



CFA-STL News

The Newsletter of CFA Society of St. Louis

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President's Report Q2 2012

As we enter the home stretch of this fiscal year, I would like to thank you for the opportunity to serve our Society. It has been very rewarding to meet so many great people and to feel that I am "giving back" to the Society. It's likely that you would have a similar experience and I encourage you to consider joining our effort by volunteering.

In May, you should receive both a member survey and an election ballot. Please take a few minutes to complete and return these documents. The member survey helps us better understand how to serve you in the future and the election ballot represents a vote of confidence in the leadership.

Starting in June, our Society will be hosting eight Career Development Workshops, six of them featuring Ric Hoerz. These Workshops will offer training in the softer sciences of human interaction and communication. I have been through this program and believe it taught me to be more effective with clients, prospects, colleagues and even family members. I hope to see you there.

Finally, I would like to congratulate the team members from Mizzou, my alma mater, who won this year's CFA Institute Investment Research Challenge.

Enjoy the rest of your spring!

Steven Jones, CFA, CFP, CAIA
President, CFA Society of St. Louis

CFA Institute Research Challenge Results 2011-2012

In February, the CFA Society of St. Louis hosted the CFA Institute Research Challenge contest. The following universities competed in the St. Louis Regional contest:

- Fontbonne University
- Saint Louis University
- University of Missouri-Columbia
- Washington University in St. Louis

- Webster University

The contest's goal was to promote best practices in equity research and company analysis. Undergrad and graduate students researched, analyzed, and reported on a company as if they were practicing analysts. Isle of Capri Casinos, Inc. was the designated company for the students to analyze. The contest allowed CFASTL to facilitate the development of the next generation of financial analysts. (Additional information on the contest can be found at:

http://www.cfasociety.org/stlouis/Pages/CFAI_RC.aspx)

Each university sent a team of three-to-five students to participate. Both faculty advisors and assigned mentors helped teach best practices in equity research through hands-on mentoring and intensive training in company analysis and presentation skills.

This year's winner of the St. Louis Regional challenge was the University of Missouri-Columbia. The team advanced to the Americas regional challenge (held in New York) where it competed with universities from Canada, the United States, and South America. The eventual winner of the Americas regional challenge was the Illinois Institute of Technology.



The St. Louis Regional Challenge winning team from UM-Columbia.

29 members of the CFA Society of St. Louis (CFASTL) served as volunteers to help run the local contest. Volunteers consisted of graders, mentors, judges, faculty advisors and a planning committee. All of the volunteers contributed a lot of time and effort to help make the contest a great success. Preparations for this coming year's contest are already under way. If you are interested in volunteering for the Research Challenge contest, send an e-mail to Joan Hecker (joan_hecker@sbcglobal.net) or Nick Fafoglia (nick.fafoglia@commercebank.com).

CFA Society of St. Louis Review of Recent Events

The CFA Society of St. Louis continued its program year with the following recent events:

Global REITs, John Robertson, RREEF - March 21, 2012

RREEF is one of the world's leading alternatives managers with more than \$61 billion in assets and 600+ employees in 22 locations worldwide. John Robertson discussed the evolution of REIT investing globally, made the case for a global REIT allocation and concluded by providing his current outlook for opportunities and valuations of REITs in Asia, Europe, and the U.S. The event included 66 attendees and was held at the St. Louis Club.

Washington Politics and the 2012 Elections, Steven S. Smith - April 16, 2012

Mr. Smith, the Kate M. Gregg Distinguished Professor of Social Sciences, Professor of Political Science, and the Director of the Murray Weidenbaum Center on the Economy, Government, and Public Policy at Washington University in St. Louis, provided an update on the 2012 elections and answered questions ranging from the origins of our current highly polarized politics to the impact that elections in Europe may have on the U.S. The event included 77 attendees and was held at the St. Louis Club.

Understanding the Low Volatility Anomaly, Brendan O. Bradley, Acadian Asset Mgt. - April 24, 2012

Mr. Bradley discussed the success of low volatility stock portfolios which may well be the greatest anomaly in finance. For more than 40 years, portfolios comprised of low risk stocks have substantially outperformed their higher-risk counterparts. This runs counter to traditional finance theory, which rests upon the notion that increased risk is rewarded by higher expected return. Mr. Bradley explained that the key principles of behavioral finance may explain both the reasons for this anomaly as well as its persistence across markets and time. The event was held at the St. Louis Club.

CFA Society of St. Louis Upcoming Events

Please look for invitations to these events in your inbox soon.

The Dramatic Change in the Equity Trading World

Date: May 16, 2012

Speaker: George Bodine, VP & Head of Trading Research, Markit

Location: St. Louis Club

Time: 12:00 - 1:15 pm

Annual Meeting

Date: June 14, 2012

Overview of the past year and election of officers

Location: St. Louis Club

Time: 12:00 - 1:15 pm

Summer Career Development Boxed Lunch Series

Dates: June 15, 21, 28, July 12, 19, August 9, 16, 23

Speaker: Ric Hoerz, Sandler Training

Location: Sheraton Hotel - 7730 Bonhomme Avenue, Clayton

Time: 12:00 - 1:30 pm

This Career Development Series consists of eight boxed lunch meetings. Each meeting is designed to "stand on its own," so it won't matter if you are unable to attend them all. The first six topics are as follows:

- Making your clients comfortable with you, and you with them, using DISC method analysis
- Understanding the "OK/Not OK" principle in human interaction
- Transactional Analysis and dealing with difficult people
- Effective meetings - eliminate mixed signals and misunderstandings with an "Up Front Contract"
- Effective questioning techniques to learn a client's true needs
- Determining your clients primary motivators, understanding the client's "Pain"

The remaining two topics will be chosen as we advance through the program.

The cost is free and is open to CFA Society of St. Louis members only. Workbooks will be provided during each session but must be returned at the end of the session. If you would like your own copy to take notes or use as a reference, workbooks are available from the Society at a discounted price of \$50.

Member Spotlight: David Eidelman, CFA

David R. Eidelman, CFA
President | Eidelman Virant Capital
Clayton, MO



Eidelman Virant Capital, a Registered Investment Advisor (RIA), has been managing investment portfolios since 1982. They currently manage over \$200 million for individual investors and institutions including IRAs, trusts, endowments, charitable organizations and retirement plans. Their goal is to outperform the S&P 500 with less risk by using their unique value-oriented investment philosophy.

Describe your professional and education background as well as any community or non-profit involvement.

My interest in investing started when I purchased 70 shares of Admiral Corporation just before the color TV boom took off in 1963. I switched my major from pre-med to finance, incorrectly concluding that picking winners in the stock market was easy!

I received a BBA in finance in 1966 and an MBA in 1968 from the University of Wisconsin. I started my investment career in 1969 with Scherck, Stein, & Franc, Inc. where I performed research for financial institutions. I later joined I.M. Simon & Co. and Reinholdt and Gardner as Director of Research, and became a Partner in 1972 and 1975 respectively. I earned my CFA charter in 1978. In 1982, I started the predecessor to what is now Eidelman Virant Capital in Clayton.

I am an avid fan of the French language and culture, and a past president of the Alliance Française of St. Louis. I play and manage the Sharks baseball team, and last year was inducted into the St. Louis Men's Senior Baseball League Hall of Fame.

Briefly describe Eidelman Virant's investment process. For example, is your firm deep-value equity, relative-value equity, or dividend-focused, etc.?

Our investment approach has been to find value in the market regardless of market

cap, sector or other investment category. We combine a multitude of tactics into our value investing approach including contrarian thinking, deep value, relative value, special situations, mean reversion, and knowledge of the best predictors of price movement. Our skeptical nature and rigorous research has helped us find investment opportunities which are at times off the beaten path. Our goal has been market outperformance while incurring below average risk.

Can you provide any historical investment performance return results? For example, have your investment returns exceeded the returns of an appropriate benchmark (such as the S&P 500) over time?

As of March 31, our value composite had a 10-year annualized return of 8.8% net of all fees compared to 4.1% and 6.5% for the S&P 500 and Russell 2000 respectively. Our focus on downside protection has resulted in our composite experiencing a lower standard deviation and downside deviation vs. our benchmarks over the same period. Our results have tended to outperform the market averages, particularly in down markets.

Do you feel that equity valuations are attractive after the recovery you have experienced since the financial crisis?

We don't find the broad market particularly attractive or unattractive at the moment. While finding great individual investment opportunities has been harder after the recent market advance, we still see some compelling values in pockets of the market and in specific companies.

If so, are there any particular sectors of the market that you find attractive right now?

One of our favorite investment areas is community bank stocks. There are many banks still trading at healthy discounts to their tangible book values despite having high-quality loan portfolios and valuable local franchises. Two of our favorites are 1) First Business Financial Services (FBIZ), a business bank in Madison, WI, and Pacific Premier Bank (PPBI) out of Costa Mesa, CA. Both companies have superior management, above average returns on equity, excellent loan quality (non-performing assets representing less than 2% of total assets), and trade at low valuations (single digit P/E ratios and below tangible book value).

Another area that has recently captured our attention is gold and silver mining stocks. With the explosion in popularity of gold and silver ETFs, investors seeking to benefit from owning gold have flocked to the bullion-backed ETFs instead of companies that have vast reserves underground. The result has been a record disparity between the price of gold and the value of gold stocks. Trading near their book values and at single digit P/E ratios, gold and silver mining shares could have significant upside even if precious metal prices stay near their current levels.

Do you feel that dividend-oriented stocks are a good alternative to bonds in this low interest rate environment?

We think stocks, in general, are a good alternative to bonds in the long run - but not necessarily high-dividend paying stocks. We just published a piece in our latest quarterly letter entitled, "I Love Dividend Paying Stocks, but Watch Out!" Dividend yields are just one piece to the investment puzzle. Our studies show that factors such as earnings yield (the inverse of the P/E ratio) and share buyback yields have been

even better predictors of investment returns over time. Due to low interest rates, we are particularly concerned about the high fund inflows into high-yielding areas such as Real Estate Investment Trusts (REITs) and Master Limited Partnerships (MLPs). While their yields look relatively attractive, we think their high valuations may lead to disappointing future total returns. Conversely, we believe a portfolio of high quality U.S. multinational companies with strong profit margins, modest dividends, and low P/E ratios should offer higher total returns than bonds over time.

What risks to the economy and markets concern you most right now? Would they present any investment opportunities if they occur?

Our worry is that the reversal of low tax rates and high government spending will lead to inflation and a double-dip recession. A recession could create opportunities for investors to buy securities at bargain prices leading to substantial gains in the event of a recovery. Buying amidst market turmoil has led to some of our best investments of all time.

Watch for Our Upcoming Survey!

The CFA-STL Membership Committee is finalizing the St. Louis society member's survey. Please keep an eye out for an email in the coming weeks requesting you to give your input. This short survey is a helpful way for society committee members to make sure they are meeting the needs of its members and gearing events toward those things that most interest you. Please take five minutes to fill out the survey once you receive it. Thank you in advance for your participation.

Call for Volunteers!

The STL-CFA's Board of Directors is comprised of volunteers. As such, we are always looking for fresh faces to help us lead the organization in various capacities. If you have an interest in giving back to the Society, we're currently seeking volunteers for roles in communications, programming, advocacy, and our Global Investment Research Challenge.

For additional information, please contact Joan Hecker at joan_hecker@sbcglobal.net.

Job Postings

Don't forget to check our web site for a current listing of open positions in the financial services industry throughout our region.

Please visit <http://www.cfasociety.org/stlouis/Pages/Career.aspx>.

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