

INSIDE THIS ISSUE

Click on article title to
jump to that page.

SPECIAL REPORTS

Editor's Note pg. 2
25th Annual Dinner pg. 2-4

SOCIAL EVENTS

Multi-Group Networking
Happy Hour at Rivers pg. 5
7th Annual Golf Outing pg. 5 & 6
Poker Night and Networking at Scoozy pg. 6
Events Calendar pg. 7

LUNCHEON PROGRAMS

Mark Anson, CFA pg. 7
Leland Clemons on ETFs pg. 8
Don Civgin CFO pg. 8 & 9
Integrus Energy Group pg. 9

EDUCATION

Book Club pg. 10
Investing in Senior Housing pg. 11
News & Updates pg. 11
Educational Initiative: CFA Institute Research
Challenge Kicked Off In Chicago pg. 12
Panel Discussion: Entitlements, Austerity,
Taxes, and the Mortgage Crisis pg. 13

MEMBERSHIP

Career Progress –
Personal News from the Workplace pg. 14
Welcome New Members pg. 14



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THE EFFICIENT FRONTIER

FALL ISSUE 2011



For our members: Free Career Management Events

Written by:

Heather Brilliant, CFA

As we launch into 2012, setting goals and making plans for the new year – both professionally and personally – I'd like to look back at some of the accomplishments of 2011. This year CFA Chicago grew membership to more than 4,000, hosted more than 60 events, and attracted top-notch speakers including Jeffrey Gundlach, Professor Jeremy Siegel (who helped us attract nearly 800 guests to the 25th Annual Dinner), and Bill McLean. We also held a day-long behavioral finance conference, and further improved our communications. Now you receive weekly email updates that provide a roundup of events and news, and you can find CFA Chicago on LinkedIn, Facebook and Twitter. Finally, we are very pleased to be participating in the CFA Institute Research Challenge for the first time this fiscal year, with 10 local universities participating.

As we look ahead, our members will see a continued focus on our strategic plan initiatives in the areas of branding, education and career resources. The CFA Chicago Board of Directors, Advisory Group volunteers and staff have been working hard to advance this strategic plan, and welcome your suggestions and input as we work to move the society forward in these key areas.

During these tumultuous economic times, I appreciate these successes and look forward to providing additional member benefits in 2012 as we continue to deliver quality career and education events for our members. In this tough environment, I'm pleased to announce our biggest headline: **career management events will be FREE for all members through June 30, 2012.** We are offering this benefit based on the feedback and needs of members. I encourage you to take advantage of these events, build your portfolio of skills and make new professional connections.

Finally, this year CFA Chicago is thrilled to host the 65th CFA Institute Annual Conference, May 6-9. This four-day conference rotates continents each year, and we are pleased to have such a prestigious event in our hometown. With more than 40 speakers already slotted for the event, you will find something to meet your educational and professional development needs. For more information visit www.annual.cfaconference.org. If your firm would like to learn more about sponsorship opportunities email amckay@cfachicago.org. ■

Editor's Note

Written by:
Greg Gocek, CFA

This newsletter marks the 25th anniversary of our signature event, the Annual Dinner, where our record incoming class of new charterholders received additional professional good news via keynote speaker Professor Jeremy Siegel's forecast of better times ahead in the equity markets.

All members have also been benefiting since this fall from our enhanced communications offerings, including the weekly e-mails offering comprehensive activity summaries prepared by our newest staff professional Virginia Pentracosta and our CFA Chicago members-only LinkedIn group that is an active forum for information on diverse topics.

As Heather also notes in her message, this fall has also witnessed two major future collaborations with our global counterpart CFA Institute. In November, our society announced the launch of its first local competition between university teams in the investment research challenge that has been underway over the last few years. And next May, the global Annual Conference will be staged here in our hometown for the first time in about a decade.

Stories on these subjects, as well as our coverage of our always plentiful set of activities, are provided for your year-end reading thanks to the following contributors, listed alphabetically: Members - Brett Bina, CFA, Heather Brilliant, CFA, Adan Galvan, CFA, Greg Gocek, CFA, Scott Hagwell, CFA, Chris Lakumb, CFA, Cynthia McLaughlin, Peter Marchese, CFA, and Todd Parvis; Staff-Angela McKay, CAE, Virginia Pentracosta and Claire Peterson. ■



**CFA Chicago
Chairman
Heather
Brilliant, CFA,
and Hortense
Friedman,
CFA, Award for
Excellence
Recipient
Philip E.
Arnold, CFA.**

November 10, 2011: Stock and Bond Valuation – 25th Annual Dinner

Reported by:
Greg Gocek, CFA

At the Fairmount Chicago Hotel, the CFA Society of Chicago (CFA Chicago) celebrated a signature milestone via the 25th rendition of our keynote event, the Annual Dinner.

Chairman Heather Brilliant, CFA, opened the proceedings by thanking dinner underwriters, CFA Chicago staff, and her predecessors in the society's top leadership role. Fifteen past chairmen were present, along with a number of former board members and much of the current leadership team of officers, directors and advisory group chairs. With nearly 800 registrants, the audience applauded both our 39 corporate sponsors (in reverse order of underwriting contribution category 26 bronze, 1 silver, 7 gold, and 4 platinum, and one premier sponsor) and all 127 members earning their CFA charters in the

last year. Each charterholder was honored with a complimentary guest admission, courtesy of CFA Chicago. All benefited from the outstanding organizing efforts of staff and sponsorship outreach by the Annual Dinner Advisory Group chaired by Doug Jackman, CFA.

The winners of the Hortense Friedman CFA Award for Excellence were next honored. This distinction, commemorating a society founder and prominent institutional investor, is bestowed periodically on a Chicago investment professional exhibiting outstanding leadership and commitment to excellence.

Heather Brilliant noted the contributions of the posthumous winner, Raymond J. Sidney. Mr. Sidney in 1923 brought

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Continued: 25th Annual Dinner

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together the first group of investment professionals including Ms. Friedman which first met for luncheon discussion and ultimately evolved into our organization as the world's first such society in 1925 with Mr. Sydney as its first president.

Nearly 800 guests enjoyed a networking reception, dinner and presentation at the 2011 CFA Chicago Annual Dinner.



Chairman Brilliant then introduced the winner of the 2011 Hortense Friedman Award, Mr. Philip E. Arnold, CFA. A volunteer leader in multiple roles for CFA Chicago (Director 1985-87 and 1990-93, Vice President 1987-88, President 1988-89 and Immediate Past President 1990-91), Mr. Arnold celebrated his 50th anniversary in our industry this year. His career has spanned institutional asset management for Northwestern University (his college and business school alma mater), the founding of two separate investment advisory firms which were ultimately successfully merged into major organizations, and senior executive roles at United Asset Management and Hartline.

Mr. Arnold noted he had the pleasure of personally knowing Ms. Friedman, opining that perhaps one of her secrets to longevity in a life of 99 years was daily cover to cover reading of the *Wall Street Journal*! Acknowledging the great industry changes he has seen over his years in the business, when he recalls beginning with investment time horizons spanning 5-10 years and holding periods at least 2-3 years, he congratulated all new charterholders on the achievement of what will be a permanent career constant, their premier CFA professional designation.

The evening ended with the keynote address by Professor Jeremy J. Siegel, a native Chicagoan who joked that with the recent visit by his hometown football team to his longtime adopted city of Philadelphia (where the Monsters of the Midway had just defeated the Eagles), his currently bandaged hand was acquired through his own fight with bears, of the Wall Street

variety! Professor Siegel was introduced by Michelle Seitz, Head of Investment Management and a member of William Blair & Company's executive committee. Ms. Seitz noted literally tens of thousands of students over Professor Siegel's illustrious career have been personally well schooled by his voice of reason across all investment extremes, including today's palpable and possibly emotional disdain against equities.

Jeremy Siegel is the Russell E. Palmer Professor at the Wharton School of the University of Pennsylvania, the author of [Stocks for the Long Run](#) (soon in its fifth edition) and [The Future for Investors](#) and the winner of CFA Institute's Nicholas Molodovdsky award as well as prestigious teaching honors. His research has provided an exceptional historical perspective on the performance of all major assets classes, with his insights sharpened by lively debate with his close friend of more than four decades, Professor Robert Schiller of Yale.



Keynote speaker Professor Jeremy Siegel addresses annual dinner guests.

Professor Siegel offered an upbeat appraisal of the outlook for stock investing, grounded on his careful reading of the latest long term data. Among the insights he shared:

- As the most volatile asset class short term, stocks nonetheless almost double the performance of the next best alternative (bonds), delivering a 6.7% real return annually since 1802.
- At the depths of the recent bear market in 2009, stocks were priced 40% below their historical trend line. Even with the subsequent rally they remain 20% below forecast level.

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THE EFFICIENT FRONTIER



Continued: 25th Annual Dinner

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- The long term historical S&P 500 P/E is 15. The current level stands at 12.8, projecting a real return of 7.8%. Competitive 10 year US Treasury bond now offer 2%. And for TIPS, whose return should parallel trend US GDP growth rate of about 3%, the current yield is negative!
- There is global risk aversion, with current P/Es for Europe and emerging markets (the latter being a region that Professor Siegel views favorably) at approximately 9 and 10 respectively.
- Returns are ultimately driven by productivity growth and underlying trends are favorable both globally and locally (the latest US reading running at 3.1% while our historical average is 2.2%).
- Regarding specific strategies, buying either the categories of highest yielding or lowest P/E stocks in the S&P 500 offers the best long term returns. Dividend income overall beat inflation by about 1% annually since 1957. And top yielding international dividend payers offer even more substantial payments at 6.5% versus the US average of 4%.
- In Q&A, Professor Siegel agreed public policies to encourage higher dividend payouts (companies now provide about 30% of earnings while historically that figure was nearly 70%) and tax simplification could boost investment returns. For the current Eurozone crisis, he advised the ECB to be as decisive as our Federal Reserve was in 2008 in addressing bad debts. ■



(left to right)
John Mirante,
CFA, Bradford
Adams, CFA,
Jason
Ritzenthaler,
CFA



(left to right)
Chloe Kelley,
Xiangyu Zou,
CFA, Brian
Heinimann,
CFA, Aaron
Kelley, CFA



(left to right)
Frantisek
Krepelka, CFA,
Benjamin
Ribbens,
Sarah Ribbens,
CFA, Survat
Chakradeo, CFA

All photos: Attendees enjoy networking at the Annual Dinner.

CFA Chicago gratefully acknowledges the support of the following organizations on behalf of the 2011 Dinner:

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On September 14 members enjoyed networking opportunities and an upbeat vibe at Rivers Bar.



September 14, 2011

Multi-Group Networking Happy Hour at Rivers

Reported by:
Todd Parvis

Nearly one hundred financial specialists from a number of professional groups made new friends at the Rivers Bar adjacent to its namesake Chicago River. Hosted by CFA Chicago, participating groups included the Chicago Association for Business Economics, Chinese Finance Association of America, FPA of Illinois, Market Technicians Association, PRMIA Chicago, Society of Actuaries, and Women Investment Professionals.

Most attendees stayed for the full extent of time allotted for an upbeat vibe, even with weather that had an unfortunate chill of fall necessitating the concentration of socializing indoors. In the bar's early open area, attendees enjoyed marinated chicken on a stick, shrimp, different types of pizza, among various items, naturally accompanied by a wide assortment of alcoholic beverages.

As they enjoyed socializing, participants offered a variety of motives for their attendance. Some hoped to break into the industry. They had recently joined our Society for its opportunities like this networking event to meet investment professionals in a period of job market challenges. Others now working in the industry were investigating potential career alternatives involving another job function or a different firm. And then there were the life of the party "hail fellow, well met" persons. They frequent the networking circuit, joining in at many networking events to enjoy their atmosphere fully while meeting new-like minded persons for future bonhomie. Everyone present found a circle to suit his/her preferences.

The event's further benefit was its opportunity for conversations on finance and related subjects. There was a stimulating discussion about the CFA exams and the Schweser program's benefits for preparation. Other interesting topics addressed the merits of further quantitative easing, the contrasts between private and public company equity valuation, and the possibility of a double dip recession. After all, at a networking venue for investing professionals, there is even space for some shop talk about investing! ■

September 22, 2011 7th Annual Golf Outing - Networking on the Green

Reported by:
Chris Lakumb, CFA

It was a beautiful late-summer afternoon as 71 CFA Chicago members and their guests arrived at the historic, Olympia Fields Country Club (OFCC) for the sold out 7th Annual CFA Golf Outing. Players reveled in the opportunity to play the famed North Course, site of the 2003 U.S. Open. This OFCC course consistently ranks among the top fifty in the U.S. Although Jim Furyk won the 2003 tournament for his first major championship, Vijay Singh set the course record then during the third round with a 7-under par 63.

Our day started with a barbecue overlooking the 1st tee box and practice greens. Chicken, burgers, and hot dogs were served with a full complement of sides and desserts. There was also a cooler stocked with "swing-oil" to help golfers ease into their play. After some time on the practice range and putting greens, we took to the links following the shotgun start at about 12:30pm.

It was really nice to have the entire course reserved for us alone, an advantage from playing at a private club. It makes for an especially relaxing round when the pace moves smoothly. Speaking for our foursome, it was great to see some old friends and forge new bonds. The networking was outstanding, as one can't discount the benefit of spending more than four hours with a small group of professionals who share

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Mike Carbery, CFA, Jeff Schmidt, CFA, Jeff Kernagis, CFA, and Bill Fitzpatrick, CFA, (left to right) made the most of the networking reception after the Golf Outing on Sept. 22 at Olympia Fields Country Club.

Continued 7th Annual Golf Outing

Continued from previous page.>

things in common. It was also fun competing (or not competing) for some of the hole prizes such as longest drive and closest to the pin. The stakes were high as our society was awarding gift cards to the winners. So congratulations go out to Lucian Marinescu (6th Hole - closest to the pin), Chris Lamb (13th Hole - closest to the pin), David Evert (10th Hole - longest drive), and Kyle Daly (18th Hole - longest drive).

After the round, the "contestants" met in the OFCC dining room for a feast consisting of a seafood/shellfish assortment, passed hors d'oeuvres and a carving station. Stories of mammoth drives, long putts, and near holes-in-one were exchanged over the 2 hours of open bar. In sum, it's safe to say it was a quite successful outing! There was definitely a shared sense of looking forward to 2012's event. ■

Thank you to the following sponsors for their support of the 7th Annual CFA Chicago golf outing:

Eagle Sponsor: S&P Capital IQ

Birdie Sponsors: John Hancock Mutual Funds, Fiduciary Management Associates, LLC, University of Illinois-MSF Program
Par Sponsors: Babson Capital Management, LLC, RiverNorth Capital Management, Robert Half Financial Services Group, Sterne Agee

October 26, 2011 Poker Night and Networking at Scoozi

Reported by:
Adan Galvan, CFA

The cards flew fast and furious at Scoozi as CFA Chicago members enjoyed trying to forecast the future outside the financial markets. Hosted by the CFA Chicago Women and Social Advisory Groups, the event educated beginner and intermediate players on the rules of a most popular American game of chance while providing a great environment for networking. Well attended by both men and women alike, it allowed these investment professionals to use their analytical skills in the pursuit of competitive success over their rivals at the table.

The evening's game was Texas hold-em, said to take "minutes to learn, but a lifetime to master". For those new to this form of poker, its goal is to win the chips in the pot by coming up with the best five card hand. Each player is first dealt two cards. A round of betting ensues, and then three community cards are exposed on the table. The player will use these open cards in conjunction with their hole cards (cards in their hand only they know) to create the best combination. Two more cards are dealt accompanied by two more rounds of betting before a winner is determined. Characteristic of poker games, bluffing can be a great strategy. The ability to read and anticipate your opponents' hands is critical. In tournament play, rounds continue until one player remains to win all the chips.

After a brief introduction to these rules, the competitive spirit emerged and stakes rose quickly. It was clear shortly after cards were dealt that skills useful in investing would be directly applicable in poker. Superior talent in calculating probabilities and making assumptions about the future can provide a poker player with the winning edge.

During hands, players could network, as well as indulge in some great finger foods such as calamari and pizza. Overall, participants had a fantastic time while learning a great game. Although no one champion emerged, the refined appreciation gained of the game and its fellow players will provide a lifetime of enjoyment. ■

THE EFFICIENT FRONTIER



MARK YOUR
CALENDAR



Events:

DATE | TIME | DESCRIPTION

1/17/2012 | 4:00 pm | CFA Chicago Book Club Meeting

Participants will discuss The Fearful Rise of Markets by John Authers.

1/18/2012 | 12:00 pm | Distinguished Speakers Series: James Bianco

James Bianco is President of Bianco Research, L.L.C., an Arbor Research & Trading, Inc. affiliate.

1/19/2012 | 5:00 pm | Winter Beer Tasting at Haymarket

Enjoy a private brewery tour and learn about the brew making process. The brewery tour includes a tasting and appetizers.

1/25/2012 | 5:00 pm | Social Media Summit: Compliance and CFAs

The CFA Society of Chicago Women Advisory Group hosts the summit.

1/26/2012 | 5:00 pm | New Member and Volunteer Recognition Party (private invitation only)

The Board of Directors of the CFA Society of Chicago cordially invites you to attend.

2/09/2012 | 5:00 pm | CFA Chicago Monthly Networking Happy Hour

Join your colleagues and unwind from your work day for a networking happy hour at Monk's Pub.

2/23/2012 | 12:00 pm | Distinguished Speakers Series: Bryan Cressey

Bryan Cressey began his career with First Chicago Equity Group.

5/6/2012 | 65th CFA Institute Annual Conference in Chicago

For details visit www.cfachicago.org/events.

September 15, 2011

Distinguished Speaker Luncheon:

Mark Anson, CFA

"The Economics of Gold"

Reported by:

Greg Goczek, CFA

Traditionally seen as a refuge in volatile economic times, gold can have a mythic character for buyers. Thoroughly and systematically discussing its realities, Mr. Anson, the Chief Investment Officer of Oak Hill Investment Management and a member of CFA Institute's Board of Governors (and a native Chicagoan and Cub fan) presented the investment case for this precious metal.

If your outlook for the US dollar is pessimistic, gold can be just the vehicle for hedging. For most of the period 1980-2011, it has maintained a fairly significant negative correlation of -0.44. It has some diversification benefit, as it has a US stock beta of approximately zero. But as protection against inflation or a bear market in US stocks, gold has proven to be an inconsistent hedge and expensive to boot with carrying costs and the lack of an any cash return while held. The S&P 500 has far outperformed gold over the last 30 years.

Gold's price also exhibits equity-like volatility, with its price accelerating in the last decade to the point that its pattern over the last five years is reminiscent of the tech and housing bubbles. Virtually all of the gains for long-term gold investors have occurred since 2005, simultaneous with the launch of the SPDR iShares Gold ETF (GLD) that has been a major purchaser (and also founded by a former colleague of Mr. Anson). GLD is now the world's second largest ETF with a \$62 billion market cap and accounts for 15% of global demand, although it does not permit actual redemption out of its stores of gold bars held at HSBC's gold vault in London.

Central banks in 2010 became net purchasers of gold, with gold reserves accounting for 17% of the total existing supply of 165,600 tons and jewelry's share now down to 51%. Interestingly, 98% of all the gold ever mined is still in existence.

Mr. Anson in Q&A noted his firm has small holdings in gold (about 6% of its total portfolio), preferring real assets that also offer a cash yield, such as California almond groves, multi-family housing, or cattle farms in Brazil convertible to agricultural crops. He is avoiding timber as overpriced. As a sign of a gold bubble, if he saw a trend reversal in GLD with it starting to liquidate holdings by 10%, that would be bearish and call for removal of his gold position. ■

October 20, 2011

Distinguished Speaker Luncheon:

Leland Clemons on ETFs

Reported by:
Brett Bina, CFA

CFA Society of Chicago members were recently briefed by the head of iShares U.S. Capital Markets Group Leland Clemons on the state of the rapidly expanding ETF industry.

Currently the largest American player in the \$1 trillion global ETF market, iShares ETFs have existed in the UK and US since 2000. During this relatively brief period, exchange traded funds exerted vast influence on the investment landscape. They paradoxically have had a meteoric rise in popularity and received much criticism for their potential influence on correlations and market volatility. But as Clemons noted, ETFs have “democratized” the investment industry. Using them, individual investors can now obtain exposure to single countries and sectors previously limited to large institutional investors. Assets continue to pour into exchange traded products.

294 ETPs (the umbrella term for exchange traded notes and funds) have been brought to market over the past 12 months. Few of these will succeed, however, as a certain critical mass of capital is necessary for an ETF to thrive. More products coming to market means more choices for investors but the industry has also become increasingly difficult to navigate. Clemons described this as a boom phase of the ETF product cycle and characterized the industry as growing increasingly crowded.

Many ETF marketers seek increasingly small niche investments, hoping they will be a hit with the public. For example, Blackrock’s iShares, an established player in the ETF industry, has tried to leverage its large scale to create value for investors and lower the costs of trading.

During Q&A, Clemons agreed the rise of ETFs may have influenced how stocks are correlated, but cautioned on assuming any related causality. He foresees no problems with leveraged ETFs but reckoned their proposition may be misunderstood by investors. Acknowledging investors have criticized ETFs for contributing to market volatility, he nonetheless believed public policy uncertainty in both the U.S. and in Europe has had a far greater effect in stimulating current high market volatility. Regarding the reason for investor unwillingness to embrace active management ETFs with their lower fees and tax advantages, he responded that the alpha that active managers attempt to capture is often difficult to deliver in conjunction with an ETF’s transparency. ■

December 1, 2011

Distinguished Speaker
Luncheon:

Don Civgin CFO

“How Allstate is Managing
Competition, Risk, and
Market Mayhem”

Reported by:
Alan Meder, CFA

Don Civgin ably weaved “Mayhem”, the recurring character in recent Allstate Corp. advertising, into his December presentation to members. The Northbrook-based home and auto insurer’s challenges were summarized along with its competitive actions in a dynamic environment.

Mr. Civgin noted his company’s strengths, with 17 million customers and a solid capital position for leveraging its brand in the marketplace. Impacted by higher weather-induced claims felt industry-wide in property/casualty insurance, Allstate is seeking internal improvement. Market share growth is its goal in auto insurance. Better returns are sought in non-property/casualty businesses including investment products and life, accident, and health insurance.

As with most companies in the finance industry, the past three years have been difficult. Shares have traded well below book value (currently over a 20% discount). But competitive adaptation has nonetheless been realized in this difficult environment. Mr. Civgin noted, “Beyond strengthening its governance and leadership team, the company has made a profound change to focus on the customer.”

Continued on next page.>

Don Civgin,
Allstate's CFO,
addressed
a lunchtime
crowd as
part of the
Distinguished
Speakers
Series.



Continued

Don Civgin CFO

"How Allstate is Managing Competition,
Risk, and Market Mayhem"

Continued from previous page.>

Knowing your customers is the first step in serving them. Thus, Allstate defines its customer segments based on their purchasing behavior. While some consumers require personal service available exclusively through a company agent, others are most comfortable with self-service via a website. Additionally, some Allstate customers seek branded products while others are brand neutral.

To jumpstart its ability to more effectively reach and serve the segment that is both brand conscious and self-directed, a \$1 billion acquisition of Esurance was closed in October. Esurance has sold and serviced insurance products online since 1999. Civgin stated the acquisition brings a culture adept at assessing website visitors and tailoring non-standardized pricing to product offerings.

In Q&A, members inquired about outcomes sought from recent capital spending on Esurance's acquisition and the possible use of social media applications to further Allstate's competitive reach. Mr. Civgin indicated large companies often assume their historical practices and measures work in new business environments. The recent investments are expected to aid in determining how Allstate may better compete as its industry evolves. ■

December 5, 2011

Company Presentation:

Integrays Energy Group

Featuring Charles Schrock,
Chairman, President and CEO

Reported by:
Brett J Bina, CFA

CFA Chicago members and guests enjoyed a company strategy discussion with key executives from Chicago-based Integrays, (NYSE: TEG) a diversified energy holding company. Vice President of Investor Relations Steve Eschbach, CFA, introduced company CEO Charles Schrock, who started as a nuclear engineer with TEG's corporate predecessor 32 years ago. TEG's portfolio includes seven regulated and non-regulated natural gas and electric subsidiaries across the Midwestern U.S. (including Peoples Energy Corporation in Chicago), power plants, and a 34% equity stake in transmission-only electric firm American Transmission Company.

Mr. Schrock noted cost control is strategically important, as it ties into an overall goal of operational excellence. He also highlighted as another priority the delivery of a more predictable earnings stream, addressing state regulatory guidelines which authorize a specific level of return on equity for utilities.

Two primary growth opportunities are now targeted by Integrays. The first is facilitating technological retrofits of coal plants for environmental compliance, a potential capital investment need of \$500 million to \$1 billion over ten years. Receiving regulatory approval for installing scrubbers (devices aiding remove of sulfur emissions) can require a two year lead time, but subsequent installation can be done as quickly as 30 to 40 days. The second project is infrastructure replacement. Some of the natural gas pipelines under Chicago's streets date back to the era of Abraham Lincoln! This is estimated to cost \$2.5 billion over the next twenty years and has already received support from unions and the City of Chicago.

Mr. Schrock also noted potential future benefits of recent acquisition of companies in the compressed natural gas (CNG) fueling business. Their compelling selling point is the price differential per energy unit delivered, making municipal and private fleet operators natural prospective customers. Diesel fuel now sells for \$4 per gallon, while its energy equivalent per unit of CNG can be produced using only \$2 to \$2.50 worth of natural gas. The equipment cost of engines running on natural gas is similar to diesel engines, with the main difference being an increase in storage costs (tanks) for natural gas. This can be recouped over time if the price differential remains in gas's favor. As coal consumption falls in the future due to environmental and financial concerns, abundant U.S. natural gas may become our nation's main fuel source and path to energy self-sufficiency. ■



Fall Summary

Reported by:
Cynthia McLaughlin

This fall our book club discussed three topics. September featured morality issues and causes of the mortgage crisis with Reckless Endangerment: How Outsized Ambition, Greed, and Corruption Led to Economic Armageddon by Gretchen Morgenson and Joshua Rosner.

October covered the current and potential future status of the U.S. dollar with Barry Eichengreen's Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System. November's highlight was a paper presented at the recent Financial Management Association (FMA) meeting proposing solutions to the current mortgage crisis. The Mortgage Crisis and Current Housing Market: Practical and Complete Recommended Solution was authored by Charles Beauchamp, Michael Ehrlich and Robert Atrra, Lee Hayes, Steve Patrick and Rawley Thomas with Contributions by Linda Halton, Gary Lundeen and Greg Stewart.

We will conclude the year with a December tradition started last year by reading a classic. That will be Reminiscences of a Stock Operator by Edwin Lefèvre and Roger Lowenstein on December 20.

You can join us on LinkedIn by looking for the group CFA Society of Chicago - Book Club. We meet on the 3rd Tuesday of each month at 4:00 p.m. Please RSVP for upcoming meetings by sending an e-mail to BookClub@cfachicago.org, specifying if you will attend in person at the CFA Chicago's office or via teleconference. Each meeting ends with the announcement of future readings. Ideas for future books to read or topics to explore will be welcomed at the above e-mail address. We hope you soon can participate! ■



65TH

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CFA INSTITUTE ANNUAL CONFERENCE 6-9 MAY 2012 CHICAGO, ILLINOIS

Hosted with the
CFA Society of Chicago



October 11, 2011

Educational Seminar:

Investing in Senior Housing

Reported by:**Peter Marchese, CFA**

This well-attended panel discussion featured senior housing industry experts, including investors, lenders, and operators of facilities. Senior housing (SH) was characterized as very different from the nursing home model of prior generations, defined now as a mix of real estate, hospitality, and care for active and semi-affluent seniors.

The market value of SH investments is \$260 billion and growing, with almost 22,000 U.S. properties which combine independent living, assisted living and nursing care facilities. Demand is growing because of an expanding senior population with numerous health care needs and rising acceptance of this new model. It is relatively inelastic compared to apartment living, since residents are unlikely to transfer between developments. Many seniors are now more affluent, higher educated and have fewer available family members to assist with care.

However, supply of new facilities is rising slowly. SH was a resilient real estate sector during the recession. Returns on both public and private SH investments outperformed other commercial real estate investments during the past 5 years. An aging population suggests a strong SH fundamental outlook, with its popularity nonetheless varying regionally. Midwestern and West Coast seniors find the lifestyle more acceptable, those on the East Coast in dense population centers less so.

Financing is still challenging. Fannie Mae and Freddie Mac ended funding in 2008. Lenders prefer a 60% to 65% project financing share, a loan-to-value ratio too low for most equity investors. The sector's borrowing cost remains rather high, hurt by a slowing CMBS market. Since the bankruptcy of Erickson Retirement Communities and Sunrise Senior Living's near bankruptcy in 2009, realization is growing it is easier to develop than profitably run a SH facility.

Health care REITs are rising in popularity with equity investors, comprising three of the 10 largest REITs. They own SH facilities, lease them to operators, and are driving sector development with new cash from equity investors. But there remains some difference among lenders as to the ideal project type to finance. One lender on the panel opted for a smaller project with 100 to 120 units. Another panelist preferred a much larger scale of 200-300 units. Yet all panelists favored including memory care living units within every project. As dementia patients' longevity extends, related demand is rising, with new units selling out quickly. ■

News & Updates

Call for Subject Matter Experts

The CFA Society of Chicago is compiling a database of subject matter experts (SMEs) who are willing to share their knowledge and expertise with members of the media. Your contact information will NOT be shared directly with a reporter, instead CFA Chicago will reach out to you to determine your interest in participating. Please note, if your firm requires all media requests to be handled in-house - you can forward the requests directly to your media team. Join the CFA Chicago SME team.

Chicago Live Weekly Classes by Kaplan Schweser

Level I: Thursdays, Jan.19-May 3
Level II: Wednesdays, Jan.18-May 2
Level III: Mondays, Jan.16-April 30
Instruction is presented by CFA charterholders and finance PhDs-the best personalized instruction in the business. This class is available to you live in Chicago or online from your home or office. CFA Chicago Members Receive a 10% discount. More Info

Membership Renewal Reminder

If your membership dues have been delinquent this year, your account has lapsed. If you are a Charterholder, this will mean you are no longer eligible to use the CFA designation. Log in to your CFA Institute account to update contact information and to verify your account standing.

November 18, 2011

Educational Initiative:

CFA Institute Research Challenge Kicked Off In Chicago

Reported by:

Virginia Pentracosta

CFA Society of Chicago is excited that 10 universities are participating in its first administration of the CFA Institute Research Challenge. The Research Challenge is an annual educational initiative designed to promote best and ethical practices in equity research to finance and business students through hands-on mentoring and intensive training in equity analysis. This year, more than 2500 students from 500 universities worldwide will participate in local Challenges, leading to the national and global finals.

The 10 universities that kicked off the competition in Chicago for the local title were: DePaul University; Illinois Institute of Technology; Loyola University Chicago; Northern Illinois University; Northwestern University; Saint Xavier University; University of Chicago; University of Illinois at Chicago; University of Illinois at Urbana-Champaign; University of Notre Dame.

"This local Challenge brings together the top universities, students and investment professionals in a competitive forum that highlights ethics, professionalism, and the value of a career in the finance industry," said Michelle Moreno, CFA, senior vice president First Analysis and former CFA Chicago Chairman. "This highly-regarded competition pits the brightest future finance and business minds against one another."

The program spans nearly an entire academic semester, and consists of the following components:

- Training in Research and Report Writing
- Equity analysis of a Public Company
- Mentoring by an CFA credentialed Investment Professional
- Assessment of Written Reports
- Presentation of Research to a Panel of Experts

Founder and CEO of High Pointe Capital Management, Gautam Dhingra, Ph.D., CFA, said, "We are thrilled that all of the best schools in the area were eager to participate in the CFA Institute Research Challenge. Their excitement about this opportunity is very gratifying for CFA Society of Chicago, as organizers and sponsors of the competition."



Zebra Technologies CEO Anders Gustafsson gave a presentation about his company to students from 10 area universities that are competing in the first-ever local staging of the CFA Institute Research Challenge, hosted by CFA Chicago.

At the Nov. 18 kickoff event in Chicago, the featured company Zebra Technologies Corporation (NASDAQ: ZBRA) discussed its leading printer label technology with the students as if Zebra was pitching an offering of common stock. After a persuasive speech by Anders Gustafsson, CEO, students asked thought provoking questions to Gustafsson and his colleagues Mike Smiley, CFO and Douglas Fox, CFA, VP Investor Relations and Treasurer who also participated.

Students next met with their industry mentors who are also CFA Charterholders to talk about what comes next in the competition. Students must produce a written report of fundamental company analysis based on a sell-side or independent research analyst perspective of Zebra. The top teams will then present their research before a panel of judges who are CFA Charterholders and experts in equity research on Feb. 16 in Chicago.

The local Challenge winners will receive an internship at Morningstar, Inc. (NASDAQ: MORN) (subject to usual and customary HR requirements). In addition, the first, second and third place teams will receive various prizes sponsored by CFA Chicago. The winning team will continue on to the regional competition in New York. Regional champions will then vie for the global title on April 11 in New York. ■

November 29, 2011

Educational Panel Discussion:

Entitlements, Austerity, Taxes, and the Mortgage Crisis

Reported by:

Scott Hagwell, CFA

2011 was an interesting year both in Europe with the accelerating sovereign debt crisis and the U.S. with the Congressional budget fight and loss of the coveted S&P AAA rating. It featured terms such as austerity, taxes, and entitlement programs. Media outlets used them primarily to describe the European debt crisis, but they are applicable to the U.S. and other countries. To discuss these world economic challenges and their potential solutions, the CFA Society of Chicago hosted a panel discussion featuring members of Practitioner Demand Driven Academic Research Initiative (PDDARI) of the Financial Management Association.

Moderated by Rawley Thomas (President of LifeCycle Returns), the panel included: Michael Falk, CFA of Focus Consulting, Lee Hayes, CFA of Genesse Investments, and Michael Lindh, CFA of Nuveen Investments.

Mr. Falk began by defining insurance as protection against infrequent and significant risks, adding that definition includes both Social Security and Medicare. He noted the astounding aggregate projected current costs of both programs pose U.S. unfunded liabilities of as much as \$100 Trillion (\$20 for Social Security and \$80 for Medicare). Including these costs, the U.S. rivals Greece in calculating the debt to GDP ratio.

Mr. Falk next discussed solutions for handling these astronomical liabilities. His main theme was the simple idea that if you don't need it, you don't get it. He suggested a Medicare fix requires a complete overhaul of the entire health insurance industry, removing HMOs and PPOs to make all doctors and hospitals "in-network" for everyone. Additionally, every person should have a Health Savings Account (HSA) that is portable and unlinked to any employer.

Mr. Hayes continued by focusing on U.S. housing issues and economic recovery. He noted in a normal housing cycle, prices after a bubble collapse should rebound. There is a dynamic tension between lender unwillingness to retain properties which forces



On Nov. 29 Rawley Thomas moderated a panel discussion on Entitlements, Austerity, Taxes, and the Mortgage Crisis. Panelists included: Michael Falk, CFA,; Lee Hayes, CFA,; and Michael Lindh, CFA, CPA.

liquidations yielding proceeds far below what assets could earn, and which simultaneously provides buyers incentives to wait for prices to drop. Most banks have written off their real estate loans, but loans held by the government (FNMA, FHLM, etc) have not yet been recognized at their true value. As a market clearing solution in place of foreclosure, lenders and homeowners could negotiate property rentals at a reduced rate with the potential to return to the full ownership over time. Lenders would then have appreciation rights to the recovery values, receiving such monies upon home refinancing or sale.

Mr. Thomas then briefly referred to tax issues including a change to a comprehensive flat tax versus the current marginal system. He demonstrated how taxes inhibit economic growth. Finally, Mr. Lindh spoke and discussed faith-based public policy. The event concluded with panelists fielding audience questions/issues. ■

Career Progress – Personal News from the Workplace

Reported by:
Greg Gocek, CFA

Have you – been promoted? changed firms? started a new business? shifted to a new job function? retired? received a professional award? made a public talk related to your job? been quoted in the media? published an article/monograph/book?

If you've recently experienced these (or other relevant) work-related possibilities, feel free to let us know at communication@cfachicago.org. We'd be happy to provide a brief update for everyone in future columns. And for writers/speakers, your content may be featured in a subsequent newsletter following review of a submitted abstract.

Here's our latest installment – congratulations on career progress!

Job Moves:

Michael Falk, CFA, is now affiliated with the Focus Consulting Group as a partnering consultant while continuing his investment advisory practice at his own firm.

John Simmons, CFA and Sandra Weiskirch, CFA, have joined Callan Associates as Senior Vice President and Vice President/Director of Investment Analysis respectively, in Callan's Fund Sponsor Consulting Group. Mr. Simmons is also a current member of the CFA Chicago Board of Directors. ■

Welcome New Members

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Kristen Asby
Thomas Bina
Drew Buckley
John Leonard
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Geoffrey Millewich
Christopher Neill
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Steven Perotti
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