

**The Financial Engineering Team Report**  
**September 2005**  
[www.business.kent.edu/msfe](http://www.business.kent.edu/msfe)

***Class of 2006; Largest Class is Welcomed***

On August 29, 2005, 20 Financial Engineering students began their year long lock-step program. This is the largest class to begin the program since our inception in 2002. We welcome each of the students and a profile for each will appear in the October issue of the Team Report.

***Special “friends” of the Financial Engineering Program***

This section will be dedicated to an individual who has gone “Above and Beyond” to assist the Financial Engineering Program/Center to accomplish its goals. It is a special “Thank You” from the “team” in appreciation of the dedication of the honoree.

**Michael Dawley**

*Mr. Michael C. Dawley is Managing Director and the futures product leader with Goldman, Sachs & Co. In 1985, he joined Goldman Sachs in Chicago and moved to New York in 1996. Prior to joining Goldman Sachs, Mr. Dawley worked for E.F. Hutton and traded independently for several years. Mr. Dawley also serves as Chairman of the Board of Directors of The Clearing Corporation (CCorp). He is a past Chairman of the Futures Industry Association and currently serves on its Executive Committee and Board. He also is a member of the Chicago Mercantile Exchange's Clearing House Risk Committee, the Commodity Futures Trading Commission's Global Markets Advisory Committee and the advisory board of Kent State University's Masters of Financial Engineering Program. He is a member of the Chicago Mercantile Exchange and the Chicago Board of Trade.*

The Financial Engineering Program is proud to have Mike as a member of the Advisory Board. His dedication to the program has been an inspiration to many. Working with Dr. Holder from the inception of this program, he has helped shape the program to meet industry needs for the future employees of the Financial Engineering classification. Through his relationship with the Financial Industry Association the *Review of Futures Markets* is published in cooperation with the Institute of Financial Management.

***Financial Engineering Guest Professor Selih Neftci***



Professor Neftci completed his Ph.D. at the University of Minnesota and subsequently taught at George Washington University. Presently, he teaches at the Graduate School, City University of New York and at the New School University. Professor Neftci is a Research Associate at FAME and has a visiting appointment at the ISMA Centre, Reading University, U.K.

Professor Neftci is well known for his book "An Introduction to the Mathematics of Pricing Financial Derivatives", one of the standard texts in most university derivatives courses. He has several well-quoted academic papers. His current research and teaching is in the areas of financial engineering, risk

**The Financial Engineering Team Report**  
**September 2005**  
**www.business.kent.edu/msfe**

management of extreme events, in emerging market asset trading strategies and in contingent capital and credit lines.

Professor Neftci is also the Head of the FAME Certificate program.

**Student Comments:**

*The one-week course was great in the sense that it pushed us to the frontline issues in the finance world. I definitely feel more comfortable when I see or hear or mezzanine tranche now than before. – Yaqin*

*It was a very good class with up to date market information and the professor showed experience in the subject matter. His explanation was clear and his graphs helped us to understand. The most important part is the speed and procedures of teaching, making sure we understand one thing and then moving on to another, made it easy to follow. It showed that he had prepared for this class and organized the material. I really wish this class could be longer. – Billy*

*Dr. Neftci differentiated his talent by using a special teaching method – implementing a simplified methodology to describe a complex market. There is nothing fancy, but the way in financial engineering is really impressive: zero-plus game. In my understanding, Financial Engineering has to be engineering for finance, a dynamic process for finance, not a simple combination of finance and engineering. – Jinli*

*Dr. Neftci is good at explaining complicated concepts in a simple and straightforward way. The lectures taught me to look at financial innovations from a broader and more intuitive way. If only the lecture could be longer! – Connie*

*Dr. Neftci's financial engineering course, although brief, left our class with an enduring understanding of structured products in Finance. Our focus in both credit default swaps and collateralized debt obligations will surely be applicable to us in the future. As an instructor, Dr. Neftci did an excellent job of mixing real life examples with academic teaching to complement his rather colorful stories which help transition the course throughout each day. I highly recommend that the MSFE program invite Dr. Neftci back to teach every year. – Amish*

*Dr. Neftci covered the latest topics in CDSs and CDOs which, depending on what field one wants to work, will give an edge in the interviewing process. Overall, Dr. Neftci's lectures were informative and entertaining, as he told the stories of his relevant experiences in the field. Although the lecture period was short, we were exposed basics including using tranching to an advantage based on implied volatilities. – Charlie*

*Dr Neftci's course on financial engineering was very practical and industry oriented. I enjoyed his class discussion and up to date techniques in developing new financial products. His emphasis on correlation trading was great and has encouraged my interest in this area. This class definitely has added significantly to our learning experience. With his excellent*

**The Financial Engineering Team Report**  
**September 2005**  
[www.business.kent.edu/msfe](http://www.business.kent.edu/msfe)

*background in Financial Engineering, Dr Neftci made a good blend of academics and related industry examples to carry this class. - Ishaq*

*Prof. Neftci's lecture was very useful and valuable. He knows a lot, not only in theory but also in practice. I just hope that the lecture could be longer and we could have more time to talk with him and learn from him. - Yining*

*Dr. Neftci is very fascinating. I hope he can stay longer next year. - Chamie*

***Our Farwell to the Class of 2005***

The faculty and staff of the MSFE program send you our heartiest congratulations! You have reached the end of a demanding and difficult program. You performed admirably, and it has a pleasure to work each one of you during the past year.

It is certainly appropriate for you to now take some time to celebrate your achievement. You have earned it. However, we also encourage you to set aside at least a little time to reflect upon the next steps, for truly the completion of the MSFE program is more of a beginning than an end.

One step that we urge you to take is to dedicate yourself to a lifetime of learning. We believe that the MFSE program at Kent State University has given you a very solid foundation; but, it is just that - a foundation. Some of you already have a job and the others will find one soon. To be successful in your new position you will need to continually build on the foundation. Financial Engineering is a rapidly evolving field. That is good for you since your skills are in demand. However, it also means you must continually upgrade and enhance your skills to keep up with an ever changing field.

Another step that we urge you to take is to commit to doing what it takes to be successful. The dynamism of your chosen field means that in addition to abundant opportunities, there will also be abundant challenges and competition. The winners in this environment are the ones who have the drive and discipline to succeed. You have demonstrated that you have the potential. Now you have to go for it!

Finally we urge you to think of the Kent State University MSFE program as a part of your extended family. You are part of a small elite club. That is something to

**The Financial Engineering Team Report**  
**September 2005**  
[www.business.kent.edu/msfe](http://www.business.kent.edu/msfe)

be very proud of. For our program to thrive we first and foremost need for you to become successful; and, we are confident that you will. However, we also need your ongoing feedback and suggestions. One of the aspects of our program that sets us apart is our close ongoing relationship with people who actually work in the industry. Today, our Advisory Board is the most visible aspect of that relationship, but we also value the feedback from our alumni. In fact we hope that over time our alumni will become a major source of information on this ever changing field. For that vision to work we need you to keep us in mind and send us your thoughts. Please do not interpret this request for money. That will come, have no doubt about it. But, far more important than your money are your ideas.

This farewell is coming perilously close to the dreaded "more than one page." So we simply conclude with congratulations - you earned it - good luck and keep in touch!

Dr. John Thornton

***Return from Internships***

From May 23<sup>rd</sup> to July 15<sup>th</sup>, 2005, the Financial Engineering students spent two months interning at several prestigious companies in New York, Chicago, and Cleveland. In the eight weeks, they each received a first-hand experience of the financial markets and an opportunity to apply the techniques learned in the program to solve real world problems. As one student said, "we are left with solid industry experiences...and I really appreciate that our MSFE program granted us the opportunity."

Here is a brief view of what they did and how they felt about their internships:

*I spent my internship working at Patterson Capital Markets in Chicago. At the firm I performed analysis and research for the futures commission merchant and equity broker. I also tested and developed trading strategies for both internal and client use while providing execution support for the CME, CBOT, Eurex, Euronext, and several Asian exchanges. The experience offered great exposure to the market and I hope the MSFE program builds a strong relationship with the firm. — Amish*

*We have done a lot of research during our eight week internship. It gave us a good opportunity to actually use what we had learned in class and also a good chance to learn extra material that we did not cover in class. We borrowed many books from the library, subscribed to many different web sites, and received a lot of useful information from other people to collect the information we needed for the project. Being able to come up with a good investment idea from scratch to satisfy the investment objective was a really tough job, given that there is no limit for what we can invest in and no strategy to follow. We are*

**The Financial Engineering Team Report**  
**September 2005**  
**[www.business.kent.edu/msfe](http://www.business.kent.edu/msfe)**

*really glad that we have finished the project and earned this great experience. — Billy & Adam*

*During my internship, I worked with the Electric Term Trade group at First Energy to help traders with hedging strategies. Some of my work included studying historical data and finding correlations between natural gas, weather, and power. The experience was challenging and required the use of many tools learned in the MSFE Program. — Chamie*

*My internship was with the TradeCo subsidiary (Exchange Connectivity) of Trading Technologies and I could not have been happier with the experience. I traded the five and ten year note spread for a short time and then traded the EUR/USD futures contract. During this time I studied risk and money management techniques as well as developed a strategy to determine entry and exit points. I am grateful to Mike Burns, the president of Exchange Connectivity and Rob Mowry, the risk manager of Exchange Connectivity, for allowing me to trade such a volatile market. It quickly forced me to come up with a plan and exhibit some discipline. I learned that deviating from the plan or allowing emotions to inhibit the discipline was usually the cause of problems. With the help of Alvin Tanpoco and Peter Sue, I developed a feel for this particular contract and really enjoyed following a market with so much inherent opportunity. I read as much as I could there, talked to the other traders and feel that I left with some solid industry experience. — Charlie*

*The eight-week internship in Goldman Sachs was amazing. I got to meet a lot of smart people and learned a lot from them. During that period, I finished some quantitative analysis on the execution quality of algorithm trading. The process itself was a learning process. I learned to how to interpret the market data, which is a great supplement to my knowledge. Working in New York is like standing in the heart of the financial market. And you can really “feel” the pulse of the market every minute. What’s more, New York City is so wonderful because something is always happening there. I even watched a live game of the Yankees with my colleagues. I would like to thank Mr. Dawley and the program for giving me such a precious opportunity! — Connie*

*I was in charge of Customer certification program for their new product TT FIX Adapter. It was a great opportunity for me to work with a team. Even with my non-technical background, we completed several tasks. It was a very friendly and supportive environment that encouraged leadership and confidence building among everyone. Of course TT employees had a luxury of benefits along with overtime, free dinner, and TT Tuesday parties. I am glad to have met a lot of people and made good friends. I am looking forward to seeing them soon in Chicago land. — Ishaq*

*My CME internship is wonderful. There are too many good things to be illustrated in a piece of paper. Merely two aspects may differentiate from others: the impressive CME people and the best trading environment, which we can never learn from class. My confidence and diligence won their trust and they provided me the best study and work environment. I did not do any financial engineering projects, but they assigned me several “how to do financial*

**The Financial Engineering Team Report**  
**September 2005**  
[www.business.kent.edu/msfe](http://www.business.kent.edu/msfe)

*engineering” projects and I really learned where and how to start and successfully finish them once I get the chance to practice. They offered me opportunities to interact with floor traders who have tremendous trading flavors in their lives and access to the state-of-the-art trading platforms at the CME Global Learning Center. After my CME friend, Curt, drove me around Evanston where most rich people reside, I realized that I love Chicago and CME people. I very much appreciate our MSFE program granting me this opportunity. Best wishes to the future of our program.–Jinli*

*Trading is a torturing feeling of excitement, and I went through that everyday during my internship at Trading Technologies (TT). The experience itself is unforgettable! Everyone at Tradeco was very supportive and eager to be helpful. I felt at home from day one. Mike Burns, the manager, has a lot charisma. People are both afraid and respectful of him. One day he upbraided me for at least twenty minutes after I made a crucial mistake and did not spot the problem immediately. I had been trading five-year and ten-year treasury futures spread (FYTE). One thing I understood after the internship, was the enormous protection provided by spread trading. Since I was green, TT had very strict rules that I could only trade one lot, which was a good thing since it greatly reduced my risk exposure. My first two weeks of trading were a failure. I made every mistake that a stupid trader could possibly make, and learned discipline the hard way. Two weeks later, my skills and instinct about the market were improved visibly, and I started making a little money and had more confidence when I placed my orders. At the end of the internship, I found myself addicted to trading and grew interested in becoming a professional trader. – Yaqin*

*I had my summer internship in the interest rate derivatives department of KeyCorp. I worked on several projects for my supervisor Frank, the head trader of the department. These projects include: interest rate swap pricing, convexity adjustment for Eurodollar futures, interest rate swap hedging, and interest rate option hedging. The two-month internship is a very valuable and rewarding experience. I not only learned a lot on trading and hedging of interest rate derivative products, I also realized that the financial math knowledge we learned in school is very important and that I have become more confident with my research and analytical skills. I am sure that this experience will be a big help in my future job hunting. Speaking about something interesting, inputting passwords when you enter into the restroom and paying 5 dollars to wear jeans on Friday are two very interesting things I observed during my eight week stay. – Yining*

By Amish Patel & Ying “Connie” Tang

***Farewell from the Class of 2005***

On behalf of the 2005 MSFE class, we would like to share our final thoughts before we prepare to start our careers in the financial engineering community. The past year has been challenging and full of new learning experiences for all of us. We have conquered Black-Scholes and seen how business is conducted in Chicago and New York. Our internships tested our new knowledge and opened new doors to our career

**The Financial Engineering Team Report**  
**September 2005**  
[www.business.kent.edu/msfe](http://www.business.kent.edu/msfe)

opportunities. We would like to thank all of the faculty and administration for their support and encouragement. Below are comments from our classmates about this year's experiences.

**Testimonials from our graduates**

*My MSFE experience was a year of challenges and incredible experiences. I cannot wait to get out of Kent and attack New York with my new found wealth of knowledge. I still am not employed so I will probably pan handle once arriving in the city. I plan on working diligently in the hopes of finding job in the industry. I really believe I made a good choice in joining the MSFE program and wish the program much success in the future. To quote the great Adam Sandler, "Peace, I'm out!!!" – **AMISH PATEL***

*It is hard to believe one year ago I was just starting the program here at Kent State. I learned a great deal about the industry in which I look forward to building a career. My time spent with Trading Technology convinced me to look for a job in trading derivatives and the contacts we made during the trips to Chicago and New York will be helpful for this purpose. I remember last August, Dr. Holder said you may feel a little overwhelmed at times over the next year but by the end of it everything will come together. He was right. I feel well prepared and confident heading out of school and into the industry. Thanks to everyone who puts time and effort into continuously improving this program. – **CHARLIE LAWRENCE***

*The MSFE program at Kent State University is truly a unique experience and has prepared me to begin a career within the futures industry. Now armed with a valuable toolset that can be employed to scenarios such as pricing derivatives securities, risk management and dynamic investment strategies, graduates possess a wealth of career opportunities that are applicable to a diverse set of companies including investment banks, proprietary trading firms, hedge funds and derivatives exchanges. Furthermore, the program contains distinct components that publicize the true advantage to receiving a financial engineering degree from Kent State. These highlights include both the strong educational and professional background of the faculty, the derivatives-oriented trading floor, the industry-specific internship and the networking opportunities that become available from our trips to Chicago and New York.*

*The MSFE program is rigorous and demanding, but at the same time can be fun and informative. In retrospect, the best advice I can offer to future students is to work hard and remember that it has been done before. Also, many concepts may be new so don't be afraid to ask questions. I wish following classes the best of luck and I will post my contact information on the MSFE homepage for future students.*

*Looking forward, I have accepted a competitive contract at Refco Trading Services (RTS) in Miami, Florida and very much look forward to beginning my career as a derivatives trader. The job description consists of working both independently and alongside other quantitative analysts on the research, quantitative modeling,*

**The Financial Engineering Team Report**  
**September 2005**  
[www.business.kent.edu/msfe](http://www.business.kent.edu/msfe)

*backtesting and deployment of new pricing and trading models. I will be responsible for trade execution, model implementation, refining existing strategies and developing new ones, product selection and money management. Looking forward, I have a strong interest in regulatory issues and their effect on corporations, so I may pursue my law degree in future years. Also, I look forward to getting married next June and starting a family in the coming years. – JOSEPH VARCELLI JR.*

*This one year in the MSFE program was very important in my life. It's tough but rewarding. I learned a lot and those things I learned from the program are very valuable, although I didn't fully realized until I looked at the job ads and found very familiar things which are exactly what we had learned from school. Not only the knowledge I obtained is important, but the friendship with the classmates is unforgettable. I will never forget our trips to New York and Chicago. I will never forget that night in Chicago we drank, talked and had happy moments together. – YING TANG*

*The program is well designed and delicately organized. There are two things that have make this program special: one is the advanced trading floor, which is equipped with nearly everything you can find in a typical trading floor on Wall Street; the other is the industry-related activities, like field trips to Chicago and the speeches from professionals of the industry, all of which provide us precious opportunities to get to know the market better and deeper. I feel this one year really worthy. – YINING LIN*

*Upon graduating I probably will not remember the countless hours I have spent studying textbooks or completing projects in this last one year. Instead I will fondly look back on the good times that I've spent with friends and faculty here at MSFE. One year went by fast, and before we know, it's already time to depart, so I wish you all MSFE graduates success in your future endeavors. – ISHAQ PAKAWALA*

**FINALLY!!**

In coming week, we will be graduating and celebrating as our lives will spread out in radically different paths, but the experience and education we've gained from this program will shine our careers wherever we go. A lot has changed within ourselves in the past year and we all can feel a new sense of confidence and achievement. After this next step in life, some of us will still see each other periodically, but there are others who plan to venture to places where familiar faces will be scarce. Wherever you may travel in search for your destined future, though, remember that you represent the MSFE, the place where a change in you began. Success to MSFE 2005, you've made it! Cheers. Our sincere thanks to all MSFE faculty and board members who helped us achieve our goal and make this program a success.

By Ishaq Pakawala & Chamie Townsend

**The Financial Engineering Team Report**  
**September 2005**  
[www.business.kent.edu/msfe](http://www.business.kent.edu/msfe)

***Tokyo Grain Exchange (TGE) Trains on the Olga Mural Financial Engineering Trading Floor***



**A Lively Exchange: Tokyo Contingent Visits Trading Floor for Training**

Like stocks, commodities, such as precious metals, coffee and corn, are traded all over the world, every day. Commodities are viewed as high-risk, potentially high-return investment, comparative to other means of investing. However, these commodities can be used equally well as hedges against price movements.

When you buy a commodity, you are actually purchasing a specific amount of soybeans, for example, for a specific price. When you do, you hope that the price will rise so you can sell your soybeans to another investor for more money. The risk, of course, is that the price will fall and you will lose some or all of your money.

Similar to the stock market, the commodities trade occurs in city centers around the world—in the U.S., the action takes place in Chicago, at the Chicago Board of Trade (CBOT), and in Japan, at the Tokyo Grain Exchange.

The Tokyo Grain Exchange plays a prominent role in the commodities market as the second largest commodities exchange in the world, next only to Chicago.

In a conference room located adjacent to the Kent State University College of Business and Graduate School of Management; The Olga A. Mural Financial Engineering Trading Floor, Masanori Hayashi, senior executive vice president of the grain exchange, explains his institution is about to undergo a significant change.

**The Financial Engineering Team Report**  
**September 2005**  
[www.business.kent.edu/msfe](http://www.business.kent.edu/msfe)

Mr. Hayashi and five other grain exchange representatives recently visited the College of Business for training on the specifics of continuous trading, as they make the transition from their computer operating system to a new, continuous trading platform.

“With our current system, we trade four times per day,” Hayashi says. The new system will make trading, well, continuous.

Rice, a major staple product for Japan, has not been listed on the exchange since 1940. In the 1990s, Hayashi says, rice production underwent deregulation, making it a tradable commodity once again.

“We hope to list rice, using the new platform, by the end of the year,” Hayashi says. Listing a new contract in rice futures will help stabilize the price of rice in world markets and reduce fluctuations in supply and demand for the commodity. The TGE will be the center of activity for trading in rice futures and lead the market in price discovery, an essential function of futures exchanges.

Upon recommendation from internationally recognized futures commission merchants such as Goldman Sachs, Hayashi contacted Dr. Mark Holder, chairperson of the Department of Finance, requesting he design a four-day crash course in continuous trading for the Japanese contingent.

The course Holder designed covers topics pertinent to the regulation of continuous electronic markets, a subject with which Holder is quite comfortable, having previously served as a senior economist and group manager at the CBOT.

Holder says Kent State has the facilities and reputation to provide training to heavy hitters in the trading business, and hopes to maintain a close relationship with the Tokyo Grain Exchange.

When Hayashi’s group returns to Tokyo, following a brief visit to the CBOT, they will have their work cut out for them. The six have to pass along their new knowledge to the more than 80 grain exchange employees.

Hayashi laughs at the thought of all his group has absorbed in the past four days, expressing his satisfaction with Holder’s course and its contents, as well as with the campus. “This is our first time visiting Kent State,” he says, remarking on how large and well-organized the campus is as he rises to return to the trading floor.

The College of Business and Graduate School of Management boasts nationally ranked programs at the undergraduate and graduate level. Among them is the Master of Science in Financial Engineering, which was designed and implemented by Holder. The program currently is ranked 13<sup>th</sup> among financial engineering programs in North America by Global Derivatives, a website that evaluates graduate programs in financial engineering and mathematical finance

By Lisa Lambert

**The Financial Engineering Team Report**  
**September 2005**  
[www.business.kent.edu/msfe](http://www.business.kent.edu/msfe)



Friends were made  
Thank You TGE!

**16<sup>th</sup> Asia Pacific Futures Research Symposium**

**Bangkok, Thailand**  
**March 23 & 24, 2006**

**Paper Selection Process**

This year, papers will be sent to reviewers as they are received. Mark will do an initial read on each paper and reject those we do not need to have reviewed further. He will then assign two reviewers to each paper and Rebecca will forward an electronic copy to each reviewer with a due date. Rebecca will need a list of potential reviewers and their topic of expertise so she can keep track of the process in detail. The deadline for submission will still be November 1, 2005.

**Call for Papers**

Dear Futures Market Researcher/Practitioner:

Kent State University and the Chicago Board of Trade - Educational Research Foundation (CBOT-ERF) will hold its Sixteenth Annual Asia-Pacific Futures Research Symposium in Bangkok, Thailand on March 23 & 24, 2006. The symposium will be held in cooperation with Chulalongkorn University the *Journal of Financial Markets* and the *Review of Financial Markets*..

The purpose of the symposium is to provide a forum for academics and practitioners to present recent research to an audience of academics and practitioners. Paper presenters receive helpful feedback on their work, and the

**The Financial Engineering Team Report**  
**September 2005**  
[www.business.kent.edu/msfe](http://www.business.kent.edu/msfe)

audience has the opportunity to hear current research well before it is published in professional journals.

If you are working on or have completed some research on futures or option markets, you are invited to submit your work to be considered for possible presentation at this symposium. We are interested in research papers that focus on important and timely issues regarding commodity and financial instrument futures and option markets. Of special interest are research papers with practical applications for exchanges and practitioners today. (Note that the language of the symposium is English.)

The program features 10 presenters and discussants over the day and-a-half program plus an industry panel session. Submissions will be reviewed by the symposium editorial board, an independent group of leading academics and practitioners. The best submissions will be selected for presentation and the author will receive two night's accommodation at the conference hotel and the opportunity to have the article published in the *Journal of Futures Markets* or the *Review of Futures Markets*. The Symposium will also provide a reception and luncheon with a keynote speaker at the event. Symposium attendance is by invitation only, and invitations will be sent out in January.

If you want to be considered as a potential presenter, discussant, or attendee, please respond as soon as possible to Rebecca Evans, Symposium Director at [evansr@kent.edu](mailto:evansr@kent.edu). If you want to submit a paper, please send two attachments: attachment 1 should include the title, abstract and author information, Attachment 2 should only contain the research paper with no indication of author affiliation. If you want to be considered as a discussant or attendee, state your main areas of teaching and research interest. Reply by e-mail to: [evansr@kent.edu](mailto:evansr@kent.edu) or [apfrs@kent.edu](mailto:apfrs@kent.edu).

Your completed paper must be received no later than Tuesday, November 1, 2005. Details about the symposium location and program will be sent with the invitations. Meanwhile, please pass along a copy of this call for papers to your colleagues.

Sincerely,

Rebecca E. Evans