



# Business

FOR ALUMNI, PARENTS AND FRIENDS OF THE GABELLI SCHOOL OF BUSINESS



INSIDE  
**REGULATING RISK:**  
SQUEEZING THE PROFIT  
OUT OF BANKING  
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YOU CAN'T GO  
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AND ADVISE  
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YOU ON  
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SCHOOL.

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# RISK VS. REWARD



In any field, there is an art—and often a science—to operating within parameters. A ballet dancer is as graceful and acrobatic as he can be within the boundaries of physics. Architects and engineers design the most compelling skyscrapers that the strength of materials such as steel, concrete and glass will allow.

In this issue of *Fordham Business*, we examine how this principle applies to banks: how the world's behemoth financial institutions have come to operate in a post-2010 world of intense regulation. Within the fences that the U.S. government has newly built up around them, is it still possible for banks to make money? If the answer is yes, what internal staff and structural changes are institutions making to adapt?

The complex and evolving regulatory environment, the volatility of the stock market, and political change—especially the too-soon-to-predict 2016 presidential election—might have business leaders running from risk. Knowing the rewards that can come with appropriate risk, however, the question is what we can do to better understand risk, working artfully and responsibly within our boundaries.

At the Gabelli School, we are fortunate to have risk experts among our faculty. Each July, we offer a one-week executive seminar on compliance and risk management in partnership with Fordham Law School (visit [fordham.edu/execed](http://fordham.edu/execed) for details). These faculty members help us to visualize the landscape of what can and cannot safely be done, assess the tradeoffs, and ultimately make informed decisions.

The result, in an ideal world, is business that acts in the best interest of firms, shareholders and the public alike. We are in the midst of discovering what risk and regulation are going to mean for profit, internal organization and outcomes, but I hope the learning process provides long-range insight for our students and for all of us.

Sincerely,

Donna Rapaccioli  
Dean, Gabelli School of Business

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# NEWS



## Michael Price on value investing

If you're looking to make a good investment, you'd probably steer clear of stocks that are plummeting. But, according to Michael Price, president of the Price Family Foundation, Inc., and a managing member of the New York-based hedge fund MFP Investors, falling stocks could be worth a second look.

Price shared his insights on the investment methodology behind the success of professionals such as Warren Buffett and Mario Gabelli, BS '65, with a standing-room-only audience at the Gabelli School of Business on December 9. The lecture was part of a series sponsored by the Gabelli Center for Global Security Analysis.

Developed in the 1930s by Benjamin Graham, value investing involves buying stocks that are trading for less than their intrinsic value. The presumption is that the stock market overreacts to good and bad news, which means that even small setbacks could cause a



Photo by Joanna Mercuri

## Higher learning

George Thacker, CMO of Gerber Life Insurance at Nestlé, visited the marketing area faculty to kick off a new "train-the-professor" series focusing on cross-industry trends and challenges.

company's stock price to fall. If the company is strong, the price will eventually rebound.

To value investors, this temporary drop represents an opportunity to buy into a valuable company while the price is unusually low. The trick, however, is to scout around for companies that are in this situation.

"You want to go where the action isn't. When we read the newspaper in our office, we look for the earnings that disappoint, not the ones that increase," Price said.

"It's our job as value investors to pick through all the paper that Wall Street prints and find those pieces of paper, whether bonds or stocks, that are too cheap based on their underlying asset value."

## SWS team finishes second in stock-picking competition

Three members of Fordham's chapter of Smart Woman Securities—Lauren Kelly, BS '18, Lorem Basile, BS '18, and Elizabeth Fonger, FCRH '17—won second place in the national SWS Stock-Picking Competition, held at Fidelity Investments' Boston headquarters on December 4.

The contest required student teams to choose a stock, make a professional presentation to business-world judges about its qualities as an investment, and produce informed answers to the judges' questions—some of which



From left, Fordham University students Lauren Kelly, Lorem Basile, Emilie Frangione, Jenna Florendo, Jennifer Dunn and Elizabeth Fonger at the Smart Woman Securities Stock-picking Competition in Boston on December 4.

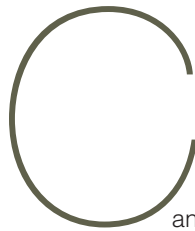
required the teams to predict how the stock would perform in hypothetical scenarios.

Fordham's silver-medal winners pitched shares in sportswear apparel company Lululemon. American Airlines was the choice of Fordham's other participating team, comprised of Jennifer Dunn, Jenna Florendo and Emilie Frangione, all BS '19.

Only Harvard University bested the Fordham students, who placed ahead of seven other finalist teams, among them Columbia University, University of California, Berkeley and University of Chicago.

The purpose of SWS, a national organization with 21 chapters, is to build the financial expertise of young women.

### Improving care for cancer patients



ancer patients may not always receive the level of care they need—or receive it in the most efficient way possible—but efforts are underway to change that.

This was the topic of a recent roundtable discussion at Fordham University, where industry leaders and academics joined up to talk about progress in the field.

As cancer care evolves, the healthcare industry is forging new standards of service and process. Roundtable participants, invited by Professor Falguni Sen's Global Healthcare Innovation Management

Center, offered examples from their organizations of how this is playing out.

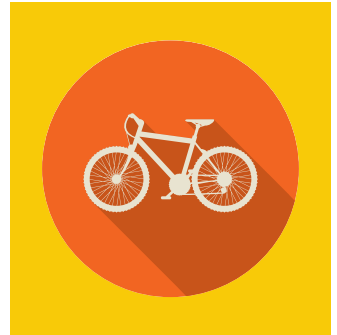
John Sprandio, chairman of oncology management services at Delaware County Memorial Hospital, said his institution has standardized the process of how patients report symptoms. With the support of effective IT systems, hospital employees are able to track all calls from patients, register the kind of call and record the outcome.

"It is standardization that has driven quality up and cost down," Sprandio said.

Randall Holcombe, deputy director of the Tisch Cancer Institute, pointed out that cancer patients need more care coordination than people with certain other illnesses—including survivorship care.

Mandi Pratt-Chapman, director of the George Washington University Cancer Institute, said she has distilled that care into a set of standards that might inspire caregivers countrywide.

Frances Cartwright, vice president of nursing and clinical quality of oncology services, and Bethann Scarborough, assistant director of ambulatory services, both from Mount Sinai, also participated in the roundtable.



### Getting around

First-year MBA students toured Citi Bike's Brooklyn headquarters in January for a behind-the-scenes look at how the bike-sharing company mobilizes its fleet of more than 7,000 cycles in New York City.

# News



## Students take first

Five MS in Quantitative Finance students placed first in the University Trading Challenge at Temple University this November, also winning “Best Presentation” and “Best Team Trading” honors.

## Social entrepreneur named 2016 Gabelli Fellow

In 2005, international business executive Patrick Struebi was touring mines in Peru when he experienced a life-changing moment. The deplorable working conditions and health hazards in the mines—as well as the workers’ low pay—forced him to evaluate his own career.

“I had an epiphany,” said Struebi, a CPA who held senior-level positions at Deloitte & Touche, Switzerland, and Glencore International. “I was making the rich richer and the poor poorer. I needed to make a serious change.”

He didn’t waste time. Struebi quit his job, sold his belongings and bought a one-way ticket to Mexico, where he considered his next career move.

An interest in agriculture led him to explore the farming industry. He soon discovered the poverty in which small-scale farmers lived, so he set to work and launched an organization called Fairtrasa. It helps Latin American farmers export



Photo courtesy of Patrick Struebi

Fair Trade and organic fruits around the world. Today, the company supports more than 6,500 farmers and is one of the largest organic and Fair Trade fruit exporters in that region.

Recently named a Gabelli Fellow at the Gabelli School of Business, Struebi is teaching *How to Change the World*, a course designed to inspire undergraduate business students to use their skills and careers for social good. He also will mentor new entrepreneurs at the Fordham Foundry, an incubator for startup companies.

“I want to demonstrate that there are alternatives to Wall Street,” said Struebi, who also is a social-entrepreneur-in-residence at Yale University. “I want to show students what entrepreneurship really means.”

## Big ideas grow in innovation lab



What if we could measure the productivity of “sharing economy” services such as Uber to learn if they are, in fact, displacing traditional businesses?

What kinds of sweeping efficiencies could we realize if we could rapidly analyze existing pharmaceutical drug patents to determine how likely a court is to validate a new one?

These are among the social issues being addressed in the Gabelli School’s recently launched Innovation Lab. A think tank for the development of tech-driven ideas, the lab provides a supportive environment

where students and faculty can explore solutions for business and social challenges through the lens of academic research.

Innovation Lab teams are using technology, big data and artificial intelligence to develop apps, research policy issues and predict potential outcomes in a number of industries, including healthcare, finance and law.

What does this look like in practice? The lab's founder, Professor RP Raghupathi of the Gabelli School's information systems area, offered the drug-patent project as an example.

"Using artificial intelligence techniques makes it possible to analyze data much faster," he said. "We are building a model that will help us quickly analyze large amounts of text data [from past cases]. When done manually, that is a very time-consuming process."

Innovation Lab members—about 60 students and faculty—meet once a week to formulate ideas, learn from guest speakers, and prepare to implement their projects, often in teams. They are working on empirical studies and technical tools that could develop into longer-term projects, white papers and even startups.

"Students develop their skills and their knowledge base in a progressive fashion using the apprentice-



Sean Sullivan, BS '16, and Margaret Desmond, FCRH '16, are learning about social innovation in a special program offered by nine New York City universities and the DO School.

associate-fellow model," Raghupathi said. "They will showcase their work not only at Fordham, but throughout the New York City professional community."

### Students spur social change through 'Innovate NYC'

This winter, two Fordham students joined peers from around New York City to devise an innovative solution for one of the city's toughest problems: access to critical resources for nonprofits and social enterprises.

Sean Sullivan, BS '16, and Margaret Desmond, FCRH '16, were selected to take part in Innovate NYC, a collaboration among nine New York City universities

and the DO School. The DO School, which is based in New York and Germany and supported by the Newman's Own Foundation, aims to spread the concept and impact of social innovation. Other participating institutions include Columbia University, the Cooper Union, the New School and New York University.

For seven months, Sullivan and Desmond will attend sessions at the DO School that focus on entrepreneurial methods and techniques for effecting genuine change. They also will create an innovative product or service that improves access to resources for nonprofits in New York City.

*Contributing reporters:*  
Claire Curry,  
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John Schoonejongen,  
Patrick Verel



### Journal appointment

Assistant Professor Miguel Alzola was appointed to the editorial board of *Business Ethics Quarterly*, a top journal in the field.



## IVAN ARGUELLO HAS BEEN IN THE GROCERY STORE BUSINESS FOR THREE DECADES. KEY FOOD MONTAGUE, SET IN THE HEART OF BROOKLYN HEIGHTS, IS FAMILY TO HIM.

**His father, a native of Nicaragua, bought the store—part of the cooperatively owned Key Food grocery store chain, a true New York City fixture—after leaving his country in 1979. Arguello, who took over following his father’s death, now runs it with a nephew, Enrico Palazio, and a host of longtime employees.**

Trusting a group of Gabelli School of Business graduate students with helping to craft his store’s future may seem like a leap for a family operation. But for Arguello it makes sense. After all, his future customers are very much like these students, and the business, he acknowledges, is changing.

A bit of serendipity underlies this collaboration. One of Arguello’s local customers happens to be Timothy Malefyt, a cultural anthropologist and clinical associate professor of marketing at the Gabelli School. Last year, Malefyt was searching for a consulting-project client for a course he teaches, *The Science of Shopping*. Arguello was looking around for ideas on how to adapt his business for newer demographics and shopping styles.

“Ivan and I just struck up a conversation,” Malefyt said. After a chat about how his students could help, the two agreed it would be a mutually beneficial experience.

The situation Arguello is facing reflects the kind of business challenge that Gabelli School students are encouraged to crack.

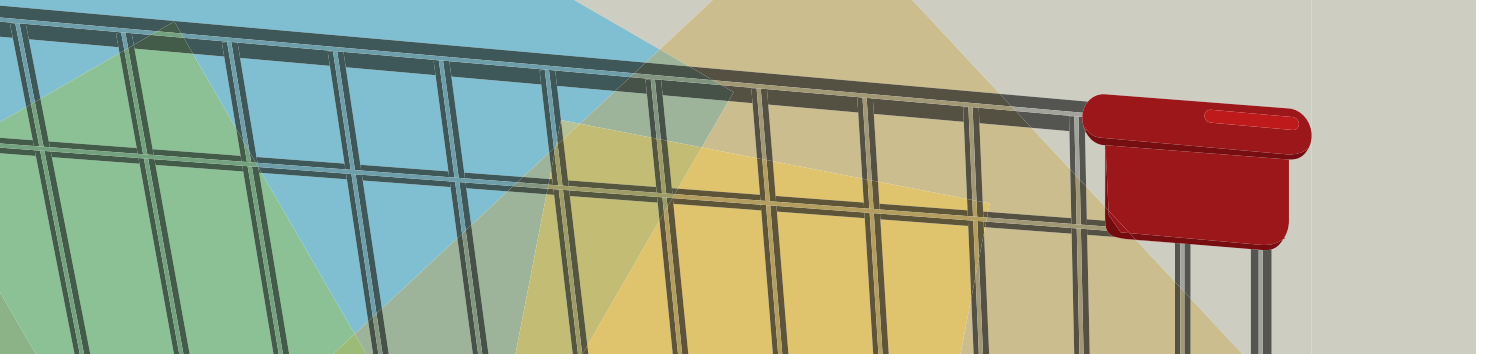
Part of the problem can be traced to the human map of New York City. Brooklyn Heights is not the same place it was when Arguello first started working at Key Food Montague. The neighborhood was always affluent and established, but the explosion of Wall Street wealth has magnified those qualities exponentially. Real estate is untouchable, ruling out expansion. Well-off customers demand a level of convenience, service and even luxury from the grocery-shopping experience that no one did before.

“Our business is going through a transition,” Arguello said. Instead of shopping at one store for food needs, people spread their purchases across six or seven—including a perpetually mobbed Trader Joe’s and an expansive, glossy Whole Foods whose energy-generating windmills are visible from Brooklyn’s Third Avenue. Many busy New York professionals buy their groceries online, sending FreshDirect and Peapod trucks on delivery missions throughout the five boroughs. Even in brick-and-mortar stores, Arguello said, millennials prefer to “grab and go.”



# SUPER MARKETING

FORDHAM STUDENTS FIND THE  
KEYS TO THE GROCERY BUSINESS



For advice, Arguello saw wisdom in turning to the demographic that represents Key Food's target customer, present and future, namely Gabelli School master's students, who are mostly in their 20s and 30s. "How do they shop?" he asked. "I have to listen to them."

Malefy's students visited the store in teams of four, taking in the landscape of the grocery business—and of the store itself. Arguello and Palazzo showed them the locations of Key Food's best sellers, including prepared foods and specialty cheeses. Arguello explained why increasing the shop's physical footprint, a seemingly simple solution, was in fact a non-starter: With the store's square footage spread over four adjacent buildings, each hemmed in by other structures, he simply needed to make the most out of the real estate he had.

"You've got to realize, this is the city," Arguello told the students.

After the site visit, students began research of their own. They analyzed data on finances and inventory, prepared demographic and competitive analyses, and dropped in on Key Food Montague's nearby competitors, such as Gristedes, Trader Joe's, Garden of Eden, and even Brooklyn Heights' other Key Food, located a few blocks south on Atlantic Avenue. They observed customer behavior and traffic patterns and interviewed customers about their shopping experiences and expectations.

All of this work meshed perfectly with Malefy's goals for the course.

"I wanted the students to examine the store from both the *emic* and *etic* perspectives," Malefy said. "Emic refers to looking at the world from the eyes of the consumer. What is their experience? An *etic* approach is a more formal analysis of sales data, the competition and the neighborhood."

Both perspectives informed the students' recommendations. The *emic* outlook led students to suggest filling the store's entryway with aromas of cooking food to make patrons hungry. Ideas from the *etic* side included expanding the strong prepared-foods section and adding to the bank of refrigerators dedicated to craft beers, whose sales demonstrate their popularity with the Brooklyn Heights clientele.

Arguello was thrilled with what he heard, which was validating news for the students.

"It was a great project to have because we were able to get hands-on experience," said Matt Tuttle, MSMI '16. "Learning about how the store worked was very interesting to me, and it helped me realize how far we can take our knowledge of shopping and marketing into different areas of business."

Arguello is ready now to undertake the store's first major renovation in 18 years, and he seemed excited about where the Gabelli School research would help to take his business.

"Hopefully you'll visit us within a year," he told the students, "and you will see the difference."

*By John Schoonejongen*

By Stevenson Swanson

# REGULATING RISK:

SQUEEZING  
THE PROFIT  
OUT OF  
BANKING

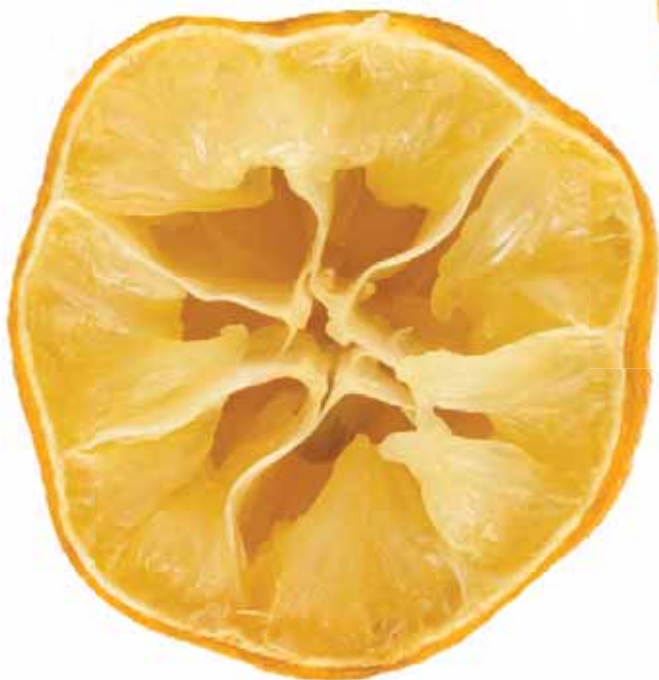
It has become a rite of spring, like March Madness in college basketball or the annual spring-break migration of undergraduates to sunny southern beaches. Every March, the Federal Reserve announces the results of two “stress tests” that America’s biggest banks and other major financial institutions are required to undergo: the Dodd-Frank Act Stress Test, known as DFAST, and the Comprehensive Capital Analysis and Review, or CCAR. These data-intensive analyses are designed to determine whether a financial institution is prepared for a severe economic downturn like the financial crisis of 2007 to 2009—and has enough capital on hand to fund its operations in case of fiscal disaster.



## REGULATING RISK:

SQUEEZING THE PROFIT  
OUT OF BANKING

“BY FOCUSING ON THE INHERENT RISKS WHEN FINANCIAL INSTITUTIONS DO THE STRESS TESTS, THEY’RE BEING FORCED TO ASK THEMSELVES, ‘WHAT ARE WE REALLY IN BUSINESS TO DO?’”



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**T**he stress tests are among the most visible aspects of the reforms and regulations that have swept American finance in the last decade. Many of these measures were created by the Dodd-Frank Act of 2010, the most comprehensive financial reform legislation since the Great Depression. Among other things, it was intended to improve risk-management standards and practices at institutions deemed “systemically important,” or too big to fail.

There is a flip side to this new security: Complying with the new regulations has squeezed profits at banks, depressed their stock prices and, for many consumers, made it harder to get mortgages and other types of loans.

“There’s pre-2008 and post-2008,” said Jacqueline LiCalzi, Morgan Stanley’s global head of regulatory relations, at a recent Fordham panel discussion organized by Associate Professor N.K. Chidambaran and Anthony Palma, a Gabelli School adjunct instructor. “They’re two different worlds. Previously, the relevant federal agencies might each issue a few new financial rules a year. In the last five years, there have been over 250 rules passed in the United States alone in this space.”

This new reality helped at least one major financial player to decide that it no longer wanted to be in the banking business. Last year, General Electric announced plans to sell off much of its financial arm, GE Capital, whose \$500 billion in assets had made it the seventh-largest bank in the United States.

“GE Capital accounted for more than 40 percent of GE’s revenue, and yet partly because of these requirements, it’s getting out of the business,” said Mario DiFiore, an assistant dean in the Gabelli School’s undergraduate division, who also conducts risk management and compliance workshops for banks and governmental agencies around the world. “By focusing on the inherent risks when financial institutions do the stress tests, they’re being forced to ask themselves, ‘What are we really in business to do?’”

## TIGHTER INTERNATIONAL STANDARDS

The near-collapse of the U.S. banking system in 2008 puts the new regulatory picture in context. That year, the investment-banking giant Lehman Brothers went bankrupt, credit markets froze and businesses found it nearly impossible to borrow money to finance their operations. The U.S. government provided billions in bailouts to the likes of JPMorgan Chase, Citigroup, Bank of America and American Insurance Group—mammoth firms that were deemed so important to the economy that they simply could not go bankrupt.

In the aftermath, international banking standards were tightened under the terms of the Basel Accords, a set of recommendations by the Basel Committee on Banking Supervision that most of the world’s largest economies now adhere to.

Basel III, the latest version, requires banks to hold a higher percentage of their own capital in the loans they make, meaning they cannot borrow, or leverage, as much from other banks or investors to make those loans. Banks make money by lending at higher interest rates than they pay to borrow.

The capital requirement is now 10.5 percent, up from the pre-2008 level of 8 percent, and enforcement of this minimum is stricter, said Ren-Raw Chen, a professor of finance and business economics at the Gabelli School. Before the most recent crisis, banks could easily win regulators’ approval to lower the capital requirement significantly, sometimes to as little as 5 percent, by arguing that they had advanced risk-management procedures in place to keep them safe. But things are different now.

“After the crisis, the government became very strict about how banks could apply for a reduction in the capital requirement,” said Chen, an expert in stress testing and other financial modeling whose career has included stints at several investment banks, among them Lehman Brothers and Morgan Stanley. “So banks are not making money, because if they can’t borrow money, they can’t make money.”

# REGULATING RISK: SQUEEZING THE PROFIT OUT OF BANKING

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## DODD-FRANK: A “SWEEPING OVERHAUL”

Basel III may have tightened international banking standards, but the Dodd-Frank Act of 2010 went even further by restructuring the federal government’s regulatory system and generating hundreds of new rules for American financial institutions. Iftekhar Hasan, the Gabelli School’s E. Gerald Corrigan Chair in International Business and Finance, notes that, among other things, Dodd-Frank created a committee to evaluate systemic risk, bolstered oversight on executive compensation, and restricted U.S. banks from making certain kinds of investments.

“Simply put, the Dodd-Frank Act launched a sweeping overhaul of the U.S. financial regulatory system,” Hasan said. “The act is an attempt to create a much more stable financial system in America to protect taxpayers, investors and consumers.”

DFAST, one of the two annual stress tests, is an outgrowth of Dodd-Frank. Run by the Federal Reserve, it helps to assess whether institutions have enough capital to absorb losses and continue their operations during extremely adverse economic conditions, such as high unemployment and steep declines in gross domestic product, the stock market and real-estate prices.

The Federal Reserve developed CCAR, the other stress test, to evaluate institutions with assets of \$50 billion or more under a variety of economic scenarios for two conditions: that they can continue operating, and that they have planning processes in place that account for their unique risks. Under CCAR, banks also can propose to use some of their funds to raise dividends and buy back shares—provided they can prove to the Fed that they still will have enough capital to stay afloat if the economy takes a nosedive.

The Fed has shown that it is a tough grader on these tests. In 2015, out of 28 institutions mandated to complete CCAR, the Fed kicked back two banks’ submissions—Deutsche

Bank and Santander, a large Spanish bank—based on concerns about their capital plans. It also required Bank of America to shore up what it saw as weaknesses in its capital-planning processes.

“I actually think this is a fabulous thing,” said DiFiore, who spent many years working at the Federal Reserve Bank of New York, as well as at several large banks. “It’s really forcing banks and financial institutions to take a hard look at what kind of risk they can handle. When you think about it, isn’t that what we do as individuals? When we think about buying a house, don’t we think about what would happen if one person in the family lost a job?”

## THE 220-PAGE DIFFERENCE

The Dodd-Frank Act of 2010 also addressed another factor wrapped up in the most recent financial crisis: mortgage-backed securities. As real-estate prices ballooned in the mid-2000s, financial institutions adopted the practice of bundling mortgages into securities that could be bought and sold like bonds—except they were much more complicated, so even after scrutinizing a prospectus it was difficult to know how safe these investments really were.

Not very, it turned out: Many of the mortgages had been issued to home buyers whose incomes or credit histories would have disqualified them from getting a mortgage under typical circumstances. As foreclosures mounted, so did losses from mortgage-backed securities, and that played a large role in the near-bankruptcy of many financial institutions.

Under Dodd-Frank, the amount of information that must be included in a prospectus has increased dramatically. But, notes Brent Horton, a Gabelli School associate professor of law and ethics, the requirements only apply to mortgage-backed securities issued by private financial institutions. The government-backed mortgage giants Fannie Mae and Freddie Mac are exempt.

Horton pulls out a typical prospectus for a private mortgage-backed securities issue. It is 224 pages. A similar prospectus from Fannie Mae has four.



“When someone asks, ‘What difference does regulation make?’ well, it makes about 220 pages of difference,” said Horton, who believes that Dodd-Frank has all but killed the private-label mortgage-backed-securities business. “Someone has to do all of the work to prepare that prospectus. It’s an example of how complying with the securities law adds to the expense for the private institution and puts it at a competitive disadvantage.”

Horton favors amending the securities law to require Fannie and Freddie to meet the same standards as private institutions.

“Remember, Fannie Mae received \$116 billion in taxpayer dollars to help it survive [the last downturn],” he said. “Shouldn’t we know how our tax money is being used? That just comes down to basic ideas of fairness, the rule of law, and not treating issuers differently based on their connection to the federal government.”

## BALANCING PROFITS AND RISK

The demand for individuals with up-to-the-minute training in data modeling and analytics seems unlikely to abate. Chen pointed out that the flow of new regulations to implement various aspects of Dodd-Frank has not tapered off.

“They’re still making rules,” he said, referring to federal regulatory agencies. “Dodd-Frank is still a work in progress.”

Whether the regulations will prevent another financial meltdown is anyone’s guess, but it seems more than likely that other financial institutions, especially foreign firms, may follow GE’s example and decide that being too big to fail is too much work—and too expensive.

Not surprisingly, Chen said that one of the hot topics in finance and at business schools is optimal regulation: how to strike the right balance of rules that prevent financial disasters but allow banks to make a profit.

“Will regulation kill profitability?” Chen said. “Absolutely, yes. But if you don’t have regulation, banks can go bankrupt and hundreds of thousands of people can lose their jobs. However, without a healthy Wall Street, there is no Main Street. You have to let banks make money.”

*Stevenson Swanson is a New York-based freelance writer.*

## REGULATION’S RIPPLE EFFECT

**Tighter regulation of banks may not sound like a bad idea to many people, but stricter lending standards mean that for consumers, loans of all kinds are harder to get, whether it’s a mortgage to buy a new house or a loan to start a small business. That has a ripple effect throughout the economy, said Iftexhar Hasan, the Gabelli School’s E. Gerald Corrigan Chair in International Business and Finance.**

“With strict rules on credit, it’s harder for small companies to get financing, and a big part of the economy relies on small business,” he said. “The more difficult it is to get financing, the slower new jobs are created, and that impedes economic growth.”

One area where jobs are currently plentiful, ironically, is in risk management and compliance. The new regulations require personnel at financial institutions to implement them and regulators at government agencies to enforce them.

Between 2011 and the end of 2014, Citigroup added about 6,000 jobs in risk management. JPMorgan Chase announced in 2014 that it planned to hire more than 13,000 people to bolster its compliance efforts.

Stress tests alone are “an enormous amount of work for the banks,” said Mario DiFiore, an assistant dean at the Gabelli School. The tests demand detailed information from all aspects of a bank’s operations and run on sophisticated analytical models. “You need people who know the data modeling. Then you need people who can interpret the results from a business perspective on a trading floor or from a sales perspective. You need folks who know how to fix problems when they emerge.”

All of which, he notes, bodes well for Gabelli School students. Many Fordham business graduates have found jobs in risk management at New York’s biggest financial institutions.

—Stevenson Swanson

# Ideas

## Faculty Research

### Children aren't just online. They are on smartphones, tablets and mobile apps, for fun and for education.

One survey found that 75 percent of children under age 8 have access to a smartphone or tablet, exposing them to limitless information—and the possibility of encountering inappropriate content.

Movies and video games have standardized ratings, but there is no similar system that parents can use to determine whether a mobile app is appropriate for their child, according to **Yilu Zhou**, associate professor of information systems. While some mobile platforms do offer maturity ratings, they are extremely inconsistent.

Zhou won a National Science Foundation grant this fall to conduct a large-scale study that could ultimately influence new policies for ratings standards.

"Children are the most vulnerable population in the mobile environment," she said, but "there are not many protections. There's not enough research, yet children are using mobile phones and computers daily, even more than adults do."

Earlier studies about protecting children online sparked Zhou's interest in this area. Many software programs make it possible to control what children view on desktop and laptop computers. Not so for mobiles.

With 1.2 million apps available on Apple's iOS and 1.4 million through Google Play, Zhou views the problem as urgent, and she is excited that her NSF grant will support cross-disciplinary research to confront it.

"Most people nowadays are concerned about their personal privacy online," Zhou explained. "This goes beyond that. It's not a pure computing problem or a pure engineering problem. It's really a social issue."

The first step of the research involves using big data to analyze a few hundred thousand apps and compare ratings between iOS and Google Play, platforms that have different rating approaches. Zhou's team will use the resulting data to consider the basis for inconsistent ratings and identify factors that could raise a red flag—some of which go beyond the app's function itself.

"Even when an app has an appropriate maturity rating, you might encounter in-app advertisements that are definitely not appropriate for a child user," she explained. "We've seen



**Yilu Zhou**

*Associate Professor of Information Systems*

violence, sexual content and nudity." How is this possible? It may be because children are using their parents' mobile devices, and mobile advertising is not regulated in the same way as the broader advertising community.

Once the researchers collect initial data and conduct a statistical analysis, they will develop a simulated app to test and analyze in-app advertising data.

"This study is just the first step in looking into this phenomenon," Zhou said. "Most people assume the maturity ratings are reliable. But this is an area that requires more attention."

She hopes the outcome of this research will be reflected in policymaking to protect young users of mobile apps. It stands to raise awareness among mobile platform providers and developers

about the importance of evenly applied ratings and regulation in an environment that is continually evolving.

### The low-priced stock you just purchased has plenty of room to grow, right? That was part of its appeal and part of the reason you decided to jump in.

New research from Gabelli School Assistant Professor **Baolian Wang**, however, shows that your decision, if based solely on the room-to-grow theory, was probably misguided. In a paper titled "Nominal Price Illusion," to be published in a future edition of the *Journal of Financial Economics*, Wang and co-author Justin Birru, an assistant professor at Ohio State University's Fisher College of Business, found "widespread evidence that investors systematically overestimate the skewness of low-priced stocks."





**Baolian Wang**

*Assistant Professor of Finance and Business Economics*

In other words, that low-cost stock may have no more upside potential than a higher-priced one.

Wang and Birru's study sought to be the first to quantify the perception of investors and measure it against the actual growth of a stock. What they discovered was that stocks priced at, say, \$10 per share did not show measurably better growth, as a rule, than stocks priced at 10 times as much.

Even more significant was the finding that companies know the attractive nature of a rumored room-to-grow stock price and act accordingly.

"Firms appear to be well aware of the important role that nominal prices play in influencing investor perceptions, as they frequently engage in the active management of share-price levels in an apparent effort to cater to investor demand," Wang and Birru wrote in their paper,

which was presented at the American Finance Association's annual conference. In the mutual-fund industry, this long has been used as a gimmick to attract investors' money. Wang and Birru cited examples from Fidelity Investments, The Royce Fund, Robertson Stephens Advisors and Perritt Capital Management, ranging from 1989 to 2012.

Practically, the researchers' findings could help investors make better judgments on how to allocate their money.

**Social media often is accused of destroying the art of face-to-face interaction, especially among young people.**

**But is it?** New research by Assistant Professor **Bozena Mierzejewska** points to a more nuanced reality.

The goal of Mierzejewska's study, conducted with co-author Anne Suphan from Hohenheim University in Stuttgart, was to assess the



**Bozena Mierzejewska**

*Assistant Professor of Communications and Media Management*

impact of social-media use on students' well-being. The cross-cultural investigation included subjects in both the United States and Germany.

"A widely held assumption is that online communication will have deleterious effects on well-being," Mierzejewska said. "However, recent studies indicate that, as with many technological developments, social media can have both positive and negative effects."

Even after writing the resulting paper, titled "Happy Online and in Real Life, Too? How Social Media Interactions Affect Real Life Well-Being of Students in the US and Germany," it is still not clear to what extent activities on social-media sites influence offline life, Mierzejewska said. Research did, however, yield associations between social-media engagement and users' emotional states.

"Our study's major insight is that while both positive and negative effects happen, involvement in social media has a stronger indirect effect on the positive emotional outcomes," she said.

What about cultural differences? The authors found that German students were less likely to be affected by their participation in online activities.

"This can be explained by the privacy concerns that make German students less likely to share intimate or personal information on social media," Mierzejewska said.

She noted that the finding that social media does not significantly influence real-life social activities was a "striking result" of her research.

*Reporting by  
Claire Curry and  
John Schoonejongen*

# People

## HEAD OF THE CLASS

In the same way that practicing yoga provides her with spiritual and physical balance, **Elizabeth Cosenza's** role as **associate professor** and **area chair of law and ethics** at the Gabelli School of Business allows her to balance two passions: law and teaching.

After graduating *summa cum laude* with a double major in political science and French literature, Cosenza, FCRH '98, earned a JD at Harvard Law School. The former Truman Scholar then went on to practice securities law as an associate at Davis Polk & Wardwell LLP, a top corporate law firm.

Cosenza devoted her career to examining what constitutes corporate securities fraud—a rich and complex area of law that has become even more crucial in the past 15 years.

“Over the past decade, the Supreme Court has focused more on securities fraud, and Section 10(b) in particular,” she said, referring to the provision of the Securities Exchange Act of 1934 that prohibits an “act or omission resulting in fraud or deceit” in the sale of securities. “Given everything that has happened with these massive high-profile frauds and the financial crisis, it has not been a very good environment for ordinary investors.”

In the last few years, Cosenza has participated in several amicus briefs in connection with significant securities-related litigation. For instance, in *Halliburton Co. v. Erica P. John Fund, Inc.*, she joined, along with a number of prominent securities law scholars, an amicus brief filed with the U.S. Supreme Court. The brief attracted significant media attention and later was published by *The Harvard Law School Forum on Corporate Governance and Financial Regulation*. In October 2015, she joined another amicus brief that was submitted to the U.S. Second Circuit Court of Appeals in the high-profile *In re Goldman Sachs Group, Inc. Securities Litigation*.

Cosenza's connection to the Gabelli School dates to 2003, when she noticed an advertisement for an adjunct position to teach a course called Legal Framework of Business. The opportunity was appealing because before she decided on a career in law, she had planned to become a teacher.

She got the job—and quickly realized that teaching was her true calling. When a full-time faculty position opened up, she was chosen.



Photo by Lindsay May

“The students want to learn and do their best, and I want to inspire them,” she said. “I want to give them a return on their investment.”

Scholarship, too, is important to Cosenza. She has published numerous articles on the federal securities laws, as well as on venture-capital investments and corporate governance, in legal journals such as the *Cardozo Law Review*, *University of Chicago International Law Journal*, *BYU Law Review*, *George Mason Law Review* and *American University Law Review*. Her articles have been cited by, among others, the Delaware Chancery Court, *University of Chicago Law Review*, *Notre Dame Law Review*, *Fordham Law Review*, *University of Pennsylvania Journal of Business Law*, *Delaware Journal of Corporate Law*, and *Georgetown Journal of Legal Ethics*.

The law and Fordham are ever-present in the life of this Yonkers native, who speaks Portuguese fluently. Cosenza met her future husband, Todd, GABELLI BS '95, LAW '98, a litigation partner at Willkie Farr & Gallagher LLP, at a club fair on Eddie's Parade. The two were married by then-University President Father O'Hare at the University Church in 2003 and recently enjoyed a winter holiday in Puerto Rico with their children, Matthew, 9, and Olivia, 7.

Devoted to her family and her students, Cosenza works hard but appreciates the more “predictable schedule” afforded by a career in academia, which allows for greater work-life balance—and a little time to practice yoga.

By Claire Curry

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