

THE INVESTMENT ANALYSTS SOCIETY OF CHICAGO

Spring 2005



The Efficient Frontier

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President's Message: A Doozy of a Quarter

by Nicholas Ronalds, CFA, President



I told you so...The Midwest Research Conference on March 4 exceeded even my high expectations. It was so oversubscribed we arranged a larger venue. The feedback was great. I'm particularly pleased IASC delivered such a high quality program to members at a very reasonable price by industry standards. Gautam Dhingra, VP-Academic Programs, and Steve Deutsch of the Education Advisory Group deserve special credit for their key roles as organizers.

Be sure to read the article on the Investment Exchange Forum. This new and different sort of event for IASC was another great success, selling out on the first day advertised. I may be starting to sound like a hype artist, but that's truly just the facts! Thanks to Chris Reed, VP-Special Events and Jeff Nevins for their excellent work making this happen, and to EVP Mark Hutchinson for suggesting the concept.

Speaking of our newsletter, kudos to Greg Gocek, Communications Chair, for organizing, arranging, editing (and cajoling and eliciting) the Efficient Frontier. Thanks Greg for a consistently fine job.

In our business we know better than most about the Internet's transformative effects. Did you know an economics Nobel prize winner has a joint blog with a leading U.S. jurist? (If not, I'll let you play detective.) Our vastly improved links site will help you cut through the clutter. Plaudits to Sarah Hemmer and Mark King of Technology Advisory for as-

sembling the "best of the best" links for financial enthusiasts like you and me. Click here to see the new links:

<http://www.iaschicago.org/links.asp>

Please put June 29 on your calendar, the date of IASC's 2005 Annual Business meeting (UBS Tower, 7:30 a.m. – 8:30 a.m.). You'll vote on a name change from Investment Analysts Society of Chicago to CFA Society of Chicago, favored by a large majority of members in our January survey. The change would vastly increase our name recognition, likely only to grow as the CFA Institute ramps up its global awareness campaign for the CFA brand.

This is my last newsletter as President. Volunteering for the Society has been terrific in more ways than I can enumerate. Try it! Volunteering needn't mean a big commitment. You can probably do what you like when you can. Give Jill Poznick, our most capable CEO, a call (312-673-3310) or email (jpoznick@iaschicago.org) if you'd like to learn more. We're a great society and I think we make a difference. And we'll keep doing it.

Have a great spring and summer - see you in the neighborhood!

Editor's Note

by Greg Gocek, CFA, Communication Chair

This issue of the Efficient Frontier illustrates the wide ranging opportunities IASC members have to explore diverse interests - an accurate reflection of the dynamism of our society!

From fashion to profiting from that most liquid of assets, fine wines, the last quarter provided a breadth of offerings for the well-rounded professional. To help keep you in top career form, astute guidance was furnished for vocational advancement. On behalf of your portfolios, feel free to consider suggestions from the recent Investment Exchange Forum. Finally, in appreciation of the leadership of Nick Ronalds as June conclusion of his term nears, please don't overlook his valedictory presidential column.

This issue's contributors were, alphabetically; Greg Gocek, Bill Gray, Ryan McGloin, Treasa Moran, Jeff Nevins, Jill Poznick, Nick Ronalds, and Gary Silverman.



**IASC Annual Business Meeting
Mark Your Calendars!**

IASC History: Progress Since the 1950s

by William Gray, CFA, Past President & History Project Chair

IASC's significant involvement in our profession was a consequence of much preparation in the 1950s. The concept of professional knowledge identification and subsequent certification of its possessors was then visionary. IASC membership at large had negligible interest. ICFA's establishment in 1961 after 9 years of effort reflected the task's enormity and strong differences of opinion among committee and board discussants.

During ICFA's long incubation, corporate information deficiencies were tackled head-on by NFFAS (National Federation of Financial Analysts Societies). Nationally, Albert Bingham of Chicago Title was a very active leader. The Corporate Information Committee (CIC), through many industry sub-committees, annually reviewed/"graded" hundreds of corporate reports. By 1962, Northwestern University's Corliss Anderson developed a book on "Corporate Reporting for Professional Investors", distributed to 3,000 corporation CEO's.

During the early 1950's, financial accounting standards proliferated and were incorporated into corporate disclosure. The CIC spun off a separate Financial Accounting Policy Committee (FAPC) in 1965. Increasingly, the AICPA sought input from FAPC. In the early 1970's AICPA established a nine-member "blue ribbon" Trueblood Committee to specify financial accounting objectives from the user's perspective. C. Reed Parker at Duff, Anderson & Clark was the only financial analyst on the committee. Contemporaneously, a very significant report on financial analysts' related views was prepared by FAPC, under the tutelage of Harris Bank's Bill Norby.

Not until the late 1960's did the "insider" aspects of corporate disclosure develop. Two SEC cases, Texas Gulf Sulphur and Douglas Aircraft, reached the limelight in 1968. John Gillis (FAF/ICFA counsel) authored FAJ articles on this very troublesome subject. For several years, J. Parker Hall, III of Lincoln Capital Management chaired a related ad hoc committee. It proposed "New Guidelines on Inside Information" for the SEC. Mr. Hall then followed with his FAJ article (Jan/Feb 1974) on the subject.

In 1962, the first written version (only 1 page) of our profession's "Code and Standards" was published. Bits-and-pieces were gradually added. By 1980, as alleged violations occurred, the need for interpretation of these standards blossomed. Brierly W. Anderson at William Blair & Co., immediate past chair of the Investment Analysis Standards Board/Professional Ethics Committee (FASB/PEC) was one of 3 IASC members receiving special recognition for work on a 127 page, May 1982 publication, the 1st edition of "Standards of Practice Handbook".

Our next article will review government vs. self-regulation,

the investment process, continuing education and organization structure changes.

Inaugural Investment Exchange Forum with Ariel Capital's John Rogers, Jr.

by Jeff Nevins, CFA, Volunteer

March 22, 2005—IASC hosted the first "Investment Exchange Forum", a "members-only" event limited to 25 people that sold out the first day advertised! John Rogers, Jr., Chairman/CEO, Ariel Capital was the featured speaker.

Mr. Rogers noted that new investment ideas are now hard to find. Due to a combination of forces (expensive market, high commodity prices fears, inflation pressures, increasing interest rates, broader industry consolidation, and terrorism threat), he currently holds record cash levels. Believing this is a time for patience (the turtle is Ariel Capital's logo), he advocates taking a long-term perspective and waiting for new ideas to appear. Four highlighted stocks he finds attractive and holds in his funds are Journal Register Company (JRC), Libbey Inc. (LBY), Janus Capital (JNS), and Tribune Company (TRB).

Event moderator Jeff Nevins, CFA, asked attendees for their best investment ideas. Most of the possibilities noted (18 total including John Rogers four stocks) were long equity investments across a broad spectrum of market caps/industries. A few macro strategies were also discussed, such as benefiting from the declining U.S. dollar value and rising interest rates, as well as an options strategy to profit from a bear or flat market.

Mr. Nevins created a mock portfolio tracking results of the long equity and mutual fund ideas mentioned. Since March 22, 2005, it is down 3.1%, underperforming the S&P 500 and Wilshire 5000 indices (down 1.7% and 2.1%, respectively). The portfolio's two biggest losers include Hubbell Inc. (HUBB), (- 19%), and OmniVision Technologies (OVTI), (- 12%). These losses are offset by gains from DeVry Inc. (DV), up 22%, and Mercer Insurance Group (MIGP), up a modest 1% since March 22. With 18 securities, the mock portfolio assumes transaction costs of \$200 per security purchased, and does not incorporate tax consequences. Excluding transaction costs, the portfolio was down 2.9%.

Note: Investment recommendations discussed at the Investment Analysts Society of Chicago's ("IASC") Investment Exchange Forum should be considered only as single factors for investment decisions. Recommendations are the opinions of participants and not of the IASC or its affiliates. Investment research discussed at this forum is provided for informational purposes only, and derived from investors with widely varying levels of investment experience. Investment decisions should not be made based on the opinions expressed. IASC and its affiliate entities are not liable for any monetary or non-monetary losses you could incur from acting upon a specific recommendation.



Candidate Services

Study Group Kick-Off Well Received

by Jill Poznick, IASC CEO

February 1, 2005—The Candidate Services Advisory Group hosted the first annual “Study Group Kick-Off”. More than 70 Candidates attended this event at Coogan’s. To date, 85 people have registered to participate in IASC study groups for the June exam.

The Candidate Services Advisory Group conducts outreach to Candidates during the process towards getting their CFA designation. Establishing study groups for Candidates is one of the Group’s primary missions. Candidates are encouraged to visit the Candidate Services section of the IASC website to participate in discussion boards and learn of candidate events, including the IASC/Stalla Post Exam Party on June 4.

http://www.iaschicago.org/candidate_main.asp

Career Management

“Interview Insights” – On Analysts, Recruiters & Compensation

by Treasa Moran, Volunteer

January 13, 2005—Approximately 75 persons attended “Interview Insights”, the Career Management Advisory Group event at Pazzo’s. Jennifer Pierce, William Blair (“Blair”) HR manager and Michael Pickens, CPA, Michael Page International (“MPI”) executive recruiter, shared their interviewing knowledge.

Jennifer focused on analyst (buy/sell side) characteristics:

Buy Side

- More introverted
- Low turnover
- Career progression to PM (5-10 yrs)
- Small, cohesive teams
- Covers 40-70 names

Sell Side

- Extroverted
- 2 - 3 year position
- Career progression to Senior Sell Side or Buy side analyst
- Becoming more quantitative
- Covers 10-15 names (live & breathe)

Jennifer felt candidates need not initially know their preferred role, but all should love investing. Successful job seekers typically have invested personally for several years (even in a “paper/fake portfolio”) and will discuss best and worst picks

Jennifer suggested:

- Never send hard copy resumes
- Use firm’s on-line posting system
- Be prompt for interviews – arriving somewhat early (5, not 20 minutes early) is fine
- Listen to questions and be prepared.
- Ask questions, especially if seeing several people. Posing identical questions to different persons for multiple perspectives is fine.
- Deviate from your arranged speech as needed
- Don’t send hand written thank-you notes, use informal emails.

Michael differentiated the two types of recruiters, retainer vs. contingency-based. Retainer firms earn fees upfront without obligations to place candidates. Contingency firms are paid only upon successful placements. Companies typically hire several contingency firms to fill an opening. His firm handles both scenarios, but uses a retainer approach for all searches.

Michael advised:

- Anticipate a personal meeting since recruiters must know you and your job goals
- Set expectations on desired outcomes in your first meeting
- Seek help with career transitions elsewhere as recruiters are hired to find specific criteria matches
- Follow-up 3-4 weeks post meeting for an update, ideally with referrals. Recruiters remember cooperative candidates, so this builds relationships.

Compensation was a hot Q&A topic. On the propriety of mentioning compensation during interviews, MPI addresses compensation both upfront and in final interviewing stages. Blair also covers it early in an initial phone screen interview. Jennifer cautioned if your current salary is much lower than a position’s salary range, this might raise questions regarding experience. The panelists differed on pursuit of a new career path entailing reduced compensation. While MPI has a tough time there due to increased hiring risk perceptions, Jennifer countered it depends on the individual, as salary cuts related to new career paths are common.



Have a great Spring!



Investing in Wine

by Gary Silverman, Volunteer

February 24, 2005—For many people, investing in wine enables the combination of product passion with their investment interest/knowledge. Edward Robert Brooks, Principal Auctioneer at Edward Roberts International, looked at wine as an investment opportunity. As interest in wine at all levels has been accelerating dramatically, many collectors have done well recently. This attracts even more interest by widening circles of collectors and investors in a self reinforcing cycle - did someone say “bubble”? Such need not be limited to champagne!

Profitable wine investing is difficult, especially given costs of insurance/ storage and the time value of money. Non-traditional formats, such as magnums and half-bottles are less appealing investments, as they do not appreciate at the same rate as standard bottles.

The major influence of qualitative assessments in the ultimate valuation of wine is a further complication. Marketing by vintners can create demand for a young growth, even though a wine’s quality may be questionable after 20 years.

Wine investors with money, patience, and passion are probably best off focusing on the industry’s known quantities, such as a 1st growth Bordeaux. That region has a 100+ year history of making fine wines, while many California vineyards started only 20 or less years ago. Yet 1st growth Bordeaux vineyards (think Chateau Margaux, Petrus, and Latour) are pricey and supply can be limited. Opportunities for “value investing” might include less traditional varietals, such as Madera, Sherry and Port. These wines age better with greater values to be found.

Collecting wine for profit is now more complicated geographically. Historically, Burgundy and Bordeaux were the primary regions of interest. Today, California, Australia, South Africa all make collectable wines. State laws also come into play. Illinois, NY and CA are the only states where you can reasonably auction wine.

A distinctive upside with wine regardless of markets: consumption of unsuccessful investments can provide a “drowning one’s sorrows” consolation! (Try doing that with the stock certificates of bankrupt companies!) Ultimately, Mr. Brooks cautioned, “Buying wine is a lot easier than selling it.”



Attendees enjoy the evening

“Pick Your Path” Event

by Ryan McGloin, Volunteer

March 24, 2005—Panelists David G. Flinn, CFA, Jodie M. Gunzberg, CFA and William Benton, CFA discussed their career starts and occupational success factors in the investment industry at this sold-out event attended by 110 people at Nick’s Fishmarket.

David G. Flinn, CFA, is Vice President of Investments at Grosvenor Capital Management. He progressed into asset management by leveraging his established skill set. As a PriceWaterhouseCoopers due diligence auditor thoroughly examining key business issues, he gained confidence to ask tough questions to evaluate management performance. This skill has facilitated his current role evaluating fund managers.

Jodie M. Gunzberg, CFA, was a Portfolio Manager at Delaware Street Capital. She believes individuals should seek jobs in industries where they have an “edge”. This could be a function of either an occupational skill set and/or relate to personality or preferences. Mathematically adept, she pursued a quantitatively focused career. In her transitions from actuary to corporate finance to asset management, math skills were crucial.

William Benton, CFA, is an Equity Research Analyst at William Blair & Company specializes in communications as well as industrial technology. He finds the match between applicant skill sets and job obligations a top priority. Equity research lets him meet with management teams and give opinions on a company or sector, which he finds appealing. By selecting a coverage universe, supervising associates and communicating with investors, equity analysts can tailor their roles to their preferences.

All panelists advise individuals pursuing an investment industry career to earn the CFA designation. It signals to employers greater personal initiative and also assures a standard level of competence in finance, accounting and other skill sets.

The panelists then described the positives and negatives of their respective industries. Interactions with senior management and intellectual challenges were frequently noted as compelling career benefits. Significant time commitments in excess of 60 and up to 80 hours per week were the main disadvantages. Mr. Flinn and Mr. Benton stated they also traveled extensively. Furthermore, Mr. Benton stated the career fortunes of an equity analyst covering a specific universe are tied to the performance of its industry group.

The panelists encouraged pursuit of career paths that ultimately provided personal fulfillment via enjoyable and exciting responsibilities.



C.F.A. — Cultivating Female Ambition

“Jackie O-pinions” Event

by Jill Poznick, IASC CEO

February 3, 2005—30 female IASC members and their guests enjoyed a special presentation and tour of the “Jacqueline Kennedy Onassis” exhibit at the Field Museum. The tour was followed by an afternoon tea and discussion moderated by Lori Holland, IASC Board member.

The group first heard from Ellen Stirling, Owner/President The Lake Forest Shop, who spoke about fashion in the 1960’s and how Jacqueline Kennedy Onassis shaped trends in styles. This was followed by a debate on the First Lady’s legacy – namely: should she have been a role model for women of that era? Would she be considered a role model today? The lively viewpoints provided for a stimulating and interactive event.

Social Events

IASC Brings It To the ‘Burbs!

by Jill Poznick, IASC CEO

April 20, 2005—nearly 30 members and guests participated in an IASC-hosted Happy Hour at the Ram Brewery in Wheeling, IL. Special thanks to Ray Mau, CFA, for helping identify this Wheeling location!

Attendees represented a wide array of suburban employers, including: Allstate, High Pointe Capital Management, UBS Financial Services, Walgreen Company, Hewitt Investment Group, and JP Morgan. The IASC Social Events Advisory Group plans to bring the next suburban happy hour to the Schaumburg area.

If you have suggestions for venues in the suburbs, please contact Jill Poznick at jpoznick@iaschicago.org.



Bringing It To The ‘Burbs: (from left to right) David Lewis, CFA, Leavitt Capital Management; Matt Clink, CFA, Hewitt Investment Group, and Jeanette Hamilton, CFA, Rotary International

IASC Events

Date	Speaker/Title	Link
5/5/2005	Facts and Fantasies About Commodity Futures Professor Geert Rouwenhorst Yale University	Go to
5/12/2005	Gary Brinson, CFA GP Brinson Investments	Go to
5/15/2005	Mock CFA Exam	Go to
5/17/2005	IASC co-sponsors Forecasting the Market & the Economy	Go to
6/2/2005	Investment Exchange Forum on Large Cap Equity Growth (Members ONLY)	Go to
6/4/2005	IASC co-sponsors Post CFA Exam Party	Go to
6/8/2005	Richard M. Ennis, CFA EnnisKnupp	Go to
6/23/2005	“Show Me The Money” Is Your Compensation Keeping Pace With Trends?	Go to
6/28/2005	William Dudley Goldman Sachs & Company	Go to
6/29/2005	Annual Business Meeting	Go to
7/17- 7/22/2005	IASC hosts the CFA Institute “2005 Financial Analyst” Seminar	Go to



Bringing It To The ‘Burbs: (from left to right) Douglas Allen, CFA, Allstate; Ryan Anderson, CFA, Allstate; and Pengyi Han



Welcome New Members



James T. Barnes
Rakesh Bhatia
Dinah F. Bird
Abhijeet A. Biswas
Lisa Bjorkman Foster, CFA
Douglas G. Boehm
Ty Boshyan
Mark A. Brown
Randall C. Buck, CFA
Daniel C. Byrnes
Kevin B. Cavin, CFA
Michael G. Chandra
Jennifer L. Childe, CFA
Arzikia M. Curry
Guoping Dai
Rufus W. Davenport
Matthew S. Desmarais
Emre Dilber
Matthew W. Dougherty
Jonathan E. Dresher
James R. Ellis

Jay B. Ferguson
Charles B. Fletcher, CFA
Amir Friedman
Keith E. Friedman
Matthew D. Geiger
Michael J. Girsch, CFA
Shane P. Goss
Tim A. Gottfried
Kathleen A. Graham
Jon F. Hale, CFA
Timothy B. Hall
Robert A. Hensley, CFA
Thomas P. Hogan, CFA
Jon A. Hooks, CFA
Phelps B. Hoyt, CFA
Brian E. Huckstep, CFA
Charles K. Huebner
Sean C. Hunt
Craig A. Jacobs
Karim Khalil
Ryan M. Kleiboeker, CPA

Jeffrey R. Koche
Kristi R. Kohlenberg
Boris Kozintsev
Joseph S. Kruse, CFA
Yegneswaran Kumar, CFA
Jessamyn R. Larrabee, CFA
Chengwei Lee
Robert M. Legan
Ryan G. Linski
Robert C. Locke, CFA
Joseph M. Manzella, CFA
Paul J. Matviuw
Carol A.F. McGillivray, CFA
Timothy J. McHugh, Sr.
Curtis Morrison
Chad M. Morrissey, CFA
Svitlana O. Natalchenko, CFA
Anup N. Patel
Brian M. Pelling
Joshua J. Peters, CFA
Bryan A. Pinsky

Joseph P. Pittman
Laura Ramsay
Daniel J. Rivera, CFA
Eric J. Salsbery, CFA
Prakash Saraff, CFA
Derek A. Sasveld, CFA
Lisa A. Spanraft, CFA
Radoslav V. Stoichev, CFA
Richard B. Summer, CFA
Shaobin Sun, CFA
Michael C. Talaga, CFA
Theodore M. Thome
Jeremy E. Thurm
Venkatesh Vadlamani
Anna K. Wacht
Jonathan D. Wangard
Richard J. Watson
Alan M. Wong
Dennis S. Woods
Huaxiang Xu, CFA



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