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SECOND ANNUAL HARRY M. MARKOWITZ AWARD WINNERS NAMED BY JOURNAL OF INVESTMENT MANAGEMENT AND NEW FRONTIER ADVISORS

Winning paper provides a new, more accurate model for predicting financial distress and the performance of distressed stocks

Special Selection panel consists of Nobel Prize winners Harry M. Markowitz, Robert C. Merton, Myron S. Scholes, and William F. Sharpe

LAFAYETTE, Calif., (February 21, 2012) – *The Journal Of Investment Management* ("JOIM") and New Frontier Advisors, LLC ("NFA") announced today announced the winners of the second annual Harry M. Markowitz Awards.

Top recognition was awarded to John Y. Campbell, Jens Hilscher, and Jan Szilagyi for their paper, **"Predicting Financial Distress and the Performance of Distressed Stocks".** In the paper, the authors considered the measurement and pricing of distressed risk, using a new, more accurate model of corporate failure. Analyzing the performance of distressed stocks form 1981 to 2008, they concluded that investors in these stocks were not generally rewarded for the inherent risks, which included high return volatility and high market betas. They stated that, "Distressed stocks have had very low returns, both relative to the market and after adjusting for their risk," a characteristic that is present in all size and value quintiles.

In this time of market volatility and uncertainty, the pricing of financially distressed firms is very topical. Campbell et al develop an enhanced model for forecasting firm failure, document underperformance for the class of stocks, and estimate significant investment benefits of arbitrage strategies in the class.

Additional award winners were also announced: Harry Markowitz, Robert Snigaroff, and David Wroblewski were recognized for "**The Supply and Demand of Alpha"**, and, Eric Fielding, Andrew W. Lo, and Jian Helen Yang for **"The National Transportation Safety Board: A Model for Systemic Risk Management**".

In the Markowitz, Snigaroff, and Wroblewski paper, the authors analyzed both the supply and demand for alpha on the part of institutional investors and the money managers who served them. Using a large database of products they estimate how demand increases as a function of excess returns, and how the ability to produce such excess returns declines with increased assets under management (AUM). It concludes that alpha is positive for sufficient small AUM and negative otherwise. Their research found that positive alpha crossed to negative at an AUM of $300 million, a surprisingly small number.

The paper by Fielding, Lo, and Yang examines the National Transportation Safety Board (NTSB) as a model for addressing systemic risk in industries other than transportation, noting the agency's exemplary record in reducing fatalities. The paper notes that, "By allowing the participation in its investigations of all interested parties who can provide technical assistance, the NTSB produces definitive analyses of even the most complex accidents and provides actionable measures for reducing the chances of future accidents." In this novel paper, Fielding et al propose that the NTSB can be a very useful template for systematically studying financial failures and improving responses over time. An NTSB for finance may dramatically improve our ability to recognize and deal with financial meltdowns as it has for the transportation industry.

The JOIM/NFA awards are unique in that final selection of the three papers recognition are determined by a Special Panel that consists solely of Nobel Prize winners Harry M. Markowitz, Robert C. Merton, Myron S. Scholes, and William F. Sharpe.

"Once again, we have had many terrific papers from which to make our selection for the second annual Harry M. Markowitz Awards," H. Gifford Fong, editor of the JOIM. "In particular, we were pleased to have Harry and his colleagues submit a paper this year. That it has been selected for recognition is testimony to the great work he continues to do."

"We are very pleased to be a sponsor of the Harry M. Markowitz Awards," Richard Michaud, President of New Frontier Advisors, Boston. "The awards are truly unique and a testament to the high quality of the Journal. We are particularly pleased that one of Harry's papers were recognized in this year's awards."

About the Harry M. Markowitz Award

Sponsored jointly by *The Journal Of Investment Management* and New Frontier Advisors, LLC, the Harry M. Markowitz Award recognizes the seminal and transcendent impact of Dr. Markowitz's work as a financial economist and mathematician on both theoretical finance and the practice of asset management. It was established in 2010 to honor his legacy and to support future research and innovation in practical investment management. Candidates for the annual award are selected by Editorial Board members from papers published in the *JOIM* each calendar year. Final selection consists of recognition solely by the panel of Nobelists.

Papers are judged based on their practical significance, technical excellence, and theoretical quality. The winner will receive a $10,000 honorarium. The two additional finalists each receive a Special Distinction Award and a $5,000 honorarium.

The awards will be presented at a dinner during *The Journal Of Investment Management*'s annual Spring 2012 Conference on March 11-13 at The Ritz Carlton in San Francisco. For more information on the conference or to register, please go to https://www.joimconference.com/conferences.asp. Attendance is limited.

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