



Keynote Speech: Extracting Information from Asset Prices and Consumption Growth

Douglas T. Breeden, William W. Priest professor of finance and former dean of Duke University's Fuqua School of Business & 2013 IAQF/SunGard Financial Engineer of the Year



➤ **Conference Highlights**

2014 Annual Conference

Now in its 22nd year, the IAQF Annual Conference attracts approximately 150 senior and mid level practitioners from the banking, asset management, risk management, derivatives, structured finance, insurance, institutional investor, legal, and alternative investment communities.

Monday, June 2, 2014

PwC

**300 Madison Avenue (42nd Street)
New York, NY**

Sponsored by:

TheBerkeleyMFE

**Keynote Speech:
Extracting
Information from
Asset Prices and
Consumption
Growth**

**Bitcoins, Fantasy
or Reality?**

**Quantitative Risk
Premia Strategies**

Conference Agenda

8:30 am
Breakfast

8:45 am
IAQF Annual Members Meeting

9:15 am
Opening Remarks

Richard Lindsey, Chief Investment Strategist, Janus Liquid Alternatives & IAQF Chairman

9:20 am
Quantitative Risk Premia Strategies

Aaron Brown, *Managing Director and Risk Manager*, **AQR Capital Management**

Anthony Lazanas, *Managing Director*, **Barclays Capital**

Raman Subramanian, *Managing Director & Head of Index Applied Research for the Americas*, **MSCI**

Moderator: Richard Lindsey, *Chief Investment Strategist*, **Janus Liquid Alternatives**

The newest strategy sweeping the investment community goes by many names: smart beta, risk premia, alternative beta, risk factors, and others, with over \$500 billion invested so far. What lies behind these strategies and why are they increasing in popularity? Is this a passing fad or a fundamental shift? What kind of risk/return tradeoff do these strategies deliver? How can they be used in portfolios? As more money moves into the strategies do the returns vanish? This session will explore these and other questions about the hottest new trend.

10:30 am **Mid-Morning Break**

10:45 am
Bitcoins, Fantasy or Reality?

Warren Coats, *International Monetary Fund, retired and Former Director*, *Cayman Islands Monetary Authority*

Gerald Dwyer, *Visiting Professor and BB&T Scholar*, *Clemson University & Former Director*,
Center for Financial Innovation and Stability, *Federal Reserve Bank of Atlanta*

Evan Greebel, *Partner*, **Katten Munchin Rosenman LLP**

Moderator: Katherine H. Moriarty, *Partner*, **Katten Munchin Rosenman LLP**

Does the virtual currency Bitcoin represent the future or is it merely an extended online game? Derivatives and other trading instruments are currently being developed based on Bitcoins – how will these work and do they represent viable products? Is Bitcoin simply a method for the transfer of ill-gotten gains or a real currency? If it represents a real currency how will governments deal with Bitcoins? This session will answer these questions.

12:00 pm

IAQF Student Competition

CDS on CDO Portfolio: A Fundamental Factors Model for Hedging, Collateralization and Capital Reserves

Presentation by Winning Team, The MFE Program, University of California, Berkeley

Li Sun PhD, Jue Wang PhD, Charu Arora, Rajat Goyal, Dieter Dijkstra, Zhuozhou Liu

We revisited the series of events that led to the bailout of AIG. AIG's near-collapse is rooted in its huge accumulated position in CDS contracts on the super senior tranches of CDOs, which were primarily backed by subprime MBS. We implemented a macro-economic factor model to simulate the cash flows of such CDS contracts based on the HPI and the interest rate. We proposed schemes to hedge CDS contracts on MBS by ABX.HE indices, put options on mortgage market participants, and vanilla Eurodollar and HPI futures. Simulations and hedging results are presented. We modeled the counterparty risk of this type of CDS contract and the effects of collateral schemes on the CVA valuation. We demonstrated a framework to calculate the VaR on the CVA, and proposed a model using the CVA VaR as capital requirements for counterparty risk.

12:30 pm Lunch

1:30pm Keynote: Extracting Information from Asset Prices and Consumption Growth

This talk presents results from two strands of research. First, in research with Bob Litzenberger, using insights from our 1978 paper, movements in interest rate cap and floor prices are used to demonstrate the impact of U.S. Federal Reserve and European Central Bank policies on the risk-neutral distribution for 3-month LIBOR 3 and 5 years out. Movements during the U.S. Financial Panic of 2008/2009 and the European Sovereign Debt Crisis of 2010-2013 are quite dramatic, as shown by our nonparametric, arbitrage based analysis. Distributions switch from relatively symmetric ones to highly skewed ones that sometimes are bimodal. The second strand of research takes real consumption growth and eliminates stock market wealth effects to get a signal from consumers about future job and income opportunities, which show up in subsequent unemployment rate changes, total employment growth, and real personal income growth.



Douglas T. Breeden, William W. Priest professor of finance and former dean of Duke University's Fuqua School of Business & **2013 IAQF/SunGard Financial Engineer of the Year**

2:45 pm Mid-Afternoon Break

3:00 pm

Flash Boys

Justin Schack, Managing Director/Partner, **Rosenblatt Securities**

Marcos López de Prado, Managing Director at **Guggenheim Partners**

Manoj Narang, Founder & CEO, **Tradeworx**

Larry Tabb, Founder & CEO, **Tabb Group**

Moderator: Robert Litzenberger, **University of Pennsylvania and RGM Advisors**

Michael Lewis's book "Flashboys" has engendered a great deal of public and regulator attention. This session explores the reality behind Lewis premise – is the market "rigged"? Does speed of trading disadvantage investors? Should markets be slowed down? Do multiple trading venues create fragmentation in the market that allows speedier traders to exploit slower traders?

4:15 pm Wine & Cheese Reception