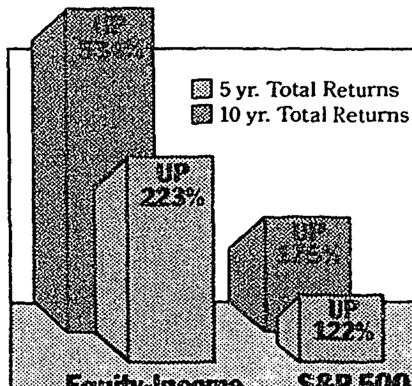
New York Times (1857-Current file); Apr 15, 1984; ProQuest Historical Newspapers The New York Times (1851 - 2002)
pg. 1

Outstanding performance for conservative equity investors.

Fidelity Equity-Income Fund up 534%.



Compare results. Fidelity Equity-Income Fund has significantly outperformed the S&P 500 Index for both the past five and ten year periods.[1]

Fidelity Equity-Income Fund has a remarkable long-term record of growth – the kind of performance normally found only in more aggressive investments. Yet, Equity-Income uses a conservative, income-oriented investment approach.

Because the Fund invests in stocks that tend to pay high dividends, its share price can fluctuate less than that of more aggressive growth funds.

For both outstanding performance and long-term growth, Fidelity Equity-Income Fund is worth looking into. Initial investments from $1000. Just $500 for The Investor's IRA from Fidelity.

Find out more. Call, write or visit Fidelity. Get a free fact kit today.

[1] Total returns for periods ending 12/31/83 reflect all dividends and capital gains reinvestments, change in share price and 2% sales charge, updating page 4 of prospectus. S&P 500 (® Standard & Poor's Corporation) is an unmanaged index of common stock prices. Past performance is no guarantee of future results.

EQUITY-INCOME FUND

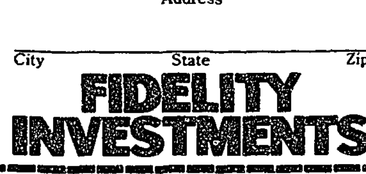
Write to Fidelity Distributors Corp. 23
P.O. Box 832, Dept. FN041584
82 Devonshire Street, Boston, MA 02103

CALL FREE 1-800-225-6190
IN MASS. CALL COLLECT 617-523-1919

For more complete information, including management fees, expenses and the Fund's 2% sales charge, please call or write for a free prospectus. Read it carefully before you invest or send money.

Retirement Plan Information:
☐ The Investor's IRA ☐ Keogh

Name
Address
City State Zip



Academics Turn to Wall Street

They are lured off campus by money — and a chance to test their theories.

By CLAUDIA ROSETT

A little over two months ago, Fischer Black, a tenured professor of finance at the Massachusetts Institute of Technology, began a leave of absence and reported for work on Wall Street as a vice president of Goldman, Sachs & Company.

On the same day and just a few blocks away, William L. Silber was settling into a glass-walled manager's booth on the trading floor of Lehman Brothers Kuhn Loeb Inc. On leave from his position as a New York University finance professor, he was beginning his first full-time job with an investment banking firm.

The two professors are leading figures in the high-tech world of modern financial theory. Mr. Black, 46 years old, helped develop the widely used Black-Scholes formula for pricing stock options; Mr. Silber, 42, is co-author of a best-selling textbook on financial markets. Now they are the latest, and most prominent, of a small but growing band of academics who have left the ivory tower for the "real world" of Wall Street.

The importance of the dozen or so new recruits from academia far outweighs their numbers, since they represent Wall Street's widening acceptance of the applications of modern financial theory. Some analysts speculate that eventually each major investment banking firm will have a niche for a full-time academic adviser on the payroll.

The recruits are answering Wall Street's call for help in dealing with the increasingly complicated financial instruments that have proliferated in the past few years. The belief is growing in the financial district that expert advice on how to trade and value the instruments — some of which were developed by the professors themselves — could have a dramatic impact on profits at investment banking concerns that regularly invest billions of dollars.

For their part, the professors are drawn by compensation packages that are estimated to reach $200,000 and more — many times the salaries they are normally paid. But the teachers — most of whom are approaching middle age and are restless after long campus careers — are lured as well by a chance to apply their theories in a high-stakes setting.

The movement to Wall Street began in the late 1970's, picking up speed in the last year or two, and it is still too early to tell how long-lasting it will be. But with talk of the Street's high salaries making the rounds of faculty lounges — and with the departure of such stars as Fischer Black and William Silber — the nation's business school deans are getting edgy and are beginning to think about ways to make academic life more attractive.

There are uncertainties on both sides of the new alliance, however. Investment bankers worry that academics won't be able to take the pressure and hectic pace of Wall Street, and that their attempts to quantify the vagaries of trading often do not take into account the imponderables of an imperfect world. The academics already on Wall Street fret over giving up the freedom to pursue their own interests. Some wonder if they will still be in demand once their new employers have learned what the professors have to teach, and several have taken advantage of the two-year leaves of absence normally provided to tenured faculty to try out their new careers.

Despite the reservations, the professors and investment banking firms have been busily pairing up. Last October, Morgan Stanley & Company hired Alden L. Toevs, 35, an economics professor at the University of Oregon. Shortly afterward, Kidder, Peabody & Company hired Frank Jones, 45, formerly a business professor at San Jose State University. Since leaving academia in 1978, Mr. Jones had also done research for the Chicago Mercantile Exchange, the New York Futures Exchange and the New York Stock Exchange. Besides hiring Mr. Silber, Lehman Brothers brought in Steven W. Kohlhagen, 36, a professor of international finance at the University of California at Berkeley.

Claudia Rosett writes on finance from New York.

The New York Times/Fred R. Conrad

Fischer Black: Confronting the imponderables.

COMMERCIAL banks have also gotten into the act. In 1982, Bankers Trust hired Kenneth Garbade, 37, a professor of finance at N.Y.U. Mr. Garbade's academic leave runs out this fall and he is leaning toward staying at the bank. And the Wells Fargo Bank has been drawing on junior faculty, hiring, among others, Jeffrey Skelton, 34, a finance professor from Berkeley.

In recent months, headhunters acting on behalf of a number of major investment banking firms and commercial banks have been prospecting among the faculties at such top business schools as Stanford, Harvard and M.I.T.

"We go after the ones with the biggest names," said Barry Nathanson, president of Richards Consultants Ltd., an executive search firm. Mr. Nathanson said the current heightened interest in academics was "not there a year ago," but today he is looking for scholars to fill three Wall Street jobs, and he would not be surprised to fill 20 in the next two years.

"When a person as good as Fischer Black goes to Wall Street, that makes it a little more . . . fashionable," said Myron Scholes, a finance professor at Stanford who was Mr. Black's partner in developing the option pricing model. Mr. Scholes, 42, recently turned away a headhunter who tried to interest him in a position with a major firm.

Those professors who accept the call generally are hired to devise intricate strategies for hedging against risk. To do this they draw on the enormous variety of exotic financial instruments now on the market, the more complicated of which — options contracts on financial index futures and on stock indexes — first appeared in the past half decade. Employing a sophisticated mathematical analysis, the professors recommend ways to use combinations of these instruments to tailor risk to fit the case at hand.

Mr. Silber, for example, is working on ways to measure and coordinate the risk exposure of Lehman's various departments. Mr. Jones is developing new ways for Kidder, Peabody to use options on Treasury bond futures and fixed-income instruments.

The current fever of high-tech analysis dates back to the inception of modern portfolio theory in 1952, when Harry Markowitz, then an economics student at the University of Chicago and now a finance professor at the City University of New York, postulated that the two critical factors in determining the value of a portfolio were risk and return. That insight "was the opening gun for the high-tech approach to finance," explained Merton Miller, a finance professor at Chicago. The tricky business of measuring risk and return led to the flood of statistical techniques with which academics have tried to describe and predict the market's behavior.

In applying their expertise to practical problems on Wall Street, many academics are, in a sense, servicing their own creations. Ten and 15 years ago, they taught the theories and terminology of modern finance to students who are now partners at investment banking concerns or are their clients. These former students have helped bring about the current wide acceptance of modern finance techniques on Wall Street.

Now the ex-students are turning to their old professors for further guidance to give them a competitive edge. Some of the professors even helped concoct the instruments they work with. For example, Mr. Jones helped design the Standard & Poor's 500 futures contract for the Chicago Mercantile Exchange.

The professors offer an expertise that younger, and less well-paid, researchers are not often able to provide. Robert E. Rubin, the Goldman, Sachs partner who recruited Mr. Black to the firm and who is now his boss, said the professor "had thought his way through a lot of problems that a younger person wouldn't have."

The Black-Scholes model, for example, is designed to determine the most appropriate price for an option. It employs a mathematical formula based on such factors as the volatility of a stock's price and an option's expiration date.

Steven R. Fenster, 41, managing director of Lehman Brothers, said it is worth looking for academics with the most sophisticated backgrounds because "if they're going to have an impact, they'll be affecting the movement of billions of dollars. It makes a difference if they're right or not."

The professors, especially those who were senior faculty, command impressive salaries and bonuses on the Street, with most estimates placing them in the $200,000 to $600,000 range. This compares with the roughly $50,000 that new business school graduates can expect to be paid.

The high salaries paid former colleagues have generated intense interest among those left behind on the campuses, where senior professors earn about $65,000 to $75,000. "It comes up about every other day over lunch," says Max Hartwell, a visiting economic historian at the University of Chicago.

The big salaries are worrisome to some business school administrators, including Abraham J. Siegel, dean of M.I.T.'s Alfred P. Sloan School of Management, who is nervous about further raids on his faculty. "There's no way I can compete with the salary Goldman, Sachs will pay Fischer Black," he said.

Mr. Siegel added that business schools will have to compete in other ways, such as offering professors more time to do outside consulting work and making sure they get "psychic income from working at what they want to do."

SALARY is not the only allure of a job on Wall Street, however. Many senior professors have long had lucrative consulting arrangements. Some augment their teaching income in other ways. Mr. Silber, for example, was a floor trader on the New York Futures Exchange while a professor at N.Y.U. Mr. Black published a newsletter on options.

Some of the motivation to leave academia is attributed instead to a growing sense of frustration among finance scholars. After a spate of exciting breakthroughs in the 1950's and 1960's involving portfolio valuation, securities pricing and corporate debt and equity structure, the last heady moment came with the development of the Black-Scholes option model in the early 70's.

"There has been no stimulating big breakthrough in the last couple of years. We're all sort of chewing around the edges," said Terry Marsh, a junior finance professor at M.I.T.

Indeed, both academics and investment bankers hope that a sort of cross-fertilization of ideas will result from professors spending time in the real world.

"If you want to know something about trading costs, do it," said Eugene Fama, 45, a University of Chicago finance professor who is one of the leading figures in the empirical branch of modern financial theory. This approach involves the testing of theoretical models by examining vast quantities of data about financial instruments.

Since last summer, Mr. Fama has been trading fixed-income instruments part-time for Dimensional Fund Advisors, an investment management company. He said his work in the real world has inspired him to write four academic papers, and given him ideas for four or five more.

Whether the road from academia to Wall Street will become a well-traveled one is still an open question, however. Mr. Black said he thinks there is a limit to the number of academics Wall Street can absorb.

Many investment bankers agree. Henry Kaufman, a managing director of Salomon Brothers, says academics don't always fit in because they like to talk about perfect financial markets, while Wall Street looks for imperfect markets that offer profit opportunities. "The one problem all academic people have in the world of finance on Wall Street," said Mr. Kaufman, "is that we have to take imperfect information and make perfect decisions."

The academics, though, seem to be rolling with the punches.

Mr. Kohlhagen, who came to Lehman Brothers last year, recalled that on his second day on the job, he was asked by a colleague to analyze the selling price for a new product. He worked on the problem for four days, and when he came back with the answer, the colleague had long since forgotten the question. Mr. Kohlhagen says that he has since adapted to Wall Street's pace.

Last week, Lehman Brothers agreed to be acquired by Shearson/American Express. Although both Mr. Silber and Mr. Kohlhagen said they expect to stay on, the world around them is reeling.

"I came here to learn about the management of financial organizations," Mr. Kohlhagen said, "and I'm learning about it." ■

The New York Times/Carl T. Gossett

William L. Silber

LEAVING THE CLASSROOM: LESSONS FROM THE REAL WORLD

In recent interviews, Fischer Black and William L. Silber described their reactions to working in investment banking after long careers as professors of modern financial theory. The following are excerpts from those interviews.

Fischer Black: "I'm nervous about whether I can do the job . . . that I will end up being relative to these people the way I thought some of my colleagues were relative to me in the academic world — too abstract and academic . . . .

"If you have a position in a stock, you can hedge by selling the stock, by selling calls, by buying puts or by selling futures contracts. I've been spending a fair amount of time looking at those alternatives and the advantages or disadvantages of situations in which you would do one rather than the other . . . .

"A lot of my colleagues, if they wanted to know how things worked, would gather some numbers and do statistical analysis to find out, say, why corporate executives act in some particular way. Toward the end of my academic career I used to say if you want to find out why they act that way, ask them. Not all of them will know why they're doing it exactly, or be able to express it clearly, but some will. In this job I'll have a chance to ask them."

William L. Silber: "I was brought in primarily to look at the risk exposure of the firm's trading positions. A trading firm winds up holding securities in the process of making a market; you're there to provide liquidity services to customers. It's possible to view this whole operation as one big portfolio of securities, and one of the most interesting jobs laid out for me is to measure the risk exposure of the firm's trading positions. It's basically a simple extension of portfolio theory . . .

"Academics have a funny way of thinking about things at times. When you think about things in a different way, you can sometimes generate an interesting idea, an idea for a new product. Academics usually ask 'why?' rather than 'what?' A trader will ask 'Where's the market?' 'What's the price?' An academic will look at why the price is so high. And if you understand why, sometimes you can structure a problem, or structure a product, in a very different way that most people would not think of."

For example, "most people view equities as a claim on the payment stream of a particular corporation. It has long been recognized by option theorists that equities can also be thought of as an option to sell the whole company to the bond holders. The way you do it is you default, and then the bond holders own the company. That's a very strange perspective, isn't it? And yet it's perfectly appropriate to value equities as including that option. You never know whether that perspective will spark a line of thinking that will lead to a new product, or an enhancement of an existing product, although it's not practical at the moment."

It's not too late:
Scudder IRA

■ Mail your Scudder IRA contribution by midnight, April 16, or your extended filing date, and save on 1983 taxes. If you have already reached your 1983 limit, it's not too early to contribute for 1984 and start earning tax-deferred income.

Investment Choice and Flexibility

■ Scudder IRA offers you a choice among 8 no-load mutual funds, flexibility to change investments, and a low $240 minimum. There are no set-up or maintenance fees.

SCUDDER IRA
Scudder Fund Distributors, Inc.
345 Park Ave., 26th fl., New York, NY 10154
Call, write, or visit the New York Scudder Funds Center.
New Extended Hours 8:00-6:00
212-350-8370 • 800-453-3305

Name
Address
City State Zip
Call or write for a prospectus with more complete information about management fees and expenses. Read it carefully before you invest or send money. 02-12

Hear Milton Friedman Discuss the 1984 Economic Outlook.

On April 26th, Oppenheimer offers you the rare opportunity of being with Nobel Laureate and Oppenheimer consultant Milton Friedman as he discusses what the $170 billion deficit means, where interest rates are headed, and how the economy will fare up to and beyond the election.

A small number of places at this auspicious gathering are still available. If you would like to attend, please write on your letterhead or send your business card with this notice to Ms. Carol Rovak, Oppenheimer & Co., Inc., One New York Plaza, 25th Floor, New York, New York 10004.

Registration will take place in the afternoon at the Pierre Hotel. Coffee will be served. We suggest you reserve your place immediately.

Oppenheimer & Co., Inc.
Uncommon Sense℠
Members New York Stock Exchange, Inc.
One New York Plaza, New York, New York 10004
Member SIPC

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.