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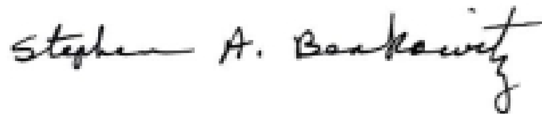
The first of these two papers addresses proximity to financial markets, the second addresses propensity for risk aversion as it affects trading and investment. They offer confirmation of behavior generally assumed, but rarely observed directly in the financial markets and, thus, become compelling citations for use in securities litigation. Should you care to discuss either of the these papers please contact Gerry Clarke (*gclarke@bu.edu*) or me (*saberkowitz@csi.com*) at The Berkowitz Group, Incorporated.

Sincerely yours,



Stephen A. Berkowitz

"Location Matters: An Examination of Trading Profits," Harold Hau, Journal of Finance, Vol. LVI, No. 5, October 2001.

The events of *September 11* give the securities industry reason to consider the need for proximity to financial markets that has heretofore led to concentrations of investors and traders in the world's financial centers. Hau uses transaction data from the Xetra trading platform provided by the Trading Surveillance Unit of the Frankfurt Securities Exchange for the period August 31, 1998 to December 31, 1998 to demonstrate the information advantage attributable to location. While his results favor dispersion of day traders seeking intra-day profits they confirm the value of locating investors who seek intra-week or intra-month profits in cities containing financial markets

Hau examined the trades in 11 German stocks represented in the Stoxx 50 index for 756 proprietary traders. The sample contains **only** trades in each stock executed by proprietary traders who have done at least 10 trades during the sample period in that stock. Intra-day profit seekers who were located within 100 kilometers of the corporation whose stock they were trading earned significantly higher profits than those who were not. Intra-week and Intra-month profit seekers who were located outside of Frankfurt earned significantly lower trading profits than those located in Frankfurt.

It is also interesting to note the home team advantage. Foreign day traders, intra-week profit seekers and intra month profit seekers all fare less well in the markets than German traders. These findings are consistent with scenarios where information becomes known to a small group

of day-traders who either by their trading activity or sales activity cue the remainder of the financial markets.

"Market Reaction to Public Information: the atypical case of the Boston Celtics," Gregory W. Brown and Jay Hartzell, *Journal of Financial Economics*, 60 (2001) P333-370.

Beginning with the modest expectation that winning ball games should increase the value of Boston Celtics Limited Partnership Shares (traded on the NYSE; listed as BOS), Brown and Hartzell develop an empirical analysis using: (1) point spreads provided by a prominent sports book as a proxy for consensus among market participations with respect to expectations; and, (2) daily pricing data for the period 1993 – 1998 to value the shares.

The study finds that losses have a significant negative impact on stock price and wins do not have a comparable positive impact. The asymmetric price penalties for losses demonstrate risk aversion among investors.

Rewards for wins and penalties for losses in Playoff games affect share price appropriately with similar orders of magnitude – thus demonstrating that the market reacts as expected to significant newsworthy events. We expect this study to be cited in text books as a clever confirmation of the risk aversion attributed to investors by the academic literature. The extent of the authors' concern for statistical controls makes this paper noteworthy to litigators who rely on expert testimony to influence judges and juries.