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Graduate Recommendation Letter

To the Review Committee:

As group head, I am delighted to write this letter of recommendation for [...] . From August to December of 2014, he was my intern in the Statistical Arbitrage Group of CITIC Securities. Our group primarily focuses on using statistical and mathematical tools to construct arbitrage strategies for the Chinese A-share market and future contract markets. Due to the demanding nature of the job, we only admit full-time analysts and interns who exhibit the highest intellectual capability. Among the nine interns we had, eight were graduate students (three were Ph.D. candidates) with two current students at the University Chicago. XXXX was the only undergraduate student and probably the only one whose first major was not quantitative related. In this competitive pool, Yu's performance was truly outstanding, at least on par with the best graduate student majoring in financial engineering.

During those four months, he delivered high-quality work that included strategy construction, strategy optimization, and risk analysis. His strong mathematical and statistical capability enabled him to contribute substantially to the projects in which he participated. During the convertible bond (CB) volatility arbitrage strategy construction project, XXXX took a leading role in CB's pricing and signal construction. My previous intern had once applied the BS Model to pricing but failed to simulate fully the market movements. Yu, however, after extensively studying the literature, introduced the Tsiveriotis and Fernandes Model in pricing the CB and added a Poisson Process to the model's SDE. This adjusted model can precisely calculate CB's daily delta compared with the BS Model. It captured the Chinese CB market's downward revision provision and therefore contributed greatly to the accuracy of our final strategy. In choosing the signal, XXXX applied the Local Volatility Model, EGarch Model, and other momentum signals, and employed the Adaptive Boosting Algorithm to optimize them. In the end, this CB strategy achieved historical annual 16% returns with a Sharpe Ratio over 4.8, which was very robust among all strategies developed by interns.

In addition, XXXX possesses a strong ability to learn quickly. He can grasp the essence of complicated models in a short period of time and effectively make use of them. In optimizing our market neutral strategy to classify stock pools into groups to improve the matching of a score function with a different parameter, our team tried almost every machine learning tool. Although XXXX was not initially acquainted with some of the methods, he could handle them quite smoothly after only a few days of self-learning. Later, he independently back-tested historical data using various types of clustering, discriminate analysis, SVM, and artificial neural networks. In this way, he worked out detailed application problems, such as the sensitivity of each parameter in SVM and the optimal sample sizes in cross validation. His analytical report, which is as good as the report generated by a graduate student here, provided excellent assistance to our team in classifying 42 stocks from among the entire stock pool.

As for teamwork, XXXX is an efficient and alert team player. During his internship, he also assisted the department's Fund of Fund (FoF) team in risk analysis. Since the FoF seeks to invest Chinese hedge funds using quantitative strategies, the risk analysis of each strategy is an important part of the final decision making process. XXXX is quite adept at measuring risk exposure. For example, he efficiently finished what we expected using hypothesis testing methods and multivariate statistical skills to explore the technical ratios and market size exposure of strategies. Moreover, he proposed considering the industry risk exposure of each strategy and applied multiple regression skills to test the relationship between the strategies' daily net values with each industry's index. His very enlightening ideas led the whole team to reach the final decision in choosing a strategy. Later, in order to boost the team's efficiency in evaluating similar strategies, he wrote several open source code templates in Matlab.

As for further improvement, professionally speaking, at the beginning of his internship, XXXX made some minor mistakes, especially in certain data processing tasks. Even so, it has been comforting to see that he worked hard to correct these mistakes after I pointed them out. He then became very detail-focused while still maintaining high efficiency. I hope that he can keep on this current track and continue working in a similar manner in the future.

In sum, XXXX is a young man with great passion and ability. I would love to continue watching him achieve further career development as I have high expectations of his potential. I think XXXX would be a rare catch for any graduate program and I recommend him to your MFin program with my full support and enthusiasm.

Sincerely yours,

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