Northfield Information Services
2009 Investment Seminar – London
Friday, November 6, 2009
To be held at The Institute of Directors
116 Pall Mall London, England +(020) 7451 3107

Northfield invites you to a seminar on recent advances in analytical techniques for the investment industry. The topics will be presented by Northfield's president, Dan diBartolomeo, and Northfield staff members, Daniel Mostovoy and Anish Shah. We are very pleased that Federico De Vita, PhD, Head of Quantitative Research at Acacia Research will present a view on linear factor models with both theoretical and practical insights.

Space is limited for this event. A prompt reply to confirm a place is advisable as previous events have been oversubscribed.

There is no cost to attend. However, donations to The Prince’s Trust are strongly encouraged. You can donate on-line at www.princes-trust.org.uk or call them from the UK on 0800-842-842. This is a very worthwhile organisation that makes a positive difference in the lives of many thousands of young people.

Please register online at http://www.northinfo.com. Please contact Neil Gallacher at: +44(0)20-7801-6250 or Neil @northinfo-europe.com with any questions.

Agenda

8:30 am  Continental Breakfast
9:00 am  Welcoming Remarks
9:15 am  Incorporation of Quantified News into Portfolio Risk Assessments
          Dan diBartolomeo, Northfield Information Services
Volatile conditions in financial markets require that risk assessments be updated in as timely a fashion as possible. To the extent that security price movements are the result of investors responding to new information, the fastest possible way to update risk assessments is to respond to the news flows themselves, rather than waiting to observe variations returns over time. In diBartolomeo, Mitra and Mitra (2009) we present a methodology for immediately updating factor risk models directly from the number, length and content of news articles on market conditions and specific firms. The content of text articles is summarized in “sentiment” score based on a lexicon of more than two thousand words and phrases. We also provide empirical examples based on stocks in both the US and Europe that the inclusion of “news” into risk assessments improves risk assessment above and beyond the incorporation of implied volatility measures.

10:00 am  Linkages Between Credit Risk and Equity Risk
Daniel Mostovoy, Northfield Information Services
While the prima facie links are obvious, few analytical models used by equity managers incorporate information from the fixed income world such as changes in corporate credit ratings into assessment of equity risk. Fixed income portfolio managers are nearly equally guilty in ignoring valuable insights that can be gained from changes in forecast equity risk. Over the past several months, Northfield has created a rich new source of information by hand compiling a twenty year history of credit rating changes from all the major credit rating agencies. Based on this rich data, we will illustrate a “structural model” of credit risk as pioneered in Merton (1973) that uses Northfield equity risk data to forecast changes in corporate bond credit ratings. We will also show how the same model can be used to improve forecasts of equity risk levels based on option-adjusted yield spreads derived from corporate bond prices.
**10:45 am**  Coffee Break

**11:00 am**  Beyond linear factor models - a theoretical and practical insight  
*Federico De Vita, PhD, Acacia Research*

Linear factor models are an essential tool for the risk manager. However, non-linear behaviours sometimes need dealing with. The aim of this talk is twofold: to provide a coherent and complete theoretical framework for treating non-linearity; and to show when and how the theory should be applied in practice. Formulas are presented to describe what calculations should be carried out in an ideal world (with normally distributed and independent factors) and how this ideal world can be approximated from within the daily chaos of financial markets. Examples on how the theory works in practice are also shown.

**12:00 pm**  Lunch

**2:00 pm**  Mitigating Estimation Error in Optimization  
*Anish Shah, Northfield Information Services*

It has long been recognized that classical optimization techniques introduced by Markowitz are subject to substantial problems in the basic analytical assumptions. In May 2009, Northfield added a suite of analytical enhancements to our Open Optimizer. The common goal among them is to improve the results of optimization when faced with extreme or imprecise inputs. This presentation first examines the various aspects of the problem, both fact and myth, then conceptually explains how optimization - any type of optimization - interacts with noisy inputs and, in particular, introduces bias. We then describe the new features in Northfield designed to mitigate these effects.

**2:45 pm**  Coffee Break

**3:00 pm**  The Mortgage Securities Collapse  
*Dan diBartolomeo, Northfield Information Services*

In 2007 and 2008, financial markets around the world declined severely from both the effect of a severe global credit contraction and the effect of a broad loss of investor confidence. A Northfield analysis circulated in 1998 pointed out the severe technical problems with the methods by which Moody’s and other rating agencies were assigning credit ratings to collateralized debt obligations, including the sub-prime mortgage securities whose failure triggered the eventual credit crunch. In this presentation, we will review the key analytical failures of the rating agencies, investment banks and asset managers and illustrate how our analyses were able to identify risks that others did not perceive.

**4:00 PM**  Concluding remarks

**4:30 PM**  Afternoon Refreshments

A variety of post seminar refreshments will be available, plentiful and well deserved!