The 2009 Fink Center Research Grant recipients are: Avanidhar Subrahmanyam, Geoffrey Tate and Bruce Carlin.

Research projects funded by the Fink Center for Finance & Investments must be related to its mission; that is, they must advance both the theory and application of finance. The selected award winners have demonstrated how their research and subsequent research will meet this standard. A summary of each recipients' proposed research follows.

This year's research committee at UCLA Anderson selected **Bruce Carlin** as the winner of the **Eric and "E" Juline Faculty Excellence in Research Award** recognizing excellence in research among the Anderson School's assistant professors.

Avanidhar Subrahmanyam

A number of characteristics such as the book/market ratio, accounting accruals, and past return performance, have been shown to explain return performance differentials across stocks. A significant section of practitioners and academics believe that this predictability emanates from pricing inefficiencies. We are testing to see if the level of predictability has diminished in recent years due to the dramatic decreases in costs of trading on financial markets. In particular, institutional trading commissions and bid-ask spreads have declined sharply over the past decade, and technology such as algorithmic trading and online brokerage has allowed trades to be conducted more cheaply.

We test the premises that pricing inefficiencies should have weakened on average, and should have weakened the most in stocks with the biggest decline in trading costs. An ancillary hypothesis relates to the notion that certain financial institutions that have recently proliferated, such as hedge funds, are active short-sellers of stocks, unlike traditional institutions like mutual funds. Thus, we propose that with an increase in hedge fund activity, abnormal returns to strategies that call for shorting should have declined in recent years. We expect the results will have implications for finance education because they will shift our priors on whether it is actually possible to earn supernormal profits on anomalies documented by academics in the current low trading cost regime. Further, we expect that if the anomalies are found to be persistent, the field of behavioral finance may take on stronger impetus.

Geoff Tate

External links between independent directors and CEOs – through employment or education networks as well professional, charitable, and leisure organizations – appear to undermine the quality of board monitoring. We find that firms with many such links do more and make worse acquisitions and generally perform poorly compared to firms with few or no such links. We will build on this evidence by measuring explicitly the relation between individual director incentives to monitor management and major corporate policy decisions. In particular, CEOs in the U.S. have enjoyed a surge in compensation over the past two decades, but the efficiency of those pay increases remains a subject of debate. Moreover, U.S. firms make frequent acquisitions (>12,000 worth $3.4 trillion between 1980 and 2001) despite a preponderance of evidence suggesting that they may not benefit acquiring shareholders.

We will study the link between these corporate decisions and the future career paths and compensation of individual directors. We will identify policy changes which increase the likelihood that a director will add additional board seats in the future, focusing on CEO compensation decisions and acquisition choices. We will also measure the value implications of these additional board seats to the individual director and compare them to internal incentives to maximize firm value. Finally, we will ask whether alternative governance mechanisms – like strong shareholder rights or the presence of large institutional shareholders – can counteract weak (or absent) director incentives to monitor management.

Bruce Carlin

According to the NASD Literacy Survey of 2003, households who participate in financial markets routinely do not clearly understand what they are purchasing or the price they are paying. Moreover, people often employ systematic biases when they make financial decisions, which degrade personal welfare and may impact the market as a whole. To study how such biases evolve, we will systematically study how newcomers to financial markets learn and behave by examining how young adults in Junior Achievement learn and interact in the Finance Park in Los Angeles, CA. The Junior Achievement Finance Park is an interactive venue in which students between the ages of 13-18 years old receive didactic training as well as participate in a simulated business environment. The students are from a broad cross-section of LAUSD middle and high schools, all of which participate as part of their class requirements.

We will attempt to address questions such as whether newcomers to financial markets exhibit the same behavioral biases as previously documented, or if such biases are the result of more experience, the consumption-investment decisions for newcomers to the market, how girls and boys differ when they are first exposed to financial markets, how decisions vary with demographics such as age, race, or income bracket, as well as whether when newcomers first participate and save money, if they invest in the stock market save in the bank.