

The Superbowl Of Indexing: 2007

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This year was my first Superbowl of Indexing, and what can I say? I was impressed. The **IMN** event in Phoenix, Ariz., is the first business conference I have ever attended, so maybe I am easily awed—but even my untrained eye could see that there were a lot of people in attendance and that the topics addressed by the panels and speakers covered the full range of indexing matters.

First, Let's Set The Scene

After registration, the whole event kicked off with a cocktail party hosted by Russell Investments with an ice theme and some very tasty appetizers. The Russell crew was identifiable by their tasteful, long white scarves—similar to the ones worn by Snoopy when he was his alter ego the Red Baron.

Eventually, the event drew to a close and we were ushered on to the next event, a casino night hosted by Standard & Poor's featuring poker, roulette, craps and blackjack. Since the gaming tables were packed, I spent my time at the S&P 500 Grand Prix area, where a giant slot car track had been set up and competitors raced each other for a spot in the final race. Slot cars are fun—there's no way around it.

The Conference Itself

While Sunday evening was a lot of fun, the real business started early the next morning. After opening remarks, the initial keynote presentation was made by Campbell Harvey, the J. Paul Sticht Professor of International Business at Duke University. Harvey's presentation was called "The $\alpha\beta\gamma$'s of Commodity Investing," but it offered far more sophisticated analysis of the commodities market than a strictly basic introduction would, which was appropriate given the makeup of the audience. Harvey gave a brief overview defining the commodities market and what makes it different, and then eventually segued into an exploration of where alpha opportunities might lie within the asset class.

Later that day, a panel moderated by Albert Neubert titled "Have I Got An Index For You" featured S&P's David Blitzer, MSCI Barra's Remy Briand, Markit's Stephan Flagel, Russell Investment Group's Kelly Haughton, FTSE's Mark Makepeace and Dow Jones Indexes' John Prestbo offering their opinions on a range of index-related topics.

The Sharpe Awards

The panel was immediately followed by the lunchtime presentation of the William F. Sharpe Indexing Achievement Awards. The highlight, of course, was the lifetime achievement awards, which honored five of the best-known figures in the world of indexing: John C. Bogle, the founder and former chairman of Vanguard Group; Patricia C. Dunn, the former CEO of Barclays Global Investors; William L. Fouse, chairman emeritus of Mellon Capital Management;

John Prestbo, editor and executive director of Dow Jones Indexes; and Paul A. Samuelson, Nobel Laureate and Professor of Economics Emeritus of the Massachusetts Institute of Technology.

Dr. Samuelson's award was notable because it was the Paul A. Samuelson Indexing Lifetime Achievement Award, not a Sharpe award. Born in 1915, Samuelson received the 1970 Nobel Prize in Economics. He appeared at the Superbowl via video conference from the East Coast, and offered his opinions on investing and indexing. He was sure to drive home the point that, while he believes large-scale investors such as institutions can successfully add alpha to their portfolios, indexing is the optimal strategy for the average middle-class investor.

Later that night, Barclays Global Investors hosted a dinner at the Wrigley Mansion (yup, built by the guy who owned the chewing gum company) honoring the recipients of the lifetime achievement awards who were in attendance at the Superbowl.

Beyond the lifetime achievement awards, Sharpe Awards were given out in several other areas. The CBOE S&P 500 Put/Write Index beat out the Hang Seng China AH Premium Index and the Barron's 400 for Most Innovative Benchmark Index. The SPDR Dow Jones Wilshire International Real Estate ETF won the award for Most Innovative Index Fund or ETF over the iShares iBoxx \$ High Yield Corporate Bond Fund and the iShares EAFE Small-Cap Index Fund.

The Most Innovative Index Product was not just a single product but a whole family of products—the iShares exchange-traded notes (ETNs). The ETN family had been up against the Chicago Mercantile Exchange's E-Mini MSCI Emerging Markets futures contract and the Philadelphia Stock Exchange's World Currency options. Of all the product-oriented awards given at the event, this perhaps is the least surprising.

Finally, the honor of Best Index-Related Research Paper was awarded to "Benchmarking Benchmarks: Measuring Characteristic Selectivity Using Portfolio Holdings Data," by the University of New South Wales' Kingsley Fong, David R. Gallagher and Adrian Lee, who were not on hand to receive the award personally. (You can download the paper [here](#).) The other papers competing in the category were "Synthetic Hedge Funds—Remaking An Asset Class," by Robert Whitelaw of New York University and Salvatore Bruno of IndexIQ, and "International Small Cap—A Distinct Asset Class?" by Frank Nielsen and Anton Puchkov of MSCI.

The Big Debate

Beyond the Sharpe awards, the most anticipated event was perhaps the Tuesday morning debate, "Fundamental Indexing Vs. Traditional Capitalization-Weighted Indexing—Déjà vu All Over Again." The panel featured a rather irresistible lineup that included John Bogle and Princeton University's Burton Malkiel championing cap-weighted indexes, while Jeremy Siegel of The Wharton School and WisdomTree Investments joined with Research Affiliates' Robert Arnott to promote fundamental indexes.

"Spirited" would be a good way to sum up a pointed but good-natured debate that frequently had the entire audience chuckling. And on at least one occasion, chuckles turned to open laughter when Bogle pretended to cower before the four large-screen images of Arnott that appeared on the oversized screens that lined the back wall of the conference hall. Arnott had joined the debate via video conference from Tokyo.

The traditional indexers took the expected position that cap-weighted indexes were the best way to represent the investable market and that the backtested outperformance of fundamental indexes was simply a symptom of their value tilt and would not persist. Meanwhile, the fundamental indexes reiterated their argument that cap-weighting methodologies overweight overvalued stocks and underweight undervalued stocks. There were no informational bombshells and nothing truly unexpected was said, but one got the feeling

that most of the gathered crowd were there to see the interaction between the four panelists rather than receive any revelations.

The debate ended as most of them do—with the panelists largely agreeing to disagree. In a statement that was somewhat emblematic of the entire exchange, when asked by Arnott if fundamental indexing didn't at least represent a huge improvement over active investing, Bogle responded, "If you permit me to drop the word 'huge' and substitute 'small,' I accept the proposition."

Other Stuff

So what else was going on? Well, commodities, fundamental indexing, emerging markets, and alternative assets all had their time in the spotlight. And while Monday featured mainly panels and presentations that offered basic introductions to various concepts and topics, Tuesday's events were definitely more advanced. One panel featured a mouthful of a title: "Managing Transaction Costs And Transitions Through Effective Crossing And Streaming Liquidity: Myths Surrounding Non-Displayed Liquidity In The Equity Markets."

On Wednesday, the morning event, a panel moderated by KLD Research's Thomas Kuh, Ph.D., drew a fairly large crowd given that it was the last day of the conference and many people had left or were in the process of doing so. Described as "A lively discussion on divestment, shareholder activism, and investment policy as it relates to the Sudan, Iran and other 'hot spots,'" the panel consisted of Keith Brainerd, research director of NASRA; Mary Collins, a board member of the District of Columbia Retirement Board; the Honorable Dean Martin, State Treasurer of Arizona; and Adam Sterling, director of the Sudan Divestment Task Force. Strong arguments were made on both sides, and if nothing else, both sides agreed that divestment was a tricky issue that needed further legislation to provide additional clarification.

The panel was followed by three more presentations before the conference closed out shortly before noon.

The Swag Report

And finally, now we come to the nitty gritty of things: The free stuff.

There was a lot of the usual conference goodie stuff, including of course the ubiquitous mini-footballs that are apparently a mainstay at the Superbowl of Indexing, as well as the usual pens, mini notebooks, key chains and stress balls. I took my share of those, of course. In particular, Vanguard and KLD were both giving away those hardback spiral notebooks that make us in the writing profession salivate, so I made sure to get those.

Russell easily wins the prize for coolest giveaway ever (or at least for this particular conference): Speakers for an iPod. The speakers actually fold up into a cube that's less than 3 square inches, and they sound really great (in my totally inexpert opinion). I'm actually listening to my iPod with them as I type this (George Thorogood, "One Bourbon, One Scotch, One Beer"—don't ask.) They were a nice complement to the retractable earbuds offered by Bank of New York's ConvergEx Group.

HSI Ltd., the company behind the Hang Seng family of indexes, comes in a close second for their wide array of useful swag offerings. Besides the leather key chain, which is a definite improvement over the plastic one with the unprintable epigram that I was using before, the company was giving away mini book lights (powered by watch batteries) that unfold by themselves at the press of a button, and digital travel clocks, as well as curiously anachronistic retractable phone wires.

Barclays Global Investors, on the other hand, definitely gets a nod for classiest giveaway: It was handing out a box set that contained matching metal and cork wine bottle stoppers. And the only logo in sight is on the box. I made sure to get a set, and because of their impressive

weight I packed them away in my checked baggage. You never know what airport security will deem a deadly weapon next. Merry Christmas, Mom!

On the fun side, First Trust offered a blue bouncy ball with the AlphaDEX logo that is keeping my 20-pound cat occupied, while the International Securities Exchange promoted its SINdex, which covers businesses involved in alcoholic beverages, tobacco products and gaming, with a "stress cube" shaped to resemble dice.

Since everyone offered pens, I was selective about which ones I took. I'm a reporter, not someone opening an office supply store. I like fat, sturdy pens that are comfortable to grip and won't fall apart easily. BGI's iShares group offered just such a pen that came with a cap, while the American Stock Exchange and WisdomTree both gave away metal pens with fat rubber grips.

As far as T-shirts were concerned, there was a really nice navy blue long-sleeved T-shirt from the SPDRs table. While it was a little warm for Arizona, it's been perfect for the winter weather at home.

Rydex, however, gets the prize for the best collateral materials. It was handing out USB drives with key chain attachments that contained all of the prospectuses and promotional materials associated with the firm's ETFs. The USB drives were compact, lightweight and useful.

I'm sure I missed some things. If you picked up anything really cool at the conference, let us know in the comments. That way, we can all keep our eyes peeled at the next event.