently spoke to Smeal students regarding her role as a managing director at Spencer Stuart, an executive search firm. A Penn State graduate with a degree in health planning and administration, Daum also holds an M.B.A. in corporate finance from the Wharton School of Business. She spoke to students about the revolution in the corporate boardroom as corporate governance and fiduciary duty remain pressing issues. Recently, Daum has recruited directors for Charles Schwab, General Mills, e-Bay, and the New York Times. Her past work included a role as executive director of Corporate Board Resources at Catalyst, where she helped manage the activities of boards of directors and helped them recruit female directors. In addition, she serves as a member of the Northwestern Conference on Corporate Governance, the Wharton/Spencer Stuart Director's Institute, and acts as a judge for the Wharton Board Excellence Award.

The **Farrell Center for Corporate Innovation and Entrepreneurship** recently received a grant from the Ewing Marion Kauffman Foundation based in Kansas City in the amount of \$48,559. In addition, Penn State will give the center \$57,370 to assist in the development of its Center for Entrepreneurship Learning. The center is designed to provide both students and instructors with an environment in which problem-based cases are analyzed from an entrepreneurial perspective and will reach out to teachers and students outside of Penn State within two- and four-year colleges and high schools. Last spring, the Center for Entrepreneurship Learning implemented test versions of the proposed course offerings to 100 undergraduate students. In addition, the Center aims to help implement entrepreneurship issues into existing courses, provide training for entrepreneurship teachers, and market the services to colleges, school districts, and companies throughout the U.S.

In keeping with its tradition of offering students with an array of activities and initiatives, Smeal continues to bridge the gap between classroom learning and real-world applications. As Smeal further develops these activities and works to initiate new programs, its students continue gain a strong and well-rounded education.

—*Lauren Ruane, Lion Trader Staff*



# Bridging the Gap: The Smeal College Trading Room, Wall Street, and Penn State

The Trading Room Oversight Board and interns are glad to say that they have successfully achieved what they set out to do in the beginning of the year. They have been constantly working to improve and increase the exposure of the Smeal College Trading Room among the public and alumni.

The Trading Room staff dedicated itself to achieving a list of goals and objectives during the 2003–2004 academic year: product presentations, web exposure to current and prospective students and faculty, integration of the Trading Room into the academic curriculum, and a successful transition of leadership roles.

During the year, the Trading Room staff has initiated a series of three product presentations on each of the four software packages: Bloomberg, Moneyline Telerate, TradeStation, and FTS. About 400 undergraduate, MBA, and doctoral students, as well as faculty attended a total of 13 product presentations, which allowed them to benefit from the interns' knowledge of picking and analyzing stocks, derivatives, trading strategies, and

fundamental analysis. In addition, the Trading Room continued its lecture series by hosting seven extremely insightful Penn State alumni to share their professional experiences on Wall Street.

The Trading Room staff had the opportunity to transform the Trading Room Web page to a comprehensive Trading Room Web site by publishing information on the Global Trading Competition, information on products and teams, intern registration forms, and facility and lectures information, which assisted the goals of reaching out to alumni, faculty, and students. Also, the Trading Room staff has been working with the Smeal College faculty to further integrate the Trading Room into the faculty's curricula. Each product team worked on the preparation of finance-related assignments and presented those assignments to the faculty.

Many undergraduate Trading Room interns found exceptional full-time and internship placement opportunities at top Wall Street companies. These accomplishments further provide evidence that the Trading Room

Oversight Board's efforts to complete its goals were met.

The Trading Room Oversight Board acts as the entity responsible for the vision and the future direction of the Trading Room and has already started working on new ideas and initiatives for the next year. Those initiatives include an online Trading Room calendar, the Trading Room logo contest, introduction of Reuters 3000Xtra to the Smeal community, collaboration with faculty to further integrate the Trading Room into their curricula, organization of a Second Global Trading Competition, and the "Nittany Fund."

David Haushalter from Susquehanna International Group, LLP will be managing the Trading Room next year. With his exceptional career and knowledge of financial markets and the continued hard work of the Trading Room staff, all these initiatives will be taken a step further, and Penn State will be closer than ever to Wall Street.

—*Cagatay Culcuoglu, Managing Director of the Smeal College Trading Room*



# Charlie Smith:

## A LIFETIME OF LEARNING

Growing and maturing from a poverty-stricken childhood in Cape Town, South Africa to become the one-time department head, and a long-time professor of accounting, Penn State's own Charles H. Smith's life truly encapsulates the American Dream. Through a love of learning and travel, along with a little assistance and advice from the right people, he found his way across the world and into the hearts of so many Penn State students, faculty, and alumni.

As a young child, Professor Smith (known to many of his students simply as Charlie) was told by his mother, "Steal with your eyes and never with your hands!" He was constantly pushed towards learning and higher education. However, due to insufficient money, he was forced to withdraw from school after the eighth grade in order to take up work at the Cape Town Municipality as a messenger boy. A continued desire to learn, though, enabled him to attend college at night where he had the choice of only three majors: business, speech, and drama. It was a simple choice for Charlie; he studied business for the next 5 years of his life. When he finished school, people began to take interest in his tremendous potential and willingness to learn. A friend of Charlie's, Arthur Claire, helped him begin a career in public accounting at the firm Sebba, Lentin, Gordon, and Willis. He later joined another public accounting firm in South Africa, H. Tarley and Co.

Even though things at H. Tarley were going well, Charlie still maintained a strong interest in higher education and travel. After applying to some of the best business schools in America, including Harvard and Stanford, Charlie had to face the fact that the costs were just too substantial and accept more financially feasible realities. The more affordable tuition and financial aid of Penn State led Charlie there, where he was able to obtain his Masters in Accounting. After graduating, he once again returned to South Africa where he worked at several public accounting firms including Cecil Kilpin and Co. and Greenwood Poulton and Co. However, political unrest in South Africa and fond memories of State College brought Charlie back to obtain his Ph.D. in 1964 and begin a lifetime of teaching. "I am often asked whether I have any regrets about the events of life that led to a permanent move to a new country and to a career path in academia and public accounting. My quick, short response is a confident 'no.' I view myself as most fortunate to have been able to participate in so much that this wonderful country has to offer."

His teaching journeys led him into some of the nation's most prestigious universities, including the University of Washington, the University of Texas, Arizona State University, the University of Illinois, and finally a return to Penn State in 1987, where he served as the department head for over thirteen years. "My decision to return as chair of the



Charles Smith, KPMG Professor of Accounting

Accounting and MIS department in January 1987 was based on Penn State's commitment to being counted with the top ten public universities in the U.S.; because I wanted to see if I could give something back to the institution that had given me so many opportunities; and because my wife Anjoe and I have always liked State College as a place to live."

As department head, Charlie was able to elevate the Smeal accounting and MIS programs into some of the best in the nation through hiring quality faculty who had an "open-door" policy with students. According to Charlie, "This was not a formal, official policy. It came about because of a very clear commitment to the Ph.D. program. Over these many past years of being involved with Ph.D. programs at a



number of different schools, I have come to find that Ph.D. students need significant ‘processing’ attention from faculty in order to get the students on the road to becoming quality and productive researchers. It is not worth much if we have faculty with national reputations who then operate with their doors shut. The evidence is very strong that the faculty of some of the best accounting programs do not have the same ‘processing commitment’ that we have here at Penn State. This ‘open door’ approach has ensured the current and future success of the program.”

Charlie currently serves as the KPMG Professor of Accounting at Penn State, specializing in financial accounting and

auditing. According to Charlie, the most meaningful rewards in his life have come from the great number and variety of his experiences: “The development of my mind; the freedom that comes from being able to think openly and freely; the interactions with such a great variety of people; the feeling of satisfaction that comes from positive feedback from these many different people; and my good fortune in being able to see so many different parts of America as a result of being associated with five different universities (some of my friends say that I have not been able to keep a job).”

Still practicing his “open door” approach to learning, Charlie continues

to pass on his experiences to the next generation of pupils. His dedication to his students has been recognized by the Pennsylvania Institute of Certified Public Accountants, who has named him 2004 Outstanding Accounting Educator. He says, “I have my many stories with my students as I try to encourage them to not give up in the face of adversity. I try to convince them that, if they ‘keep on trucking,’ good will eventually come from their sacrifices and efforts.”

—Eugene Weissberger, Lion Trader Staff

# The Value of Analyst Recommendations

In 1940, Fred Schwed comically chronicled the investment business in his highly entertaining book titled *Where are the Customers' Yachts?* As suggested by the title, Schwed's ten years of working experience on Wall Street led him to question the value of brokers' advice. The following quote from the book summarizes his overall assessment of the business: "Wall Street is a street with a river at one end and a graveyard at the other. This is striking, but incomplete. It omits the kindergarten in the middle."

Since Schwed penned his classic over a half-century ago, the stock market has produced double-digit annual returns and the investment banking and brokerage businesses have thrived. And yet over that time many others have questioned the ability of Wall Street analysts to pick stock market winners. Of particular note are Burton Malkiel's *Random Walk Down Wall Street* and Eugene Fama's writings on efficient capital markets. Nonetheless, you open a financial publication, go to an investing website, or turn on CNBC today, and a Wall Street analyst will be giving his or her advice on what stocks to buy.

As such, the primary premise of Schwed's book remains a major question mark: Is there value in the stock recommendations of Wall Street



J. Randall Woolridge, Professor of Finance and the Goldman, Sachs and Co. and Frank P. Smeal Endowed University Fellow

brokerage firms? Penn State's J. Randall Woolridge addressed this issue in a recent study. He evaluated the performance of the stock recommendations made by analysts at the 15 largest brokerage firms over the period of 1993-2002. The study analyzed data from quarterly surveys prepared by Zacks Investment Research and published in *The Wall Street Journal*. His study is unique in

that it (1) employs a very public source to track the performance of the stock recommendations made by the select brokerage firms, (2) examines the raw and risk-adjusted performance of brokerage firm stock recommendations over a ten-year time period, and (3) evaluates the stock recommendation performance of individual brokerage firms to assess which firms have provided the best advice.

His overall findings were that the recommended stocks of brokerage firms underperformed the S&P 500 (see Exhibits A and B, below). The recommended stocks provided a compounded annual return of 8.97% over the ten-year period, while the S&P 500 boasted a return of 9.35%. A \$1,000 investment in the recommended stocks was worth \$2,358.85 after ten years compared to \$2,443.46 for the S&P 500. This stock performance over 10 years is known as the Cumulative Wealth Index (CWI).

The study also compares the performance of the recommended stocks of individual brokerage firms. At the end of the study, ten firms had data for the entire 10-year period. These firms are categorized as either top-tier, mid-tier, and regional brokerage firms. For top-tier firms, Merrill Lynch performed the best,

boasting positive, risk-adjusted returns and an average annual return of 12.86%—3.5% higher than the S&P 500—and producing a CWI of \$3,346. In terms of middle-tier brokerage firms, Bear Stearns also produced positive, risk-adjusted returns with a CWI of \$3,017. Raymond James, the leading regional firm, produced an annual return of 14% with a CWI of \$3700. Raymond James’ stocks come from a different asset class than those of the other firms and thus their data is statistically insignificant. Exhibit A displays the performance of the top-tier brokerage firms, while Exhibit B displays the performance of the mid-tier firms.

There are four important points to take away from Woolridge’s study. First, the performance of stocks recommended by the selected brokerage firms between 1993 and 2002 was slightly below that of the

S&P 500. Also, the recommended stocks’ returns were riskier and more variable than those of the S&P 500. Secondly, the recommended stocks of mid-tier and regional brokerage firms performed slightly better than recommended stocks of top-tier brokerage firms with a little less risk. Thirdly, the risk-adjusted performance of recommended stocks is slightly below the market. Finally, there is considerable variability in the performance of the recommendations of individual firms. But the results show that there are three firms that produced superior stock recommendations over the past ten years: Merrill Lynch, Bear Stearns, and Raymond James.

—Adam Braham, *LionTrader Staff*

Exhibit A

<b>PERFORMANCE OF RECOMMENDED STOCKS</b>			
<b>Top-Tier Brokerage Firms – 1993-2003</b>			
<b>Firms: (ranked by alpha)</b>	<b>Annual Return</b>	<b>Beta</b>	<b>Alpha</b>
Merrill Lynch	12.86%	0.92	4.27%
Standard and Poors 500	9.35%	1.00	0.00%
Credit Suisse First Boston	9.99%	1.31	-0.88%
Morgan Stanley	7.65%	0.95	-1.04%
Goldman Sachs	7.95%	1.11	-1.75%
Salomon Smith Barney	4.47%	1.09	-4.79%
Lehman Brothers	4.06%	1.40	-7.05%

Exhibit B

<b>PERFORMANCE OF RECOMMENDED STOCKS</b>			
<b>Mid-Tier Brokerage Firms</b>			
<b>Firms: (ranked by alpha)</b>	<b>Annual Return</b>	<b>Beta</b>	<b>Alpha</b>
Raymond James	13.87%	0.94	6.56%
Bear Stearns	11.68%	1.03	2.26%
Standard and Poors 500	9.35%	1.00	0.00%
A. G. Edwards	8.50%	1.12	-1.39%
Prudential Financial	6.35%	1.09	-2.93%

# Cracking Open the Door to Wall Street



James Mahn addresses Smeal students

**J**ames Mahn, director of fixed income, fixed income derivatives, and credit derivatives at Bloomberg recently visited the Smeal College Trading Room to provide students with advice about entering the job market. Mahn grew up in northern New Jersey and graduated with an MBA in finance from the Smeal College of Business in 1991. After completing his graduate studies, he was hired at Credit Suisse First Boston as a foreign exchange and interest rate derivatives trader. After working there for five years, he joined his current employer, Bloomberg.

Mahn strongly suggested to all Smeal students, “Utilize your contacts. Contact all of your immediate family and find out if they, or someone they know, works in your area of interest. In particular for Wall Street—as it is the hardest sector to crack—having the advantage of someone you know putting in a word for you, or handing your resume to the right person can make all the difference.” He elaborated, “If you do not use your contacts on ‘The Street’, someone else will.” Not only should you ask your contacts if their firms need help, but ask them if they know anyone else that has an opening.

Furthermore, students should be persistent with their contacts. Many people on Wall Street are extremely busy and may easily lose track of students that have contacted them for help; however, that does not mean that they do not care or do not want to help. “It is easy to fall down the priority ladder of someone you are trying to reach or meet, as people are busy with their own jobs, but be persistent without being a nuisance. It will keep you at the top of someone’s list when they have an opening,” Mahn stated. He also added that it is a fine line between persistent and annoying. You should always act positive, and when contacting people, understand that they can help you, but they do not have to. Nevertheless, because of the nature and intensity of the work, it is easy for students to get lost in the shuffle. Thus, occasionally remind and refresh them about what they are

supposed to do for you, or how they were going to help you. Mahn emphasized “Be Persistent!!!! Any student can contact me for advice, but I may be tied up or out of the office, so BE PERSISTANT!”

“Don’t be afraid to ask for a job,” was Mahn’s other tip for prospective students. Once you have a contact and are interacting regularly, do not hesitate or be afraid to ask for a job, because it might be the only way that you can get one. “If someone lets you in the door, they know what you are there for; A JOB!” he said. However, if you do not feel that it is appropriate to ask for a job, ask him what the next step should be, or what you should do to get a job. Penn State students should also take advantage of the great alumni presence on Wall Street, and their willingness to help the future generations of students.

Mahn’s final bit of advice was, “Once you do get the job, work as hard as you can to prove to everyone else that you have what it takes, and that you are willing to put in the extra hours to make the difference.” He elaborated that even if you do not like the desk or sector that you are working in, work hard so that when an opening becomes available you will be one of the first candidates considered for the position.

*—Jon Hammarstedt, LionTrader Staff  
and Jay Hammerstedt, LionTrader  
Photography Editor*

# with Craig Columbus

**C**raig Columbus, Chief Market Strategist at Thomson Financial, has a live spot each Monday afternoon on Power Lunch on CNBC. After law school, Craig graduated in 1994 with an MBA from Penn State.

## How have your Penn State education and prior career experiences led to your current position as Chief Market Strategist at Thomson Financial?

The communications component of the MBA program has been very helpful in the work I've done on television. It really was ahead of its time nationally, and now a lot of the top business schools have tried to integrate similar communications skill building in their curriculum. Since I work closely in financial market regulatory issues, my legal background has been an asset for me. I was the founder of a financial software company that was ultimately acquired, so I am a big believer in the ability of the upstart to use technology in strategic ways.

## What does your role as Chief Market Strategist involve?

Developing proprietary equity analytics and promoting those capabilities to our customers, the professional investment community.

## How do you prepare for your weekly spot on CNBC?

Since the show airs live every Monday, I spend each Sunday night reading through research reports about the companies I will discuss the next day. It's a drag for my family—but they are very understanding.

## How have the financial markets changed since you have been involved in them?

The markets are much more volatile and more heavily regulated, with stricter disclosure requirements and stiffer penalties for non-compliance. It seems to me that there is a renewed focus on stock picking and the quality of earnings, as opposed to market momentum. And individual investors have begun to better understand their personal risk tolerance. Finally, by removing the



Craig Columbus on CNBC

restrictions that separated commercial banking and investment services, the American financial services industry has gone through the first of several waves of large-scale consolidation—and has started to look a lot like Europe in that regard.

## What is your take on the market right now?

We don't make calls on market direction. We are technology suppliers. We give professionals the tools that allow them to hopefully make the right calls themselves.

## What advice can you give current Penn State students who are interested in pursuing a career in the finance industry?

Be persistent. Reach out to the Penn State alumni community in the industry, which is among the most loyal groups out there. Pick Dr. Randy Woolridge's brain, as he is so highly regarded by the professional investment community.

## What do you see yourself doing down the line?

I love the financial markets and new technologies, but I am also very active in public policy issues, particularly disability and special education issues. I think we all have a responsibility to apply our unique talents to further some aspect of the common good.

—Alicia Cheng, LionTrader Staff

# Trade Secrets



Smeal Students (l-r) Bradley Barnhorst, Matthew Shopp, Sachin Aggarwal, and Jay Hammerstedt (not pictured) won first place in the Rotman International Trading Competition in Toronto last February.

## Smeal Students Win International Trading Competition

Imagine over 100 of the brightest students from top business schools from all over the world competing in a fast-paced International Trading Competition. Now imagine four Penn State representatives thriving and prospering in victory at the sound of the final bell. MBAs Bradley Barnhorst and Matt Shopp teamed up with undergraduate students Sachin Aggarwal and Jay Hammerstedt this past February to conquer the Rotman International Trading Competition in Toronto. The four financial phenoms used their forecasting and trading skills in the fast-paced, realistic environment to claim victory.

The competition took place at the Rotman School of Management's Financial Research and Trading Lab. The lab is considered one of the leading facilities of its kind at a North American business school. The dynamic learning center contains all the resources of a real trading floor and gives students hands-on experience to test their trading, portfolio, and risk management insight in a real-world environment where they can put finance theory into practice. The

competition was initiated with an open outcry case intended to act as an icebreaker, but also had a small weighting in the team's final score. During the outcry market, the participants were trading a single stock futures contract. A live news feed provided information that would affect the final futures prices. Participants traded futures contracts with one another via the outcry system.

The core of the competition consisted of three custom-designed FTS market cases that required the teams to be broken down into analysts and traders. The two analysts built economic models based on both historical financial reports and live information. Analysts made EPS estimates for companies' "quarterly" results and were graded based on how accurate and timely the estimates were. They then posted this information to an analytics page where the other two team members actively traded the stocks in an attempt to be the most profitable. Each round of the competition presented a unique financial case situation and a schedule of hypothetical and market events occurring simultaneously. Teams

had to respond using financial theory to estimate value, applying skills in corporate earnings forecasting, and trading a variety of products including stocks, bonds, and options contracts.

The Penn State team employed a strategy of trading off of expected values based on a financial model devised from Excel. The team bought and sold based on these expected values and took advantage of the overvaluing of certain stocks. "Basically, if there was money on the table, we took it," commented Sachin Aggarwal on his team's strategy.

At the end of the two-day event, the four Penn State students dwarfed the competition and each walked away with \$2500 and a new pair of coveted Rotman red suspenders. This victory represented a great accomplishment for both the participants and the student body at large. It illustrates that Penn State is a leading force in business education and that the Trading Room at Penn State is truly bridging the gap between the classroom and Wall Street.

—Adam Braham, Lion Trader Staff

# Alumni Notes

## 2000s

**TIMOTHY COONEY** graduated in 2000 with a B.S. in Finance. He works in US Institutional Equity Sales at Goldman, Sachs & Co., 1 New York Plaza, 50<sup>th</sup> Floor, New York, NY 10004.

**RYAN FLEMING** graduated with an undergraduate degree in Finance in 2001. He is a Sales and Trading Associate at Citigroup Global Markets, 390 Greenwich Street, New York, NY 10013.

**MATTHEW LOTA** received his undergraduate degree in 2000. He is an Associate Trader (NASDAQ) at J.P. Morgan, 277 Park Avenue, New York, NY 10172.

**JEFFREY MITZAK**, class of 2002, is a Financial Analyst at Goldman, Sachs & Co., 1735 Market Street, Philadelphia, PA 19103.

**MADHU NAMBURI** graduated in 2000 with an M.B.A. He is a Vice President of Investment Banking at J.P. Morgan, 277 Park Avenue, 20<sup>th</sup> Floor, New York, NY 10172.

**RYAN NEWMAN** received his undergraduate degree in 2001. He is an Associate in the Investment Management Division at Goldman Sachs & Co., 1735 Market Street, 26 floor, Philadelphia, PA 19103.

**MICHAEL SANFORD** received his undergraduate degree in 2003. He is an Investment Banking Analyst at the Banc of America Securities, LLC, 9 West 57<sup>th</sup> Street, New York, NY 10019.

**ROBERT WALL** graduated in May of 2004. He is an Investment Banking Analyst, Diversified Industries at J.P. Morgan at 277 Park Avenue, 16<sup>th</sup> Floor, New York, NY 10172.

## 1990s

**HENRY ADKINS** graduated in 1991 with a B.S. in Finance. He is a Vice President and Corporate/ Agency Floating Rate Note Trader at J.P. Morgan Securities, 270 Park Avenue, 8<sup>th</sup> Floor, New York, NY 10017.

**BRIAN CALLAHAN** received his undergraduate degree in 1995. His position is Vice President, Par Loan Trader at Merrill Lynch, 4 World Financial Center, Floor 7, New York, NY 10080.

**CRAIG COLUMBUS** graduated in 1994 with an M.B.A. He is Chief Market Strategist at Thompson Financial in Scottsdale, AZ and a regular guest commentator on CNBC.

**BLAKE HALLINAN** received a B.S. in Finance in 1999. He is an Investment Banking Associate at Merrill Lynch at 4 World Financial Center, New York, NY 10080.

**JEFFREY KLEINTOP** graduated in 1995 with an M.B.A. He is Chief Investment Strategist and a Senior Vice President for PNC Financial Advisers, with offices at 1600 Market Street, 29<sup>th</sup> Floor, Philadelphia, PA 19103.

**JIM MAHN** received an M.B.A. in 1991. He is the Director of Fixed Income and Derivatives at Bloomberg LP, 499 Park Avenue, New York, NY 10022.

**JOHN MANCUSO** received his undergraduate degree in 1991. His position is VP Institutional Equities at J.P. Morgan, 277 Park Avenue, New York, NY 10172.

**DAVID MARCINEK** graduated with a B.S. in Finance in 1993. He is the Vice President, FICC Derivative Products at Goldman Sachs & Co., located at 85 Broad Street, New York, NY 10004.

**WILLIAM MCBRIDE** graduated in 1993 with an M.B.A. He is Head of Technical Sales at Deutsche Bank in New York.

## 1980s

**CHRIS MORRIS** received his M.B.A. in 1989. He recently assumed the position of Managing Director, IB Global Consumer Retail Group at Lehman Brothers in New York.

**ALAN WERLAU** graduated from Penn State in 1982. He is a Managing Partner at Black Arrow Capital Management, LLC, 73 Arch Street, Greenwich, CT 06830.

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U.Ed. BUS 04-74e DS74036c1e

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