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FINANCIAL ENGINEERING TEAM REPORT

September 2006

Financial Engineering Center, P.O.Box 5190, Kent, OH 44242
www.business.kent.edu/msfe revans@msfe.kent.edu 330.672.0190

Thank You to the Class of 2006

By Rebecca Evans

PEOPLE COME INTO YOUR LIFE FOR A REASON

Author Unknown

People come into your life for a reason, a season or a lifetime. When you know which one it is, you will know what to do for that person.

When someone is in your life for a REASON, it is usually to meet a need you have expressed. They have come to assist you through a difficulty, to provide you with guidance and support, to aid you physically, emotionally or spiritually. They may seem like a godsend and they are. They are there for the reason you need them to be.

Then, without any wrongdoing on your part or at an inconvenient time, this person will say or do something to bring the relationship to an end. Sometimes they die. Sometimes they walk away. Sometimes they act up and force you to take a stand. What we must realize is that our need has been met, our desire fulfilled, their work is done. The prayer you sent up has been answered and now it is time to move on.

Some people come into your life for a SEASON, because your turn has come to share, grow or learn. They bring you an experience of peace or make you laugh. They may teach you something you have never done. They usually give you an unbelievable amount of joy. Believe it, it is real. But only for a season.

LIFETIME relationships teach you lifetime lessons, things you must build upon in order to have a solid emotional foundation. Your job is to accept the lesson, love the person and put what you have learned to use in all other relationships and areas of your life. It is said that love is blind but friendship is clairvoyant.

Thank you for being a part of my life, whether you were a reason, a season, or a lifetime.

The enjoyment and memories each of you has given me this past year has been pleasantly unexpected. Thank you for touching my life. As a class you have taught

me many things, made great suggestions for the future, and endured a difficult year of instruction. You have also grown and matured. Good luck with your careers. I will forever remember each of you with special admiration.

Dan Chan - Your hair and Dr. Holder's reactions, your wonderful smile, the ability you have to overcome personal trials and tribulations for the betterment of your future, and your forgiveness for Dr. Holder and me calling you "Billy".

Rong (Laura) Chen - Your denial that you are a quiet person (I still have not heard any volume from you), your soup (YUM YUM), your pleasant attitude, and that you have learned to keep your hand from in front of your contagious smile.

Will Davis - You are so dynamic and I learned this from your Father before you came into the program. He is very proud of you and so are we. Your ability to forgive and understand, your enthusiasm to get what you want and need, and your professionalism is something we all admire.

Rami Dirani - We go back a few years and I admire the maturity you have shown since your first trip to Chicago with us and for proving that you could succeed in this program based on your desire and determination.

Tom Griffin - Your ability to hold on to an engineering position and take the Financial Engineering courses and your realization of going for a non-trading position, perhaps the legal side of this business.

(Pierre) Hiesh - Your determination to help me learn Chinese (Thank You from the bottom of my heart), and your dedication to your studies.

(Robert) Hsu - Your wonderful smile, including me in your Lunar New Year celebration, your very special wife, Karen, and your help and guidance with the Chinese language.

Ryan Ingersoll - Your tenacity, the impact you had at Goldman Sachs during your internship, your constant trading and your love of family.

Wenzi (Wendy) Jiang - Your polite and enthusiastic husband, your zest for life and living it to the fullest, your desire to always be a friend, and your dancing.

Wei (William) Liu - Your love for the USA, your dislike of communism, your attention to the process, willingness to always help others, and your energy.

Matt Milcetic - Your ability to be a team player, keep the class on track and your methodical approach to life.

Grigorios Reppas - Your enthusiasm in all you do, your electrifying smile, your Greek accent, and your excitement over Halloween.

Jeff Shipp - Your continuous betting on everything no matter how seemingly unimportant, your leadership abilities, pleasant attitude toward the program, and dancing in Chicago.

Ashish Srivastava - Your attention to detail, the gifts from India, your driving and that pleasant smile.

Qian (Maggie) Wang - Your pleasant attitude, your work as a Graduate Assistant, Weiming's car mishap on the way to Cleveland, and your ability to smile when you feel like crying.

Yang (Steve) Wang - Your work as a Graduate Assistant, your quietness and helping teach VBA to those who were in need.

Alan White - Your pleasant attitude and demeanor, the holiday blanket, and your happiness.

Ruyan (Ryan) Zhao - Your long journey to this program (we worked for two years to get you here), your care and concern with my long working hours, your positive attitude, and your ability to persevere.

Welcome on board, Class 2007!

By Wenzhi Jiang '06

As a veteran who just graduated, I would like to share some of my personal experiences, which I hope will help you a little bit in your upcoming studies.

First of all, time management skills have been proven to be essential for us to survive this lock-step program. In addition to our intensive 36 credit courses and numerous projects coming with them, we have lectures given by professionals from industry side, plus two field studies to Chicago and New York and a ten-week internship, all of which are compressed into a one-year period of time. If you still want some sleep toward the end of each semester, please think ahead of everything you need to do and make a detail schedule of YOUR OWN. For international students, you may need some extra paper work on your immigration status. For example, your internship employee will require your CPT and SSN, please remember to have them well prepared before your internship begins.

Communication skills, especially for international students, is also a key in order to complete our studies successfully. Although the MSFE is kind of a technical program dealing with the computer a lot, you still need to express your ideas through speaking. In fact, in order to understand the materials well, you need to talk to professors to clarify your confusion and to better understand their expectations. It may take you some time to learn how to express yourself in a professional and efficient way, as well as to communicate appropriately with your classmates who often come from different cultures. Please take the full advantage of this time to improve your communication skills before you step into the real business world.

This coming year may be busy and stressful but also may be fruitful, with laughter and fun. Please get your patience and curiosity prepared, and let the adventure begin!

Welcome to the Class of 2007

By Rebecca Evans

With great pleasure we welcome the Financial Engineering Class of 2007. The class is once again very diversified. Of the 14 students, two are women, two from China, one from Ghana, five are Indian (one has a US passport), one from Taiwan, and five from the U.S.

As the Program Administrator, I would like to welcome all of you to the program and to Kent State University. The next year will be fun, stressful, meaningful, busy, exciting, and a lot of hard work.

Each of you possesses the necessary personality, intelligence and desire to make it through this program. Always keep your chin up and remember that after just this one year, you will be highly employable in this industry. There are many people available to assist you. The alumni are all very caring individuals and will offer advice. Keep in mind that they are busy working full time in the industry. Be conscious about this and do not take up too much of their time.

My office is always open to you. Stop by if you have a problem or just need to talk over an issue. I am here to help you make it through the program.

Dr. Holder, the MSFE Faculty and I welcome you to this program and the exciting industry for which we are preparing you.

Financial Engineering Information Sessions for September & October

The Financial Engineering Information Sessions explain to prospective students what Financial Engineering is and provide information on how to apply for the program. The benefits of attending one of these sessions is that the student will have the benefit of talking to a representative of the Graduate School of Management as well as the Director and Administrator for the program. After a brief presentation, attendees are given an opportunity to ask questions and hear the questions and answers of other prospective students.

The September and October sessions will be held on the Olga A. Mural Financial Engineering Trading floor in the College of Business Administration on the fourth floor, room 401. Seating is limited, so reservations should be made via email to evansr@kent.edu.

Monday, September 18, 2006	1:00 to 2:00 PM
Thursday, October 5, 2006	1:00 to 2:00 PM
Wednesday, October 19, 2006	2:00 to 3:00 PM
Wednesday, October 19, 2006	6:00 to 7:00 PM

Congratulations Dr. Holder

***The Third IASTED International Conference on
Financial Engineering and Applications
~FEA 2006~***

**October 9-11, 2006
MIT Faculty Club, Cambridge, Massachusetts,
USA**

Sponsors

The International Association of Science and Technology for Development (IASTED)

Conference Chair

Dr. Mark Holder – Kent State University, USA

Purpose

The expanding range of financial instruments available to corporations and individuals, coupled with the increasing complexity of the analytical methods used by financial analysts, strategic planners, investors, creditors, and insurers, have forced businesses and academics alike to turn to increasingly sophisticated technologies for solutions. The marriage between traditional topics of finance, economics, mathematics, and cutting-edge technology has resulted in the field of Financial Engineering. The purpose of IASTEDs International Conference on Financial Engineering and Applications (FEA 2006) is to provide a forum for experts from academia and business to exchange information and ideas on this emerging interdisciplinary subject.

Scope

The topics of interest include, but are not limited to:

- Financial Derivatives
- Risk Management
- Stochastic Control
- Financial/Economic Forecasting
- Financial Valuation
- Hedge Fund Management
- Financial Visualization
- Algorithmic Trading
- Financial Engineering Applications

New Methods & Applications of Financial Engineering

FEC and IFM Sponsored Seminar with Dr. Salih Neftci



**New Methods and Applications
of Financial Engineering**
September 26 & 27 • New York City

*Swap Logic Interest Rate Modeling Credit Default Swaps Term Structure Evaluation
Applications Trading Engineering Convexity LIBOR Callables and More...*

AN ADVANCED COURSE HOSTED BY

KENT STATE UNIVERSITY **IFM** THE INSTITUTE FOR FINANCIAL MARKETS

No Pitches, No Promos - Real Education

This advance course explores methods for swaps and contingent claims used in analyzing credit default risks with applications to areas such as CDS, tranche trading, volatility trading and term structure analysis. Led by world-renowned author, researcher and teacher, Dr. Salih Neftci, this program combines lecture, hands-on application and interactive discussion to convey the practical elements of financial engineering along with theoretical finance, mathematics and modeling.

Who Should Attend:

- Risk Managers
- Heads of Trading, Hedging & Structured Products
- Portfolio Managers
- Quantitative Researchers
- Financial Engineers
- Analytical or High-Frequency Traders
- Corporate Credit Modelers

Exclusive Two-day Event Includes:

- Continental Breakfast, Buffet Luncheon & Refreshment Breaks each day
- Dr. Neftci's Book, *Principles of Financial Engineering*, a standard text used in most university derivatives courses
- Certificate of training upon course completion

SAVE \$100! Early-bird Discount Extended to August 11.

This educational program is hosted by Kent State University and the IFM, a nonprofit educational foundation. Participation is limited to approximately 25 attendees and early-bird & group discounts for 3 or more persons apply.

EDUCATION | ETHICS | DATA

The Institute for Financial Markets, founded in 1989, is a Section 501(c)(3) nonprofit, industry supported educational foundation. If you do not wish to receive event news from us in the future, you may opt out by notifying us replying via e-mail at info@theIFM.org with the word "REMOVE" in the subject line, or by writing us at, 2001 Pennsylvania Avenue NW | Suite 600 | Washington DC 20006.

News from the Alumni

Ya Zhang, '03

I joined AIG-Huatai Fund Management in June 2004. I have been in charge of fund product research and development. In January 2006 I became the head of SSE (Shanghai Stock Exchange) Dividend Index ETF. We anticipate getting the index launched next month. When that is accomplished I will be the fund manager of SSE Dividend Index ETF thereof. My primary job will then be in charge of not only making daily investment decision, but developing ETF-based structured product as well.

China's financial market is rapidly growing, nurturing lots of chances for future financial engineers, especially for those who want to be pioneering financial engineers.

Eric Yang, '04

Eric is currently working in Derivatives Products at CITIC Securities in Beijing. The Derivative Products department targets the designing and selling of new products (mainly structured products). Most are secondary market or OTC products, derivatives trading, etc. Since the birth of Warrants (see article below) in China last year, almost all big securities firms have created this new department, though they have different names.

Eric's responsibilities include the design of structured products, the marketing of new products, the analysis of market-making strategies, etc. He is also working on the arbitrage system of index futures. "It is said that index futures will launch in the China market by the end of the year or early 2007. We would like to be well prepared in order to benefit from the possible mispricing in the trading of index futures." Says Eric.

Dennis Jarecke and Elyse Houser, '03

Dennis and Elyse are now co-heads of Key Bank's trading desk. It is a purposefully aggressive model to apply some diversity to the desk. In general, both Dennis and Elyse maintain a ~55 billion notional swap book and are responsible for the hedging and pricing for all interest rate derivatives. This supports franchise and non-franchise loans. They also execute interest rate derivatives trades for other parts of the bank. In this way they maintain the street relationships for interest rate derivatives in the bank as a whole.

China halves dividend tax, mulls warrants

BEIJING - China has temporarily halved the income tax on dividends earned by individual investors, the Ministry of Finance announced on Monday, in a joint effort with other government departments to add life to the stock market.

The ministry also unveiled moves to temporarily suspend the levying of corporate or personal income tax, or stamp duties, on any compensation by non-tradable shareholders to tradable shareholders made as a part of the share structure reform program. China is now engaging in share structure reform to float the formerly non-tradable shares of state-owned listed companies. As a legacy of the planned economy, two thirds of China's shares are presently in the hands of state or legal bodies and are not negotiable on the open market. These non-tradable shares are immune to market fluctuations, while the owners of tradable shares have had to shoulder all the market risks.

It was previously decided that, when listed firms engage in non-tradable share sales, non-tradable shareholders will have to make compensation of some shares or money to tradable shareholders, due to the dilution of the value of the latter's shares. On June 10, last Friday, a split-share reform proposal by computer service provider Tsinghua Tongfang Corporation failed at the corporation's general shareholders' meeting because it did not receive the required two thirds of tradable shareholders' votes. On the other hand, the proposal of machinery manufacturer Sany Heavy Industries Co Ltd was passed. Both firms were participants in an "experimental" reform program begun recently, which involved just four listed firms. However, it is expected that additional listed firms will be selected to participate in the share structure reform soon.

The latest tax adjustments will help push forward the reform by looking after the interests of the public shareholders, said Jiang Wen, a veteran trader in Beijing. Small investors will be encouraged to support the experiment when their interests are secured, he said. The original income tax rate on dividends was 20% and the tax cut will save about 2.6 billion yuan (US\$314 million) in taxes for public investors. The tax measures came on the heels of a series of moves unveiled by other regulators.

Over the weekend, the China Securities Regulatory Commission issued a draft circular allowing the original non-tradable shareholders to buy tradable shares two months after all the listed firm's shares are floated. "This measure is intended to avoid irrational price fluctuations, take care of investors' interests and maintain the listed firms' image," said the circular, which is now under discussion. Although the non-tradable shareholders of the first four pilot firms promised not to sell their shares within a certain period of time, market uncertainties might lead to small investors dumping theirs. The price might then slump sharply, even below its real economic value, according to Dong Chen, a senior analyst from China Securities. Allowing the controlling shareholders to buy stocks from the market will help secure the real value of the company's shares and maintain the stability of the market, he said.

When put into effect, this move will encourage the big state-owned enterprises (SOEs) to take part in the non-tradable share sale reform. Many big SOEs are reluctant to undertake the reform due to fears that their market value will vaporize due to irrational price fluctuations after all shares are floated. The move will offer the big shareholders an opportunity to stem "irrational" market changes, he said. If share price falls below its real value, the original non-tradable shareholders can buy back the shares and prevent the price from dipping further, he explained. But the relevant legal terms and regulations must be carried out to avoid speculation, said Xue Jirui, an analyst at CITIC Securities.

Reintroduction of warrants

China is considering relaunching warrant certificates on the domestic stock market, a move which experts believe offers a new approach to the ongoing experimental state share sales. Late on Monday, the Shanghai and Shenzhen stock exchanges published draft circulars regarding the issue of warrants, a financial tool which shelters investors from stock risks. A warrant gives the holder the right, but not the obligation, to buy or sell an underlying security at a certain price, quantity and future time. The issuer of the warrants can be a listed firm or third party, according to the circulars. The circulars also specified that listed firms issuing warrants should have at least 200 million negotiable stocks, whose market value should be no less than 1 billion yuan in the 20 trading days leading up to the issuance. And the changing-hands rate should be above 25% in the 60 trading days before issue.

Warrants are widely used on the international financial market. They are a useful tool in offering significant gains to investors during a bull market. They also offer protection to investors during a bear market. This is because warrant holders can sell stock to issuers at a promised price even if the share price begins to drop.

Moreover, if used in China, warrants could offer a new path for the current share structure reform, said Hua Sheng, the economist who came up with the idea of using warrants to push market reform. Listed firms can issue free "put warrants" to tradable shareholders, which empower them to sell a certain amount of shares to the original non-tradable shareholders at a specified price, on or before a stated date if the share price falls when all the shares are floated, he explained. The basic idea would be to assure tradable shareholders that the value of their holdings cannot fall unduly due to the split-share flotations.

Relevant circulars are currently under discussion, and authorities are seeking advice from concerned parties. The price of the warrants, which will determine how much compensation the public shareholders get from the tradable shareholders, is a big issue, according to Liu Haobo, an analyst from CITIC Securities.

Wang Kai, a senior analyst from China Securities, observed that although warrants will be a new method, many concerns regarding the reforms could be addressed by their use. Wang noted that warrants were launched previously, when China established its stock market back in 1992, but they were abolished in 1996 due to their abuse by speculators.

(Asia Pulse/XIC)