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# Investment Writing Update

*Writing that's an investment in your success*

**November 2007**

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Blame it on liquidity, says MIT's Lo

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You can blame August 2007's meltdown of quantitative equity funds on a lack of liquidity, says [Andrew Lo of MIT](#) and [AlphaSimplex](#). Lo spoke on "[What Happened to the Quants in August 2007?](#)" to the Boston Security Analysts Society in the packed ballroom of Boston's Taj Hotel on October 29, 2007. His presentation was based on his 58-page paper with the same title, which he co-authored with Amir E. Khandani, his graduate student at MIT.

The sharp decline in quantitative equity funds on August 7, 8, and 9--which was followed by a rebound on August 10--sparked Lo's interest. Funds gave up 25% of their capital in just three days. On the first three dates, quantitative funds registered daily returns of -4.6% (more than 2 standard deviations from the mean return of 60 basis points), -11.3% (more than 5 standard deviations), and -11.4% (more than 5 standard deviations) respectively. The probability of such a series of [tail events](#) is infinitesimal, says Lo. Then, these funds returned 24% on August 10. "This week stands out like a sore thumb," says Lo.

Lo decided to test what he calls an unwind hypothesis that:

- Losses were due to a rapid, large unwinding of a market-neutral quant fund
- Liquidity was likely forced because of fire sale prices (subprime?)
- Initial losses caused other funds to reduce risk and de-leverage

The results support Lo's conjecture. Moreover, he figures that another incident involving rapid unwinding is likely--not right away, but perhaps in two years, when managers have forgotten the lessons of August 2007.

Lo invited the investment managers in the audience to disagree with him. Nobody took him on.

## **Keep it short and sweet**

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Here are examples of how you can shorten investment commentary--or any writing--for greater impact.

Kill adverbs

- Before: Investors unsuccessfully tried to liquidate bonds.
- After: Investors failed to sell bonds.

Use active verbs instead of passive

- Before: The stock market rose due to the impact of the Fed's cut in the fed funds rate.
- After: The Fed's interest rate cut drove the stock market higher.

Kill excess words

- Before: With only two more Fed meetings remaining in 2007 (on Oct. 31 and Dec. 11), the issue remains whether the Fed's unexpectedly aggressive 50 basis point cut in the fed funds rate last week was intended to shock the markets to restore confidence or, they are concerned that the underlying economic conditions are worse than most of us think.
- After: The meaning of the Fed's 0.5% cut in short-term interest rates is not clear. The Fed may have made this unexpectedly large cut to restore confidence. Or, the Fed may be worried that the economy is in worse shape than most of us think.

You can [read more about the reasoning behind my edits to the last example](#).

Two more websites for travelers

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Traveling overseas? You can get convert U.S. dollars into foreign currencies and vice versa at [Coinmill](#). Before I travel, I like to print a Coinmill rate table for my wallet.

Before a recent trip, the [Universal Packing List](#) prevented me from overlooking some key items in my suitcase. This website generates a packing list customized to the weather and other characteristics of your travel destination.

**Analysis of Rangel's tax reform proposal**

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The Tax Policy Center is a good source for analysis of tax issues. For example, in "[Distributional Effects of the Major Individual Income Tax Provisions of H.R. 3970](#)," it tackles the tax reform proposal introduced on Oct. 25 by House Ways and Means Committee Chairman Charles Rangel.

Strategic relationships can boost revenues--and client satisfaction--for estate planning attorneys, says DKE Inc.

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Estate planning attorneys can boost their revenues--and client satisfaction--through strategic relationships with investment advisors, says my client, DKE Inc., in their white paper. You can [access the white paper by clicking on this link](#) and then clicking on "Attorney Strategic Relationships." Or, go to <http://dkeinc.com>, click on the "TeamWorks" tab at the top of the page, then click on "White Papers" in the left-hand column, then click on "Attorney Strategic Relationships."

**Quick Links...**

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- [Susan Weiner Investment Writing Website](#)
- [Investment blog by Susan](#)
- [Marketing and communications blog by Susan](#)

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