CFA SOCIETY OF CLEVELAND

After the Bell

The Newsletter of Cleveland Finance

Sept. 2011, Issue 2, Vol. 1

INSIDE THIS ISSUE

Dear Fellow Members:

I am truly humbled by the honor of serving as our Society's president during FY 2011-2012.

Thanks to the hard work and vision of the past presidents and boards, our Society has thrived and grown into a 450-member organization. We are in good shape financially after last year's near-balanced budget—thanks to Amit Jain, CFA, and Yi Wang, CFA, last year and countless others in years past. Yet, we need to enhance revenue to offset recent membership declines and to fund the coming year's innovative programming.

Watch for an email from Membership Chair Craig Cimoroni, CFA, detailing our Society's initiatives in response to last year's membership survey, the focus of which was on increasing membership and revenue. Program Chair James Bailey, CFA, and his team have several events in store in addition to our usual luncheons. Watch the Newsletter, website, emails and Eventbrite for more information. Dave Alt, CFA, continues to expand our webinar capabilities and offerings.

Education Chair Greg Halter, CFA, plans to bring a well-known local company on board for the CFAI's Research Challenge, in which teams from several area universities will compete in equity research. Please volunteer to:

- Mentor a team (Is your alma mater competing?);
- Grade research reports; or
- Judge student presentations.

In addition to the Research Challenge, our education efforts include the annual Charter Awards Dinner and mock exams for CFA candidates.

We play an important role for Northeast Ohio universities, noting that students and faculty members are significant sources of new CFA candidates and Society members. Last spring, we held three well-attended student events at Cleveland State University, the University of Akron and Kent State University, thanks to $12,000 in funding from CFA Institute. University Relations Chair Art Stupay is promoting the CFA program and its benefits to the university communities, and will be working with Public Awareness Chair Ron Petrie, CFA, on other initiatives.

My objective as president is two-fold: to maintain our existing traditions, values and strengths, while also supporting implementation of new initiatives in programming and public engagement.

Our society's accomplishments would not be possible without our energetic board and volunteers, such as John Silvis, CFA, Michael Carroll, CFA, Matthew Scullen, Norm Siegal, Matt Downing, CFA, William Prebel, CFA, Sandy Centa, CFA, and Rahul Sukheja. Please volunteer to help us make your society better still. If nothing else, I urge you to attend our meetings (we'll have 30 to 40 from which to choose), bring your colleagues or clients and encourage others to join. If you think CFASC meetings are at inconvenient times or places, or explore topics that don't interest you, then volunteer to organize a meeting that is more to your liking.

Please write or call me (cbathala@yahoo.com; 216-687-4715), with questions, comments, ideas, suggestions or concerns. I'm looking forward to working with you.

Chenchu Bathala, Ph.D., CFA
President, CFA Society of Cleveland

Stimulating Programming Season On Tap

Calendar of Events & Luncheon Meetings Fall 2011

September 6
Dr. Ken Mayland
President
ClearView Economics
Focus on Washington

September 14
Ms. Friederike Edelmann
SAP AG
(NYSE: SAP)
Company Presentation

September 22
Society Social Event:
Wine Tasting at
the Union Club

September 28
Mr. Nicholas Conrad, VP,
Finance & Treasurer
Ms. Cathy Shelnick,
Cash Manager
The Andersons, Inc.
(NASDAQ: ANDE)
Company Presentation

October 5
Mr. Timothy Hayes, CMT
Chief Investment
Strategist
Ned Davis Research, Inc.

Dear CFA Society of Cleveland Member:

I'm honored to serve as the program chair for the 2011-2012 season and am excited to reap the benefits of the work the Programming Committee has done this summer. Guided by the end goal of providing member value, the committee has begun assembling a high-quality schedule of events that will feature a bevy of strategists, economists, educational content, social outings and company presentations.

While this sounds like a regular CFASC programming year, you may begin to see some subtle changes due to an in-depth analysis of attendance trends and data provided by the membership survey. Members were adamant that quality was more important than quantity, and as such, the goal won't be to fill each and every week with an event. Rather, the Programming Committee has been instructed to obtain the highest quality speakers possible, which may require skipping a week at times to remain within budget.

Hopefully, this is evident in the first five weeks alone, as you'll gain access to Ken Mayland of Clearview Economics and Tim Hayes of Ned Davis Research, two nationally known commentators on markets and economics, as well as a wine tasting at the Union Club. In October, CFASC will be co-sponsoring Cleveland State's inaugural real estate conference on Revitalization of the Cleveland Area Real Estate and Housing Markets, allowing members to attend at a significant discount.

I'm excited about the current calendar, but I'm even more excited about some of the speakers we're currently in discussions with who should be added to the calendar soon. While I can't provide any details yet, please keep visiting our website and follow us on LinkedIn or Twitter to learn about upcoming events as soon as they're added to the calendar. And please don't hesitate to contact me to provide feedback or make recommendations. This kind of input is invaluable and will help guide future programming efforts.

Sincerely,

James M. Bailey, CFA
Programming Chair
CFA Society of Cleveland

More About Ken Mayland...

Dr. Ken Mayland is president of ClearView Economics, LLC, a firm specializing in economic research and forecasting. Dr. Mayland was previously the chief economist of two major financial institutions (First Pennsylvania Bank and KeyCorp). Graduating with degrees in Economics from MIT (undergraduate) and the University of Pennsylvania (M.A. and Ph.D.), he has spent more than 35 years studying the business cycle and providing economic analyses to a variety of constituencies.

Join us on Sept. 6th as Dr. Mayland examines the intersection between bad politics and economics. In this insightful and interactive presentation, Dr. Mayland will address the question we are all asking ourselves: Can the U.S. economy shake off the political gridlock and fiscal drag and continue to grow?

Dr. Mayland is a member of the Blue Chip Economic Forecasters and Financial Forecasts survey panels, and several wire service and newspaper survey panels. He was a past member of the Economic Advisory Committee for the State of Ohio under various governors, and he has held several leadership positions with the National Association for Business Economics. Dr. Mayland is frequently quoted in the local and national media, is listed in Who's Who in America and has won several awards in recent years from the Federal Reserve Bank of Chicago for best forecasts.

Upcoming Program Highlights

SAP recently reported strong financial results for the second quarter ended June 30, 2011, posting its 6th consecutive quarter of double-digit growth in non-IFRS software and software-related service revenue, leading to an increase in earnings per share of 26%. As a market leader in enterprise application software, SAP pursues a commitment to helping companies of all sizes and industries run better. SAP empowers people and organizations to work together more efficiently and use business insight more effectively to stay ahead of the competition. Headquartered in Walldorf, Germany, SAP is the market leader in enterprise application software. Founded in 1972, SAP (which stands for “Systems, Applications, and Products in Data Processing”) has a rich history of innovation and growth as a true industry leader. SAP applications and services enable more than 109,000 customers worldwide to operate profitably, adapt continuously, and grow sustainably. With revenue (IFRS) of €12.4 billion for the year 2010, SAP has more than 53,000 employees and sales and development locations in more than 75 countries worldwide.

Founded in 1947, The Andersons, Inc., has established itself as a respected leader and prominent regional player in grain merchandising and plant nutrient formulation/ distribution in the Eastern Corn Belt. This strong position in its basic business has allowed the Company to diversify into other agribusiness operations (grain, plant nutrient, ethanol), railcar marketing, turf products production, and general merchandise retailing. The Andersons’ 2010 full-year results were its second highest, with earnings attributable to the Company of $64.7 million, or $3.48 per diluted share, on $3.4 billion of revenues. In the prior year, the Company earned $38.4 million, or $2.08 per diluted share, and total revenues were $3.0 billion. The Andersons’ 2010 fourth-quarter net income attributable to the Company was $25.8 million, or $1.39 per diluted share, on revenues of $1.2 billion. In the same three-month period of 2009, The Andersons’ reported income attributable to the Company of $16.2 million, or $0.88 per diluted share, on revenues of $916 million.

Timothy W. Hayes, CMT, is NDR’s chief investment strategist and managing director, Global Asset Allocation. He has been with the firm since 1986. Tim directs NDR’s global and U.S. asset allocation services, develops strategy and major investment themes, and establishes NDR’s weightings for domestic and global asset allocation, presenting his views on the cyclical and secular outlook globally.

Tim oversees NDR’s monthly *Investment Strategy*, covering global strategy and allocation, and his timely market commentaries and studies are featured in *Chart of the Day* publications. He also writes *Stock Market Focus*, which features top-down stock market perspective, and *Global Focus*, which focuses on global allocation and the most significant global developments.

Tim has been featured many times on CNBC and Bloomberg TV, and his market views are often quoted in *The Wall Street Journal* and other financial media in the U.S. and internationally. He is the author of *The Research-Driven Investor*, published in November 2000, and has contributed to several other books. His research articles have appeared in the *Journal of Technical Analysis*, *Technical Analysis of Stocks and Commodities*, and other publications.

Calendar of Events & Luncheon Meetings Fall 2011 (Cont.)

October 12
Cleveland Real Estate Conference
Cleveland State University
Location: Student Center Ballroom
See Details on Page 5

October 26
Heidi Adelman
Director
Victory Capital Management
Mortgage-Backed Securities
PLEASE NOTE: This lunch is being held at City Club.

November 2
Nick Raich
Director of Research
Key Private Bank
Fourth-Quarter Earnings Season Preview
PLEASE NOTE: This lunch is being held at KeyClub.

November 9
Charter Awards Dinner
Details Forthcoming!

November 30
Whirlyball
Bedford Heights
Details Forthcoming!

U.S. Sovereign Debt Analysis by Art Stupay

To spur professional comment and research among society members, I provide a short analysis of U.S. Public debt for our regional newsletter. I propose to examine the issue of leverage in our public finances as an equity analyst. The aim is to determine if our national debt load is excessive. I will contrast it with the Standard and Poors' method.

According to our "National Debt Clock," the total federal debt is $14.6 trillion, with federal spending of $2.6 trillion and revenues of $2.2 trillion. Interest expense annually is $206 billion. If this were a company, the deficit of $1.4 trillion would be troublesome, since it would need to raise cash, either through debt or equity, diluting the existing shareholders.

But this company or government can raise debt and, for the moment, at a decreasing interest rate, since the Federal Reserve System, through various mechanisms, has kept it low. Also, investors are shunning the equity and corporate debt markets, piling into the perceived safety of U.S. government debt. Most investors believe this is rational despite the budget deficits and its cash requirements.

The standard analysis of leverage for a corporation would include various coverage ratios, such as EBITDA to interest, debt to EBITDA, and the debt ratio (total debt over equity or assets). These ratios can be readily compared to other entities. On the first measure, which is used by many banks to assess debt capacity of an organization, the debt coverage for U.S. sovereign debt would be 10 times, based on revenues (taxes and fees) of $2.2 trillion, compared to interest expense of $206 billion. Even if interest expense rises by 50 percent in the next two years, debt coverage would be considered adequate. Excluding mandated payments like social security and other social programs, as well as defense, the ratio may fall to 3, which is close to the corporate average. This analysis excludes the prospect of improving revenues from economic recovery or higher revenues from so-called tax reform. Obviously, higher revenue would improve the picture.

On the measure of debt to EBITDA for the United States government, the issue is more complicated. Total debt as noted is $14.6 trillion, with revenues at $2.2 trillion, the income available for government fiscal obligations. On that basis, the multiple would be over 7 times, which makes it overleveraged. But if revenues are raised to the average rate relative to the economy over the last decade of approximately 20 percent, the multiple would fall to 4.8, which is closer to the average corporate debt coverage ratio. Of course, if mandated social spending is excluded from revenues, the multiple would be considerably higher and would be flagged as inadequate coverage.

Regarding the debt ratio of the U.S. government, one can have a field day on its calculation. Usually, the denominator of the ratio is accounting or estimated net worth, but calculating it for the nation is difficult. Total value of national assets estimated by the "National Debt Clock" is $76 trillion, composed of household assets of $58.3 trillion, corporate assets of $13.3 trillion, and other businesses of $4.4 trillion. These numbers exclude assets owned by the U.S. government. Net assets after private debt of $54.9 trillion, including both corporate, mortgage and household debt, is $21.1 trillion. On that basis, the debt ratio for the nation, assuming the U.S. government could utilize these assets in some way, is 41 percent.

Obviously, there are legal and other issues on the ability of the U.S. government to access private assets. But the nation as a whole is responsible for the debt, since it was incurred by its elected representatives, who have the legal right to spend and borrow. Yes, it raises all the issues of inviolability of private property, but not the ability of the government to tax, which is a fundamental power of government.

Standard & Poors' Criteria

S&P formulated its evaluation of a sovereign's credit worthiness on the basis of five main criteria. They include institutional effectiveness and political risks, economic structure and growth prospects, external liquidity and international investment position, fiscal flexibility, and monetary flexibility. On the fiscal situation, S&P examined the net liquid asset position, which it did not find troubling. Nevertheless, it stated:"The track record of sovereign defaults suggest that governance and political risks are among the main drivers of poor economic policies that lead to default."

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Membership Highlights

CFASC Ups the Profile of Luncheon Speakers, Non-members to pay increased fees

Luncheon meetings of the CFA Society of Cleveland will now cost $10 for students (formerly free), $25 for guests of members (formerly free) and $40 for other non-members (formerly $20). Non-members may purchase a discounted 4-event pass for $100. This fee change is expected to add 20% to the programming budget, which will be used to schedule high-profile speakers.

In a forthcoming letter to members, Membership Chair Craig Cimoroni will outline responses to a recent member survey. Of note, weekly event attendance has decreased while special lunch events hit all time highs. Our membership survey suggests higher profile speakers in specific category areas are valuable and would attract a stronger turnout to weekly luncheon events.

Consistent with the survey results, CFASC has already scheduled noteworthy speakers such as Roger Lowenstein [former WSJ Heard on the Street editorialist], Bill Poole [former Federal Reserve Board of Governor and FOMC member], John Kasich [Current Governor, State of OH], Tim Hayes [Chief Strategist of Ned Davis Research] and Ken Mayland [Clearview Economics], as well as notable speakers in the areas of wealth management, mortgaged backed securities, et al.

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In its downgrade, the rating agency indicated the lower rating was "prompted by our view on the rising public debt burden and our perception of greater policymaking uncertainty." It then referred to its political scores for evaluation of "policy-making uncertainty." Under this criterion, it highlighted the political difficulty. "Our opinion is that elected officials remain wary of tackling the structural issues required to effectively address the rising U.S. public debt burden." It does not expect that possible political consensus after the 2012 elections will more easily enable the government to deal with the debt issue. It takes no position on whether elected officials should use spending cuts or revenue increases to cut the deficit.

S&P did not base its downgrade primarily on debt ratios or other quantitative measures in reaching its decision. It focused on intentions and the ability of the Congress to make choices that will result in budget balance.

In my analysis above, the focus was on debt coverage and ability to handle the debt if the political courage was found to deal with the deficits in a timely period and not over 10 years. Using a time horizon involves estimating future growth prospects and political factors that are impossible for analysts to assess. And according to S&P, these are the key elements in evaluating the debt burdens and prospects for default.

Almost 70 years ago, Evsey Domar, late professor of economics at MIT, concluded that the debt burden of a sovereign country could be unlimited if the debt is entirely owned internally, or in the country's currency. He also believed that a country's growth prospects are the key to assessing sovereign debt capacity, since higher growth enables it to more easily service the debt. This would then lead back to coverage ratios and evaluation schema proposed at the beginning.

Art Stupay is an analyst at Tower Research. He can be reached at 216-241-3078; astupay@dix-eaton.com

Past Presidents' Dinner

On July 14, 2011, 16 former presidents of the CFA Society of Cleveland braved the mid-summer heat and humidity to have dinner and discuss the future direction of the Society. Attendees represented five separate decades and dozens of market cycles, which provided a very wide spectrum of experience, and good fodder for reminiscing.

Participants discussed the primary issues facing the industry and the Society during their respective tenures, and surprisingly, or perhaps not, there was a great deal of consistency. Common denominators included Society programming logistics, membership value proposition, networking and education.

The consensus was that the Society has managed growth well over the decades and successfully adapted to industry challenges and trends, to the benefit of all members. Given the success of this event, additional gatherings are expected to be planned in coming years.

Former Society presidents meet at Great Lakes Brewing Company in Cleveland's trendy Ohio City. From Left: Current President Chenchu Bathala, Ph.D., CFA; James Bailey, CFA; Andy Schuler, CFA; David Alt, CFA, Matt Dennis, CFA; Clyde Bartter, CFA; Joe Harrison, CFA; Paul Orend, CFA; Pete Klein, CFA; Jim Kaesberg, CFA; Ron Petrie, CFA; Arthur Stupay; Gene March, CFA; Denise Farkas, CFA; and Warren Coleman, CFA.

CFA Society of Cleveland 2011-2012 Board and Officers

President:	Chenchu Bathala, CFA	***Past Presidents & Board Members:***
Program Chair:	James Bailey, CFA	2010-2011 Amit Jain, CFA
Education Chair:	Greg Halter, CFA	2009-2010 Warren Coleman, CFA
Public Awareness Chair:	Ron Petrie, CFA	2008-2009 David Alt, CFA
University Relations Chair:	Art Stupay	
Treasurer:	Yi Wang, CFA	

Revitalization of the Cleveland-Area Real Estate and Housing Markets Conference

Cleveland State Student Center Ballroom

Wednesday, October 12, 2011

Hosted by:

Paul J. Everson Center for the Study of Real Estate Brokerage/Agency and Markets

Department of Finance

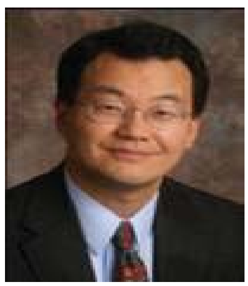
Monte Ahuja College of Business

Cleveland State University & the CFA Society of Cleveland

CFA SOCIETY OF CLEVELAND MEMBERS RECEIVE A 40% DISCOUNT

FEATURING:

Dr. Karl Case



Dr. Lawrence Yun

Dr . Tom Bier

Mr. E.J. Burke

This conference will feature two presentations by nationally known real estate experts: Dr. Lawrence Yun, chief economist and senior vice president of research at the National Association of Realtors, and Dr. Karl Case, founding partner of Fiserv Case Shiller Weiss, Inc., and the co-developer of the Case-Shiller Index. Also, two notable Cleveland-area real estate professionals, Dr. Tom Bier, Levin College of Urban Affairs at Cleveland State University, and E.J. Burke, EVP and group head of KeyBank Real Estate Capital and Corporate Banking Services, will join Drs. Yun and Case in a panel discussion.

TENTATIVE SCHEDULE

11:30 a.m.	Registration and Lunch
12:10 p.m.	Opening Remarks
12:15 p.m.	Speaker: Dr. Karl Case, Professor Emeritus of Economics, Wellesley College
1:00 p.m.	Speaker: Dr. Lawrence Yun, Chief Economist, National Association of Realtors
1:45 p.m.	Break
2:00 p.m.	Speaker: Ms. Tracey Nichols, Assistant Director of Economic Development, City of Cleveland
2:15 p.m.	Panel Discussion
	—Moderator: Dr. Alan Reichert, Professor of Finance, Cleveland State University
	—Participants: Dr. Karl Case, Dr. Lawrence Yun, Dr. Tom Bier, E. J. Burke, Doug Price
5:30 p.m.	Conclusion of Conference

COST:	General Public:	$50
	CFASC Members:	$30

REGISTRATION: Contact Katie Khoury at CFA@Cleveland.CFASociety.org or 216-696-8066.