

# BUSINESS@BONAVENTURE

The Newsletter of the School of Business of St. Bonaventure University

Fall 2008

A MESSAGE FROM THE DEAN

## Preparing students for a dynamic global environment

St. Bonaventure University's School of Business is pleased to provide you with a new communication vehicle, *Business@Bonaventure*, that will be sent electronically and via U.S. mail to all School of Business graduates twice annually.

The goal of this publication is to keep alumni informed of the activities and initiatives of the School of Business in order to maintain connections and solicit your continuing involvement and input. While some things may have changed since you graduated from Bona's, one very important thing has remained the same: our commitment to students. Today, that focus is greatly influenced by an increasing need to prepare students for a dynamic and global business environment.

Our commitment to students is exemplified in many ways, but particularly through our internship and service programs. A significant number of our students participate in internships prior to graduation, and our service programs are among the most popular on campus. This newsletter includes articles that highlight all of these cocurricular and extracurricular programs that contribute greatly to our goal of educating the whole person.

As an alum of St. Bonaventure University's School of Business, you have already benefitted from these and other activities, and you are among a growing body of business alumni who are making a difference and achieving outstanding success as leaders in business, government and not-for-profit organizations. We are hopeful that the Franciscan values you learned at St. Bonaventure continue to inform your decision making and professional development.

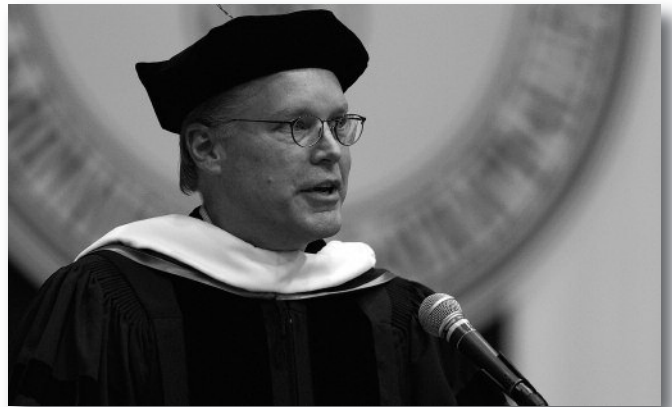
We want to hear from you. Please keep us informed of your activities, and never hesitate to contact your alma mater if we can be of assistance.

Sincerely,

Dr. John G. Watson

Dean, School of Business

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**Edward Bastian, '79, was instrumental in developing the business plan that led Delta from bankruptcy three years ago to its status today. Note: On Oct. 29, Delta merged with Northwest Airlines. Bastian is now Delta's president and chief financial officer, and the new CEO and president of NWA.**

## GUEST SPEAKERS

**Anthony Annunziato, '71**, was a speaker in Dr. Jim Mahar's Advanced Corporate Finance class on Oct. 20, 2008.

**Edward Bastian, '79**, president and CFO of Delta Airlines, received an honorary degree and spoke at Commencement on May 11, 2008. In his address, he told members of the university's 148th graduating class that St. Bonaventure's core values of discovery, community and individual worth were the values that Delta executives embraced in the painful restructuring of the company.

**Roger Conlon, '67**, partner at Deloitte and Touche, spoke to approximately 200 students at the main campus March 11, 2008. The title of his talk was "International Tax and Supply Chain Transformation."

**Raymond Dee, '64**, spoke about his experiences in the aluminum industry and manufacturing in the U.S. to several different groups on the main campus during a visit Oct. 6-8, 2008. Dee was the first speaker in the Anthony Annunziato Entrepreneurial Speaker Series.

**Carl Paladino, '68**, spoke to approximately 100 students at SBU's Buffalo Center Nov. 1, 2008, concerning his business, Ellicott Development Company of Buffalo, as well as his leadership style and business strategy.

**Dr. James E. Post, '65**, professor of management policy and faculty director of the doctoral program in the School of Management at Boston University, discussed "Leadership and Accountability — Paradox of Power" during a public lecture on campus Sept. 16, 2008. Post also gave guest lectures to Clare College and School of Business classes during his visit.

**John Sheehan, '82**, CFO of Delphi, spoke at SBU's Buffalo Center May 5, 2007, to approximately 150 students on the "Reorganization Efforts of Delphi."



# A fascinating time to be a finance professor

There is an ancient Chinese curse that translates to, “may you live in interesting times.” At this writing the S&P 500 is down over 41 percent for the calendar year to date. A



crisis of confidence in our credit markets occasioned a swift and disorderly deleveraging of a number

of our financial institutions and now threatens dislocation in the real sector. The 30-day LIBOR/T-Bill spread remains at more than 300 basis points, indicating a market re-pricing of risk of historical proportion.

## How did we get here?

A series of well-intentioned government actions designed to increase the rate of home ownership accomplished that goal at the expense of overinvestment in the housing sector. Artificially low interest rates coupled with government mandated reductions in credit standards led to an explosion in sub-prime lending from 2005-2007. The

moral hazard problems inherent in the securitization process were not effectively mitigated by the rating agencies, and even highly rated tranches of mortgage-backed securities began to default at historically high rates.

Because the housing sector was overbuilt in a number of areas, collateral was insufficient to assure mortgage repayment. In fact, the use of low/no down payment financing vehicles provides us with the unwelcome estimate that more than 23 percent of mortgages are “underwater” or have loan balances that exceed the value of the house. A number of these individuals are defaulting not because they can’t pay, but rather because they’ve chosen to exercise their option to “put” the property back to the lender.

Mortgage-backed securities are profoundly opaque instruments. Backed by thousands of individual mortgages, the direct cost of due diligence and the associated problems with information asymmetry render these securities poor candidates for traditional valuation mechanisms. Accordingly, issuing firms purchased credit default swaps to guarantee performance on the better tranches. Unfortunately, there is now

**“The government’s plan is a political response to an economic problem.”**

considerable concern regarding the ability of the insurers to perform.

The lack of a central clearinghouse and standardized contracts left market participants unwilling to trade in securities with any perceived counter-party risk. These markets stand in stark relief when compared to the admirable performance of our futures markets during this same time.

The government’s plan is a political response to an economic problem. The rescue package of more than \$800 billion (that is 800,000 million dollars) takes a direct equity stake in our largest banks.

Other institutions are now lining up for the largesse, so in addition to our recently acquired banking and insurance interests, there is now discussion of taxpayers adding an investment in the automobile industry to our expanding portfolio. Even the hint of the federal government extending its influence over the allocation of capital should terrify every individual who supports the notion of free market capitalism.

Sadly, the largest cost of this rescue package likely isn’t the astonishing direct cost of the investment, it is instead the inevitable regulatory burden that will follow.

Politicians and not market participants will produce new rules designed to achieve political favor at the expense of efficient allocation of capital. Sarbanes-Oxley or, as we jokingly call it, the “No Accountant Left Behind Act,” was the spectacularly expensive governmental response to the failure of a few private firms. The prospect for the regulation that is to follow this market intervention leaves sober men reaching for a steadying glass of brandy.

*(Peterson is a professor of finance in the School of Business; peterson@sbu.edu.)*

## PricewaterhouseCoopers chooses two accounting students for ‘Project Belize’

Two St. Bonaventure students, both members of the five-year accounting program who will graduate in May 2009, were selected to participate in PricewaterhouseCoopers’ “Project Belize” in summer 2008. The firm invited interns to apply for this unique service experience, in which interns and high-performing partners and staff were engaged in an intensive service program.

Participants assisted in refurbishing schools, constructing a Leadership Development Center, and teaching basic lessons in business and economic concepts.

Jillian Benedict and Matthew Fischer were among 100 PricewaterhouseCoopers interns selected from almost 500 ap-

plicants across the country. Participants were selected on the basis of prior community service and their ideas for enhancing the Belize program. In addition to giving back to a community in need, participants had the opportunity to further develop teamwork and leadership skills.

“Jillian and Matt are outstanding representatives of St. Bonaventure University, and demonstrate that our Franciscan value of service is highly relevant in today’s business environment,” said Dr. Carol Fischer, CPA, professor of accounting. “We are very proud of them, and are honored to have two representatives among this select group of PricewaterhouseCoopers interns.”



SIFE's flagship international project is the Bahamas Entrepreneurial Service Trip.

## SERVICE IN THE SCHOOL OF BUSINESS

### Students in Free Enterprise (SIFE)

Faculty adviser: **Dr. Todd Palmer, tpalmer@sbu.edu**

SIFE is an international student program that follows the motto of "A head for business. A heart for the world."™ The St. Bonaventure chapter was formed in 2003 and has consistently placed in the top 5 percent of teams in nationwide competition. Membership ranges from 70 to 100 students with 50 percent of their majors being outside of the School of Business. The key core values of SIFE are economic empowerment, entrepreneurial and global awareness and an emphasis on building 21st century skills.

### Volunteer Income Tax Assistance (VITA)

Faculty adviser: **Dr. Susan Anders, sanders@sbu.edu**

VITA provides free taxpayer assistance, and free tax return preparation and e-filing, so that low-income taxpayers can receive 100 percent of their tax refunds without having to pay for assistance. St. Bonaventure began VITA in 2003 hoping to bring economic benefits to the community with free tax return preparation and filing. Along with helping the community, it provides students with clinical experience in technical tax return preparation, problem solving, research, interview and communication skills. The tax season in 2008 had more than 2,000 volunteer hours from 25 students, two alumni and the faculty adviser.



**Anthony Annunziato, '71 (front, center), hosted members of SIFE, VITA and BonaResponds to a dinner reception Oct. 21. Annunziato has greatly enhanced the capability of these service organizations through generous philanthropic support.**

### BonaResponds

Faculty adviser: **Dr. James Mahar, jmahar@sbu.edu**

Since Hurricane Katrina struck the Gulf Coast in fall 2005, BonaResponds has provided approximately \$500,000 in equivalent donated services and has made eight trips to the Gulf Coast, taking approximately 500 volunteers. BonaResponds has also provided relief services in Enterprise, Ala.; Bucyrus, Ohio; Gassville, Ark.; Newton County, Mo.; Buffalo; Olean; Bradford, Pa.; and in Iowa this fall.

## Trading on current events, from politics to sports

The 2008 election will hold a special place in American history for many reasons. Among the lesser-known beneficiaries of the pre-election hype may just well be the prediction markets. According to St. Bonaventure assistant professor of economics Dr. Mark Wilson, political junkies who find the Internet-based polls to be less than reliable and downright annoying are relying more these days on sources such as Intrade.

"Intrade.com specializes in prediction markets, which are essentially a forum for individuals to wager on future events," explains Wilson. "While one may not enjoy participating in these betting markets, prediction markets nonetheless can be a valuable source of reliable information. Traders, attempting to profit from information they possess, reveal this information to the markets and society as a whole by trading on this information. The short of it: Traders do all the hard work in analyzing polls, so you don't have to!"

According to Wilson, the 2004 election correctly predicted the winning candidate for all 50 states.

### Tradesports.com

Another prediction market that has widespread appeal is sports in the name of Tradesports.com. St. Bonaventure associate professor of economics Dr. Rodney Paul is an internationally recognized expert in this particular aspect of information trading. Paul is working on a research agenda on the economics and finance of sports that has been both nationally and internationally recognized.

One of the main facets of his research is the testing of the Efficient Markets Hypothesis (EMH) of Finance using data from a variety of sports betting markets. Data from these simple financial markets allow for the straightforward testing of the EMH, without many of the complications found in other financial markets (stocks, bonds, etc.).

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While previous academic studies had concluded these markets were efficient, Paul has illustrated that common and persistent behavioral biases exist and the efficient markets hypothesis (on some levels) can be rejected.

In addition to the testing of the EMH, Paul has illustrated that prices formed in wagering markets have other economics uses, including predicting television ratings for sports programs (*Journal of Economics and Business*, 2007) and understanding voting patterns in the NCAA Football polls (*Journal of Sports Economics*, 2007).

His work on gambling markets has also investigated public policy angles on impacts of transfer payments (social security, welfare, etc.) on lottery revenues (*Atlantic Economic Journal*, 2008) and regulation and information in these markets (*Journal of Gambling Business and Economics*, 2008; *Applied Economics Letters*, 2008).

Besides the study of sports wagering markets, Paul also has researched fan behavior in relation to attendance in the NHL (*American Journal of Economics and Sociology*, 2003), Major League Baseball (*New York Economic Review*, 2004) and various minor baseball leagues.

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## *Business experts address economic crisis*

Several business leaders and University faculty members presented a panel discussion on Oct. 8 for the St. Bonaventure community on the nation's financial crisis.

Speakers included School of Business faculty members Giles Bootheway, Jeff Peterson, Jim Mahar, Mark Wilson and Rodney Paul; trustees Laurie Branch and Ray Dee; area banker Sal Marranca; and Brenda Snow, St. Bonaventure's senior vice president for finance and administration. Pictured above (from left) are Mahar, Paul and Dee.

The presentation in Dresser Auditorium helped to explain the current economic crisis by examining its historical roots and what the federal bailout might mean in the short and long terms. Many speakers said the restoration of consumer confidence in the stock and retail markets will be a key factor in determining the length and depth of the crisis.