

Editorial

Dear reader,

For the last issue of this semester, it is time to make a first assessment of the club activity.

We did our utmost to provide you with the most updated and relevant financial news throughout the last four months.

We developed new long-lasting partnerships with Rue Du Commerce and Wall Finance that only began to show their benefits.

We participated to the organisation of test sessions so as to enrich your skills and qualifications: the BAT session took place on the 17th of November while the AMF certification training session is coming in January 2012.

We continued our existing partnerships and organised events

that we hope you appreciated: the Wall Street Traviat 2.0 on the 9th of November and the investment challenge throughout the month of November that has been a great success!

Speaking of the investment challenge, you will find its main results in the present issue. Besides, you will be able to read a summary of the recent conference with Adrien Bouvier, co-founder of the website WallFinance, on the jobs in Finance. Obviously, we also provide you with financial news, here about Credit Rating Agencies and High-Frequency Trading.

Look out for the second semester as we're preparing even more surprises for you!

Meanwhile, enjoy your Christmas Break and your reading!

Benoît D'Halluin

Conference with Adrien Bouvier: jobs in Finance

In association with the Corporate Talks, we organised a conference on jobs in Finance with Adrien Bouvier, co-founder of our partner website WallFinance.

The session took place on December 8th in room A021 and all the participants could get during nearly two hours very useful information on, above all, market finance employments.

Thanks to his experience and unbiased point of view, Mr. Bouvier provided us with relevant insights on specific positions such as trader, broker, sales or risk manager.

We dissected the basic steps and actors' roles involved in a deal (of a structured product, for instance) so as to get a better comprehension of what we would be led to do in our future career.

Our intervenant's youth and humour undoubtedly allowed all the participants to have a pleasant moment while learning crucial information.

We certainly expect to arrange similar conferences in the second semester and we hope even more participants to come forward!

For further information on jobs in Finance, don't hesitate to visit wallfinance.fr if you haven't done it yet!



Benoît D'Halluin

Investment challenge: the results!

Many thanks to all of the players!

This new session has encountered a great success and has been very intense until its very end.

The Club congratulates the first ten players for having realized the greatest gains, with special regards to "KervielSon" who distinguished his aptitudes throughout the competition, finishing with a nearly 26% gains performance. He is the winner of a netbook!

Every winner will be able to take his prize on the 13th of December at 1pm in room B253.

The top 10 ranking with real names/IESEG year/prize will be displayed on the Club website starting from the 14th of December.

We would like to inform you that from now on, a player will have to register with his IESEG webmail address. Multi-accounts players will be automatically disqualified in the next sessions.

Thank you again for participating, and watch out for the next semester session!

Benoît D'Halluin

| Classement | Pseudo du joueur | Montant du portefeuille | Gains (%) |
|------------|------------------|-------------------------|-----------|
| 1 | KervielSon | 125 961,80 | 25,96% |
| 2 | valentindeniau | 118 627,67 | 18,63% |
| 3 | vanceslas | 117 959,02 | 17,96% |
| 4 | Wonderland | 116 507,15 | 16,51% |
| 5 | max_l | 115 559,29 | 15,56% |
| 6 | Homies | 114 916,23 | 14,92% |
| 7 | Olive33 | 114 528,13 | 14,53% |
| 8 | chiboudoucou | 114 127,08 | 14,13% |
| 9 | sfranco | 114 039,75 | 14,04% |
| 10 | filafil | 114 032,93 | 14,03% |

Rating a country: what a responsibility!

As we have seen in our daily newspaper the grade of a country becomes an international issue. When a country issues a new debt, investors want to know how risky it is to lend their money to this country; that is why credit rating agencies exist and help investors monitoring the risk. Standard & Poor, Moody's and Fitch are the three main actors in this sector.

The rating expresses the level of solvability of the country. Normally, the issuer of a bond has to pay a fee to grade his product, but for countries' debts agencies do it for free. Each credit rating agency uses a different methodology but we can identify the following main criteria. Rating agencies analyze the global environment of the country. The main fields they monitor are the monetary and fiscal policies, as well as the country's economic situation and stability. They use both quantitative and qualitative data to perform their rating. It is a distinctive point from the financial "scoring". After the compilation of all these data, conclusions are made. The report is submitted to a "rating committee" of the agency which is then in charge of the notation itself. Thereafter, any event likely to change the grade will place the country on review; during this period additional information will be requested. The review can imply an upgrade, a downgrade or no change from the initial grade.

Credit Rating Agencies provide several benefits to the market. One of the main advantages is that agencies allow reducing the asymmetric information between lenders and borrowers. Due to the decrease of asymmetric information, investors will be more eager

to invest in a more global area. The existence of agencies encourages actors to invest into companies which then inject this money into the real economy. The agencies' roles are now mandatory in the global financial world where it is harder to know the different agents.

However, the rating system has both conjectural and structural problems. One of the main problems is that agencies rank structured products containing a mix of junk bonds and less risky bonds as a new product, so that the risk from junk bonds does not appear on the ranking. This is one of the causes of the Subprime crisis in 2007. 95% of the market is ranked by the three largest agencies. This oligopolistic situation is a danger for the market.

As we all know, Greece has been downgraded during this summer but it was not the first time in history. In fact in 1931, Moody's downgraded Greece, so that interest rates rose immediately. Consequently, the Drachma was devalued and the country ended up bankrupt in 1932. The Greeks were hit by inflation and riots. In 1936, a coup d'état took place where General Metaxas imposed a military dictatorship. The same year Moody's expressed regret about the events and announced the end of sovereign debt rating!

Let's hope that history will not have the same consequences and does not repeat itself!

Charles Devevey

Is High-Frequency Trading threatening the Stock Exchange?

High-frequency trading (HFT) is the use of powerful computers that run on complicated algorithms to detect market inefficiencies and automatically buy and sell equity. Technical capacities enable these computers to own equity not for a few minutes or hours as a trader would, but for fractions of a second.

High Frequency traders compete on the basis of speed, hoping to beat their competitors one cent at a time, and accumulate these extremely small gains fast enough to become very profitable. In 2009, 61% of the stock-market trading volume in the United States was done by the “quants” computers rather than by Humans. Europe and Asia are quickly catching up on this trend. We can therefore naturally ask ourselves: Is HFT dangerous? Does the stock exchange still resemble the economic reality if it is guided only by algorithms? Does High-Frequency Trading create instability or liquidity in the market?

On May 6th 2010, the Dow Jones Industrial Average plunged 9% only to recover its losses in minutes. This event is known as the “Flash Crash”. From that day, the public and journalists could see the direct effect of high-frequency trading on the stock exchange. Computers which were believed to be following the trend were now leading the trend. Since, people have complained, some governments have called for regulation and have asked to ban HFT; everyone, from economists to the French Senate Finance Commission or to the SEC, has investigated this issue.

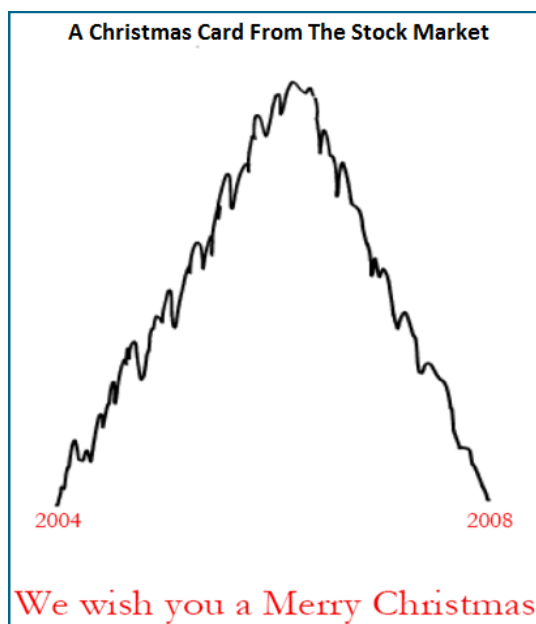
It seemed that the Stock Exchange was looking a little bit too much like the Matrix, where computers decided instead of us. Yet, let's talk about the facts. On May 6th, at 2:32 pm, a large mutual fund sold a huge amount of shares, and was then followed by the High-Frequency Traders. The cycle generated by the unexpected sell order made price cascade down 9% by 2:45pm. At 3pm, everything was back to normal, as the same HF traders bought back the shares.

If the High-Frequency Traders had not existed what would have happened? The huge sell order would probably have created some panic (panic is the new trend on Wall Street) and the Dow Jones price would have fallen by 4% or 5% before closing time. It would probably have taken a few days to get back to its true price, thus causing investors who needed to sell to lose money without any valid reason. Volatility would have been low, but the market inefficiency would have been higher. In the case of High-Frequency Trading, the volatility made more than a few investors panic, but in less than 20 minutes, the DJIA was back to its somewhat efficient price. And the “Quants” got to go to the Seychelles for vacation.

So what do you think? Is HFT another method bankers have discovered to win easy money on the back of the poor people or is it a great leap for finance? Feel free to discuss this on our Facebook topic:

Matthieu Rauscher

**The Iéseg Finance Club wishes you a merry
Christmas and a happy New Year!
See you all in the next semester!**



You would like to contribute to this newsletter?

Write an article, draw cartoons?

Or you've got a question?

Contact us!

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