Sabbatical Leave Report

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This narrative reports on the successful sabbatical leave I experienced during the Fall 2007 semester. With one unforeseen event, the sabbatical was successful. I sincerely appreciate the university's support of my research and professional development provided by this sabbatical.

The purpose of my sabbatical was to retool my research skills and knowledge base to get up to date in the increasingly important field of behavioral finance. As stated in my proposal, I planned to complete the following actions during my four month sabbatical to accomplish this purpose:

During the first month, I read and researched the key papers and results with the behavioral finance field. My prior training and experience was based on performing research within the classical finance area, which is very structured given assumptions of investor rationality. By contrast, many of the research questions and tools used within the behavioral finance area can be quite different. My reading included books and paper such as: *Advances in Behavioral Finance* by R. Thaler; *Behavioral Finance* by H. Shefrin; *Beyond Greed and Fear: Understanding Behavioral Finance and the Psychology of Investing* by H. Sherin; *Behavioral Economics: Past, Present, Future* by C. Camerer and G. Loewenstein.

During the second month, I planned to work with Dr. Werner DeBondt, who is the Driehaus Professor of Finance at DePaul University and serves as the Director of the Driehaus Center for Behavior Finance. Dr. DeBondt (along with Dr. Richard Thaler) are credited with introducing the field of behavioral finance. Unfortunately, shortly before my visit, Dr. DeBondt took a personal leave of absence for the year. This unforeseen event did not allow collaborative research with Dr. DeBondt. I still traveled extensively during this month, including presenting the paper, "Credit Risk Analysis and Models of Bond Default Spreads" at the University of Wisconsin – Madison during this time period as well.

During the third and fourth month, the following papers were prepared with significant recognition being given to my co-authors:

- "WACC Misunderstandings" - This paper examines the misunderstanding and mistakes of individuals in the use of the Weighted Average Cost of Capital.

- "Is a Project's Initial Investment Riskfree? A Decision Tree Paradox" – This paper develops a paradox to again demonstrate the misunderstandings and mistakes of individuals in the use of the riskfree discount rate in performing Net Present Value calculations.

- "Credit Risk Analysis and Models of Bond Default Spreads" – This paper examines the spread between risky and riskfree bond yields as a function of risk, liquidity, taxes and rating transition.

- "Bubbles and Crashes Revisited" – This paper is a new twist on a prior working paper based on conference feedback. In particular, it examines a commonly used experimental design that generates asset bubbles, where investors irrationally overpay for assets and then the market subsequently collapses. We argue that the frequency and severity of the market bubbles is a function of the experimental design.

I am pleased to report that the first two papers have subsequently been published in peer-reviewed journals and the third paper has been presented. The fourth paper has generated positive comments.

Again, I would like to thank the university for this opportunity to advance my research interests.