

THE INVESTMENT ANALYSTS SOCIETY OF CHICAGO

Fall 2003



The Efficient Frontier

President's Message

by Kevin Vandolder, CFA, President



The Investment Analysts Society of Chicago (IASC) is the fifth largest society of investment analysts in the world. Our mission remains to deliver product and services to our members while enhancing the ethical and professional standards of the investment community. Our goals and objectives have never been more critical or important.

The IASC volunteers and staff continue to work to deliver an ever-strengthening roster of speakers, programming, and social events. I personally encourage our members to get involved in the IASC and take advantage of the many professional enhancement and networking opportunities.

We welcome your participation and your feedback on how we can continue to improve the services and events we deliver.

Thank you for your continued support of IASC!

Welcome To Our First Issue

by Greg Gocek, CFA, Communication Chair

Welcome to the first issue of the Efficient Frontier, the revitalized newsletter of the Investment Analysts Society of Chicago! Our namesake, as you'll recall from your CFA studies, refers to that financial concept delineating the optimal opportunities attainable by an investor. This publication, created by your fellow members volunteering their skills of analysis and expression, will offer you material from IASC to enable your progress toward a professional ideal. Our collective hometown, Chicago, offers us a model for our desired trajectory, from mere

spot on a map near the lonesome prairie to world class metropolis in about a generational blink of the eye.

In this and future issues, to be published quarterly, we will provide recurring looks suited to the many dimensions of that "best-in-breed" in the investment field, you and your peers active in IASC. To keep you on the cutting edge of financial knowledge, we will feature specially selected pieces of astute academic research on topical areas of greatest relevance, including asset allocation, equity, fixed income, and alternative investments. We will report on our society's range of diverse and excellent programs, from highly accomplished luncheon speakers to notably diverting social outings. We will highlight advances made in association management, via messages from IASC's leadership or by reports on IASC's exemplary efforts within the family of societies linked by AIMR. Instances of individual achievement will also be noted, be it by a peer's becoming a member, earning the CFA designation, or starting a new job. Finally, we can ask and recount your viewpoints, expressed in the form of your correspondence and/or your responses to polling questions taken via Web site surveys.

Our mission, then, is to help you realize increased benefits from your membership in IASC by enhancing communications within our society. In the process, we aim to be informative, enlightening, responsive, and ideally entertaining to boot! We appreciate the vital support of IASC's leadership in furthering the connections to and among members. We specially acknowledge the dedicated team of persons without whom this venture would be impossible. These contributors were (alphabetically): Eric Ause, Pat Carlevato, Matt Clink, Carmen Heredia Lopez, Bryan Johnson, Arch King, Judith Malter, Michelle Moreno, Matt Sampson, Jeff Sirkin, Rawley Tho-

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mas, Venkatesh Vadlamani, and Kevin Waspi.

Finally, to our audience of members, we thank you for your readership, please make that a habit! Feel free to share your suggestions and comments on the Efficient Frontier, as well as personal career-related news, at IASC's e-mail address, info@iaschicago.org. And if you'd like to experience that special thrill of seeing your name in print (always spelled correctly of course!), we're happy to enlist another volunteer to our collective effort.

IASC's New Addition

by Carmen Heredia, CFA and Greg Gocek, CFA
Communication Advisory Group

Since September 2, Jill Poznick, JD has been busy at work for the entire IASC membership, applying her management talents as the newest member of our society's leadership team.



Ms. Poznick, in the newly created position of CEO, reports to the IASC's Board of Directors and oversees all elements of the organization. She collaborates closely with Barbara Boden, who will continue supporting the IASC in the new role of Chief Operating Officer. Mortensen Executive Search partnered with the IASC on the placement, recruiting Jill from her prior role as the Chief Operating Officer for Physicians for Responsible Negotiation (PRN),

Building on the IASC's successful history over many decades, the Board of Directors in hiring Ms. Poznick opted to deepen its leadership team and make another long-term investment for organizational pre-eminence. "We are confident that Jill's creativity and energy will bring the IASC to a new level as a society committed to serving its membership and the investment community as a whole" said Kevin Vandolder, CFA, President of the IASC. "Jill's unique leadership abilities and past experience will assist us in executing our recently adopted strategic initiatives."

Commenting on her new role, Ms. Poznick noted, "IASC's prestige, coupled with its impressive roster of members, inspired me from the very beginning of the selection process. I am thrilled to have the opportunity to cultivate new relationships for the IASC and help shape the future of our industry."

Before leading PRN, Ms. Poznick worked in Washington, DC for the American Medical Association – Division of Political Education. She developed, implemented, and presented innovative programs enhancing grassroots political and legislative involvement by AMA members.

Ms. Poznick received her bachelor's degree in Political Science from the University of Michigan (Ann Arbor). She received her Juris Doctorate degree from The American

University Washington College of Law (Washington, DC). She is a member of both the District of Columbia Bar and the Florida Bar.

IASC At The AIMR Conference

by Greg Gocek, CFA, Communication Chair

From Kevin Vandolder's opening welcome to Jeff Diermeier's discussion of the development of AIMR's new strategic plan, IASC members played a "front-and-center" role at AIMR's recent Twelfth Annual Society & Future Leaders Conference.

Over 250 persons, including top officers from investment societies worldwide, AIMR's board of directors, and key AIMR staff, convened for sessions extending over two days that focused on the continuing improvement of their professional associations. This was the first time this conference was held outside of AIMR's base in Charlottesville, Virginia, facilitated in no small measure by IASC as it aided in siting the venue at Chicago's Four Seasons Hotel (also the location for our Annual Dinner in October).

The primary purposes of the meeting were: 1) to provide meaningful background on how AIMR works, 2) to highlight examples of effective association management and best practices, 3) to summarize progress on global governance issues, and 4) to offer a forum for person-to-person idea exchange on subjects ranging from advocacy and public awareness to professional development and ethical standards.

Tom Bowman, AIMR's CEO, updated the audience on progress towards the completion of the organization's next 5-year strategic plan. He emphasized four critical objectives:

- Protect and build the CFA brand – this may also include a change of name from "AIMR" to a preferable option in development, with ratification of such at the May, 2004 Annual meeting
- Position AIMR as a thought leader – professional standards are key to member self-identification, and the current Code of Ethics is undergoing revision with final approval by January, 2005 of a new statement well suited for contemporary industry circumstances
- Enhance member/candidate satisfaction through technology – the AIMR website will become an ever more significant platform in delivering desired products and services
- Reshape the organization to be more integrated, flexible and responsive – a larger role for units outside North America is anticipated as that is the area of the greatest membership growth, but all societies will be key partners and seen as AIMR's local extensions

Earlier this summer, Mr. Bowman previewed some of



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these objectives while meeting with IASC. For that context, see our article "AIMR CEO Bowman visits IASC".

Breakout sessions for societies based on either their location or their size of membership were occasions IASC used advantageously to build closer ties with peer groups. At a meeting of the Midwestern societies, opportunities to connect our regional neighbors to IASC's excellent luncheon programs via webcast video links, either in real-time or archived for subsequent downloading, were thoroughly discussed. The largest societies reviewed an alternative AIMR governance proposal advocated by the California societies mandating allocation of 50% of AIMR board positions to Presidents Council Representatives – perhaps another innovation of political process in the spirit of Arnold Schwarzenegger *et al* and their state's electoral recall!

Throughout the proceedings, IASC was well represented by its leadership, with virtually all officers, committee chairs and key staff diligently participating in the many activities. As all conference-goers gathered to enjoy sunset over the downtown skyline from the lofty perspective of the Mid Day Club and a subsequent convivial dinner, visitors and locals alike could not help but appreciate the many ways to share knowledge and friendship in Chicago.



Jill Poznick, CEO, Kevin Vandolder, CFA, President and Barbara Boden, COO

AIMR CEO Tom Bowman Visits IASC

by Jeff Sirkin, CFA, Volunteer

Thomas A. Bowman, president and CEO of Association for Investment Management and Research (AIMR), visited this summer with the board of Investment Analysts Society of Chicago (IASC). Later that day, Mr. Bowman met all members of IASC attending an open meeting prior to the June 18th weekly luncheon. At both meetings, Mr. Bowman spoke for a few minutes and then conducted a question and answer session.

Mr. Bowman focused the importance of protecting and building the CFA (Chartered Financial Analyst) brand. A change of name for AIMR is being considered, possibly to emphasize the centrality of the CFA to the association. CFA is the more recognizable name both within the indus-

try and the general public. In any renaming, AIMR will work with local chapters for joint marketing. He suggested that local chapters like IASC should take on the same name and brand. That could enable promotion of the commonalities of the local societies and the national group.

An issue to consider in any renaming effort is how non-CFA charterholders who are members of the IASC would react to the change in the name of the society. Approximately 80% of IASC members hold CFAs, the balance distributed as 12% CFA candidates, and 8% non-CFA members. Further assessments would be needed of the attitudes and expectations of this minority.

In the conversations, Kevin Vandolder suggested more roundtable discussions amongst member of local societies at national meetings. There is a divergence between the various societies' expectations of AIMR, differentiated by size and related needs.

Tom looked for opportunities for exchanges between societies. Larger societies could provide content to smaller societies. For example, the IASC produced webcasts of Jeff Diermeier and Abby Joseph Cohen speaking at IASC luncheons. AIMR would share its technology with the member societies for the benefit its members in various cities. Further background on the development of AIMR's strategies and on IASC's role as a leading society is provided in our newsletter article "IASC Prominent At September AIMR Conference".

Undergraduates, Careers, Ethics, and the CFA Designation

by Kevin Waspi, CFA, Volunteer and Michelle Moreno, CFA, Past President

IASC volunteers recently emphasized the top priority of professional ethics in the investment workplace to a large, impressionable collegiate audience. Judging from its reaction, the students appreciated both the benefits of high standards and the collective commitment of the IASC's members to uphold them.

The IASC was represented by Kevin Waspi, CFA at the September 17 Career Information Night (CIN) of the University of Illinois Champaign-Urbana Campus / College of Liberal Arts & Sciences. CIN is an annual event open to college juniors and seniors throughout the university. It links alumni with the students to offer direction and dialogue on career paths. Former IASC president Michelle Moreno, CFA also participated via her leadership role in U Illinois alumni affairs.

Approximately 80 alumni and over 600 students gathered



Cont'd at the Illini Union's ballroom to view 67 tables of exhibits sponsored by a wide variety of employers and organizations discussing numerous career opportunities. The CFA Program and membership in the IASC were presented as wise future steps beyond undergraduate studies towards an investment-oriented vocation.

A large percentage of participating students was from suburban Chicago. Waspi, a business school faculty member at Illinois, noted their strong interest in the CFA® Program. Many students were curious about what the Charter represents and in which career fields CFAs tended to concentrate. They were greatly impressed by how actively the IASC promotes good business practice.

"Given that this was not a venue specifically for business majors, the number of students interested in learning about the CFA was really surprising," said Waspi. "I attempted to explain to them the value to the Investment Industry of AIMR's Code of Ethics. All appeared to be quite knowledgeable about recent corporate scandals. They acknowledged that AIMR and the CFA seem like good things to promote throughout the business environment."

Career Development

An Improved Resource For Your Professional Future

by Judith Malter, CFA, Placements Co-Chair

Members interested in Job Opportunities and Career Development resources will find it most rewarding to check the excellent new website enhancements at www.iaschicago.org.

Courtesy of the Placements Advisory Group, you will find:

- Employment Opportunities
- List of top 25 CFA employers
- List of area recruiting firms
- Other Career Development resources

Report your career moves, as members are always interested in news involving their peers! Just let us know if you've taken a new position, advanced at your current firm or received some special recognition for your work via IASC e-mail address, info@iaschicago.org, mentioning "career moves" in the subject.

And even better, if you had a successful job search based on an employment opportunity posting on IASC's web site and would be willing to share details on your experience, please send a summary to sboyce@williamblair.com.

Please take a few minutes to make sure your profile and preferences are updated.

Note: This area of the website is a work in progress, as our volunteers are busy implementing more features to make it even more useful for you. We will offer more career development events and resources later this year. So feel free to "stop in" and take advantage of those new amenities.

Education News

Equity Valuation – Earnings Effects and Performance

by Rawley Thomas, CFA

Since this is our first set of educational articles, we wanted to emphasize we value reader feedback! Feel free to share your comments with us at info@iaschicago.org, noting your likes or dislikes (the latter hopefully minimal!) and topics of interest. Just mention the topical area and/or the relevant reviewer. That can direct our search for subjects in surveying publications. Each review will give you sufficient information so you may obtain the article or book should you wish more detail.

Equity Valuation & Management

The focus here is for themes and patterns on the process of investment management, portfolio construction, and financial analysis which may appeal to equity fund managers and security analysts. Feedback can be sent to info@iaschicago.org, referring to equity valuation or Rawley Thomas.

Earnings revisions, surprises and forecasts. Mitch Zacks, in *Ahead of the Market* (Harper) provides a summary of the Zacks' view on how best to employ EPS analyst forecasts. Specifically, pages 12 & 263 suggest analyst revisions are the most effective way to employ the data. Page 137 acknowledges this information is most useful over the next 1-2 months short-term horizon.

Investor's Business Daily 9-15-03, p. B1, "Analyst Make Stock Calls, But the Market Doesn't Listen" displays Zacks data on the under-performance of the 600 most recommended stocks and the sometimes over-performance of least recommended stocks. This point is also noted in *Ahead of the Market*. Zacks and Starmine highlights the work superior analysts do to distinguish how perceptive insights can potentially overcome the poor performance of an average of many analysts.

The reviewer suggests EPS revisions, surprises, and forecasts are an important part of the investment manager's decision process for the short term. But they should not substitute for a long-term strategic assessment of stocks



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necessary to reduce price pressure and transaction costs associated with portfolio turnover.

Screens to Outperform the Market. For the quantitatively oriented, Merrill Lynch under the leadership of Richard Bernstein and the analytical work of Savita Subramanian (Subramanian@ml.com) offers some important and useful conclusions to the investment decision process.

"An Analysis of Sector Neutral Strategies" suggests that unconstrained strategies of Alpha Surprise (GARP), low P/E (value), Earnings Momentum (Growth), and ROE (Quality) were superior to constrained strategies designed to balance the portfolio with industry weights reflecting market weights, both on an absolute and risk adjusted basis. "An Analysis of Earnings: Reported vs. Operating" suggests reported earnings tend to be more successful than operating earnings.

These are excellent articles with important conclusions for portfolio managers. In the reviewer's opinion, the confidence in the conclusions could be increased by employing non-parametric tests on total universes for both large companies and small companies, instead of just using the top 10% of the S&P500. Since these are likely fat tailed distributions, the standard deviation measure of risk should be replaced with the "c" dispersion parameter of the Stable distribution.



**Asset Allocation –
Optimal Portfolio Strategy**

by Matt Clink, CFA, Volunteer

Following the Perfect Storm of 2000-2002 (falling stock markets and interest rates), many investors, especially pension plan sponsors, questioned the appropriateness of policy portfolio benchmarks and traditional investment portfolio structure. In this issue of *The Efficient Frontier*, we discuss articles related to these concerns. Your feedback can be sent to info@iaschicago.org, referring to asset allocation or Matt Clink.

"Are Policy Portfolios Obsolete?" and "Points of Inflection: Investment Management Tomorrow"
- Peter Bernstein

In a March 2003 *Economics and Portfolio Strategy* piece, Mr. Bernstein argues two of his well know convictions - the equity premium is dead and investment managers should be given more investment latitude. He also contends that policy portfolios are obsolete. He later discusses the obsolescence issue in his article posted in the July/August 2003 *Financial Analyst Journal*, asking "are [investors] benchmarking to the optimal portfolio?"

Mr. Bernstein makes five primary points: 1) investment management has passed through a point of inflection, 2) the supply chain of research material will never again concentrate under the roof of investment banking, 3) the constraints on manager activity imposed by benchmarking are archaic, 4) index has become more costly and risky, and 5) new techniques - as well as old techniques such as short selling - that widen a manager's range of choices will always make sense in comparison with the old way of doing things.

Mr. Bernstein's suggestions are bold yet they lack codification. He admits that "what [he] offer[s] is more normative than positive - more of a story of what the world *should* be like than what it *will* be like."

In September, 2003, Barclays Global Investors released a strategic piece pragmatically appraising Mr. Bernstein's views. It offers a fresh look at the idea of alpha and beta portfolios.

"Solving the Investor's Problem - Rethinking Policy Portfolios and Separating Alpha from Beta"
- Kevin Kneafsey

Mr. Kneafsey focuses on four main arguments: 1) benchmarks are "misused," not "obsolete," 2) tactical portfolio shifts should play a smaller role than Mr. Bernstein proposes, 3) investors can improve portfolio efficiency via an alpha and beta approach, and 4) problems associated with long-run forecasting errors may be moderated by "restructuring the solution."

His paper advocates "two-hats approach" utilizing a beta portfolio to hedge a portfolio's liabilities (or systematic objectives) and an alpha (unsystematic) portfolio to produce marginal growth beyond the systematic needs. By matching portfolio investments with portfolio liabilities, issues concerning long-term market forecasting errors are muted. Furthermore, it is preferable to hedge residual systematic risk found in the alpha portfolio (i.e., true alpha is preferred to excess return vis-à-vis market timing). Mr. Kneafsey's suggestions for constructing the alpha portfolio are analogous to risk budgeting - the alpha portfolio should be optimized across all available strategies rather than "within each beta dimension."



**Alternative Assets –
Recent Funding Highlights**

by Venkatesh Vadlamani, CFA, Volunteer

No Child (and Dollar) Left Behind
(See *Private Equity Week*, 8/25/03 article by Dan Primack;
www.privateequityweek.com)

Jeff Leeds and Bill Welds, namesakes of the education focused private equity firm Leeds, Weld and Co. (LW), recently announced they would not fund companies involved in privatizing public schools. This stunned many in the industry, as LW has been a long time privatization advocate. Both men have been board members of Edison Schools Inc. (Nasdaq: EDSN) and even helped with its \$40 million bailout.

Observers claim LW has had challenges raising its target corpus of \$500 million in its latest fund, the fourth in its series. Its latest SEC filing (April, 2003) reported commitments for only \$104.5 million. This shortfall is attributed to opposition by the 1.5 million member Service Employees International Union (SIEU). SIEU has been a vocal opponent of public school privatization and lobbied various public pension plans against investing in LW sponsored funds

In response, LW is using the backdoor strategy of private promotion by public degradation. Since its fund's most recent liquidity event (Ross University @ 5.2x ROI) has had an excellent marketplace reception, observers believed the fund wouldn't have any problems raising capital.

Venture Capital Wrapup
(See NVCA & Thomson Financial, 10/1/03;
www.Nvca.org)

Folks on Sand Hill Road are smiling and high-5'ing each other again. The third quarter showed a marked increase in IPO activity for venture-backed companies. Nine went public in the third quarter versus a total of eight firms for the previous four quarters. There is also a strong pipeline of 35 venture-backed companies in SEC registration. These nine newly public companies received strong support from the market, enjoying increased in the sizes of both their offering and post-offering tranches.

The largest recent IPO was SigmaTel, Inc. (Nasdaq: SGTI), raising \$150 million. SigmaTel makes chips used in MP3 players and other audio/video equipment. The next largest venture-backed IPO, Direct General Corporation (Nasdaq: DRCT), received \$145.58 million. DRCT is in the property and life insurance business, serving buyers who are either dropped or ineligible for policies sold by other companies. Rounding out the recent funding leaders are NetGear, Inc. (Nasdaq: NTGR), a wireless modem producer, and iPASS, Inc. (Nasdaq: IPAS), a provider of

infrastructure software allowing employees secure remote access to their corporate networks from 160 countries. Both firms raised \$98 million.

**Stalla Classes for CFA® Exams
Begin January 2004**

by Eric Ause, CFA, Volunteer

As charterholders can readily attest, it's never too early to prepare for the CFA exam! Stalla Seminars, (cosponsored by the IASC), offers weekly courses made up of 16 two and one-half hour weekly sessions. Each session consists of an interactive CD-ROM presentation with live instruction by Stalla's national instructors who provide a lecture on each topic, followed by practice questions. The courses feature Stalla's comprehensive textbooks and provide a structured lesson-by-lesson study program.

For more information, go to www.stalla.com or call 888-pass-CFA for more information.



WEEKLY CLASSES			
Level 1	January 19 16 consecutive	6—9 PM	UBS Tower Conference Center
Level 2	January 21 16 consecutive	6—9 PM	UBS Tower Conference Center
Level 3	No classes scheduled		

WEEKEND CLASSES			
Level 1	March 6 8 consecutive Saturdays	9 AM —12 PM (break) 1—3:00 PM	DePaul University Downtown Chicago
Level 2	March 6 8 consecutive Saturdays	9 AM —12 PM (break) 1—3:00 PM	DePaul University Downtown Chicago
Level 3	March 20 6 consecutive Saturdays	9 AM —12 PM (break) 1—3:00 PM	DePaul University Downtown Chicago



Welcome New Members

Benjamin N. Alpert
Isaac V. Babani
Mark A. Blazevic
Jeffrey A. Brown
Curt M. Burns, CFA
Haiyan Cao
Alfred M. Cardilli
Li Chang
Eric D. Chenoweth
Wai Yan Chung
Leonard L. Ciarrocchi, Jr.
Corey J. Cook, CFA
Michael R. Coppola, CFA
Matthew J. Couri
Malindi N. Davies
Richard S. Davis
Daniel P. Delany
Aaron P. Diefenthaler
Rajen D. Doshi
Amit Dugar
Nicolas K. Eliason
Chad R. Erwin
Leo A. Flynn
Erik A. Franken
Jeffrey C. Galloway
Ravi Gautham
Christopher T. Godwin, CFA
Michelle L. Greco

David R. Hackney, CFA
Matthew J. Henofer
John C. Hiatt, Jr.
Mark B. Holmes
Veena Jagannath
Harold Janecek
John S. Jenkins, CFA
Mark E. Kalinowski
Brian J. Katz
Alexander E. Kaye
Tad K. Keszy
David M. Keys
Brooke A. Koenigsaecker
Robert A. Lack, CFA
Brian B. Landrum
Joseph N. Lazewski, CFA
Christopher J. Lewis, CFA
Hongyun V. Lin, CFA
Brian J. Lockhart
Amy J. Lofstedt, CFA
Coleman D. Long
Jian Lu, CFA
Ziyo Luo
Aaron J. Lytle
Peter D. Maher
Melissa H. Mathson
Craig S. Mauri, CFA
Melissa A. McGrane

David J. Miller, CFA
Robert S. Mitman
Vincent M. Montavon, CFA
Anil G. Mudholkar
Michael J. Murray
David B. Myszowski
Francis K. Nash, Jr.
Joseph M. Paszkiewicz
Chirag B. Patel
Erich M. Patten
Christopher W. Peifer
Kimberly K. Pollitt, CFA
Clark D. Prickett
Lisa A. Radomski, CFA
Timothy R. Raeke
Waldemar Rakowski
Chad J. Rawleigh
Douglas R. Rees, CFA
Kevin R. Reher
Douglas S. Rogers, CFA
Tyler D. Sandberg
Darin B. Schmalz
Micheal A. Schopin
Lisa C. Schroer, CFA
Brian G. Schuster
Gregory W. Smith
Chin-Chern Soen
Christopher D. Steiner

Eric N. Stober
Marc C. Sullivan
Richard B. Summer, CFA
Timothy L. Swenson
Gregory C. Swinehart
Maureen B. Thomas
Todd Alan Thornton
Jerry C. Troyer, CFA
Eric K. Tutterow
Nadia A. Van Dalen
Christine L. Vorberg
Robert E. Wals
Mark E. Warner
Qiao Wen, CFA
John P. White, CFA
Raymond O. Wicklander, III
Alexander D. Wiggins
Yinbo Xu
Raymond W. Yee, CFA
Miranda Y. Yu
Thyra E. Zerhusen



Program News

Managing An Institutional Fund In The Current Environment

by Pat Carlevato, CFA, Volunteer

September 17, 2003—Managing the endowment for the University of Notre Dame has presented its share of challenges according to Scott Malpass, vice president and Chief Investment Officer. But recent developments have created new hurdles in coordination for him as intricate as any on the gridiron. Mr. Malpass and his team must piece together portfolio managers with different investment focuses to achieve an appropriate asset allocation given market conditions. In his IASC presentation, Mr. Malpass discussed his objectives for the endowment, new hurdles facing the investment community, and how teamwork overcomes these challenges.

The return objective for the endowment can be simply stated - inflation plus 5-6%. Consistently earning it, however, is more complicated! Producing such a return yields steady cash inflows primarily to fund scholarships and endowed chairs. Secondly, a much smaller portion of the income stream goes to other units at Notre Dame,

including the athletic department. During the late 1990s, earning inflation plus 5-6% was easy. Given the current hurdles facing the investment community, however, that bogey has grown increasingly harder to attain.

These new hurdles include: 1) the dichotomy of short term focus on earnings versus a long term focus on returns, 2) consolidation within in the investment management industry, 3) the institutionalization of the hedge fund industry, 4) a new investment paradigm focusing on market timing, 5) regulation of the entrepreneurial spirit, and 6) geopolitical instability.

To overcome them, Mr. Malpass focuses on institutions with a willingness to explore a wide array of investment options including broader concepts like commodities, real estate, inflation protection, international private equity, and portable alpha. The endowment is a small portfolio, so Scott believes active management is the best way to achieve his investment objective. He searches for inefficiency in the marketplace and has found it in private equity, venture capital, commodities, hedge funds, and small capitalization stocks. This contrasts with larger endowments and pensions, where passive management constitutes a more substantial portion of the asset allocation.



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After logging many miles traveling across the globe and meeting a countless number of managers, Mr. Malpass confidently selects firms to match his carefully crafted asset allocation. With the measuring stick of history, his formula has proven rewarding for cohorts of Notre Dame students.

STIMULATING A BOOM

by Eric Ause, CFA, Volunteer

September 23, 2003—Diane Swonk, Sr. Vice President and Chief Economist of Bank One Corp., presented her views on the economy, the influence of politics, and what it all means for the financial markets. Ms. Swonk joined First Chicago Corporation in 1985 (now Bank One), after earning Bachelor's and Masters Degrees in Economics from the University of Michigan and an MBA from the University of Chicago, all with honors. She is active in numerous economics organizations, including the National Association for Business Economics of which she is a past president. Ms. Swonk thus shared the perspective of someone intimately familiar with the many dimensions of economic policies and issues.

Ms. Swonk opened by saying we are clearly on the eve of an economic boom. Public sentiment had earlier been affected by concerns such as the September 11 attacks and the Iraq war. But the economy survived the recession in relatively good shape for a variety of reasons. The Fed adopted its most activist monetary policy in a long time and a low unemployment rate limited the damage caused by the recession. Consumers "played Atlas", giving corporate America time to recover from economic imbalances left over from the late 1990s.

Industry's caution in ramping up production has resulted in buyer demand outstripping supply, leading to inventory reductions and overtime. Eventually, increased demand will lead to more hiring and a lower unemployment rate. Other positive indicators include higher business investment, increasing truck orders, tax refunds that are actually being spent and higher personal income. Ms. Swonk sees evidence that economic momentum had begun to change even before increases in defense spending and stronger Fed stimulus came into effect. These and other factors should lead to a sustained economic rebound, albeit shorter than the long expansion of the 1990's.

Clouding the picture, however, is the impact of Federal Reserve policy that Ms. Swonk characterized as more politicized than in the past. The Fed's first priority has been to provide adequate stimulus to avoid a double-dip recession or a slide into deflation. It seeks to avoid charges, as its critics asserted regarding the first President Bush administration, that the Fed had failed to adequately support the economy in 1991-92. By now adopting a more reactive policy, conceivably aimed at protecting the economic expansion through the 2004 elections, the

Fed may set up a return to higher inflation in 2005 and beyond. Other related future macro-economic complications could be a pronounced foreign trade deficit, state and local budget shortfalls, and the development in 5-10 years of structural problems in the economy if growing federal deficit spending is permitted to crowd out private investment.

Ms. Swonk's final remarks dealt with the impact on financial markets of these economic trends. Bond markets do not appear attractive as current account and budget deficits may eventually drive the dollar down and exacerbate upward pressure on interest rates. Equities, on the other hand, promise favorable returns due to promising economic conditions and aggressive fiscal and monetary policies. However, these same policies, combined with a still-low unemployment rate, could introduce economic imbalances reminiscent of the late 1990's. Eventually, the budding economic expansion could thereby stall.

IASC Events

Date	Speaker/Title	Link
11/21/2003	Dr. Roger W. Ferguson, Jr. <i>Federal Reserve Board Governor</i> Co-Sponsored with The Executives' Club of Chicago	Go to
12/4/2003	Howard Schilit <i>The Center for Financial Research & Analysis</i>	Go to
12/8/2003	Your Golden Rolodex®: How to Network for Results	Go to
1/14/2004	Jim Rogers <i>Investor/Author/Commentator</i>	Go to
2/12/2004	Rex Sinquefeld <i>Dimensional Fund Advisors</i>	Go to
2/25/2004	Jack Brennan <i>Vanguard</i>	Go to
3/25/2004	David N. Dreman <i>Dreman Value Management</i>	Go to
4/15/2004	Ben S. Bernanke <i>Federal Reserve Board Governor</i>	Go to
5/6/2004	Michael J. Mauboussin <i>Credit Suisse First Boston</i>	Go to
5/20/2004	Alan J. Lacy, CFA <i>Sears, Roebuck & Co.</i>	Go to
5/26/2004	Richard Bernstein <i>Merrill Lynch</i>	Go to



Technology News

On the (Leading) Edge IASC Tech Advisory Group

by Arch King, CFA and Tech Advisory Group Co-Chair

Implementing the Strategic Plan adopted last year to better meet member needs, the IASC leadership team has dedicated meaningful Society resources (time, effort, and funds) to enhance the tools for managing and publicly portraying the organization.

As the original investment society that now has the 5th largest membership globally, we found our data base tools required improvements. They had not kept pace with the needs of our leaders, our increasingly mobile members, and the other Advisory Groups - Membership, Program, Education, Communication, and Placements.

Following Board and Executive Committee authorization, a significant data base upgrade was installed this summer. Individual members should anticipate a total upside from the investment – for example, you will benefit from the now easier updating of personal profiles and more focused communications.

The public 'face' of the Society - our web site, also needed an upgrade. IASC's Advisory Groups provided crucial related guidance to identify and prioritize our members' needs. The new features rolled out recently include members-only polling, profile updating, enhanced Job Posting and other career resources links.

You can try your hand at a market forecast by taking our poll in the "Vox Populi" feature elsewhere in this newsletter. Further details on the Placement Advisory Group's initiatives are available in the article "An Improved Resource For Your Professional Future". And for all the website's improvements, please be sure to go to www.iaschicago.org and see what's new!

Finally, to ensure our services offerings and technology continue to represent the needs of IASC membership, we are looking for additional volunteers to help our work with the other Groups and to bring new and interesting ideas to life. Please contact Raj Patel or Arch King with an e-mail to info@iaschicago.org if you're interested!



Member Feedback

Vox Populi – Making Your Opinion Count

Welcome to a new interactive feature for our newsletter, Vox Populi, and the first poll in what can develop into an ongoing expression of your views on timely issues in the investment profession.

In this and future issues, we plan to ask for your response on a topic relevant to investing. Answers will be tallied for several weeks following distribution of *The Efficient Frontier*. After the polling, a summary with final totals will be offered in our next issue.

We welcome your views. If you have other comments and/or a suggestion for a thought-provoking question, please e-mail them to info@iaschicago.org. Thanks for your cooperation.

AN INVESTMENT FORECAST: As 2003 enters in final weeks, it is a great time to exercise forecasting skills and possibly win those ever-coveted bragging rights as a prescient predictor of market performance! Your consensus may also be an item of note for local media, so we'd love to let the press know what a sizable proportion of IASC's members envision for 2004. Thus, your prediction please-

Question: Since its 2003 opening (@881.69), the S&P 500 is up 18.3% (@ 1046.76 on October 15 close). Looking ahead for roughly the next year, where will the S&P 500 Index close on December 31, 2004?

- a) Up greater than 10%
- b) Up 5 – 10%
- c) Up 0 – 5%
- d) Down 0 – 5%
- e) Down 5 – 10%
- f) Down greater than 10%

You can answer our poll until November 28, 2003. We'll report your results in our next newsletter, watch how closely opinion tracks outcomes, and offer you another chance to foretell the future in a newsletter next year!

[Click Here](#) to give us your answer to the above question.

