Senior Research Scholar at the SEC

The Transition from Academia to Government

I should not have been surprised that a Clemson connection led me to my first job at the U.S. Securities & Exchange Commission (SEC) after completing my Ph.D. in Economics. And I should not have been surprised that Professor Robert McCormick, one of my favorite professors (and a member of my dissertation committee who had had such a big hand in my education) would be a part of it.

It was by coincidence that I bumped into McCormick at a country club near Clemson one Saturday night in the fall of 1986. I was there for a wedding rehearsal dinner; he was there for a dinner associated with an academic conference. McCormick had returned to Clemson in 1982 after spending a few years on the faculty at the University of Rochester business school. While at Rochester, he overlapped with another young professor, Gregg Jarrell, who had come to Rochester at about the same time. In 1984, Jarrell left Rochester to become the Chief Economist at the SEC. McCormick was at the conference that night with Jarrell, so when we ran into each other he introduced us and we chatted for a few minutes. I was happy to see McCormick and to meet Jarrell, but I didn't give it much thought. A few days later in a hallway at Sirrine Hall which housed Clemson's Business School, McCormick asked if I had any inclination to work for Jarrell in the Office of the Chief Economist. I immediately said that of course I did. It sounded like a fantastic place for my first job after graduate school. In so many ways it was my entry-level dream job since it involved working in an office not only with other economists, but with a finance emphasis. Shortly afterwards, Jarrell called to make me a preliminary offer to join his small team of SEC economists.

While I was at Clemson, I gave virtually no thought to life after graduation. I was fully engrossed in attempting to learn economics and greatly enjoying myself at Clemson, wanting to make the most of my time there.[1] It wasn't merely a matter of living for the moment, but rather more of making the most out of the experience and not being fixated on the next stage of my career. That was how I came upon so many of the opportunities that forwarded my education and subsequent career. But timing is everything. Had I not bumped into Professor McCormick and Gregg Jarrell at the country club that evening, I could have gone in a far different direction. I had

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[1] The notion of enjoying myself as a Ph.D. student at Clemson is perhaps a bit of revisionist history. Obtaining a Ph.D. in Economics is an enormous challenge on many dimensions, not just intellectual. In fact, the intellectual challenge of obtaining good grades and passing the various qualifying exams might be the least challenging obstacle. The primary challenge is the ability to come up with creative ideas for research papers and then to relentlessly work non-stop and sacrifice nearly everything else to bring those creative ideas to fruition. And on top of the graduate-level courses, the qualifying exams, and the research, you also are usually required to teach undergraduate level courses or at least be a teaching assistant for undergraduate courses.

no sincere desire to test the academic job market as I was informed enough to know that it would be difficult, if not impossible, to land at a top-tier university. Indeed, a newly minted Ph.D. looking to stay in academia doesn't simply have an opportunity to upgrade to a higher quality institution. It was also unlikely that someone would be hired by a university of the same caliber from which they just graduated. I had no wish, at least in that moment, to take an academic position at a university with a lower-tiered status than Clemson. When I decided to enroll in the Ph.D. program, it was because a Ph.D. in economics would open doors to a lot of opportunities. I would bide my time to maximize the value of my options.

In January 1987, only two months after Jarrell called with the job offer, he unexpectedly resigned as Chief Economist at the SEC to return to the University of Rochester. Suddenly I wondered if Jarrell's job offer still stood since I did not have a formal offer in writing. Thankfully, Annette Poulsen, the Acting Chief Economist, reached out to confirm that the job offer did indeed still stand. I breathed a big sigh of relief. Poulsen had been the Deputy Chief Economist under Jarrell, but she was also departing the SEC for a position on the finance faculty at the University of Georgia. She would remain at the SEC until the end of that summer. A few months later in May 1987, John Shad, the Chairman of the SEC, announced the new chief economist, Kenneth Lehn, who was on the economics faculty at Washington University. Lehn had a prior affiliation at the SEC, serving as Deputy Chief Economist for a year prior to Poulsen's appointment to the position. I was vaguely familiar with Lehn's academic research. He had co-authored an influential paper on corporate governance with Harold Demsetz, an economist at UCLA, which we covered in Professor Matt Lindsay's class at Clemson. Lindsay was previously a tenured professor at UCLA and a close colleague of Demsetz, one of the most deserving people who did not win a Nobel Prize in economics. Lindsay expressed that Lehn would be a great person to work for at the SEC and so I was excited about working for him. After Jarrell's and Poulsen's departures, I was concerned about whom I would be working for, so this was another bit of good fortune.

I started work in the Office of the Chief Economist at the SEC in mid-August 1987. The transition from Clemson to the SEC was similar to that from ULM to Clemson. Namely, I had zero down time in between gigs. On a Friday evening, I finished grading exams for the last class I taught at Clemson as a graduate student. I packed up my apartment on a Saturday, then drove to Washington, D.C. the next day to report for work on Monday. Packing was a breeze as I had no real possessions other than clothes and a car, but I did have to clear out of my apartment.

At the time, the SEC was located at 450 5th Street NW, just three blocks off the National Mall, seven blocks from the U.S. Capitol, and nine blocks from the White House. It was a superb location near these famous buildings and monuments, with this incredible feel of hustle and bustle in the vicinity of the office. Obviously, it was also a far stretch from the small college town of Clemson, SC, and from my hometown in Louisiana.

A bit of history about the origins of the Office of the Chief Economist might be helpful to understand more about my role at the SEC. For decades, the Directorate of Policy and Economic Analysis (DEPA) provided economic analysis, then largely the collection of data and of policy analysis on rule making. But the economists in the DEPA group had virtually no say or standing at the SEC; rather, lawyers made all the decisions. When the Reagan Administration came into power in 1981, one of Reagan's first appointments was John Shad as Chairman of the SEC. Unlike the prior chairmen at the SEC, who largely came from the legal profession, John Shad was an investment banker from Wall Street. While Shad was a proponent of tight adherence to rules and regulations, and of strong enforcement actions, he also thought the SEC was run by way too many lawyers and could benefit from the economic analysis of decisions to ensure that the United States remained the choice of stock exchanges around the world.

Like President Reagan, Chairman Shad believed in limited government and held the view that free enterprise generally tended to yield optimal solutions for society. And both Reagan and Shad held a high regard for Milton Friedman, which certainly resonated with me given Friedman had a significant influence on my quitting work at the auto-body shop eight years prior to enter college. Shad created the Office of the Chief Economist in early 1982 and hired Charles Cox, an economics professor at Texas A&M, as the first SEC Chief Economist. Cox received his Ph.D. in Economics at the University of Chicago and had the blessing of his Ph.D. advisor, George Stigler, who later received the Nobel Prize that year. Stigler was widely known for developing the economic theory of regulation in which special interest groups use the regulatory powers of government to benefit them. It was no accident that the Reagan Administration wanted their first SEC Chief Economist to have the strong backing of Stigler; it was Stigler whose award-winning research forcefully showed that industry leaders had largely captured the SEC, which did its bidding. Hence, Shad and the Reagan Administration preferred to shift the SEC from that of an agency run by lawyers designing policies on behalf of the captains of industry to one more in favor of market solutions. And again, there was the Friedman connection—Stigler went through the Ph.D. Program at Chicago with Friedman, and they were subsequently long-term colleagues and friends as University of Chicago professors.

To the dismay of many of the lawyers at the SEC, Chairman Shad wanted Cox to report directly to him. He also put the staff of the Office of the Chief Economist on the 6th floor along with Shad and the other four SEC Commissioners.[2] Shad and Cox were like-minded in their free-market approach in general, and to corporate takeovers specifically. In 1983, a seat opened on the Commission and Shad pushed for Cox to transition from the Chief Economist to a SEC Commissioner, the first economist to serve as such, again to the chagrin of the legal staff. For Cox's replacement, Shad returned to the University of Chicago and picked another George Stigler Ph.D. student, Gregg Jarrell, who had the good sense to hire me!

Jarrell took the helm as SEC Chief Economist in 1984 and was influential early on. He promoted the idea that corporate takeovers were not only good for shareholders of target firms, but they were also good for the overall economy, if not society. Jarrell was young and certainly a bit of a

[2] I suspect the combination of creating the Office of the Chief Economist and then putting it on the same floor as the SEC Commissions did not sit well with the civil-servant economists in the Directorate of Economics and Policy Analysis.

maverick. His research at the SEC captured considerable attention and the famous corporate raider from Texas, T. Boone Pickens, befriended Jarrell, even going so far as to pick Jarrell up at SEC headquarters in his limousine to play racquetball at a nearby club. Obviously, the legal minds and the bureaucratic staffers were more than a bit annoyed by Jarrell's behavior, especially since Pickens had recently been under investigation by the SEC.

During Jarrell's tenure, the Office of the Chief Economist churned out a handful of research studies that supported corporate takeovers, even hostile ones, and the concept that restrictions against such takeovers were often detrimental to shareholders. These studies were treated as confidential until they were approved by the compliance officials at the SEC, just like at any other government agency or department. Then they were released for public dissemination and were often mentioned in the business press. Apparently, that process took too long for Jarrell. He would frequently leak the studies to outlets such as *The Wall Street Journal* and this would infuriate the SEC staff and drive Shad bonkers. But Shad liked Jarrell and he agreed with a lot of the research findings that were leaked. Even though Jarrell was long gone by the time I started working at the Office of the Chief Economist, there was still the strong perception that the SEC economists often went rogue, which had ramifications for my research and future work.

This was the background as I started at the SEC first thing that Monday morning in the middle of August. I was hired as a fellow, as opposed to a civil servant position.[3] The fellow position was usually a one- or two-year term, extended to a maximum of roughly four years; there were only a handful of these positions available each year. It came with benefits unavailable to regular civil-servant employees of the U.S. Government. First, the compensation was substantially higher, which I was happy about (the salary for fellows was more in line with market compensation). Second, I could come and go as I pleased, without being on the clock, and I had specified vacation days. This flexibility was a huge plus. Otherwise, I was viewed the same as any of the civil servant SEC employees.

By the time I arrived, Ken Lehn was in place as the Chief Economist. His Deputy Chief Economist was David Malmquist who had been an economist at the SEC since 1982. Malmquist had been hired by Charles Cox, the first SEC Chief Economist. Jeffry Netter was a Senior Research Scholar in the office. He received a Ph.D. in Economics from Ohio State University, a Law Degree from Emory University, and had joined the SEC in 1986. Thus, we had at least one legal mind in the office to counter all the legions of lawyers at the SEC, and a supersmart one at that. In addition to the three senior economists, there were three relatively new economists. Dean Furbush and Darrell Williams had just completed a year or so on President Reagan's Council of Economic Advisors and were still working on their Ph.D.s in Economics. Kathleen Weiss, who started at the same time I did, was close to completing her Ph.D. in Finance from the University of Florida. It

[3] My official title was Senior Research Scholar. The "Senior" phrase in my official title was due to my having earned a Ph.D., otherwise, I was young, inexperienced, and naïve.

was a small group, and I was glad to be a part of it. We were not only collegial, but impactful, as I would soon learn.

Merger Research Agenda

The first big question I had to answer at the SEC was what research agenda to focus on. As a research fellow, I did not have assigned duties in terms of maintaining periodic SEC reports and publications. I greatly valued that flexibility and the possibilities it opened to me. But I had to consider what skill set I could bring to the table to complement the other economists. Netter was working on corporate control and mergers. Furbush and Williams were working separately on market structure and trading behavior. And Weiss was focusing her efforts on initial public offerings, the subject of her dissertation in process. While I had been trained as an economist, specifically in microeconomics, my interest in finance was primarily in mergers and acquisitions. I was well up to speed on financial event-study methodology thanks to my dissertation at Clemson, which had focused on the impact of events on the brand-name capital or reputation value of firms. In other words, if firms undertake actions, or fail to undertake actions, which decreases their reputational value, what is the impact on their share prices? Could a similar analysis be carried out with respect to corporate takeovers? I was considering focusing my research on distinguishing between good and bad mergers, but at the time, my thoughts were loosely structured. I hadn't yet considered testing any formal economic theory.

I soon learned that Ken Lehn and I were on the same page. In our first meeting, he proposed a major project that he thought would be of interest to me—and he was right; it was highly aligned with what I had been thinking about as a research agenda. The genesis for the project was a hostile takeover attempt in 1986 by Sir James Goldsmith for Goodyear Tire. The subsequent decision by the Ohio state legislature was to pass an antitakeover law that gave an additional layer of protection to corporate boards of firms based in Ohio to resist hostile takeovers. Jeffrey Netter, the Senior Research Scholar with the law degree, and Michael Ryngaert, one of the junior economists at the Office of the Chief Economist who was leaving for a faculty position at the University of Florida, produced evidence documenting that the passage of the antitakeover legislation resulted in significant negative abnormal stock-price declines on the order of two to three percent for firms based in Ohio.[4] Thus, this legislation, while perhaps protecting local jobs in the interim, was wealth-destroying to the shareholders of the respective firms based in Ohio.

When Goldsmith launched the takeover bid for Goodyear, one of his stated objectives was to sell off some of Goodyear's non-core businesses, including energy, and to focus its efforts on tire and rubber. Interestingly, when Goodyear entered the energy industry a few years prior in

[4] Netter and Ryngaert subsequently published their work. See Michael Ryngaert and Jeffry Netter, "Shareholder Wealth Effects of the Ohio Antitakeover Law," *Journal of Law, Economics, and Organization* (1988).

1983 (via an acquisition of Celeron Oil), the stock price of Goodyear plummeted nearly 15 percent when the acquisition was announced. For whatever reason, stock market participants seemed skeptical about the ability of Goodyear management to succeed in the "oil patch" and thus shareholders paid the price. Arguably, had Goodyear not entered the energy business in the first place, instead focusing on its tire and rubber operations, Sir James Goldsmith would have been less inclined to launch the hostile takeover for Goodyear.

The research project was to see if the Goodyear anecdote would generalize to a larger sample of mergers. Lehn was hopeful, if a bit skeptical, that the project would bear fruit. Still, it was probably a worthwhile undertaking to get my feet wet with respect to merger research. Looking back, it was a bit of a stretch to anticipate that the Goodyear example could extend to a large dataset of hundreds of mergers. Still, it was the perfect fit in terms of a research project. My research agenda for my Ph.D. dissertation at Clemson had more than adequately prepared me for this project without needing guidance along the way. I started working full speed on this project my second day of employment, in part because I was so excited about it that I didn't want to take the chance of anyone more senior wanting to take my place. I didn't realize it at the time, but I didn't have anything to worry about. It was a risky project with a massive amount of work –several months –that would need to be completed before we had any insight into whether to move forward or admit failure and terminate it.

I began with a sample of 1,158 large publicly traded firms covered by *Value Line.* There were two stages to the database development. For the first stage, I tracked each of the 1,158 public firms from the start of 1982 until mid-1988, recording whether each had received a takeover bid, hostile or friendly, and if a takeover bid was successful. I chose to begin with 1982 because hostile mergers escalated during that year. For the second stage, I tracked the acquisitions made by each of the 1,158 firms from 1982 to1986.

This was at a time in which large databases of mergers did not exist. Thus I would need to build the database from the ground up. Like the various Wall Street firms, the SEC had access to the "broadtape," an information service provided by Dow Jones via telegraph lines to subscribers. The "broadtape" provided the headlines to news stories covered by Dow Jones entities such as *Barron's*, *The Wall Street Journal,* and *Dow Jones News Service*. Since the "broadtape" had a stock ticker identifier for its headlines, I could generate large computer printouts of all "broadtape" headlines by ticker symbol. The methodology was straightforward: I identified the ticker symbol of each firm at the beginning of 1982, then tracked those symbols to the current period. Then it was simply a matter of scrolling through the hundreds (sometimes thousands) of headlines for the largest corporations over the research period. Today, one can more easily build databases of this type with the internet, or simply purchase the data from various commercial vendors.[5]

[5] The increased use of the internet in the mid-1990s eliminated the need for the telegraph networks.

In effect, I created two separate datasets in the merger database. The first framed the period of 1982 to 1988 noting whether a takeover attempt was successful for each of the 1,158 firms in the sample. The second dataset tracked any successful acquisitions made by the 1,158 firms from 1982 to 1986. I intentionally tracked the outcomes of changes in corporate control for the 1,158 firms longer than I did of their own acquisition records since I was analyzing whether the Goodyear experience generalized to a larger dataset. That is, I required a certain time elapse for a takeover attempt to emerge for a firm with an acquisition record.

From the onset, I realized this project was a massive undertaking and procrastination would only delay it significantly. Thus, I was relentless in creating the database and worked long hours to plod through the information. Thankfully, Lehn did not assign me any other projects, so this was my sole focus. And like my experience as a Ph.D. student at Clemson, I chose to work weekends at the SEC. At the end of my first week at the SEC, I came to the office on a Saturday morning not knowing what to expect. I was pleased to see that others were already there working, specifically Netter and Poulsen (she had not yet left for her academic position at the University of Georgia). A few hours later, Lehn showed up. I knew then that I had fallen in with a super group.

For the next several weeks, I made amazing progress on the buildout of the merger database. I still had no indication which way the results would lean, since my plan was to complete the buildout before starting the empirical analysis. Then, suddenly, my project temporarily stalled due to exogenous forces beyond my control. It was October 19,1987, the day of the stock market crash that immediately became known as *Black Monday*. And while the crash was an extraordinary shock to everyone, there were some important events leading up to the crash that significantly impacted my research agenda.

On *Black Monday*, the Dow Jones Industrial Average (DJIA) plummeted 22.6%, the largest one-day decline in the history of the U.S. stock market. For comparison, the second-largest decline for the DJIA was 12.9% on March 16, 2020 at the onset of Covid-19. Many of us felt like the world was ending in March 2020, and yet this extraordinary decline paled in comparison to the 1987 crash. The third-largest decline occurred nearly 100 years ago on October 28,1929 at the beginning of the Great Depression. Soon after, the United States experienced a deep economic depression, considered the worst ever. And this was the big concern for most people when the stock market crashed on October 19, 1987—that this was the start of the next depression.

The stock market had already experienced major declines in the three trading days preceding the crash. Everyone at the SEC was aware of the recent market declines, yet it was virtually impossible to mentally prepare for the magnitude of the crash on the 19th. The day brought a sense of bewilderment, and not just to me, but one felt by everyone in the office and on the 6th floor. We were just trying to stay on top of the information flow, relying on phone conversations with market participants for the most part.

Late that afternoon on October 19, several large corporations started to announce open-market stock repurchase programs via the "broadtape." The SEC staff responded positively to the announcements, especially given the fluid conditions as markets were in absolute disarray. The next day, dozens of corporations announced open-market share repurchase programs, which provided a much-needed lift to the stock market. Netter and I eventually published a SEC staff paper, which we subsequently turned into an academic publication documenting the economic benefits of corporations announcing open-market share repurchase programs in the wake of the crash.[6]

While the crash week was largely a surreal bIur, I distinctly remember an early morning meeting the following Saturday at the SEC. The usual suspects—Lehn and Netter—were onsite as always, as were a couple of other economists who showed up given the ongoing market turmoil. One of the SEC commissioners, Edward Fleischman, asked us to update him in a 9 a.m. meeting that Saturday morning from the perspective of the Office of the Chief Economist. Commissioner Fleischman sat behind his huge desk smoking a pipe while we huddled in front of his desk. Lehn delivered the oral report to Commissioner Fleischman, who peppered us with non-stop questions. I was especially tired; it had been a superlong week, staying late at the office every night, then going out for fun the evening before. I must have zoned out because at one point Commissioner Fleishman paused and then chastised me for not paying attention. He said something to the effect of, "you certainly seem to be disinterested in being here." I was horrified and embarrassed, but he was right to call me out. I made certain never to be called out again.

I spent a great deal of my time during the week of the crash focusing on the plethora of open-market share repurchase programs by corporations. And that was a great place to focus my immediate efforts. But in the back of my mind was the importance of trying to understand the underlying cause of the crash. It did not take long for me to settle on a certain research path to try to better understand one of the triggers of the crash. Coincidentally, it had to do with mergers, which had been my focus of work before the crash. There were two encounters after the crash that pushed me down this research path.

The first encounter involved Commissioner Joseph Grundfest, a youthful and colorful figure at the SEC with strong views about the benefits of corporate mergers. While he trained as an economist and lawyer at Yale, the London School of Economics, and Stanford, one could easily mistake Grundfest for a University of Chicago economist. Though a life-long Democrat, Grundfest was on Reagan's Council of Economic Advisors for a couple of years despite his political affiliation. Commissioner Grundfest held the view that markets were better equipped to self-regulate corporate takeovers than SEC bureaucrats. Obviously, this line of reasoning needled the SEC staff considerably, especially since Grundfest was an avid Democrat. As I mentioned, Chairman Shad wanted the Office of the Chief Economist close to his office and thus

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[6] Jeffrey Netter and Mark Mitchell, "Stock-Repurchase Announcements and Insider Transactions after the Stock Market Crash of 1987," *Financial Management*, 1989.

we were located on the 6th floor along with the other SEC commissioners. I quickly learned the importance of proximity. Commissioner Grundfest often bounced into our office (we were across the hall from the men's bathroom) to fire questions at us while providing his own economic analysis. It was either the week of the crash or the week after when Grundfest suggested to Netter and me that we conduct an analysis of certain tax legislation that had been progressing in the House Ways and Means Committee and consider its impact on triggering the stock market crash. Initially, I was a bit skeptical about the proposed analysis, but it would be fun to work with Netter on a project, especially one so timely. Plus, I felt honored that an SEC Commissioner thought I would be up to the task.[7]

The second encounter involved a phone call that David Malmquist received from a merger arbitrageur on Wall Street.[8] The merger arbitrageur wanted to speak to someone in our office about the takeover tax legislation progressing through Congress. Given our interest in corporate takeovers, Malmquist handed the call over to Netter and me. The merger arbitrageur described how the proposed tax legislation negatively impacted the stock prices of target firms in the midst of merger transactions. When mergers are announced, a small community of merger arbitrageurs on Wall Street buy target stocks from existing shareholders and then hold those target stocks until the merger has consummated. The merger arbitrageur described two types of entities that practiced merger arbitrage. The first entity was small boutique investment firms, such as his, which specialized in merger arbitrage. The second entity was the proprietary trading desks of large Wall Street investment banks such as Goldman Sachs and Morgan Stanley. For example, Goldman Sachs had a large merger arbitrage desk, headed by Robert Rubin (former Treasury Secretary under President Clinton), which invested the internal capital of Goldman Sachs in merger stocks. During that era, the concept of arbitrage desks on Wall Street was quite secretive; I was more than intrigued that an actual arbitrageur reached out to our office to inquire if we would look at the proposed legislation. The arbitrageur was aware of our pro-markets stance on takeovers and astutely assumed he was speaking to a friendly audience. Considering this additional voice of concern about the legislation, on top of that from Commissioner Grundfest, Netter and I needed no further encouragement to start digging deep to see what we could learn.

Our first task was to read the proposed takeover tax legislation and decide whether we believed it would have a negative impact on takeover targets, specifically, and the overall stock market

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[7] I also interacted a lot with Bernard Black who was counsel to Commissioner Grundfest. Black was trained as a lawyer at Stanford, but also conducted a lot of research that overlapped into economics and finance and hence our interactions. Black has become a prolific scholar over the years and is now at Northwestern University. It was great to interact with him, though I often felt that he viewed me as a novice, which was partially correct.

[8] Little did I know that a few years later, I would undertake a massive research project to analyze the risk and return to merger arbitrage. In 2001, I created a merger arbitrage firm with my research partner, Todd Pulvino, which continues to invest in merger arbitrage situations on behalf of institutions around the world today.

generally. The stark language in the proposed legislation was intended to greatly reduce takeovers, especially hostile takeovers and leveraged buyouts via elimination of various interest expenses and a higher tax burden on certain acquirers. And to further note their intentions to decrease takeovers, the House Ways and Means Committee stated, "The committee believes that corporation acquisitions that lack the consent of the acquired corporation are detrimental to the general economy as well as to the welfare of the acquired corporation's employees and community. The committee therefore believes it is appropriate not only to remove tax incentives for corporate acquisitions, but to create tax disincentives for such acquisitions."[9]

It was clear to us that the proposed legislation would have a negative impact on the merger market. Our next task was to establish the exact timing of when the proposed legislation became available to investors; that is, when the information became public. Based on my prior and ongoing research, there was a clean window to examine the stock price response to the event. But what about legislation making its way through Congress? Our initial concern was that there would be no well-defined event dates, but this was soon alleviated as we dug deeper and learned the concreteness of when the relevant information became available to investors.

We identified two key dates when the House Ways and Means Committee revealed material information about the legislation moving forward. The first event occurred on Tuesday, October 13, 1987, after the market had closed. The Committee first mentioned that Democratic members of the Committee agreed to the takeover-tax proposals in a closed caucus. This revelation hit the Dow Jones *broadtape* at 5:33 p.m. and was covered by *The Wall Street Journal* the following day. On the evening of Thursday, October 15, the full Committee approved a tax bill that contained the takeover-tax provisions; this was also reported by *The Wall Street Journal* the following day.

Based on the timing of these two announcements, we focused our analysis on Wednesday, October 14 and Friday, October 16, when investors could first trade on the new information. As predicted, on both dates the existing target firms of mergers already in play realized negative stock returns, relative to the overall stock market. That was statistically highly significant. Moreover, we found that for the first hour of trading on both dates, when investors could trade on the takeover-tax news, the stock prices of merger targets underperformed on the overall stock market.

We theorized that the proposed takeover-tax legislation would not only negatively impact existing target firms in play, but the entire stock market in general. In other words, there was empirical evidence that takeovers such as those which the Committee intended to restrict were beneficial to the economy and this was already reflected in the stock prices of corporations (even those not in play), so to speak. By removing the probability of a takeover attempt in the future, this event negatively impacted the stock prices of both corporations and even those not yet considered to be a near-term takeover target. Consistent with our logic, we found that the

[9] See U.S. House Reports (1987, p. 1086).

overall stock market declined significantly on the two dates, which were when investors could first trade on the news and during the first hour of trading. Overall, during the three trading days preceding the crash, the stock market declined over 10%, the largest one-, two-, or three-day decline dating to World War II. Absent the crash itself, this 10% decline was a huge deal and likely connected to the crash.

Our thesis was not that the proposed takeover-tax legislation caused the crash itself, but rather that it was a primary driver of the 10% decline in the stock market immediately preceding it. We did not focus on the root causes of the crash; instead, we made the argument that the two event periods, both with such large declines in the stock market, likely had to be related given they were adjacent to each other in time. Thus, we suggested that the crash began with a fundamental trigger, namely the proposal to restrict corporate takeovers.

In the aftermath of the crash, various Wall Street firms were relentless in blaming Congress for supposedly causing the crash. Obviously, members of the House Ways and Means Committee were sensitive to the criticism, yet they pushed back on the link between the proposed antitakeover tax legislation and the crash. In the end, none of the Committee members, including Chairman Dan Rostenkowski, had the political capital to move the legislation forward. After the market closed on October 28, Rostenkowski indicated in congressional testimony that he would be willing to reexamine the takeover proposals. The next evening, he made the formal announcement that he would strongly consider relaxing some of the proposals—but not entirely. During the next six weeks, Rostenkowski did not deviate from his position. Then on December 16, the Committee announced that it was largely abandoning the antitakeover proposals. By then, though, the damage was done.

The stock price behavior immediately following these announcements was counter to the announcements of the legislation moving forward. For all three event dates (and for the first hour of trading in response to the announcements), takeover targets in place saw their stock prices increase substantially relative to the overall market. And in all cases, for the full day of trading and for the first hour during which traders could act first on the news, the stock market rebounded substantially. During the two event dates in which the takeover legislation was proposed, the stock market declined a little over 8%. When the legislation was halted, the market rebounded just under 10%. Notably, the level of the stock market around the rebound period was roughly 25% less than before the takeover tax news hit the market. Thus, the overall wealth rebound was slightly less than the decline when the news first hit the market. In both cases, the decline and the subsequent rebound were extraordinarily large. It is incredible to note how similar the overall valuation changes were; that is, what the stock market took away from the firms' capitalizations when it appeared the tax legislation had legs to stand on, and that it gave back nearly the same amount when the legislation turned out to be dead in the water.

While Netter and I spent a substantial amount of time establishing the correct event dates and the portfolio of takeover targets that would be most affected by the proposed legislation, we spent considerably more time ruling out other factors that could have resulted in the extraordinary stock market decline during the three days immediately preceding the crash. We were aware of the political ramifications of our research and wanted to ensure that everyone who would take their best shots at critiquing our work would come up empty. Thus, we spent an inordinate amount of time and brain power analyzing all the factors that could have played a role in the decline during the three days leading up to the crash. We were effectively able to empirically rule them out as having a material impact.

From the time that Netter and I began researching and writing the takeover-tax paper, our work was a controversial issue in the corridors of the SEC. My sense is this stemmed back to Gregg Jarrell and his zeal for corporate takeovers, and to annoying the SEC legal staff, which still far outnumbered the economists. The scuttlebutt was that Jarrell's agenda was continuing with our work. Hence, the pushback was strong. A couple of long-term staffers were blunt with us that Congress decides the budget for the SEC and our research would not be viewed positively by any measure. The Division of Market Regulation, a large and important division within the SEC (and one made up exclusively of lawyers with no economists on staff) was particularly sensitive to our views on markets and regulations. Prior to my joining the SEC, David Ruder, a Northwestern law professor and former Dean of the Law School, assumed the role of SEC Chairman following the resignation of John Shad. Chairman Ruder instructed the lawyers at the Division of Market Regulation to take the responsibility of assessing the impact of the crash. As with other groups at the SEC, the Office of the Chief Economist provided a supporting role to the Division of Market Regulation, but it was the lawyers who provided the official analysis of the crash.[10] And obviously, they were concerned about a different group within the SEC perhaps delivering a contrasting view of the crash that would deviate from their perspective.

One event in particular clued Netter and me into the pushback with respect to our analysis. A memo emerged from a group of economists at the SEC in the Directorate of Economic and Policy Analysis. The memo strongly critiqued our analysis of the impact of the takeover tax provisions on the crash and was highlighted by other groups at the SEC as evidence that our analysis was faulty. Personally, I found this a bit jarring. Prior to this memo circulating throughout the SEC, we had no knowledge that another group of economists had an issue with our research. However, their memo didn't carry much weight; it had some critical errors and therefore a short shelf life before it was quickly withdrawn.[11]

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[10] Interestingly, unlike the rest of the world, the Division of Market Regulation refused to acknowledge what happened on October 19, 1987 as a crash, rather referring to it only as a Market Break. *The October 1987 Market Break: A Report by the Division of Market Regulation, U.S. Securities and Exchange Commission*, February 1988.

[11] This experience was a bit jarring, at least to me, that is, to learn that a separate group of economists and at the same agency took issue with our research and didn't reach out to us first to discuss their findings. Less than a year later, I ended up working with these same folks after the two economics groups were combined. It was always my sense that the lawyers in the Division of Market Regulation cajoled the other economists to critique our work.

This was not the last roadblock to our research. By late summer of 1988, we had the paper ready for circulation to the academic and business news communities. Normally, the paper would be released by the Office of the Chief Economist under the direction of the Office of Public Affairs, subject to the approval by the SEC's Compliance Office. It would then be picked up by news outlets such as *The Wall Street Journal*, *The Washington Post*, and *The New York Times*. I had strong reasons to believe these mainstream outlets would publicize our findings and I was excited to see my name in a major newspaper. We did circulate the paper to a select few academics with the caveat that the paper was not for attribution or quotation. A reporter from *The Wall Street Journal* would call me every couple of months and ask if I was willing to discuss the paper on the record. My answer was always the party line—no. I suspected that someone had discussed the paper with this specific reporter since he had a pretty good idea of everything in it. But until the Compliance Office approved our paper for distribution, it was in limbo. And they were in no hurry to approve it given the sensitive nature of our research findings.

With the addition of my research efforts on share repurchases and on the takeover tax legislation, my plate had become full. Originally, I had planned to focus my efforts only on the merger paper with Ken Lehn and getting my two papers published from my dissertation (each of which had taken a lot of effort to get into shape for submission to the respective academic journals) and then plod through the revision and final editing process. Plus, I was revising another paper which I had started at Clemson that was directly related to my two papers out of my dissertation. Overnight, I was working on six research papers rather than four. I was already working non-stop hours, but now I would have to be more productive and efficient with each hour so as not to drag out these projects over too long a period. As expected, I found working with Netter to be very productive and synergistic. We were on a mission and did not lose focus. Whereas my routine was to stay late in the office on weeknights, Netter would go to his apartment at a reasonable time, but that didn't mean he stopped working. It was just a change of office for him. On a few occasions, I would swing by Netter's apartment and we would continue our research efforts. We had a lot of energy back then and did not need a ton of sleep—or so we thought.

My focus on the merger paper with Lehn had been slightly derailed by the crash. I resumed attention to it a couple of weeks later, though it no longer accounted for the bulk of my research time. I still made great effort with it and by the fall of 1988, a little over a year after starting the project, we had completed the basic research with some remarkable findings.

We came to some important conclusions. During 1982-1986, the 1,158 firms made 401 acquisitions. We examined several event windows around the public announcements of these 401 acquisitions and the overall finding was a stock market response of roughly zero on average.[12] However, when we partitioned the 401 acquisitions into various categories, the

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[12] It is not immediately obvious what the abnormal return to acquiring firms in acquisitions should be. Stock prices reflect the future expected cash flows, discounted to the present time. Thus, an abnormal

resulting patterns were stark. For example, the stock price reaction to acquisitions made by firms not subject to takeover attempts themselves was positive and highly statistically significant. But a far different story emerged for acquisitions by firms which eventually became targets of merger attempts. Here, the stock market responded negatively to their acquisition announcements, which was also highly statistically significant. Moreover, the results were especially notable for the acquirers which were not just subject to takeover attempts themselves, but indeed to hostile takeover attempts.

Earlier, I described Goodyear's acquisition record. When Goodyear management decided to expand beyond its tire and rubber operations and diversify into the energy sector, the stock market issued a strong negative rebuke of its energy acquisition announcements. Just three years later, Sir James Goldsmith made a hostile takeover attempt of Goodyear with one of the mandates being to divest its oil and gas operations. Remarkably, the Goodyear anecdote generalized to the large dataset of several hundred acquisitions made by large corporations during the 1980s. With that in mind, we titled our paper "Do Bad Bidders Become Good Targets?"[13] Firms which make acquisition announcements that are judged harshly by the stock market are relatively more likely to be subject to takeover pressure themselves down the road.

Our paper conducted several other analyses and performed various robustness tests, but the headline findings were as described above. Our research was not merely motivated by the Goodyear anecdote, but also by the rich theoretical literature focused on the divergence of interest between management and shareholders. The basic economic theory is that when managers deviate from maximizing shareholder wealth, their respective stock prices will underperform. This stock price underperformance creates incentives for other firms to acquire the poor performers and thus benefit the shareholders of those companies. Despite the rich theory, there was a complete lack of empirical support and thus our paper was at the forefront of providing the empirical evidence that the market for corporate control acts to discipline inefficient or poor management. In other words, the market works!

Unlike my takeover tax paper with Netter, there was no outright pushback within the SEC to bury my bad-bidders paper with Lehn. But our research findings were not without controversy. In a nutshell, we provided empirical evidence that hostile takeovers could be beneficial even if they ended up derailing the well-intended plans of highly noted CEOs of prominent corporations. While many commentators viewed hostile takeovers as devices that benefitted short-term shareholders at the expense of long-term shareholders, our evidence suggested that hostile takeovers often promoted economic efficiency by reallocating assets to their highest valued users. Indeed, the stock price of a corporation reflects all expected future cash flows, whether short or long term.

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return of zero reflects a normal rate of return on the acquisition. I will discuss more on this later in my Harvard commentary.

[13] Annette Poulsen suggested the title or rather a variant of it "Do Bad Bidders Make Good Targets?"

In late November 1988, the SEC released our paper to the public. It was immediately covered by several outlets including *The New York Times* and *The Wall Street Journal*. This press coverage was obviously exciting for me. I had been mentioned once before by *The Wall Street Journal* regarding a prior paper, but this seemed far more important. The December 2, 1988 *Wall Street Journal* article even included my quote:

> "This is some of the first clear-cut evidence of why hostile takeovers occur," Mr. Mitchell said in an interview. "It's basically because there are a lot of managers out there who make decisions which turn out to be wrong." He added, "The takeover is a medium by which they are punished."[14]

Nearly three weeks later, the Editorial Board of *The Wall Street Journal* unexpectedly published a nearly 600-word editorial about our research entitled "Raiders Who Get Raided."[15] This came as a shock, and I am certain that I got no work done that morning after learning the news. My first call was to my parents in Louisiana, which resulted in my father searching for a copy of *The Wall Street Journal* in my hometown. He finally found a copy at the local bank. The editorial was very supportive of our research and, as readers of *The Wall Street Journal* know, they often use their bully pulpit to criticize rather than commend. I felt very lucky that my research was generating incredible attention. Of course, by the early afternoon, it was time to get back to working hard on the paper, trying to make it even better and more influential.

Then just a few weeks later in January 1989, Ken Lehn popped into my office and said that George Stigler, Nobel Laureate, had invited us to present our paper at the University of Chicago. That gave me a jolt. I had an inkling that our paper might have had an impact, but I certainly didn't expect an invite from the University of Chicago. We had just completed our first draft a couple of months before. A few weeks later I was on my first trip ever to Chicago. At the time I had no idea I would eventually live there for an incredible nine years. Lehn didn't want to waste time going the night before, so we took an early morning flight from Washington National Airport to Midway Airport located on the south side of Chicago, a short distance from the University of Chicago. We made a couple of office visits, then had lunch with some of the esteemed economics faculty at the Quadrangle Club (the faculty club), and attended the seminar early that afternoon.

The presence in the seminar room was a bit daunting. Lehn and I sat at the end of an enormous conference table. Professor George Stigler was to our immediate right. Professor Gary Becker, who won the Nobel Prize a few years later, was on our immediate left. It was a surreal moment for me. Lehn spent the first fifteen minutes of the presentation outlining the paper and providing the motivation for it. Then I spent the next hour or so going through the dataset

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[14] Thomas Ricks, "Of Bad Bidders Are Targets Born, SEC Study Finds," *The Wall Street Journal*, December 2, 1988.

[15] The Editorial Board, "Review and Outlook: Raiders Who Get Raided," *The Wall Street Journal*, December 19, 1988.

development and the empirical results. I was obviously nervous. There were lots of questions, but no critical rebukes. I vividly remember Sam Peltzman, a colorful economics professor chiming in with several questions. After the presentation ended and when nearly everyone had left the room, Stigler declared that he liked the paper. This was huge for me: I was on cloud nine. Lehn was also pleased. We departed for the airport a few minutes later and, shortly afterwards, were on our flight back to Washington, D.C.

We made substantial revisions and improvements to the paper based on the comments from the participants at the University of Chicago workshop, as well as from various readers. I worked non-stop and by the middle of spring 1989, it was ready for submission to a high-quality academic journal. We thought the natural home for our paper would be the *Journal of Political Economy*, which was then edited by Stigler at the University of Chicago. The *Journal of Political Economy* is widely considered to be one of the top two or three academic journals in economics. We were aiming high. We were also confident that Stigler liked it, though we understood that an anonymous reviewer might feel otherwise and reject the paper (the acceptance rate is low, well under 10%). Within a couple of months, we received a positive revise-and-resubmit letter from the journal which we edited accordingly. The paper was accepted shortly thereafter. Now that I had my first grand-slam paper, I wanted to write more, not yet realizing the difficulty of pulling off this feat again and again.[16]

Around the same time, Ken French, a superstar finance professor at the University of Chicago, called me to ask if I would present my takeover tax paper with Jeff Netter at the Center for Research in Security Prices (CRSP) Seminar on the Analysis of Security Prices in May 1989. The CRSP was founded in 1960 by professors at the University of Chicago's Graduate School of Business, where it has operated ever since as a wholly owned subsidiary of the University of Chicago. CRSP is a provider of historical stock market data. When I did the empirical research for my Ph.D. dissertation at Clemson University (and the ongoing merger research at the SEC), CRSP was the source of the stock price and dividends data that I employed in my research. CRSP conducted the one-day semi-annual seminars to practitioners who came from all around the United States to hear research presentations by mostly academics, but some practitioners as well. I was super pumped that Professor French invited me.[17]

I think there were six presentations in all: four in the morning and two immediately after lunch. My presentation was the second or third that morning. I don't recall who announced me as the speaker, but I vividly remember the announcer stating that my takeover-tax paper had been covered by *The Wall Street Journal* in that day's issue.[18] I hadn't even seen *The Wall Street Journal* that morning, so I had no idea. Given I was at the podium about to present my paper

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[16] Mark Mitchell and Kenneth Lehn, "Do Bad Bidders Become Good Targets?" *Journal of Political Economy*, 1990.

[17] I will write more about Ken French in my University of Chicago remembrance.

[18] Thomas Ricks, "SEC Economists Closely Link Tax Action by Ways and Means Panel to 1987 Crash," *The Wall Street Journal,* May 4, 1989.

with Netter, I was uncertain as to what *The Wall Street Journal* had written about our research. As soon as I finished my presentation, someone gave me a copy of the newspaper so I could read it. As I expected, the article was written by the reporter who had periodically called me. The main point of *The Wall Street Journal* article was that Netter and I went further than, "earlier studies in blaming the House Ways and Means Committee for setting off the stock market crash of October 1987." It also pointed out the paper was being presented at a University of Chicago conference and that it had not yet been formally released by the SEC. I am not certain how the reporter learned that I would be presenting our research at the University of Chicago conference that day, but I assumed he was tipped off and then asked the conference organizers for a copy of the paper.

As expected, a few folks at the SEC were not thrilled about our paper leaking out in this manner. But the SEC had not put any restrictions on presenting the research at an academic institution and everyone understood that we could not restrict third parties from circulating our work. Indeed, my understanding was always that the reporter at *The Wall Street Journal* had a copy before the conference, but was willing to wait until an event where he could report on the paper without it looking like a leak from the inside.

I was starting to realize that when this sort of thing happened, noses would get out of joint, but soon all would largely be forgotten. Well, five days later, the editorial board of *The Wall Street Journal* chimed in—and did they ever. The editorial summarized our research and indicated it should be a warning to certain congressman who would like to stem corporate takeovers from happening. It was a great endorsement of our paper. My favorite line from the editorial was, "So the SEC report released last week is not only excellent but pertinent economic history."[19] I received my share of glares that day and over the next couple of days in the SEC hallways. No one outside of our office offered congratulations. I got it. Two young SEC economists get accolades from *The Wall Street Journal* showing that certain members of Congress pushed for antitakeover legislation that arguably triggered the October 1987 stock market crash. And Congress determines the size of the SEC's budget. No wonder the lawyers were bent out of shape about our research being leaked. I am not certain that I blamed them.

For me, the feeling was great. In the span of five months, *The Wall Street Journal* not only covered my two recent research papers on mergers and acquisitions, but it also wrote two editorials about my merger research. I was only 28 years old, just 10 years since graduating from high school. I had no concept that, when I was working in the autobody shop and reading *Newsweek* columns by Nobel Laureate Milton Friedman, 10 years later I would be presenting my research at the University of Chicago, not just once but twice. It was a dream come true.

Jeff and I decided to submit our paper to the *Journal of Financial Economics*, a top-tier academic journal then housed at the University of Rochester with strong ties to the University of Chicago.

[19] The Editorial Board, "Review & Outlook: The Market's Maginot Line," *The Wall Street Journal*, May 10, 1989.

Michael Jensen, Managing Editor of the *Journal of Financial Economics*, received his Ph.D. at the University of Chicago, and had written one of the most important papers in economics and finance, one that focused on agency costs and corporate governance. As with other top-tiered economics and finance journals, the acceptance rate at the *Journal of Financial Economics* was well below 10%, but an anonymous referee gave us a favorable revise-and-resubmit that we were able to turn around in fairly short order. Soon after, Jensen accepted our paper for publication. Remarkably, we went from a research paper which was virtually sneered at in the SEC corridors to a presentation at the University of Chicago, coverage twice in *The Wall Street Journal*, and eventual publication in the prestigious *Journal of Financial Economics*.

Insider Trading and Securities Fraud

The workload during my first year at the SEC was massive. My original focus was the bad-bidders paper with Lehn, which involved the complete buildout of a largescale merger database from scratch. I was also revising the two papers from my dissertation for publication. Plus, I was working on a third paper, related to my dissertation, with a former Clemson professor. I allocated the bulk of my free time on weekends, as well as some evenings, to these three papers. Then with the market crash, I added the two research projects with Netter to my weekday workload. Time management became more essential than ever. Not surprisingly, I added another project (described below) to my ambitious research agenda.

In April 1988, Lehn asked me to go with him to Annapolis, Maryland where the Division of Enforcement was having an off-site meeting for its senior legal staff. The purpose of our attendance was to describe event-study methodology to the Division of Enforcement lawyers, specifically how this methodology could be employed by the SEC in insider trading and securities fraud cases. As alluded to earlier, tensions existed on various fronts between the Office of the Chief Economist and the legal staff when Gregg Jarrell was the Chief Economist. But Lehn was more than amenable to be a partner to the other divisions at the SEC, yet they still seemed skeptical that we would toe the party line so to speak. But now the Division of Enforcement wanted to hear from the Office of the Chief Economist, and we were happy to comply.

There was a major event that undoubtedly triggered our participation in their meeting. One month prior to the off-site meeting, the U.S. Supreme Court adopted the "fraud-on-the-market" theory in a seminal case which is still frequently cited today. In a nutshell, the fraud-on-the-market theory is the adoption of efficient markets and financial economics theory in securities litigation.[20] The theory assumes that an investor can rely on a stock price as a reflection of its intrinsic value irrespective of how much information the investor possesses about the firm in

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[20] Daniel Fischel, former law professor and Dean at the University of Chicago, wrote the seminal article which laid out "the fraud-on-the-market theory. See Daniel Fischel, "Use of Modern Finance Theory in Securities Fraud Cases Involving Actively Traded Securities," *Business Lawyer*, 1982. This paper was highly influential in the U.S. Supreme Court's decision in 1988.

question. Beforehand, the investor would need to have read and relied on a fraudulent statement in making their investment decisions and this resulted in a financial loss before they could bring a legal suit against another investor or a corporation. But now with the acceptance of the “fraud-on-the-market” theory, plaintiffs and defendants alike could employ financial economics to document materiality, an important construct, in establishing securities fraud, and even in assessing damages. Indeed, with respect to some of the recent SEC enforcement cases at the time, certain defendants were employing the “fraud-on-the-market” theory in combination with event-study methodology in an attempt to make their case. Thus with the recent Supreme Court ruling, the enforcement lawyers at the SEC quickly realized they needed to get up to speed on event-study methodology.

I frequently employed event-study methodology in my research papers. To summarize, an event study examines the impact of an event on stock prices (or any type of securities prices) of specific firms, generally controlling the overall impact of the stock market and sometimes other risk factors as well. In most cases, the event study will involve various statistical tests, such as assessing not only the impact of the event on the affected stock price but also the statistical significance or reliability of the associated stock price movement.

Today, event-study methodology is widely accepted and used by academic researchers and practitioners in numerous areas, including the legal arena. But when I first started employing event-study methodology in the mid-1980s, it was relatively new and largely employed by a handful of economics and finance professors at large universities that had access to the then-expensive stock price data. I did not merely apply event-study methodology to my research, but attempted to master it in detail and know all the nuances, as I considered the methodology a powerful analysis in financial markets. Thus, I was an obvious choice for Lehn to pick as his colleague to present to the SEC enforcement lawyers. Our presentation did not involve slides or anything like that. Rather, Lehn and I sat at the front of the room and described not only the methodology behind event studies, but how it could be used to benefit the SEC in its enforcement efforts. We probably talked for 30-45 minutes; there were a handful of questions, then we went on our way. We had no sense of their reception to our presentation.

A few weeks later, I received a call from the Assistant Director of Enforcement in the San Francisco Regional Office. Regrettably, I don’t recall his name but will refer to him as William Evans. William had attended the recent off-site meeting held by the Division of Enforcement and wanted my input on an ongoing enforcement case he was working on. I was intrigued and wanted to hear more. The case involved the sharing of allegedly material non-public information between two individuals, both of who were extremely well known in the financial sector. For confidentiality, I am unable to share their names, but knowing the high profile of the parties involved made the situation several times more interesting to me.

The enforcement case involved the trading of common stock immediately prior an oil firm announcing a share-repurchase program. The firm had announced the repurchase program in 1986, the week after Thanksgiving. On average, when a firm announces a share repurchase program, the announcement signals that the management believes the stock price is undervalued by the market. Thus, stock prices increase on average a few percentage points or so, when firms make these announcements. Consequently, if an investor knows in advance that the firm plans to make this announcement, an investor could purchase the shares in advance and then profit when the announcement occurs. Of course, this information advantage creates an unlevel playing field in investing and is deemed an illegal activity. That is, it is illegal for investors to trade on material non-public information.

In this instance, the firm stock's price did not increase when it announced the share repurchase program. If the stock price did not increase, then how could it be the case that the investor was buying shares in the oil firm based on material non-public information? And thus, the conundrum. Having heard our recent presentation on using financial economics as a tool in the SEC's enforcement actions, William was worried that the SEC would not be able to use the stock price response to the announcement to show that the person who traded on private news had previous knowledge of the information. William was extremely confident that the person expected to reap material gains on the announcement, just that it didn't occur as planned. He was convinced because the two parties had spoken at length on the phone the week before on Thanksgiving evening. Here were two individuals, speaking at length on Thanksgiving night, yet they did not work for the same firm. It seemed suspicious that a person running a large trading desk at a large investment bank conversed with an arbitrageur who subsequently purchased shares in the oil firm prior to the share repurchase announcement. Yet, the arbitrageur did not profit from the transaction as the stock price of the oil firm did not increase simultaneously with its share-repurchase announcement.

Suddenly, I had an exciting puzzle to solve. The arbitrageur did not profit from the trade, yet we believed he expected to make a profit with an extremely high likelihood of certainty. My first inclination was to analyze how the energy firm's stock performed relative to the overall stock market. Indeed, this is an important feature of an event-study: to isolate the idiosyncratic stock price performance from that attributable to the overall stock market. That is, stock prices of oil firms move on average in the same direction as the stock market, but not always. Suppose that during a short time frame around the stock repurchase announcement, the overall stock market just happened to decline? If it was the case that the market declined over the same period, then holding the overall stock market constant, the stock price responded positively to the share repurchase announcement. But the stock market was largely flat around the period of the share repurchase announcement. To our disappointment, we hit a dead end.

Undeterred, I pressed to better understand the oil firm's lack of positive stock price reaction to its share repurchase announcement. Upon further investigation, I noticed that other oil stocks declined during this period and that oil prices dropped as well. Thus, I started analyzing the sensitivity of the oil firm's stock price to oil price movements; I quickly realized it was more responsive to oil prices than were other oil firms. In the end, by adjusting for how the oil firm's stock price could be expected to respond to the contemporaneous oil price decline, I was able to create an adjusted stock price movement for simultaneous movements in oil prices and documented that the relation was significantly positive. Now the pieces all seemed to fit. The arbitrageur was betting that the stock price of the oil firm would increase upon the announcement of the share repurchase program, holding constant exogenous risk factors such as the stock market and oil prices. Indeed, the arbitrageur could have hedged this systematic risk via shorting the stock market as well as shorting oil futures, and in effect, isolating the systematic risk associated with the oil firm's stock price.

William now had a bona-fide insider trading case to take to the next level. Not only was there motive of profit from the share repurchase announcement, but also by controlling for other exogenous factors, the stock price of the oil firm increased by a statistically significant amount, thereby establishing the substantiality of the non-public material information provided by the Wall Street executive to the arbitrageur. William knew it would be an uphill battle, but at least we had satisfied the materiality issue, albeit not that cleanly given the case that the oil firm's stock did not actually increase until I accounted for the exogenous risk factors.

William prepared his memo, including my detailed financial economics analysis, for the Director of Enforcement who would review it in consultation with various Associate Directors in the Enforcement Division. The response was unfavorable, and not because the arbitrageur was not trading on inside information; rather because to show materiality via the stock price response, we had to rely upon multiple factors. It simply wasn't as clean as they would have liked. I quickly learned that the SEC, at least during that era, preferred to move forward on cases in which they would easily win if it went to litigation. It was not simply a matter of William convincing his superiors, but also getting a positive sign-off from the SEC Commissioners. The SEC was a relatively small agency and it had to pick and choose its battles. It was a huge disappointment for both of us, yet it was a learning experience for me. I was starting to appreciate how bureaucracies worked, yet I still had a ton to learn.

That was the only time that I worked with William on a SEC enforcement action, but our collaboration resulted in a flurry of insider trading cases in which I was involved. Word got around quickly that William had included me in his case, even though the Division of Enforcement didn't take the case to the next level. William conveyed that I would be valuable to other enforcement lawyers with respect to establishing materiality and coming up with disgorgement estimates in their insider trading cases.

Suddenly, lawyers from the Division of Enforcement were swinging by my office to talk through their cases. Some of the lawyers had attended our presentation a few weeks prior; others just reached out via word of mouth. Over the next two years, I worked on roughly twenty enforcement cases, some of which were in very early stages. I quickly found that I had a lot to offer on their proposed cases. Often, I could save the enforcement lawyers needless and painful work by showing that it would be tough to establish materiality using financial economics. And if materiality is tough to establish, the probability is far lower for the SEC to win in the courtroom, hence the reduced appetite in pursuing the case. In several cases, my financial economics analysis resulted in the enforcement lawyer deciding not to proceed. On the flip side, there were numerous cases in which I was able to employ financial economics to greatly bolster the materiality argument and sometimes to require larger disgorgement figures than the lawyer initially hoped for. The work started to become a bit mundane, but I didn't mind doing it as I felt there was still a net benefit. Plus, doing basic academic research all the time can get a bit boring.

Many of the enforcement cases I worked on were interesting, though one stood out partly because of my connection to it. The case involved the previously mentioned legendary corporate raider known as T. Boone Pickens. In February 1988, Pickens, via his entity Mesa Limited Partnership, announced a 3.8% stake in Homestake Mining and offered to acquire the remaining shares at $20. Upon the announcement, Homestake's stock price immediately increased from $14 to $18 per share. Unexpectedly, Mesa started selling its shares immediately after the price soared and for the next few days. Importantly, Mesa did this without disclosing its intentions to exit the position. The SEC charged Mesa with negligence absent of fraudulent intent. The SEC's position was that the original announcement by Mesa to acquire Homestake Mining was misleading because it did not reveal Mesa's intent to immediately unload the 3.8% stake it had amassed.

At stake was not simply whether the original announcement was misleading, but whether it was material that Mesa reported the 3.8% ownership stake when making the announcement to acquire Homestake Mining. This was the moment when I was able to assist the enforcement lawyers in making their case against Mesa. It was one of the early enforcement cases in which the SEC employed financial economics, and it was also the first SEC case that did not involve insider trading that made use of financial economics by the SEC lawyers. From a financial economics standpoint, if the initial announcement of the 3.8% stake could be considered material, then the decision to sell the 3.8% stake should also be considered material. I needed to formulate whether the 3.8% purchase of Homestake shares was material, and specifically whether that information would have resulted in a stock price increase of Homestake. Of course, the confounding information is the simultaneous announcement of the offer to acquire the rest of the firm. This is where I went to work to attempt to separate the announcement of the 3.8% stake from that of the simultaneous announcement of the takeover offer.

My first step was to review the academic literature about what happens to stock prices when investors, particularly activist investors such as Pickens, announce ownership positions in publicly traded corporations. Overall, the empirical evidence indicates that stock prices increase an economically and statistically significant 5-10% when activists and corporate raiders announce the ownership of stock in a corporation due to the increased probability of a subsequent acquisition. In addition, I carefully examined the historical record of ownership announcements by Pickens and Mesa in other corporations. Here, I found a large and positive stock price reaction to news that Pickens was amassing an ownership stake in a corporation, even if the announcement did not simultaneously reveal an acquisition offer. Thus, we made the point that the empirical record, using financial economics, suggested that investors considered the 3.8% ownership stake in Homestake by Mesa as material. And if so, then the decision to sell the 3.8% ownership stake should be considered material as well.

Pickens hired his racquetball buddy, Gregg Jarrell, as his financial economics consultant to defend against the SEC's case. Ironically, Jarrell had made the initial overture to hire me when he was still the SEC Chief Economist. Our empirical evidence and economic logic were solid. It was a quick settlement; Pickens did not admit nor deny the charges and agreed to disgorge over $2 million in profits based on my analysis of the stock price impact of ownership announcements. The charge by the SEC was negligence, absent of fraudulent intent. Thus, from the perspective of the Pickens camp, the violation was more of a technicality--a slap on the wrist. From my perspective, we were dealing with a formidable opponent in Pickens, and in his expert consultant, Gregg Jarrell, and it was apparent that the SEC's employment of financial economics had a substantive impact on prevailing against Pickens.

Personally, it was not simply a matter of being on the opposite side of someone who had initially offered to hire me, but also my prior interactions with Pickens himself. My "Do Bad Bidders Become Good Targets?" paper with Ken Lehn provided empirical evidence that corporate raiders such as T. Boone Pickens served to discipline corporations that failed to maximize shareholder wealth via engaging in bad acquisitions. Pickens took an interest in our research. One of his direct subordinates invited Ken and me to have lunch with him where we described our research. In 1986, three years prior, Pickens founded USA Shareholders Group, an entity that advocated for shareholders' rights on behalf of mainstream investors. In one of their 1988 quarterly newsletters, Pickens heralded our research as providing great benefits on behalf of shareholders. Pickens even invited us to the annual meeting of the USA Shareholders Group where we briefly met him and listened to his presentation on shareholder rights. I was certainly a fan of T. Boone Pickens, but none of that deterred me from building the strongest possible empirical case in the SEC's efforts against him.[21]

Again, timing was everything, at least ex post. Less than a year after I started working at the SEC, the Division of Enforcement needed the Office of Chief Economist's support on securities fraud cases. My detailed knowledge of event-study methodology put me in a prime position to assist. It was great fun to be at the forefront of this endeavor. Plus, I learned a lot about securities fraud and insider trading. I wrote two research papers on the subject, both of which landed in law academic journals. (I will discuss these papers briefly with respect to my University of Chicago days.) It struck me that I could have an extremely lucrative career working on these cases after exiting the SEC, representing both the SEC and various defendants as well. The compensation would be high, at least on an hourly rate, though I soon figured out that the growth rate to compensation would quickly level off and that the only way to leverage my expertise would be

[21] Coincidentally, nearly twenty years later in 2007, I went to the Nebraska and Oklahoma State football game in Lincoln, Nebraska with a small group which included T. Boone Pickens. Boone was a huge supporter of Oklahoma State football and took great glee in the thrashing of Nebraska by Oklahoma State that game. I did not bring up the SEC case during our numerous conversations that fall day.

to start a firm that specialized in litigation support, something I had no desire to do. Yet, even so, the experience was invaluable, and I benefitted greatly from it. I gained a lot of additional human capital in not only starting to understand securities law but also by working in tandem with non-economists such as lawyers.

New Faces and an Office Reorganization

As I mentioned earlier, the Office of the Chief Economist was composed of a small and very enjoyable group of economists to work with, but changes were on the way—some positive and others less so. First, the positive changes. One late spring day in 1988, David Malmquist gave Jeff Netter and me a stack of resumes and said we could hire a full-time summer intern. We had a formal intern program, primarily of undergrads who would work a few hours each week at the SEC while spending a semester at universities such as American University or Georgetown. Those interns were great and hardworking and were assigned to our office by the human resources staff at the SEC. But the resumes which David handed us were for a specific internship in our office and were of graduate students as opposed to the usual undergrads. The resume of Lisa Meulbroek stood out due to her impeccable background. Lisa completed her undergraduate studies at The University of Chicago, then worked for the premier consulting firm Boston Consulting Group before joining the Ph.D. Program in Economics at M.I.T. In addition, she interned at Goldman Sachs after her first year at M.I.T. My decision was to immediately offer the internship to Lisa. Here was someone who had spent time at two of the best universities in the world, arguably the best management consulting firm in the world, and arguably the best investment bank in the world, all in a period of eight years. Why even bother looking through the rest of the resumes? Meanwhile, Jeff was considerably more cautious. Lisa's pedigree was so impeccable in contrast to ours, that we could be setting ourselves up for a culture crash. Employee fit is so important, especially in a small office; Jeff didn't want to jeopardize our incredible culture. But, our small-office culture of close-knit economists was about to be disrupted for different reasons. Jeff and I conducted a phone interview with Lisa, and she seemed excited to join us. We decided to hire her and didn't bother interviewing anyone else.

Lisa was a great fit that summer. When she first showed up, we didn't have an immediate place to put her, but David Malmquist, the Deputy Chief Economist who had a large office, was out on vacation and so we put Lisa in David's office. And then we started to wonder whether Lisa would relinquish David's office when he returned from vacation. It wasn't so much the books she brought or the gym bag, or the baseball bat and glove, but rather the shoes that still stand out to us. On her second day of work, Lisa brought a box with several pairs of shoes—shoes for comfort, shoes for softball, shoes for running, shoes for formal occasions, etc.—and she lined them all up in David's office. Lisa had clearly made herself at home and established property rights. When David returned from vacation, I think he was a bit startled by how Lisa had commandeered his office but he took it in stride. We quickly found a new spot for Lisa to camp out. It was hilarious then, and still is to this day.

Lisa focused a lot of her work that summer on figuring out a research topic for her Ph.D. dissertation at M.I.T. For a Ph.D. student, the roadblocks to completing the degree are plentiful. The classes are difficult, the hours are brutal, and once the coursework is completed, the Ph.D. candidate must then take qualifying examinations in the basic area of study, economics for instance, and field exams in the areas of economics the student chose to specialize in. Yet, many Ph.D. students find the big challenge is in coming up with a dissertation topic that is novel, unique, and generates excitement from their professors. In a nutshell, you attempt to come up with a topic that no one has previously written about. And a good topic, too. That is the crux of the matter; if your idea is so good, why hasn't anyone else already come up with it? A standard way to determine a dissertation topic is to read and re-read everything of interest in academic journals with the hope of discovering great ideas. Often, the Ph.D. student hits a big roadblock as they are being asked to think beyond what has been recently published and come up with new ideas to extend the current knowledge in a specific field.

By spending the prior summer at Goldman Sachs, Lisa came up with a research paper which examined the price divergences between futures and forward contracts for Eurodollars. By virtue of sitting on one of the trading desks at Goldman Sachs, Lisa was able to converse with various traders who informed her of the price divergences where there should have been none in perfect capital markets. Eventually, Lisa was able to turn this research into an academic publication in what is considered the most prestigious journal in finance, *The Journal of Finance*.[22] Lisa didn't know at the time that her paper from her Goldman Sachs experience would eventually get published in the top-ranked finance journal, but she did have a fairly strong idea that it would likely suffice for one of the chapters in her Ph.D. dissertation. Thus Lisa thought that she could repeat that experience with her summer internship at the SEC.

It turns out that Lisa was indeed able to replicate her Goldman Sachs experience at the SEC. She acutely took notice of my efforts in assisting the Division of Enforcement with respect to insider trading cases. My objective was simply to apply my financial economics tool kit to their cases, be a good colleague, and perhaps improve my human capital along the way. Lisa was a bit more skeptical; perhaps she saw a bit of overreach by the enforcement lawyers in pursuing their cases. In hindsight, I can see that they were on the zealous side. Lisa approached it more like an economist, and one trained as an undergraduate in Chicago Price Theory, where she could think about the cost and benefits of insider trading. On the cost side, insider trading can decrease market liquidity, resulting in perverse incentives by managers, and it is disadvantageous to investors without information. But on the positive side, insider trading moves prices quicker to fundamental values. So Lisa was of the mindset that one should try to measure the costs and benefits of insider trading before simply determining it is net harmful to markets.

[22] Lisa Meulbroek, "A Comparison of Forward and Futures Prices of an Interest Rate-Sensitive Financial Asset," *The Journal of Finance*, 1992.

By being at the SEC, Lisa was able to examine non-public case files of insider trading, which provided details such as when the investor accused of insider trading put on their trades. It was a lengthy task to examine the insider case files as they were largely hard copies held in archived boxes with no machine-readable data. Lisa immediately concluded that access to the data required being onsite at the SEC as no one had ever bothered going through all the files in a rigorous fashion. Her thesis was to examine if there were any possible benefits to insider trading; to do this, she examined whether insider trading resulted in price movements. Her final dataset consisted of over 400 insider trading cases during a nearly 10-year period. Her idea was that most investors who trade do so without having an information advantage, at least in terms of possessing material non-public information. The richness of Lisa's dataset was that we know ex post the investors were likely trading on material non-public information since they were alleged by the SEC as doing so. Lisa designed an empirical test to determine whether stock prices move when investors trade on non-public information. Her hypothesis was that stock prices will react more to trades by these informed investors than to investors who do not trade on information. Lisa found that when these investors traded, the respective stock prices moved a significant three percent and accounted for about half of the price movement that occurs when the information is subsequently publicly released. She found that the mechanism for the informed investors moving stock prices in advance of the information released was not that they accounted for a large part of the trading volume on the days during which they traded, but rather that they accounted for a large proportion of the unexpected or the abnormal trading volume on those days. Lisa concluded that insider trading has price discovery benefits that should be considered by the government when deciding on the optimal penalties for insider trading. Her paper became a big hit; it was not only published by the prestigious *Journal of Finance*, but also won the journal's paper of the year prize in its year of publication.[23]

We had several other interns throughout my time at the SEC. Often, they would intern with us for either the fall or spring semester in conjunction with their respective universities. We also had a few interns during the summer as well. These were non-paying internships. On late Friday afternoons in summer, we would send the interns out to the Mall near the Capitol Building to establish property rights on one of the softball fields on the Mall. Our softball games were a lot of fun and we won most of them, largely based on hustle and never giving up. It was a matter of pride for the economists to beat the various teams made up of SEC lawyers.

Years later, another of our SEC summer interns became famous in the financial world. David Einhorn interned for me during the summer of 1988 and graduated from Cornell University a couple of years later.[24] David became a famous hedge fund investor and a poker player to boot.

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[23] Lisa Meulbroek, "An Empirical Analysis of Illegal Insider Trading," *Journal of Finance*, 1992, and winner of Smith Breeden Prize for best paper.

[24] David was a super research assistant and among many tasks worked on one of my academic research papers which was noted in my merger research section due to space constraints. See Lisa Meulbroek, Mark Mitchell, Harold Mulherin, Jeffry Netter, and Annette Poulsen, "Shark Repellants and Managerial Myopia: An Empirical Test," *Journal of Political Economy*, 1990.

As a hedge-fund investor, David achieved fame and notoriety for going after several well-known publicly traded companies that failed to maximize shareholder value. As a professional poker player, David has won as much as $4.3 million in a single tournament. While I kept up with David's career and his whereabouts via the business press, we went over 30 years without any interaction. Then one day out of the blue in 2021, Andrew Karolyi, Dean of Cornell's Business School, reached out to me and said he spoke with David at a dinner the previous evening on the Cornell campus. David mentioned wanting to connect with me. We did so via email a couple of days later and both of us conveyed interest in getting together at some point for dinner. But without a real catalyst, and our busy schedules, neither of us has gotten around to initiating that dinner. Then came a crazy example of what a small world this is. Less than a week later, in an extremely improbable occurrence, I noticed that my Cessna Citation X, a private jet I chartered out when not in use, was departing from the White Plains airport outside of New York City and heading to Las Vegas. This piqued my curiosity as to who was flying on it. Sure enough, David Einhorn was on the flight manifest. Crazy! I hadn't heard from David in over 30 years and one week later, by sheer coincidence, he had chartered a flight from New York to Las Vegas (I assume to play poker!) on a jet I owned and not knowing it was mine.

In the late spring of 1988, I invited Harold Mulherin, a professor at Clemson University, to give a seminar at the SEC. Harold was a couple of years older than I and we had become good friends when he joined the Clemson faculty in 1985. Harold gave a seminar on trading volume and had a great day interacting with the other SEC economists, so much so that a few days later Ken Lehn asked me if I thought Harold would have any interest in spending a year or two at the SEC. Harold had only been at Clemson for three years, but he was always a bit of a wanderer and he jumped at the opportunity to join us. I ended up living with Harold for two years in Old Town, a historic neighborhood in Alexandria, Virginia just outside of Washington, D.C.

Harold and I had an interesting time living and working together. Harold was full of life; he liked going out a lot and was very athletic and enjoyed sports. He also maintained long hours at the office and therefore, didn't have a lot of time to sleep. A typical weekday would see us arrive at the office by 7:30 a.m., work at least 12 hours, then go out to dinner and do other fun things, then hit the bed. Rinse and repeat. On weekends, we basically chose not to sleep. We stayed out late on Friday nights, and then were back in the office by 8 a.m. or 8:30 a.m. on Saturday. The cool part about working with Harold on the weekends was that we would bike to work. It was a short bike ride, less than 10 miles each way, and Harold had only one rule: No one was allowed to pass us on the bike path. Harold was an incredible cyclist, and my goal was simply to keep him in sight! Those weekend bike sprints kept me in better shape than I otherwise would have been. Harold and I also collaborated on two influential research papers, both of which I will describe in my Chicago chronicles.

By the summer 1988, less than a year after I had started working at the SEC, the news came down from the top that the Office of the Chief Economist, and its prime real estate on the 6th floor along with the Chairman and Commissioners, was coming to an end. The business model was not sustainable. It didn't make sense to have two economics groups, especially if they were at odds with each other. This was highlighted by the Directorate of Economic and Policy Analysis circulating an erroneous memorandum throughout the SEC about my research with Jeff Netter on the 1987 market crash, and without running it past us first. More importantly, it had been John Shad, the former SEC Chairman following the directive of the Reagan Administration, who created the Office of the Chief Economics six years prior back in 1982. In contrast, David Ruder, the current SEC Chairman, did not share Shad's passion for free markets and preferred a stronger government hand in dealing with the securities industry. When Chairman Ruder chose the Division of Market Regulation, a division full of lawyers, to write the economic report of the October 1987 market crash, it was obvious that the Office of the Chief Economist would no longer have the cache and support that it did under the prior administration.

The decision was to merge the two economics offices under the new name, Office of Economic Analysis. We said goodbye to the Office of the Chief Economist, an office which had a substantial impact under the leadership of Cox, Jarrell, and Lehn. With the newly merged office, Lehn would retain his position at the top with the same title of Chief Economist. We would move from the 6th floor up to the 9th floor which was the top floor at 450 5th Street NW. I was quite sad by this transition. My nostalgia for the Office of the Chief Economist was deep, even though I had spent a little less than a year there.[25] My original office was a small interior office in which I was quite content. The fact that we were on the Chairman and Commissioner's floor was so special that I would have been happy in a coat closet! For some unknown reason, when we moved upstairs, Lehn assigned me a large office with a conference table and equally large windows that opened outside to a terrace with a great view of the Washington Monument on the Mall. I soon found that my new office had a real impact as the enforcement lawyers would bring me insider trading cases to analyze. Most had offices similar to the one I originally started out in; when they would swing by and see me in this large office with a conference table and exterior door to the terrace, they immediately assumed I was far more important than I was. Again, another economic lesson for me as I was starting to appreciate more and more how signals with respect to information can be so important.

My experience at the SEC was incredible. I not only found the work rewarding, but I also had an incredibly fun time. Each morning I looked forward to getting back into the office. And the group was always up to something. The office became much more bureaucratic after combining with the other economists, as they were all bona-fide government employees, and we were far from that. Sometimes, we were even a bit mischievous in dealing with the bureaucracy. Despite the office reorganization, the fellows from the original Office of the Chief Economist could come and go as they well pleased. There were no time clocks in place for us. But, of course, there were clocks in place for the civil servants; every morning around 9:30 a.m., one of the office

[25] Another disappointment was that Jeff Netter departed around the same time for a faculty position at the University of Georgia where Annette Poulsen (spouse) had joined a year prior. Jeff and I ended up co-authoring six papers together and likely would have worked on several more had we been in the same surroundings for more than a year.

administrative assistants would do a walk through and note attendance. One of the government economists was often late for work and would get dinged. Cleverly, he would have his buddy open his office door, turn the light on, and put a newspaper or coffee mug on the desk. Then, when the administrative assistant came by to do the rounds, she would count the no-show economist as present. One morning, Lisa Meulbroek observed his buddy preparing the office as though his friend was there and started paying close attention. A few days later, after the buddy prepped the office for "attendance," Lisa walked down the hall, turned the office light off and closed the door. The economist was dinged for no attendance, which then made him upset with his friend who was supposed to be covering for him. Lisa did this a few more times, but eventually moved on to different pranks!

Then there was the Saturday afternoon when Harold Mulherin fell through Ken Lehn's ceiling. There had been a small going-away party for a staffer the prior evening with appetizers, cheese, beer, and wine. Some of the beer remained and, for whatever reason, the door to Ken's office was locked, which was unusual. At some point that Saturday afternoon, Harold decided it was time for a beer, albeit a warm one since they had been sitting out on the conference table in Ken's office. Since Ken's office was locked, Harold's innovative idea was to access it by removing a ceiling tile from the adjacent office, crawling a few feet over, and removing a ceiling tile from Ken's office to jump down and then unlock the office door. However, things didn't go as planned—Harold fell through the ceiling tiles into Ken's office. He did get his beer, but there was a bit of explaining to do when Ken showed up later for work! I stayed clear of that fiasco.

Despite the incredible experience, the extraordinary success with my research agenda, and being a primary architect of developing the program in using financial economics to assist the enforcement lawyers, I was ready to move on. It was not the end of the three years, but even earlier, roughly two years after starting work at the SEC. A big factor was the change in the office dynamics and location. The Office of the Chief Economist, with its location on the 6th floor, was beyond sweet. The change in the administration from Reagan to Bush had an impact as well. Bureaucracy was back in favor again. Deregulation and free markets were not on the outs per se, but the 1989 Bush Administration was far more accepting of government as the solution as opposed to the Reagan Administration, which often viewed government as the problem.

It was time to move on. In December 1989, I was offered a new job at the mother church of academics—The University of Chicago. I happily accepted the position, though it would be eight months until I could start it. Not only was I ready to exit for the sake of exiting, I was also incredibly lucky to land at such an amazing place. I looked forward to beginning my next chapter and to seeing what came next.