

The Financial Engineering Team Report

December 2004

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Current Program Issues

Student Comments on the Guest Speakers and Trainers for Fall Semester

The Guest Speakers

To help compliment our coursework in financial engineering, over the course of this semester we have had several guest speakers share their insight and experience about the industry. Their various backgrounds and expertise made each speaker unique in his own special way. Here are some of the student comments on these speakers.

Guest speakers this semester have been a great addition to our understanding of the financial industry. It's vital to our program to have guest speakers share their experiences with us about the business community. Some of the common themes addressed by them were the individual obstacles and failures they endured on the road to being a successful trader or risk manager. What I liked about the speakers was that they expressed their personal understanding of the market structure which was practical and easier to grasp than the theoretical versions we see in books. I noticed that the distinguished background of each professional guest speaker had a certain impact on their approach to their work. They each had a different style for dealing with everyday problems.

I really enjoy the guest speakers. Each and every one of them had interesting things to say and I believed I learn something from them all. The trainers were very knowledgeable in the products and were genuinely eager to help us learn the technologies.

In general, the guest speakers from the industry provided us with unique opportunities to know the cutting edge of the financial industry. We can easily grasp the pulses of the industry by discussing the hottest topics with the speakers. I see this as one of the most distinguishing things about the program.

All of our speakers were great and really taught us lessons. They all gave us very valuable information that we can't get else where. It's a great idea to have people that are actually working in the industry, like John Donato, Patrick Catania, and Todd Jones. They are great speakers with a sense of humor.

The Financial Engineering Team Report

December 2004

www.business.kent.edu/msfe

All the lectures were very good and helpful. I learned what they felt and thought about this industry as a financial practitioner. Their personal views on this world added another dimension to my knowledge. Like map instructions, they really did help me understand and better communicate during the Chicago trip.

Here are some notes about the individual speakers we had this semester.

John Donato - *John was one of the most interesting speakers. I learned the importance and impact that different participants have on the market. He spoke of the importance and benefits provided by electronic trading and how this will be the future of derivatives trading. He also touched on market models for trading platforms and told us that we should always be selling ourselves.*

John Donato discussed in-depth the role of both market makers and the interdealer marketplace. Through diagrams and his own explanations, Mr. Donato expressed the various methods of access buyers and sellers have to one another, as well the significance of this.

John Donato's discussion was a good introduction on how markets are made. John was a good speaker to have early in the year when some students may not have a firm finance background. John explained the roles of market makers and interdealer brokers clearly as well as how they make money, what levels of risk they face and the importance of anonymity. He also dedicated some time to foreign exchange which I found interesting.

I took a lot of notes while listening to his experiences. He was good about keeping his audience in mind and explaining the industry jargon.

Patrick Catania – *It was good to have a chance to hear Patrick Catania speak given his history with the industry. He had some good points and his stories were interesting.*

Patrick Catania, vice president of business development Chicago Board of Trade (retired), was the most influential and experienced speaker we had this semester. Mr. Catania discussed the beginnings of the future's market; its legitimization. He then transitioned into today's changing marketplace and the need for the exchanges to allow electronic trading to enable higher volume and greater liquidity for traded products. Mr. Catania was very willing to answer our questions

The Financial Engineering Team Report December 2004

www.business.kent.edu/msfe

and closed with an important piece of advice, "Life is one big arbitrage".

Patrick gave a good view of the markets from the exchange perspective. We discussed how products come to be and how many never make it to market. Exchanges seem to be interested in generating more products as opposed to increasing volume by recruiting more customers. It was a good topic to think about.

Patrick is very knowledgeable about the derivatives markets and I found his expertise very beneficial. Some of the key issues he spoke of include the expansion of trading derivatives geographically, the different keys to trading electronically, what exactly drives trading and volume, the difference between over-the-counter and exchange-traded derivatives, and the importance of new product development. Patrick is an essential guest speaker every year and his presentation was one of the most interesting.

Pace Beattie - *In a nutshell, Pace's presentation was very informative and interesting. He touched on many different topics that were relevant to traders and Financial Engineers. The most crucial aspect he brought to the table, which differed from any other speaker, was his expertise and experience not only in pit trading but also electronic trading. He discussed many relevant topics, but I liked the fact that he tied together the transformation from physical trading to electronic trading. I think Pace gave the most interesting speech.*

Pace Beattie was without question the most physically expressive speaker/trainer we had all semester. Mr. Beattie, a former pit trader himself, was quick to show the class some of the hand signals he used to do business on trading floors in Chicago. He actually made his time with us interactive by letting the class participate in a mock trading session where we got to use some the same hand signals he had taught us earlier.

Among all the guest speakers, I liked the speech by Pace Beattie most. As one of the most successful persons who has transferred from pit trading to electronically trading, his demonstration and in-class trading simulation made trading vivid to me.

I like Pace Beattie best. I like Pace's speech because it was well-organized and very informative, which gave us a complete and clear picture of how markets function in the trading pit. He talked about the

The Financial Engineering Team Report December 2004

www.business.kent.edu/msfe

price discovery mechanism in detail, the CBOT's major products, and different types of orders. Everything that he covered turned out to be very helpful in my studies.

Pace was one of my favorite speakers because of the energy he has (probably picked up by spending years in the bond pit). His trading exercise was valuable to get a feel for how brokers and locals interact. He talked about why the markets are necessary and how exchanges came to be. It was interesting to get a local's perspective.

I think he was one of the best. He talked really fast at times but his excitement and high paced presentation keep things interesting. The open-outcry trading game was really great.

Todd Jones - *Our visit from Todd Jones, a Kent State alumni turned CBOE floor trader, was quite interesting. He told us the story of how he struggled for years to break into the industry. Beyond the stories shared, I was compelled by his drive to be successful and motivated to follow my dreams just as he had done.*

This presentation was interesting because I like to hear about the different aspects of pit and electronic trading from a trader's perspective. I enjoyed listening to his different stories, advice and experiences, especially since I want to become a trader myself. Mr. Jones has a deep interest in the MSFE program.

Although Todd was only with us for about 30 minutes, I liked hearing the story of how he got into this industry. While we were in Chicago, Todd sponsored us to take part in the "Trade like the Pros" seminar. I loved being in the pit at the CBOE. Although I was more lost than I thought I would be, it is a place where I would consider making my living. It was very generous of Todd to sponsor us at this event.

Dr. Frederick Langrher - *Dr. Langrher, a professor from Valparaiso University, conducted a two day marketing seminar for our program. He expressed the need for exchanges to market their products in order to attract volume and consequently liquidity to the market place. He also conveyed the importance to us as students, to market ourselves when we are trying to land a job or push our ideas throughout our careers.*

Dr. Langrher's marketing seminar was really helpful, especially since it is arranged before our Chicago trip. After being exposed to the

The Financial Engineering Team Report December 2004

www.business.kent.edu/msfe

concepts and practices of marketing, we got an insight on what drives the fierce competition and easily understood the efforts and determinations of exchanges and trading companies to make innovations in order to survive in the market.

The seminar was beneficial since marketing is an important tool that Financial Engineering students should possess. I believe the knowledge that I gained from this seminar will help immensely not only during my job search but also throughout my career. Dr. Langrher kept the lectures interesting and applied his ideas to real world experiences. He also gave me insight into the many functions of exchanges and how they use marketing techniques in their business models. I look forward to meeting with him again next semester and think he is a vital component of this program.

My take home message was that an idea is only an idea until it has been conveyed and sold. Only then can you act on it. That is where this marketing discussion was helpful. I liked the talk because it applies outside of the professional life as well.

Greg LaFlame - *Greg LaFlame, from First Energy, offered a unique perspective into the financing of electricity. He explained that in order to hedge risk when buying and selling electricity, one needs to be familiar with the market and its elements, including how it is produced and transmitted. He then related the need for options and future contracts to the buying and selling habits of large energy companies.*

Greg gave an excellent presentation that was very organized and easy to follow. I am very grateful that he e-mailed us his power point slides because it gives an awesome breakdown of the electricity derivatives market, which we haven't had any exposure to thus far. The main concept that was delivered in his speech was the difference between Physical assets and Insurance assets, and how they related to Financial Engineering. Greg was well prepared and I found it admirable when he said he was honored to come speak to us. He was also very energetic and kept my attention the entire time. I think he's an excellent speaker.

Among all the speakers, Greg LaFlame is my favorite. He did a great job in introducing the energy industry to us. His advice on career development was also very useful.

The Financial Engineering Team Report December 2004

www.business.kent.edu/msfe

I particularly liked Greg LaFlame the best. It was interesting to see the financial engineering techniques we will learn in a non-financial setting such as electricity.

I especially liked Greg's presentation. I was not so interested in the energy markets at first but I plan to look into it a bit more as an option now.

Greg was great because he enabled me to understand the unique characteristics of energy industry and why hedging risk is important. Besides, he gave us wonderful power points slides.

The Software Trainers

During the course of this semester, we had instructional training seminars for several applications to our MSFE training including Reuters, CQG, Trading Technology, and Patsystems. Here are more student comments regarding the Trainers.

I really enjoy the trainers for the Fall Semester. They were very knowledgeable in the products and were genuinely eager to help us learn the products.

The training courses directly benefited me for practicing on the trading floor. I'd like to give them all A's.

Nichole Oskin (Reuters) - *This training was informative and I liked the pace that she used when demonstrating different features.*

Nicole did an excellent job teaching us the different uses and strategies Reuters has built into their system. She was informative and explained a complex system in such a way that new users could understand and retrace their steps so students could go back and experiment for themselves. We learned how to create charts and matrices to interpret prices and economic data, in addition to customized windows to analyze information for trading. Overall, Nicole did an outstanding job not only presenting Reuters and its benefits but also teaching us how to use this complex system.

Stan Yabroff (CQG) - *Overall, Stan did a good job presenting the basic uses and benefits CQG has to offer. I learned how to construct customized charts and implement different trading signals within these*

The Financial Engineering Team Report December 2004

www.business.kent.edu/msfe

charts. The platform is extremely powerful and it is difficult to retain all its capabilities at once.

Stan's training seminar was an all-day event, where we observed many of the bells and whistles offered by CQG.

Ryan Highland (TT) - *Ryan gave an excellent presentation of X_Trader. He covered the basics rather well, and went further into depth for implementing trading strategies into the platform, which will be covered in more detail during the spring. I think it is important to split up the training sessions (fall and spring) for such platforms, so students have a chance to absorb and experiment portions of the platform without feeling overwhelmed or missing vital information. I also found it useful that we were allotted time to trade in his presence, so that any questions we had could be answered. I think Ryan is an excellent trainer.*

Ryan kept his training more brief than the others. This was mainly because our class had already practiced using the application with Dr. Holder and could jump right into more important aspects of X_Trader. Ryan really emphasized the need for us to practice trading and let us do just that. I thought he was a fantastic trainer

Jim Froelich (Patsystems) - *This was a good session. I like the platform because it is easy to use.*

Jim did an excellent job of teaching us J-Trader's platform and his charisma made the training even more enjoyable. He showed us multiple ways to enter and scratch positions from various locations on the platform, and how to implement spread trading. I found it beneficial that the class was able to train in the presence of a trader, so he could answer questions and walk us through more complex trading strategies, such as spread trading.

Mr. Froelich explained the system to the class, expressed the user friendly interface of J-Trader, and let the class practice trading for several hours. He answered all of our questions and I felt his training was quite exemplary.

Marketing & Recruiting

The Akron Beacon Journal – Wednesday November 10, 2004

The Financial Engineering Team Report
December 2004
www.business.kent.edu/msfe

Colleges invest in training facilities

**Ashland, Kent State students
learn financial markets on
trading floors**

By Jim Mackinnon

Beacon Journal business writer

Ashland University seniors are using real money provided by the university to buy and sell stocks and mutual funds.

And Kent State University graduate students seeking degrees in "financial engineering" are going back to the futures... market.

In both institutions, students are learning the basics, and in some cases way beyond the basics, of financial markets in new state-of-the-art trading floors -- laboratories indistinguishable from what they hope to use in the real world.

The rooms are where theory meets practicality. The schools say the facilities give their students an edge in the job market when they graduate.

Ashland University's Center for Financial Education opened in January inside the newly built Dauch College of Business and Economics.

Each class opens with the actual ringing of a bell. After that, it's mainly high-tech -- each workstation has two flat-panel monitors; a much larger flat-panel monitor rests at the front of the classroom. A larger ticker near the ceiling runs real-time prices of the stocks the class has invested in.

Ashland University figures the trading room is one of just 25 or 30 in colleges and universities around the nation.

"This is used by finance majors and students in the finance curriculum," said Tom Harvey, the instructor who helped design the room. The two-semester program teaches investment and portfolio management.

I M A G E S



Robin Tinay Sallie, ABJ

Ashland University student Mike Zakany, 22, of Zanesville works in the college's Center for Financial Education. The school lets students use university funds for trading.

The Financial Engineering Team Report

December 2004

www.business.kent.edu/msfe

One twist: ``They've got about \$250,000 of the university's money," Harvey said. The students, all seniors, manage the money on behalf of the university in what is called the Eagle Investment Group.

And they have done very well -- Harvey said the investments they picked, with his guidance, are up more than 22 percent year to date. The students pair up, with each pair looking at specific investment vehicles, such as large company stocks, small company stocks, mutual funds and more.

``They take it very seriously," Harvey said. In keeping with the school's values, the class is not allowed to buy gambling, alcohol, tobacco or firearms investments, he said.

``We're not only giving the theoretical background but the practical skills," he said.

Dan Novak, a 2001 Ashland graduate who took the same finance course prior to the creation of the trading floor, liked what he saw. He now owns his own Cleveland-area mortgage company.

The trading floor and its computer workstations that show real-time investments give current students an advantage that he did not have just three years ago, he said.

Novak recalled in 2000, when his class was learning about investing, the market plunged.

``We had tech stocks. I freely admit we took a bath," Novak said. ``I was in the group that took tech stocks. We got beat up pretty bad. Some of my picks are out of business now."

While the classes are useful and fun, using real money adds to the stress, he said.

``It's the university's money. You lose 20 percent of their money and they won't be happy," he said.

No real money

Unlike Ashland's program, the Kent State graduate students who populate the Olga Mural Financial Engineering Trading Floor are not using real money.

The focus of the Kent State facility, named for Akron philanthropist Olga Mural, who provided the startup funds, is not on the stock market.

But if you want to learn about such things as ``reverse extreme options" and desire to work with partial differential equations, then this is the place for you.

The Kent State facility is solely for graduate students who are pursuing degrees in financial engineering. It's where students learn about the more esoteric futures and commodities markets.

The Financial Engineering Team Report

December 2004

www.business.kent.edu/msfe

The Mural trading floor is the only academic room of its type that is directly connected to futures exchanges, the university said. While students work at 24 stations that provide real-time news and data from places such as the Chicago Board of Trade -- one of the laboratory's sponsors -- they do not actually invest money.

The program takes about a year to train students how to apply mathematical models to problems in finance, said Mark Holder, the program director and former Chicago Board of Trade economist and researcher.

``This is real big-picture stuff," Holder said. ``The core of it is mathematics and probability."

Top technology

The technology behind the Mural trading floor is so fast, powerful and sophisticated that investment firms have talked with the university about using it as a disaster recovery site in case something happens to their trading floors, Holder said.

``Every millisecond counts in trading. Speed is everything," he said. The Mural room is also where companies come to test new software and hardware before it is put to use in the real world, he said.

``You can't tell the difference from live trading," Holder said.

``It's a very precious experience for us," said Connie Tang, 29. She intends to return to her native China after graduation and work for an investment firm.

``You get a sense of the market so you know what you are doing," she said.

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Review of Futures Market News

As of Monday, Nov. 22, 2004:

PREPARING TO REPUBLISH RFM

Review of Futures Markets is not really a new journal – it was published by the Chicago Board of Trade until 1991. The journal's first issue of republication will occur this winter.

RFM and IFM

Dr. Mark Holder, editor of RFM, has secured the support of the Institute for Financial Markets for the journal. The journal will be published "with the cooperation of IFM," the tagline chosen by IFM's board of directors to indicate RFM's affiliation with IFM. (The IFM is the research division of the Futures Industry Association, the major industry association for the derivatives industry.)

The Financial Engineering Team Report

December 2004

www.business.kent.edu/msfe

ADVISORY BOARD

With the assistance of **Jeff Morgan**, CEO of The Institute for Financial Markets, the RFM's Advisory Board has added two more members: **Alger B. Chapman**, retired Chairman of ABN AMRO Financial Services, Chicago, and **Paul Saltzman**, Chief Operating Officer of e-Speed, New York.

Other members of the Advisory Board are **Patrick J. Catania**, Educational Research Foundation, Chicago Board of Trade (he will serve as Chair of the Advisory Board); **Frank J. Fabozzi**, [Yale School of Management](#); **William Tomek**, Cornell University Department of Applied Economics and Management; and **Robert E. Whaley**, Duke University Fuqua School of Business.

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