
PREVIEWING WHARTON'S NYC 9/15 FALL CONFERENCE AND A BULL CASE ON PRODUCTIVITY

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Last week on our podcast, we had two very interesting conversations. The first half of the show focused on the economy, the [Federal Reserve \(Fed\)](#) and the future of productivity with Dan Sichel. Sichel worked on former Fed Chair Ben Bernanke's team supporting the [Federal Open Market Committee](#) with analytic work and is currently a professor at Wellesley College. The second half of the discussion was with Chris Geczy, finance professor at the Wharton School of the University of Pennsylvania and the academic director of the Jacobs Levy Equity Management Center for Quantitative Financial Research. We profiled the Jacobs Levy New York quant conference being held September 15, from which we will be broadcasting live. There is still time to register for those reading midweek—search out the Wharton Jacobs Levy Conference in New York.

On the Economy with Sichel

- There's considerable uncertainty over who the Trump team will appoint to replace both Fed Chair Janet Yellen and now Vice Chair Stan Fischer, who made a surprise resignation last week. The markets worry Trump will appoint someone with little Fed experience. Yellen would be welcomed by the markets if it went in her direction, and Sichel believes chances are roughly 50-50 at this stage that she will get the renomination.
- We recently had a [bull/bear debate on the economy with Joel Mokyr and Robert Gordon](#), and Sichel sides with Mokyr on the bullish side. Sichel sees the slowdown in productivity over the last six to seven years as a pause before a period when productivity will improve significantly.
 - **Boom-Bust Cycles:** Throughout history, there have been alternating periods of faster and slower growth in productivity. We had a period of slower growth from the mid-1970s to mid-'90s, and then faster growth from 1995 to the mid-2000s. Why does Sichel think there is a pause now? He says to look at the world around us and you can observe it.
- **Gross Domestic Product (GDP) Does Not Accurately Reflect Intangible Capital:** There's an argument that businesses are not investing in the future based on depressed [capital expenditures](#), which will lead to lower productivity. Sichel disagrees and thinks we are not capturing investments into intangible capital fully. The GDP bean counters have made adjustments to add research and development into the investment figures that are counted as GDP as a result of a paper Sichel published,¹ but there are other sources of intangible capital that are still excluded. Sichel calls this organizational capital. Two examples he cited are fulfillment technology at companies like Amazon or supply chain capital and database infrastructure that runs Wal-Mart. These categories are still not included in GDP, and estimates Sichel sees suggest counting them means firms are, in fact, making proper investments into future productivity.
- We just scratched the surface with Sichel on his research and must have him back on the show for more.

Our Quant Conference Discussion with Geczy

- The Jacobs Levy Equity Management Center for Quantitative Financial Research has a specific focus on and dedication to quantitative finance. This group hosts conferences and supports both academic and practitioner research. There is a conference on September 15 from which we will be broadcasting live. [Full conference agenda here](#).
- Stephen Ross is winning an award at this year's conference for his work, "The Arbitrage Theory of Capital Asset Pricing," now known as APT theory, and much of the conference will be related to his work.
- The conference will feature a number of interesting papers and discussions that include:
 - "A Global [Macroeconomic](#) Risk Model for [Value](#), [Momentum](#), and Other Asset Classes"
 - "The Promises and Pitfalls of Factor Timing"
 - "The History of the Cross Section of Stock Returns"
 - Reflections on work with Stephen Ross by Dick Roll, who will be appearing on our show from the conference.
- Geczy sits at a cross-section of academics and practitioners with the firm Forefront Analytics and a family office that utilizes the quantitative investment approach to construct factor-based portfolios and how to be factor diversified in investor portfolios.
- The conversation with Geczy highlighted how factors can be applied beyond equities—toward bonds, currencies and commodities—and then how to roll this into a full portfolio setting. Our conversation touched on how his firm can help investors diversify their overall portfolio risks.

Listen to our full discussion with Sichel and Geczy.

¹See, for instance, this paper: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=877453

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DEFINITIONS

Federal Reserve : The Federal Reserve System is the central banking system of the United States.

Federal Open Market Committee (FOMC) : The branch of the Federal Reserve Board that determines the direction of monetary policy.

Bear market : A sustained downturn in market prices, increasing the chances of negative portfolio returns.

Gross domestic product (GDP) : The sum total of all goods and services produced across an economy.

Capital expenditures : Spending by a company typically made to enhance longer-term productive capacity.

Macro : Focused on issues impacting the overall economic landscape as opposed to those only impacting individual companies.

Value : Characterized by lower price levels relative to fundamentals, such as earnings or dividends. Prices are lower because investors are less certain of the performance of these fundamentals in the future. This term is also related to the Value Factor, which associates these stock characteristics with excess returns vs the market over time.

Momentum : Characterized by assets with recent price increase trends over time. This term is also associated with the Momentum Factor which associates these stock characteristics with excess return vs the market over time.