

MILA GETMANSKY

MASSACHUSETTS INSTITUTE OF TECHNOLOGY SLOAN SCHOOL OF MANAGEMENT

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EDUCATION

- Ph.D. MIT Sloan School of Management, Management, December 2003 (expected)
- B.S. MIT, Chemical Engineering Major and Economics Minor, 1998. Tau Beta Pi.
GPA 4.8/5.0

APPOINTMENTS

Post-Doctoral Associate, Laboratory for Financial Engineering, Department of Finance, MIT Sloan School of Management, 1/04-7/04

ACADEMIC INTERESTS

Empirical Asset Pricing, Financial Institutions, Investments, Financial Econometrics, System Dynamics, Liquidity, Financial Crises, Hedge Funds

PUBLICATIONS

An Econometric Model of Serial Correlation and Illiquidity in Hedge Fund Returns,
Co-authored with Andrew W. Lo and Igor Makarov, 2003 (Forthcoming, Journal of Financial Economics)

RESEARCH PAPERS

The Life Cycle of Hedge Funds: Fund Flows, Size and Performance, 2003 (Job Market Paper)

Limits to Arbitrage: Understanding How Hedge Funds Fail, 2003

The Dynamics of Global Financial Crises,
Co-authored with Kevin Amonlidviman, Andrew W. Lo, and Rishi Kumar, 2003

An Overview of Major Hedge Fund Collapses,
Co-authored with Andrew W. Lo, 2003

Extrapolating Expectations: An Explanation for Excess Volatility and Overreaction,
Co-authored with Jannette Papastaikoudi, 2002

RESEARCH AND TEACHING EXPERIENCE

2/01-Present Research Assistant for Professor Andrew W. Lo - Hedge Fund Performance

- Analyzed performance for different investment strategies, developed models that explain high correlation in hedge fund returns, and investigated hedge fund failures. See abstracts below.

2/02-6/02 Teaching Assistant for Professor James H. Hines - Applications of System Dynamics

- Held weekly recitation sections, conducted weekly modeling exercises.

2/01-6/01 Teaching Assistant for Professor Andrew W. Lo - Investments

- Held weekly recitation sections, graded exams and problems sets, conducted computer exercises.

6/00-8/00 Research Intern, Deutsche Asset Management Quantitative Research Group, New York, NY

- Devised a model for measuring market impact of large trades and wrote a software program to be used by traders in the Deutsche Asset Management Division for managing indexed investment portfolios.

1/00-2/01 Instructor – Business Dynamics

- Developed and taught the course to undergraduate, MBAs and doctoral students.
- Organized exercises and invited speakers from academia and industry.

9/99-2/01 Research Assistant for Professor Andrew W. Lo - Global Financial Crises

- Analyzed the “Hall of Shame,” financial institutions that failed. Developed dynamic models for failures of a generic bank and a hedge fund. Also, developed a model for transmission of financial crises. See abstracts below.

6/98-8/98 Research Assistant for Professors Charles Fine and Nelson Repenning - Strategic Decisions within a Firm

- Developed a dynamic model of vertical and horizontal integrations within a firm. Used the model to explore optimal strategic decisions for company integrations. Research cited in “Clockspeed: Winning Industry Control in the Age of Temporary Advantage,” Reading, Massachusetts: Perseus Books, 1998.

PROFESSIONAL ACTIVITIES

Referee

Journal of Risk, System Dynamics Review

Presentations at Professional Meetings

2003 Annual Meeting of the Western Finance Association (presenter)
2003 Annual Meeting of the Financial Management Association (presenter and discussant)
2003 MIT Battery March Finance Seminar (presenter)
2003 MIT Laboratory for Financial Engineering Seminar Series (presenter)
2003 International System Dynamics Conference, New York, NY (presenter)
2002 MIT-SUNY, Albany PhD Colloquium (presenter)
2002 International System Dynamics Conference, Palermo, Italy (presenter and session chair)
2001 International System Dynamics Conference, Atlanta, GA (presenter)
2000 Methodology Conference, University of Texas at Austin (presenter)

Invited Presentations

Boston University (2003)
University of Massachusetts, Amherst (2003)
Temple University (2003)

Memberships

American Finance Association
Financial Management Association
Western Finance Association

HONORS, SCHOLARSHIPS AND AWARDS

MIT Sloan School of Management Fellowship, 2003
National Science Foundation Graduate Fellowship, 1998-2000, 2002-2003
Tau Beta Pi, 1998

INTERVIEWS AND MEDIA APPEARANCE

Wall Street Journal, March 25, 2003
CMI Gala, Invitee and Presenter, London, England, 2003
Making Money Work Edition of Open Door, MIT Alumni Association, 2002

EXTRACURRICULAR ACTIVITIES

Finalist in MIT \$50K Entrepreneurship Competition, 2003
MIT Russia Business and Technology Initiative, President and Founder, 2002

THESIS COMMITTEE AND REFERENCES

Professor Andrew W. Lo (Chair)
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Professor James H. Hines
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ABSTRACTS OF PUBLICATIONS AND WORKING PAPERS
MILA GETMANSKY

PUBLICATIONS

An Econometric Model of Serial Correlation and Illiquidity in Hedge Fund Returns,

Co-authored with Andrew W. Lo and Igor Makarov, 2003 (Forthcoming, Journal of Financial Economics)

Abstract: The returns to hedge funds and other alternative investments often have high serial correlation, in sharp contrast to the returns of more traditional investment vehicles such as long-only equity portfolios and mutual funds. In this paper, we explore several sources of such serial correlation and show that the most likely explanation is illiquidity exposure, i.e., investments in securities that are not actively traded and for which market prices are not always readily available. For portfolios of illiquid securities, reported returns will tend to be smoother than true economic returns, which will understate volatility and increase risk-adjusted performance measures such as the Sharpe ratio. We propose an econometric model of illiquidity exposure and develop estimators for the smoothing profile as well as a smoothing-adjusted Sharpe ratio. For a sample of 908 hedge funds drawn from the TASS database, we show that our estimated smoothing coefficients vary considerably across hedge-fund style categories and may be a useful proxy for quantifying illiquidity exposure.

RESEARCH PAPERS

Life Cycle of Hedge Funds: Fund Flows, Size and Performance, 2003

Abstract: Since the 1980s we have seen a 25% yearly increase in the number of hedge funds, and an annual attrition rate of 7.10% due to liquidation. This paper analyzes the life cycles of hedge funds. Using the TASS database provided by the Tremont Company, it studies industry and fund specific factors that affect the survival probability of hedge funds. The findings show that in general, investors chasing individual fund performance decrease probabilities of hedge funds liquidating. However, if investors follow a category of hedge funds that has performed well, then the probability of hedge funds liquidating in this category increases. We interpret this finding as a result of competition among hedge funds in a category. As competition increases, marginal funds are more likely to be liquidated than funds that deliver superior risk-adjusted returns. We also find that there is a concave relationship between performance and assets under management. The implication of this study is that an optimal asset size can be obtained by balancing out the effects of past returns, fund flows, market impact, competition and favorable category positioning that are modeled in the paper. Hedge funds in illiquid categories are subject to high market impact, have limited investment opportunities, and are more likely to exhibit an optimal size behavior compared to those in more liquid hedge fund categories.

Limits to Arbitrage: Understanding How Hedge Funds Fail, 2003

Abstract: Even if arbitrage opportunities can be found in statistical sense, they might not be exploitable. This paper models such limits to arbitrage in the framework of a hedge fund. In particular, the paper explores how hedge funds fail given arbitrage opportunities. Dynamic relationships between a hedge fund, dealers, a bank, and market are modeled. As a case study, Long Term Capital Management is studied. The model explores a phenomenon that a fund manager who engages in arbitrage and uses high leverage might lose all his money before realizing positions at a profit. As assets go down in value, the firm has to post more collateral. If it is unavailable, this often leads to a hedge fund collapse. However, given that positions are well diversified and not closely correlated, leverage by itself does not lead to collapse of a fund. Correlated positions in the absence of leverage might lead to a loss, but are not subject to collateral collapse. However, the superimposition of both leverage and induced high correlation between assets can lead to collapse. The paper explores these "flight to quality" and "collateral collapse" dynamics.

The Dynamics of Global Financial Crises,

Co-authored with Kevin Amonlidviman, Andrew W. Lo, and Rishi Kumar, 2003

Abstract: This paper presents a Markov chain model of the transmission of financial crises. Using bilateral trade data and a measure of exchange market pressure, a method to determine a set of transition probabilities that describes the crisis transmission dynamics is developed. The dynamics are characterized by one-month conditional crisis probabilities and the probability of a crisis occurring within one year. The framework allows for modeling and comparing various channels of contagion, such as investments and bilateral trade. Using macroeconomic data on 45 countries, the model predicts and gives insights into all of the financial crises that we studied: Mexico (1994), Asia (1997), Russia (1998), Brazil (1999), Turkey (2001), and Argentina (2002).

An Overview of Major Hedge Fund Collapses,

Co-authored with Andrew W. Lo, 2003

Abstract: This paper studies structural and statistical properties of major hedge fund collapses. Several variables such as investment and accounting strategy, crisis outcome, internal dynamics, fee structure, performance, leverage, asset types, geographical location of investments, transparency, personal characteristics of a hedge fund manager and relationships with brokers are analyzed.

Extrapolating Expectations: An Explanation for Excess Volatility and Overreaction,

Co-authored with Jannette Papastaikoudi, 2002

Abstract: In this paper, we explain excess market volatility by means of momentum and acting on analysts' forecasts. We show excessive price movements with respect to fundamentals can be caused either by "irrational" trend chasing behavior of investors, or by trading too often based on experienced analysts' forecasts (in case of continuous earnings). Price volatility depends on the prevalent investor type and on the type of analysts an investor listens to. Within our market framework, price setting mechanisms are introduced based on demand/supply balance and on trading strategies. In forming their demand, investors consider three factors: their beliefs about the intrinsic value of the marketed assets, past stock performance, and predictions of financial analysts of assets' price targets.