Chairman’s Final Message:
Be active. Be involved. Participate.

Written by:
Leo Harmon, Jr., CFA

Time is the most undefinable yet paradoxical of things; the past is gone, the future is not come, and the present becomes the past even while we attempt to define it, and, like the flash of lightning, at once exists and expires. ~Charles Caleb Colton

And so my friends my time has come. It has been my great pleasure to serve as your Chairman for the last year. As it started, our main objective was to begin assembling an infrastructure for satisfying the varied and increasingly disparate needs of our membership. While the building blocks of our plan have been put into place, more work remains to be done for accomplishing our mission.

As the year unfolded, we implemented the beginning of our long-term strategic plan, added new staff, commenced planning several new programming and educational initiatives, and engaged our leadership in how to better position our brand on behalf of our members. None of this would have been possible without the significant efforts of our volunteers. We owe them a tremendous debt. Let me express my deepest gratitude to all who serve to make our society better for every member.

In my last letter, I wrote about the CFA Society of Chicago taking an advocacy position against certain provisions of the CFA Institute proxy. While the provisions were adopted, I greatly appreciate all the support and positive commentary we received from our membership and other member societies.

On another note, Chicago will be the host city for the CFA Institute Annual Conference in 2012. We are expecting over 1500 participants, mostly Chartherholders, from around the world to join us. It promises to be an enlightening event for the participants and our society’s opportunity to showcase the fabulous talents of our membership and the hospitality of this great city. Please mark your calendars for May 6-9, 2012. And of course, your efforts on committees or as volunteers would be greatly appreciated.

Once again, it has truly been an honor to serve our society as this year’s Chairman. The Board, Staff, and especially our volunteers have done a marvelous job of pushing our agenda over the year. I will leave you with the same request as I made when I took on this endeavor. Be active. Be involved. Participate. The power of making your voice heard could have a lasting positive impact on our industry and this society.
Editor’s Note

Written by: Greg Gocek, CFA

This newsletter, in addition to reporting our active slate of member-focused activities, offers congratulations to volunteer Alan Meder on his recent election as CFA Institute Board of Governor’s Vice Chairman. And while the bylaws changes recently presented at the CFA Institute Annual Meeting were approved by the global vote of members, Alan has noted our Society’s related recommendations have been closely attended to by Institute leadership and pledges ongoing effective collaboration with local societies.

And from all our current charterholders, good luck to all our candidates as they await the results of their respective exam level efforts, with ideally many persons celebrating success as our guests at this November’s Annual Meeting for which sponsorships are being sought (see at http://www.cfachicago.org/news.asp).

This issue’s contributors were, alphabetically; Melanie Anders, Kim Appapillai, Brett Bina, Greg Gocek, Leo Harmon, Matt Kaney, Alan Meder, Cynthia McLaughlin, Todd Parvis, Claire Peterson, Christopher Vincent and Zach Rosenstock. Staff contributors were, alphabetically; Greg Gocek, Angela McKay and Virginia Petrancosta.

CFA members learn grilling tips from Executive Chef Dean Eliacostas at Carmichael’s.

June 16, 2011 Social Event:
Grilling Class at Carmichael’s

Reported by: Zach Rosenstock, CFA

CFA Chicago’s Social and Woman’s Advisory Groups teamed up for a West Loop networking event at Carmichael’s. Fortunately, the weather cooperated with a beautiful night perfect for grilling. The evening began with time for cocktails and conversation on the patio before attendees were paired off and assigned grills for two.

Prior to turning us loose for the cooking, Executive Chef Dean Eliacostas walked us through the menu. It included portobella arugula salad, skirt steak, mahi-mahi with tomatillo salsa, potatoes and a corn and black bean salad. As he showed the proper way to season and cook each piece, his primary pieces of advice were to coat items for grilling in oil and apply plenty of salt.

Before starting, we gathered tomatoes, peppers, onion, green onions, portobella mushrooms, corn on the cob, new potatoes and tomatillos. The biggest challenge was determining the best way to align your grill to accommodate all the ingredients.

We cooked the vegetables first and then came the proteins. The mahi-mahi has a spicy marinade and we used Carmichael’s own rub for the steak. After over an hour of cooking, with everything complete, we all sat at tables and enjoyed the feast.

The event proved perfectly suited for getting to know fellow guests. The drinks and dinner gave everyone a good chance to meet a broader group of people. The grilling enabled the pairs to spend a lot of time with just one other person and get to know the grilling partner much better than these events typically allow. It was a great way to kick off the summer.
May 4, 2011 Distinguished Speakers Luncheon:

Laurie S. Goodman

Reported by:
Brett J. Bina, CFA

To investors ready to sound an all-clear signal regarding the housing crisis, Laurie Goodman of Amherst Securities issued a stark warning: it may be too soon. Faced with the problem of negative equity and the tepid U.S. economic recovery, she estimates 11.5 million additional borrowers are in danger of losing their homes. Within the $10.6 trillion U.S. mortgage market, this would represent a 20% default rate over the next four to five years, without changes to the current loan modification scheme.

Non-agency MBS issuance has been in decline since 2006, with Fannie Mae and Freddie Mac stepping in to fill the void. Ms. Goodman estimates the current agency share of residential MBS issuance to be 88%. Part of today's problem is while banks are reducing principal due on mortgages, Fannie and Freddie are not. She attributed this to their government conservatorship, under which they will seek to put back non-performing loans to mortgage originators.

As non-performing loans have reached 4.8 million, 95% of which are expected to default, Ms. Goodman listed several key components to a housing crisis solution- 1) addressing the moral hazard inherent to strategic defaults, 2) successfully modifying existing loans, and 3) increasing credit availability to investors.

In discussion, Ms. Goodman divided her proposals to fix the residential mortgage market into measures for the demand and supply side. On the former, there is a need to increase credit availability through Fannie Mae and Freddie Mac, as well as to re-qualify borrowers into homes they can afford. For supply, a successful loan modification program verifying income and re-equifying borrowers while forgiving principal is crucial. Ms. Goodman encourages policymakers and other stakeholders to see default as an economic issue, not a moral one. She believes the hazard can be mitigated through various tax and credit rating incentives.

Although the housing overhang is factored into valuations, Ms. Goodman believes falling real estate pricing could persist in the year to come. Optimistically, two current catalysts for price appreciation are: 1) data suggest borrowers are falling behind on payments at a reduced rate, and 2) affordability is at a 20 year high.

Given the large political fall-out accompanying the defaults of those 11.5 million borrowers, housing-friendly policy is likely to be enacted. After half a decade of distress, the housing crisis continues to frustrate borrowers, lenders, and government agencies.
Brian Singer, CFA, founder of Singer Partners (which since this event has joined William Blair & Company), presented concepts to his fellow CFASC members that literally brought home points he shared in March at the CFA Institute Middle East Investment Conference in Abu Dhabi.

Noting a succession of shifts within the asset management profession, Mr. Singer identified an evolving group of investment managers he described as Assimilators. Assimilators first seek insights about portfolio risk factors, and then allocate risk capital toward areas of compensated risk and away from uncompensated risks. They structure portfolios to provide global macro risk capital allocation across asset classes and offer customized solutions to achieve client needs, thereby moving well beyond a 60/40 or policy-constrained asset allocation.

Assimilators do not merely manage risk. In illustration, Mr. Singer noted portfolio rebalancing, i.e. buying assets with declining values while sell well performing assets. That risk mitigation activity has good motivations, but also produces detrimental unintended consequences. Singer characterized rebalancing as actually an option strategy leading to poor performance during market extremes as returns deviate most from zero. Further, some investment vehicles are subject to daily rebalancing (e.g. ETF's). An option strategy of ‘buy on fall, sell on rise’ is one of several which produce portfolios whose return-generating character graphically appears to be concave. However, concavity is itself a portfolio exposure, prone to hurt returns when market momentum measures are strong.

Mr. Singer suggested an alternative capital allocation framework:

- Risk is your friend --> harvest risk premia
- Returns and risk opportunities are dominated by factors
- Some positions and almost all strategies are non-linear

He observed, “In the end, there are many assets, but a limited number of risk factors. That provides an illusion of opportunity. Systematic risk factors really drive performance.” Mr. Singer encouraged the dynamic use of asset classes and investment vehicles to counter the effects of concave portfolios. For instance, convexity can be added by dynamically allocating capital to a momentum strategy or by employing leverage.

He also suggested managers keep several distinct views of risk and objectives in mind, including:
- Static “beta” exposure to defease liabilities
- Dynamic “beta” management to capture compensated market risks
- Active “alpha” management of uncorrelated security selection exposures

Such is the approach of an Assimilator manager seeking returns through an appropriate risk/capital allocation - the focus is earning compensation from specific risks.
Despite the competition of the Chicago Bulls playoff game, CFA Chicago’s briefing on the Dodd-Frank Act (DFA) was well attended. Panelists included Jerrold E. Salzman, Of Counsel, Commodities and Futures Regulations and Litigation - Skadden, Arps, Christopher Sikorski, CFA, Securities Compliance Examiner - U.S. Securities and Exchange Commission and Karim Pakravan, Associate Professor of Finance - DePaul University. Michael Lindh, CFA, moderated the discussion, starting by noting DFA was 2200 pages when proposed but delivered at 848 pages when signed into law last year for enactment this July 21st. The substantial page reduction is believed to be from double to single space formatting! This most ambitious and expansive financial reform bill ever passed is intended to reform Wall Street and protect consumers in the wake of the recent financial crisis. Our diverse group of experts analyzed its potential impact, which touches nearly every corner of our industry.

This most ambitious and expansive financial reform bill ever passed is intended to reform Wall Street and protect consumers in the wake of the recent financial crisis. Clearly, there is no Goldilocks level of regulation and many aspects have been postponed.

DFA increases capital requirements for greater stability and to addresses systemic risk, but such outcomes are uncertain. DFA has promised to solve regulatory environment failings but is hard to implement. Panelists pointed out the recent focus on over-leveraged banks which overlooks the fact that derivative markets functioned well. A related example is that the changes proposed for swap markets are dependent upon defining a swap. Regulators have not provided this definition to date. Collateral requirements along with a definite view of a swap execution are questionable due to differences because the principles-based CFTC and the rules-based SEC.

Panelists concluded that uncertainty related to DFA is driving business overseas. Regulators here are trying to convince overseas market participants to follow US standards globally. This causes such participants to seek a regulatory arbitrage. There are also concerns about how DFA impacts over-the-counter participants who want to trade privately. Forcing OTC trades into clearing may cause liquidity constraints.

The SEC estimates it will take an additional 300 to 400 people to implement DFA effectively. The portability of electronic systems is also an issue. Portability makes it very expensive to do business in the U.S.
May 18, 2011 CFASC Educational Seminar:

Do You Make Good Investment Decisions?

Written by:
Christopher T. Vincent, CFA

Chicago area investment professionals were recently treated to an outstanding panel discussion featuring world class experts in decision theory and behavioral finance. A reflection of notable prescience, this session reprised a November, 1991, event staged by our predecessor entity, the Investment Analysts Society of Chicago. We can be grateful for previous Society leaders’ foresight in introducing members to cognitive concepts and theories which have become fundamental principles over intervening decades.

The seminar provided insightful perspective on the evolution of Behavioral Decision Theory and the impact of biological factors on the assessments by individuals of risk and ambiguity. It offered contextual evidence from financial market studies of asset price bubbles, along with a roadmap for understanding the emotional aspects of financial regulation.

Luke Knecht, CFA, one of the original seminar architects, moderated and introduced the first 2 speakers: Paul J. H. Schoemaker, Ph. D. of the University of Pennsylvania Wharton School, and Werner De Bondt of De Paul University.

Dr. Schoemaker chronicled his work in decision theory from his book, Decision Traps and noted the evolution of related science and its application to markets during the 1990’s. His forecast on theoretical extensions was extremely cogent regarding how leaders must deal with globalization and technological innovation. He outlined new tools for ‘Navigating the Knowledge Spectrum’ as the decision environment progresses from risk to uncertainty to

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May 18, 2011 CFASC Educational Seminar:
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ambiguity and finally to chaos/ignorance. These newer approaches include complexity theory, legitimation theory and honing intuition.

Professor De Bondt presented his work on asset price bubbles. He discussed how the media and news cycle can create discrepancies between the journalistic narrative and the market facts, ending in ‘widely-shared self-reinforcing misconceptions’. His compelling argument for a bubble model referenced Kindleberger’s work of 1978. Given human biases in judgment and choice, Professor De Bondt envisions continuing financial asset bubbles. However, investors aware of group herding and snowballing behavior prior to crashes can have grounds for optimism by thereby avoiding effects of contagion.

Two additional panelists provided further enlightenment on the state of the art in decision theory. First, Professor Hersh Shefrin of Santa Clara University presented his current work on the ever dynamic tug-of-war between financial regulators and market participants. He noted psychological pitfalls are ubiquitous, with weak risk management cultures leading to terrible outcomes for investors. While Professor Shefrin predicted more financial crises, he offered an analytical tool for predicting winners and losers using company processes and behavioral metrics.

Michael Falk, CFA, a longtime CFASC member and volunteer as well as an adjunct De Paul U. professor, summarized his work on biology’s impact on investment decisions and referred to fellow panelist Dr. Angela Stanton’s research on the related topic of the interplay between hormones, environmental stimuli, and economic decision-making. Dr. Stanton of Claremont Graduate University conducts experiments to understand brain mechanisms active in solving risky and ambiguous choices. Her study focuses on neurological pathways, using both functional MRI and hormonal methods. Both of their presentations were great reminders about the biological impacts on our cognitive processes.

We’d like to thank our silver sponsors Capital IQ and Stalla and our program partner CFA Institute for their support.

Interesting discussions related to practitioner experience continue providing unique perspectives for our meeting topics. The past couple of months have had a global theme. Our readings were:

April: Michael Lewis’ articles in Vanity Fair on the financial crisis in Iceland, Ireland and Greece.

May: Red Capitalism by Carl E. Walter and Fraser J. T. Howie, on the current state of China’s economy and financial system.

May was enhanced by special personal commentary, drawing on the extensive Asian experience of discussion leader (and Book Club regular) Nick Ronalds, CFA, a former CFASC chairman. Harry Gao, CFA was a special guest who shared views on portfolio management challenges and China’s distinctive brand of capitalism.

Looking ahead, we are trying a new selection method by picking a topic of group interest and then identifying appropriate books. Our topic for June and July is macroeconomics. Our June reading is Where Keynes Went Wrong: And Why World Governments Keep Creating Inflation, Bubbles, and Busts by Hunter Lewis. Our discussion will consider the U.S. stimulus package and will be on Tuesday, June 21st, 4:00 p.m. – 5:30 p.m. At the Tuesday, July 19th meeting, we will discuss This Time Is Different: Eight Centuries of Financial Folly by Carmen Reinhart.

Another innovation we are excited to note is the Book Club new home on LinkedIn. Please join us at the LinkedIn group CFA Society of Chicago - Book Club! As a reminder, we generally meet on the 3rd Tuesday of each month. You can RSVP for the meetings by sending an e-mail to BookClub@cfachiicago.org and specifying if you will attend in person at the CFA Society of Chicago office or via teleconference. Each meeting ends with selection of future readings. Ideas for future books to read or topics to explore are also welcome at the above e-mail address.
May 10, 2011
Career Management Event:
Utilizing Professional Search Firms

Reported by:
Todd Parvis

The panel of recruiting specialists assembled for this members-only Society event began with good news — they are optimistic about the current job climate! Larry Knox, Managing Director and co-founder of Red-Line Associates, declared recent hiring has increased. Consulting, quantitative, trading, systems, and fixed income positions have all experienced dramatically higher demand. Tobias Coffey, Director of Permanent Placement Services at Robert Half International, noted that broker dealers and boutique investment firms have been more active in their hiring compared with traditional banks. Michael Lynch, partner and owner of Lantern Partners, was less upbeat. He commented that many big Chicago financial institutions have disappeared in the last 25 years with corresponding job losses. Mr. Lynch suggested financial professionals should focus on a particular business style and find firms compatible with their special skill set. The panelists expressed sentiments that senior positions are in highest demand.

Interacting with and carefully selecting recruiting firms is critical to maximizing the benefits of using them. Brian Kadlec, an executive recruiter at Global Employment Services, explained there is vanity in the recruiting process. Meetings with recruiters should be taken as seriously as regular interviews. Furthermore, Mr. Knox and Mr. Coffey both emphasized the importance of seeking out recruiters. Keep in contact with recruiters and clearly express job goals to them. It is also important to research qualifications. Mr. Coffey recommended using LinkedIn to determine recruiter background and skills. Mr. Lynch added it is valuable to identify which firms are expert in one’s areas of job interest.

Recruiting firms are quite diverse, offering distinct services. Robert Half International and Red-Line Associates both use extensive coaching, whereas Lantern Partners does not. Mr. Coffey views coaching as an essential part of the process, as employers can judge recruiters by the candidates they offer.

Alternatively, Mr. Lynch believes that his clients’ mannerisms are already formed. The two basic types of firms are contingency firms and retainer firms. Contingency recruiting firms receive a fee when they place a client with an employer. Retainer recruiting firms receive compensation at the outset of an engagement regardless of placement success. Overall, it is important to select the right type of firm to meet one’s objectives. ■

June 9, 2011
Career Management Event:
World Class Client Communications

Reported by:
Melanie Angers

Jamie Ziegler and Fran Skinner, CFA, CPA, co-founders of AUMPartners provided CFA Chicago members with a most actionable and enjoyable customized presentation (including hardcopy handouts) on connecting with clients. Their expertise is gained from their combined 50-plus years of experience in the investment industry.

The event began with an ice-breaker exercise designed for attendees to reduce the six degrees of separation between each other by asking them to pose some “getting acquainted” questions. The goal was to identify as many connections as possible, with the aims of building a critical foundation of self awareness, developing dialog skills, and ultimately achieving the goal of clear messaging.

Next the speakers discussed common filters in the investment world. This is important because placement of your attention (filter) affects your perception of the world — e.g., need to be right, need for control, need to win, need for approval, etc. Illustrating the importance and power of this phenomenon was a classic drawing that looks like either a demure young woman or a very old woman who has had a rather rough life. Your filter determines the view.

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June 9, 2011
Career Management Event: World Class Client Communications

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Core to the presentation was research on leadership. It shows curiosity is the top predictor of success, as curiosity implies openness and responsiveness in the face of feedback. The opposite state – i.e., defensive and closed, is a potential danger zone. At the core of our defensiveness is fear – e.g., loss of security; loss of control; loss of approval. Fear is a natural part of life, with evolution developing our fight/flight/faint or freeze response. You respond quickly, often before the brain can formulate conscious thoughts! Thus you may be tricked into making poor decisions.

They then illustrated how to shift from defensiveness to curiosity:
• Live in wonder rather than fear.
• Make learning more important than protecting your ego.
• Appreciate those who give you feedback, regardless of how they deliver it.

They also shared some very useful tips on Client Meeting Fundamentals.

In summary, both presenters did a fabulous job and I can’t wait to put their guidance into action!

Member Profile – Career Change via CFA Chicago: The Path of Cynthia McLaughlin

Reported by:
Greg Gocek, CFA

For an excellent example of the value of active involvement at CFA Society of Chicago, the experience of Cynthia McLaughlin is noteworthy. In her own words, “the CFA program and the CFA Society of Chicago have become a very big part of my life and who I am.”

Cynthia began 2011 with a new position as Senior Marketing Communications Specialist at Invesco PowerShares Capital Management LLC (PowerShares), an exchange-traded fund (ETF) sponsor. Her focus there on writing and editing projects for marketing and sales materials applies her marketing background and writing skills. This is in conjunction with a career change from the telecommunications industry, from which she shifted in 2008.

As an MBA student at DePaul University, Cynthia’s initial exposure to finance was via an Investments course elective which she found fascinating. Switching her concentration to Finance and reading everything she could gather on the financial industry, she also became active in the CFA Society of Chicago by attending events and volunteering for the Communications, CFA Women’s and Education Advisory Groups. While working on passing the series of CFA exams, she networked with charterholders and society members to better understand the profession and determine an effective strategy for transitioning into our industry.

Cynthia credits Jeff Kernagis, CFA, a fixed-income portfolio manager at PowerShares and CFASC board member, as being instrumental in this process. She initially contacted Jeff through our society’s on-line community, later meeting to learn more about ETFs and their role in the industry.

A friend subsequently noticed an online posting on our website for the open position at PowerShares and suggested it to Cynthia as a potential good fit. Cynthia followed up with Jeff who spoke to the hiring managers about her and encouraged her application. The PowerShares team was impressed by her commitment to the CFA program and significant CFASC activity and the unique perspective which those have developed for her role. The rest, as the saying goes, is history. Cynthia notes she is quite energized by this career match, offering work at an innovative firm in an interesting area of the industry while allowing her to do things she really enjoys.

The career change during an unprecedented economic downturn was quite challenging, but according to Cynthia a most worthwhile effort. The search introduced her to many talented and wonderful people with whom she stays in touch.
June 4, 2011
CFA Chicago
Post Exam Party

Reported by:
Matt Kaney, CFASC Intern

Hopes for a brighter future of the financial world grew apace this month, a cause for celebration. Those were advanced by the nearly 200 candidates who breathed sighs of relief on that testing day charterholders recall worldwide, the first Saturday of June. All enjoyed the eighth annual CFA post-exam party hosted by CFA Chicago and Kaplan Schweser at McCormick Place.

Exam questions answered, candidates could finally indulge in some relaxation. They were also reminded about market efficiency. The earliest arrivals after the exam hall took the spots for a complimentary, rejuvenating, professional massage.

All attendees were treated to delicious hors d’oeuvres and refreshing drinks. Although minds started to clear from months of studying, most conversations still revolved around a particular exam level and/or the difficulty of particular questions.

Our local candidates were part of a record group of global registrations, with CFA Institute announcing that 144,900 candidates from 162 countries registered globally in total for all three exam levels. Congratulations to our successful local candidates and kudos to all for your dedication and efforts regardless of results!