

After three years of activities, the International Center FAME is starting to make its mark on the research front as well. At the heart of the project is the team of FAME Doctoral Fellows: 22 full time researchers as of October 99, 17 men, 5 women, 13 nationalities.

Jean-Pierre Danthine*

They have in common a sizable preliminary investment in higher education (admission in the program is normally reserved to holders of a Master's Degree), having successfully emerged from a tough screening process, and a passion for finance at the highest level.

In their first year with FAME, they are required to follow more than 260 hours of doctoral courses, workshops or seminars taught by the most qualified academics from all over the world; after that initial year, they engage in a life of full time researcher. A Research team of such a size is a valuable option. It remains to be seen how it will be exercised. Envisaged opportunities take several forms. The

The FAME Research team

Pooling expertise and fostering initiative



Jean-Pierre Danthine, Director and Patrick Odier, Chairman

FAME Research Day is a yearly one day event where researchers from practice and academia interact to discuss the most promising and intriguing directions research should take.

The ideas pursued by some of FAME's doctoral fellows are put up for evaluation and new projects defined in light of the practitioners' needs are identified. Some of these projects can be conducted within

interested financial institutions with Doctoral Fellows acting as interns. The FAME Special Interest Groups (SIG's) constitute another more regular vehicle of interaction between practitioners and researchers.

The first SIG, exploring the potential of Artificial Neural Network methods for asset management, will start full operation in September under the leadership of Tom Fearnley, a third year FAME Doctoral Fellow. A SIG will meet approximately once every two months to lay-out hypotheses to be tested, review the progress of the research work carried out

A word from the Chairman

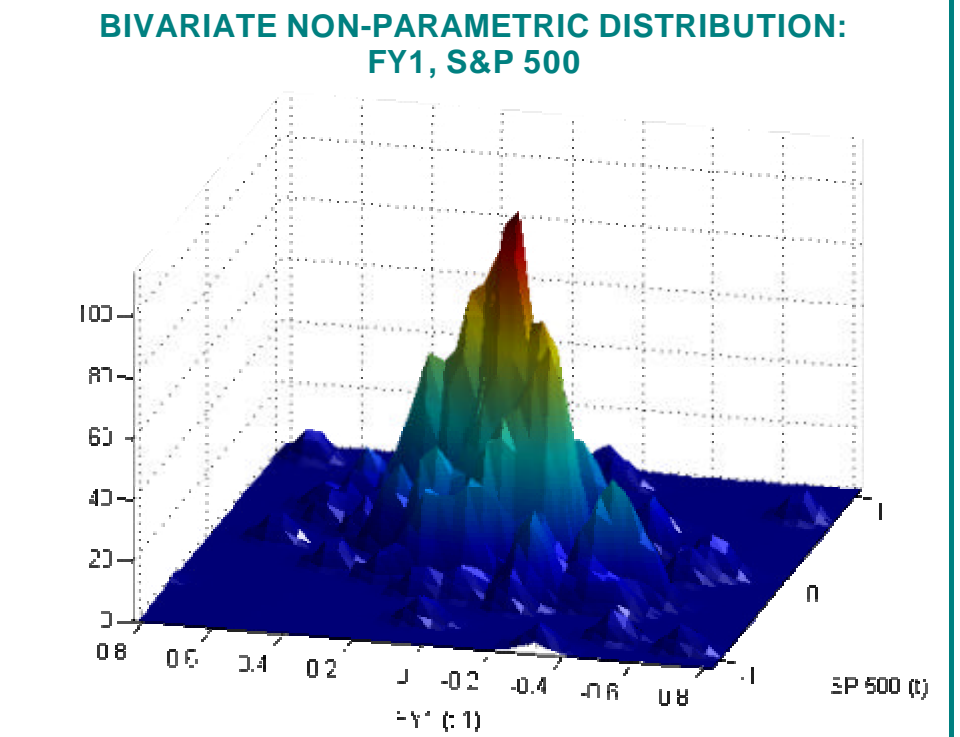
Patrick Odier, Chairman, FAME

"The Foundation Board is determined to pursue the promotion of professional standards by encouraging the development of Fame academic substance. The quality and commitment of Fame's Scientific Council is second to none and has already succeeded in attracting around Fame's events and programs the best industry and faculty talents around the world. One must not only be proud of it but also further convinced that there is high demand for Fame's further developments both within practitioners' circles and in the universities. The marks of interest and strong response to the Center's activities are the result of the willingness to achieve the right blend of outstanding academic research, with the right framework, means and forward looking support, and industry participation. It is thus intended to develop in the near future a number of distant learning programs, special interest groups from the practice, master classes, specialized executive education

modules in the field of investment as well as innovative practice oriented research projects. Fame should aim at becoming both a pole of attraction for students and faculty and a reference center for joint project between the investment and the academic world. The best sources of competencies worldwide will be associated to that effort that should become the living proof of the constructive and long term partnership benefits that can be derived from an entrepreneurial approach to higher education. International recognition will only be deserved by ensuring the highest educational standards. By its uniqueness in the world, the strong commitment of its founding members and the long experience of the Swiss financial industry, Fame is best positioned to reach that objective and thus contribute to the competitiveness of participating institutions."

since the last meeting - in particular by the Doctoral Fellow(s) associated with the Group -, and draw practical and methodological conclusions from the uncovered results. SIG's on Risk Management and Portfolio Performance will follow later this fall. Research papers are a more traditional way of being alerted to the output of the activities of the FAME Research Team. The output of the first year of activity of the first group of doctoral fellows, duly screened by multiple readings of their scientific advisors, discussants and professional journal referees, is due in the coming weeks. Questions addressed cover a broad range of issues from valuing real options when time to maturity is uncertain (T. Berrada), pricing credit risk with collaterals (T. Hricko) or pricing spread options (N. Mougeot) to defining optimal investment strategies in the presence of transaction costs (A. Demchuk) and building term structure models for defaultable bonds (R. Walder), to cite just a few. In another area, T. Fearnley is building an International Capital Asset Pricing Model for the main stock and short-term bond markets in the world (USA, Europe and Asia) able to take account of the sudden stochastic changes in asset volatility typically occurring during financial turmoil. The goal is to test the forecastability of international asset returns and of their correlations within this more realistic model and apply the results to international portfolio management.

Doctoral Fellows do not work in a vacuum: as apprentice researchers they are closely followed by their teachers, scientific advisers and thesis jury members. The overall supervision of a group of 30 doctoral researchers is likely to stretch to the limit the supervisory capacities of the local Faculty. This shortage will constitute an opportunity to explore ways of reinforcing the academic base of the center of excellence in financial engineering and asset management that



On the good usage of I/B/E/S data

The I/B/E/S database is a commonly used source for asset return forecast. It appears that the specification of the relationship between the expected return and the information provided by the analysts is not obviously linear. Yet, so far, only linear relationships between the analysts' information and returns have been tested. This leaves open the possibility that some valuable information has been left unexploited or, conversely, it might invalidate previously established results. Two FAME Doctoral Fellows, Tony Berrada and Christophe Pérignon, therefore propose to use a statistical tool, non parametric conditional expectation, able to detect non-linear types of relations between such variables. In view of assessing the performance of this methodology, they will apply the estimation technique to an asset allocation problem, in which the expectation of future returns will be based on the analysts' forecast revision. A good example of the nonlinear link between analysts forecasts (FY1) and the return on a financial asset (here the S&P 500) is shown in the following graph.

we are striving after in our region. In the course of the next two years the first Doctoral Degrees will be awarded. This important milestone will represent another opportunity for the Swiss financial community: the possibility of appropriating (at least temporarily) this precious human capital by hiring FAME's Ph.D. graduates. Indeed, while it is to be expected that a fraction of our graduates will pursue a career abroad, a 'chemin obligé' for those wishing to

follow an academic career and become university professors, another possibility is to join the research group of financial institutions as a number of pre-FAME doctoral researchers have done recently.

When, by the fall of 2000, the FAME Research team will number 30, it may well constitute *the largest group of full time researchers in any financial institution in Switzerland!* For the founders of FAME, this is the

opportunity of benefiting from an unmatched pool of expertise as well as the guarantee of having the means to master the future evolution of the financial industry. The identification of the Lake Geneva region with the notion of competence at the highest level in the field of finance and asset management is, of course, what this is all about, a promising association both in terms of image and of substance.

**Professor, Ecole des HEC, University of Lausanne and Director of the International Center FAME*

From Chess to FAME

Aydin Akgun is a member of the first group of FAME Doctoral Fellows. Before joining FAME in October 1997, he has studied Management at Bilkent University, Ankara, Turkey, and at Carnegie-Mellon University in Pittsburgh, USA, where he obtained a master's degree in Financial Economics.



Aydin's research bears on stock market anomalies and his first paper entitled "Are Book-to-Market and Size Proxies for Risk Factors?" has been accepted for presentation at the European Financial Management Association 1999 meeting held in Paris. He is currently working with Prof. Rajna Gibson on the issue of model risk in the context of pricing and hedging interest rate derivatives, a project which aims at measuring the cost of omitting jump terms in interest rate process specifications.

Before attending university, Aydin had obtained the top score, among half a million candidates, at the university entrance examinations held nationwide in Turkey. He was also twice the Turkey Chess Champion in his age group.