THE ECONOMY'S EFFECT ON THE CAREER CHOICES AND JOB OPPORTUNITIES OF GRADUATING FINANCE MAJORS

By

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STATEMENT BY AUTHOR

Honors Thesis:
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Three speakers from Edward Jones visited our class session on November 14, 2008. Two of the three speakers, Matthew Boltz and Joe Peccolo, are alumni from the University of Arizona and were previous students in the Applied Portfolio Management class. The third speaker, Jay Plaskett, has been working at Edward Jones for eight years and served as the primary speaker throughout the presentation. Their discussion, among other topics, focused on the current economic conditions and how these circumstances would affect our class today and in the future.

At the time of the presentation, there had been 20 bank failures year-to-date. According to the FDIC website, since the time of the Edward Jones presentation, there have been 12 more bank failures ("Failed Bank List"). As well, many were bought out to avoid collapse. In March of last year, JP Morgan Chase purchased Bear Stearns for under $250 million, or about $10 a share. When Washington Mutual was seized by federal regulators on September 26, 2008, this was considered the largest bank failure in United States history (Boltz, Joe Peccolo and Plaskett). Regulators simultaneously brokered the sale of most of WaMu's assets to JPMorgan Chase, which absorbed at least $31 billion in losses that normally would have fallen to the FDIC. Shortly thereafter, California-based IndyMac Bank went under with $32 billion in assets, making it the fourth largest bank failure in United States history (Boltz, Joe Peccolo and Plaskett). Luckily, our portfolio did not have significant exposure to any of the failed banks, although their breakdowns along with the crash of the housing market have impacted the performance of the market and thus our portfolio throughout the past year.

Nonetheless, the restructuring of banks like JPMorgan Chase and Citigroup and the consolidation of those such as Wachovia, Washington Mutual, and Merrill Lynch has created quite a change in the financial world. Ultimately though, the Edward Jones representatives labeled the largest impact of the financial crisis to be the end of highly leveraged investment banks, including Goldman Sachs and Morgan Stanley (Boltz, Joe Peccolo and Plaskett). For students in our class, this may mean altering a career goal that once led to investment banking and, in general, less jobs available at the time that we graduate. With an unemployment rate of around 8.5%, we can expect to see some slightly different hiring circumstances in this bear market than we would in a bull market, but to what extent do these circumstances differ?

My question is: how much influence does the economy have on the job choice and career opportunities available to college graduates, and specifically, finance majors? One may say it is easy to assume that the economy would have at least a short-term effect on which companies are hiring, and where college or graduate school students ideally want to begin their careers upon graduation. The purpose of my report is to examine both the short and long-term impact of the economy on job choice and availability to finance majors.

One of the most helpful resources in which a student can connect with potential employers is through campus events, including interview days and career expositions. For instance, the University of Arizona brings a large-scale career showcase for the purpose of introducing students to companies looking to hire for internships or full-time positions. However, with the economy the way it is, many of the companies that used to dominate such career fairs are either no longer in attendance or looking for significantly lesser applicants than in prior years. Trudy Steinfeld, the director of career services at New York University, states they saw 15% fewer companies recruiting on their campus this year. Not coincidentally, the most significant decrease she saw was in the financial-services industry (Tuna). At the Wharton School of the University of Pennsylvania, campus interviews provided to the school's 600 undergraduates has decreased by 20% (Greenhouse). Due to the diminishing opportunities to network with desirable companies, many college graduates are soon approaching the end of their college career without a job in their future.

As I mentioned, job availability is also an important issue, possibly even more so than the decline in recruiting on college campuses. According to the National Association of Colleges and Employers, companies expect to hire 22% fewer graduates than they did last spring (Prior). With this statistic, it is no wonder so many students have given up their job search. Some are even using further schooling as a safe-haven from this nightmare known as our current economy. But, what if the nightmare is still very much a reality when those two years conclude? Second year MBA students are Harvard are experiencing this conundrum. Last year at this time, 90% of those graduating from the Harvard MBA program had job offers; this year, only 78% have job offers (Greenhouse).

Even so, there is a strong correspondence between graduate school attendance and the state of the economy. Lisa B. Kahn, a Harvard University PhD candidate, determined that "cohorts who graduate in worse national economies are in lower level occupations and have slightly higher educational attainment" (1). This is because, with lower initial wage offers in occupations like investment banking, the opportunity cost of staying in school is lower.

In addition to opting for further schooling, finance students completing their undergraduate education at this time are beginning to consider their other options. Many who desired a high-paying position on Wall Street are now contemplating alternatives including

Teach for America and computer engineering (Greenhouse). A Wall Street Journal article written by Alina Dizik highlighted several undergraduate finance majors who are taking paths that highly contrast to the one in which they had originally planned. All three students, each of whom held prestigious finance internship positions this past summer, were not given job offers from their respective companies. They have become so frustrated with their job search that they have thus turned to Teach for America, rabbinical school and a job at the State Department rather than one in their field of study: finance (B4).

As the three students above may exhibit, this economy has encouraged a large number of finance students to pursue other interests as opposed to a career that aligns with their major. The field of finance, which includes occupations like investment banking that offer very high salaries, can often attract those who may not be fully passionate about the subject and more interested in an ample paycheck. But, when the money is tight and job offers from Wall Street are measly, someone who is more passionate about another line of work is more likely to pursue it. Steven Greenhouse, a writer for the New York Times, even feels that the changes currently happening on Wall Street will also affect non-finance majors graduating in 2009 (B1). Furthermore, he sees it to also impact juniors, sophomores and freshman by making them sway towards different majors. Due to the riskiness involved in working on Wall Street, it is no wonder that those with a high risk aversion would avoid a career there.

The fear of Wall Street can be seen more apparently in Kahn's report titled "The Long-Term Labor Market Consequences of Graduating from College in a Bad Economy." Kahn, who took a survey of several thousand Stanford MBA students, determined that stock market conditions while in school affect whether or not many students desire to go straight to Wall Street when they complete their program. This same finding is mimicked in Paul Oyer's report called “The Making of an Investment Banker: Stock Market Shocks, Career Choice, and Lifetime Income.” In this written statement, Oyer shows that the initial placement of graduates at investment banks is highly correlated with the rise and fall of the S&P 500 2-year return during the month of June in the year of graduation (2609). The relationship that Oyer describes can be seen in Figure 1 below. Though today, it is common for MBA students to receive and accept job offers far prior to their graduation, Oyer’s focus is on those classes that graduated in and before the year 1995. At that time, recruiting season typically ran closer to the time of graduation, hence the reason the month of June was utilized in the data displayed on the chart (2608). Ultimately, because stock market conditions while a student is in undergraduate or graduate school has a large influence on their future career choice and salary, Oyer is confident in his assertion that investment bankers are “created” by market conditions, not necessarily “born” to be on Wall Street as some may believe (2601).

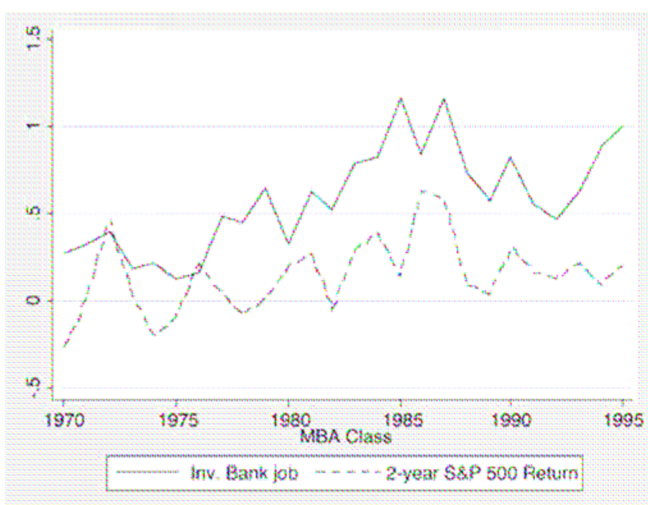

Figure 1: Stock returns during school and investment banking job placement. The solid line exhibits the fraction of graduates from the Stanford Graduate School of Business that work in investment banking in the January following graduation. The dotted line represents the 2-year return on the S&P 500 through the end of June in the year of graduation (Oyer 2609).

According to the research and statistics above, it is clear that the economy plays immediate effects on the career choice and job availability of college students, even those not currently on the brink of graduation. What about short and long-term effects of graduating and entering the workforce in a bear market? Many studies have been conducted to compare the offer salaries of students graduating in non-favorable economic conditions to those who graduated in more optimistic times. According to separate research done by Kahn and Oyer, the salary difference between graduates in economic booms versus economic lows is significant, especially in the beginning. Even more so, for those still brave enough to beeline to Wall Street immediately out of college, even at a time like this, they may be taking on more risk, by their returns are most likely to be higher for a significant period of time until the gap between the salaries finally flattens in later years.

Oyer, who is an associate professor at Stanford, found the above claim to be true when he researched the histories of Stanford University MBAs who graduated from 1960 to 1995. He found that those who attend business school during a bull market have more of a tendency to pursue becoming an investment banker, thus over the course of their careers, earning $1.5 million to $5 million more than those who decided to avoid Wall Street during a bear market and take on other careers (2602). After a few years of working in another industry, one may recognize their imbalanced salary compared to their peers who became investment bankers and attempt to move into a similar line of work. These individuals tend to wait until the economy booms and confidence on Wall Street is once again rebuilt. Unfortunately though, most often the candidate that welcomed the challenge of being an investment banker on Wall Street during a recession and thus has already gained a reputation and valuable experience will have the upper hand and win out in the end. This is because, as Oyer determined, approximately 73% of people who begin their career by working on Wall Street are most likely to work there later in life rather than someone who initially started working off of Wall Street (2616).

Whether or not a college graduate heads to Wall Street after leaving school, it is probable that the state of the economy will still impact both their short-term initial salary and have an effect on their long-term salary. In general, studies show that for every 1% increase in the national unemployment rate, average wage loss increases by 3-4% (Kahn 2). As well, wage loss based on a 1% increase in state unemployment rates remains at 6% and stays that way even up to twenty years after the subject's date of graduation (Kahn 2). This means that because this upcoming generation of college graduates is entering the workforce at a high level of unemployment, they are destined to make less money than those who graduated during better times. For instance, if Associate A who received a job offer as a college senior in April 2008 made a starting salary of $50,000 when the national unemployment rate was 5.1%, Associate B who got the same exact offer in April 2009 would only be paid $43,200-$44,900 because the current unemployment rate is significantly higher at approximately 8.5%. According to Kahn, "this effect falls slightly over time to approximately 2.5% wage loss but is still statistically significant even 18 years after college graduation (2). That is a disappointing statistic to say the least, especially because it is as a direct result of the poor macroeconomic conditions and not because Associate B is any less qualified than Associate A for the specific job at hand. In fact, Oyer's studies show that "there is no evidence that bull markets attract less qualified or less interested candidates," which once again opposes the model that claims investment bankers are born to work on Wall Street (2616).

Still, regardless of the tumultuous times on Wall Street, some finance students desire to work in the finance field, just not necessarily as an investment banker. For these people, there are two other careers that appear to be promising for the next decade. Believe it or not, the Bureau of Labor Statistics has reported that the employment of financial analysts and financial advisors is expected to increase 37% during the 2006-16 decade ("Occupational Outlook Handbook"). It is their belief that the level of investment is going to increase, and thus the need for analysts and advisors will also elevate. Moreover, retiring baby boomers are in need of heightened personal investment services, and "deregulation of the financial services industry also is expected to continue to spur demand for personal financial advisors in the banking industry" ("Occupational Outlook Handbook"). Nonetheless, even though demand is expected to increase for these high-paying positions, so too will the supply. It is also a highly competitive industry in the way of building a client base. An encouraging fact, however, is that the large population of retiring baby boomers will eventually open more spots for our generation in this contracting workforce. Though it is likely we may not see these retirements come as soon as we would like or in time to help those graduating in 2009, they will eventually come. This means that more employment possibilities will be made available to college-educated professionals looking for a job in any field, not just finance.

Ultimately, my research has proved that the state of the economy has an impact on many factors that determine the future of college graduates at that time. As was mentioned, when the economy is poor, companies cannot afford to attend as many career showcase events, nor can they afford to hire as many individuals as they would when business is good. This, in turn, affects the job search and job availability of college students looking to start their career. It may even cause them to divert from their original career goal in order to pursue a less competitive and lower paying occupation about which they are more passionate. There are still promising jobs in the field of finance, including the investment analysts and personal financial advisors, and further education is always a beneficial option. For finance graduates who drift from Wall Street, it is likely that they will face a salary significantly lower than their investment banker counterparts for as long as twenty years after they receive their diploma. Even if the ones who stray from Wall Street desire to give it a shot later in their career, it is likely that those who gained experience at a younger age will be rewarded the position. In the end, leaving college at a time when the job opportunities are not plentiful and wages are slashed may cause for a rough first couple of years in the workforce; however, it is most important for one to follow their heart, wherever it may take them.

Similarly, one major suggestion made by these Edward Jones representatives is to continue to invest in our careers no matter what the state of the economy. I believe the Applied Portfolio Management class has given us the resources to do so by exposing us to faculty, alumnae and community leaders who demonstrate their commitment to our futures. Luckily, the Applied Portfolio Management class curriculum gives students the opportunity to network and arrange interviews for future job positions by allowing speakers like Boltz, Peccolo, and Plaskett to come visit us. Thus, for students looking for a career in other areas besides investment banking, there are plenty of resources at our disposal. This semester, we have heard from representatives from Edward Jones, Vanguard, Sunrise Capital Management, the UA Foundation, Davis Advisors and others. Furthermore, the program sponsors several students who desire to take the Chartered Financial Analyst (CFA) exam. All in all, the class provides many outlets that students can utilize to grow academically and professionally on or away from Wall Street.

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Guest Speaker Critical Paper

Three speakers from Edward Jones visited our class session on November 14, 2008. Two of the three speakers, Matthew Boltz and Joe Peccolo, are alumni from the University of Arizona and were previous students in the Applied Portfolio Management class. The third speaker, Jay Plaskett, has been working at Edward Jones for eight years and served as the primary speaker throughout the presentation. Their discussion was focused on fixed income trading, but they also outlined Edward Jones as a company, touched on current economic conditions, and provided their thoughts on a variety of investment vehicles.

As a company, Edward Jones works with only individual and not institutional investors. While advising their clients, they promote three investment principles: focus on quality, invest for long term and diversify. Edward Jones' philosophy is similar to that upheld by our class. We focus on quality by utilizing discounted cash flow models to determine the value of the stocks we recommend for purchase. We invest with long term intentions with an investment horizon of 12 to 18 months, despite the many stop outs we have faced this semester. Lastly, we diversify our portfolio by holding cash, bonds and equities within all the different sectors of the S&P 500. In regards to this final topic, the speakers confronted the class with an important question: why diversify? While most of us know the answer to this question, the presentation highlighted what bonds specifically offer to a portfolio.

As the Edward Jones representatives explained, investors benefit from holding bonds because they provide an income stream and safety. For instance, the six bond holdings in our portfolio each provide us with an interest payment that we can count on as a guaranteed return. Though this payment may not be as significant as what can be gained by investing in equities, it is comforting to have a cash inflow, especially when the economy is struggling and the market is not treating our portfolio very well. As discussed previously, bonds also help diversify a portfolio, thus providing a level of safety and stability. For instance, Plaskett presented an historical chart showing that almost every time the market has been down, fixed income investments have been up. Though this trend is apparent, he explained that this is not always the case and one should never expect that fixed income will always move in the opposite direction of the market.

Nonetheless, it is a natural inclination for investors to sway towards safer investments during times of great uncertainty with the market. It is interesting to look at the percentage of our portfolio that is in bonds currently compared to the beginning of the semester. When we first inherited the portfolio from the previous class on August 28, 58.1% of our funds were equities and 18.9% were held in five different bonds. Today, we hold the same five bonds plus one more that we purchased in October 2008; however, as of November 13, our portfolio consisted of 47.7% equities and 36.8% bonds. The decision we made as a class to increase our bond holdings during a semester that has been laden with economic downfalls aligns with the Edward Jones presentation in pointing out that fixed income investments will typically increase when the market is hurting.

In regards to the market, this year has been filled with a number of big events that have been both the cause and effect of market behavior. Plaskett briefly mentioned a list of those he felt were most important. First, the federal funds rate has continued to spiral downwards as the Federal Reserve attempts to increase loans and spur economic activity. Since the beginning of the year, the Fed has decreased the federal funds rate from 4.25% to 1.00% on October 29. The Fed also issued a gloomy outlook for the economy due to worries about the ongoing crisis in the financial and credit markets; thus, some believe the Fed is not done lowering rates yet.

We also learned from the presentation that there have been 19 bank failures year-to-date and many have been bought out to avoid collapse. In March of this year, JP Morgan Chase purchased Bear Stearns for under $250 million, or about $10 a share. When Washington Mutual Bank was seized by the federal regulators on September 26, it was considered the largest bank failure in United States history. Regulators simultaneously brokered the sale of most of WaMu's assets to JPMorgan Chase, which absorbed at least $31 billion in losses that normally would have fallen to the FDIC. Shortly thereafter, California-based IndyMac Bank went under with $32 billion in assets, which is the fourth largest bank failure in United States history. In all, the total loss for all financials year-to-date is $959.5 billion, and the total capital raised is $828.3 billion. Luckily, our portfolio did not have significant exposure to any of the failed banks, although their breakdowns have impacted the performance of the market and thus our portfolio.

As a result of these events, the government has put forth a number of initiatives. The Troubles Assets Relief Program (TARP) gives the Treasury secretary up to $700 billion to buy mortgages and other troubled assets owned by financial institutions. The Treasury will immediately receive $250 and the remainder will be provided if the president determines that the money is necessary and Congress approves funding. In addition, the FDIC increased its limits from $100,000 to $250,000 per depositor. Plaskett explained that supporters feel it will bolster consumer confidence in the banking system and help small-business owners who often keep more than $100,000 at a single bank to meet payroll or for daily operating needs.

The restructuring of banks like JPMorgan Chase and Citigroup and the consolidation of those such as Wachovia, Washington Mutual, and Merrill Lynch has created quite a change in the financial world. Ultimately though, the Edward Jones representatives labeled the largest impact of the financial crisis to be the end of highly leveraged investment banks, including Goldman Sachs and Morgan Stanley. For students in our class, this may mean altering a career goal that once led to investment banking and, in general, less jobs available at the time that we graduate. On the other hand, one major suggestion from these speakers is to continue to invest in our careers no matter what the state of the economy. I believe the Applied Portfolio Management class has given us the resources to do so by exposing us to faculty, alumni and community leaders who demonstrate their commitment to our futures.

Luckily, the Applied Portfolio Management class curriculum gives students the opportunity to network and arrange interviews for future job positions by allowing speakers like Boltz, Peccolo, and Plaskett to come visit us. Thus, for students looking for a career in other areas besides investment banking, there are plenty of resources at our disposal. This semester, we have heard from representatives from Edward Jones, Vanguard, Sunrise Capital Management, the UA Foundation, Davis Advisors and others. Furthermore, the program sponsors several students who desire to take the Chartered Financial Analyst exam. All in all, the class provides many outlets that students can utilize to grow academically and professionally.

For Botlz and Peccolo, their career path has led them to fixed income trading at Edward Jones. They described their line of work during the presentation to be similar to what a buyer does for a retail store. For instance, JPMorgan Chase offers 8,543 different bonds, and it is the task of a bond trader to determine which one of those 8,543 bonds would be the best one to offer their clients. How is this done? Information regarding offers and opportunities to purchase bonds is communicated via messages from fixed income brokers using Bloomberg. Each day, thousands of messages are received and analyzed. Student from our class would be prepared for a job in this field because the Bloomberg system is available for our use at McClelland Hall.

Just as fixed income securities traders have to decide what to invest in, our class also has to use our judgment to determine what investments would yield the highest return for our portfolio. An opportunity area brought up during the presentation is the utilities sector because they have not seen significant losses. This is because their pricing is not volatile, so there is certainly buy quality for the long term with utilities and industrials. The utilities industry is steady and will always have a need regardless of economic conditions. Moreover, the utilities sector offers a high yield relative to volatility. Our portfolio currently holds 800 shares of Duke Energy, which has seen a gain of $1,560 or 13.8% since we purchased it on October 10. Another area of opportunity is municipal bonds, and Edward Jones has experienced an 80% increase in sales for these bonds!

The three Edward Jones representatives concluded their presentation with a comprehensive question and answer session. Many of the inquiries asked for opinion-based responses and the speakers were great at providing thorough answers based on their knowledge and experience with the market and in the finance field. One student asked about agency bonds, such as Fannie Mae and Freddie Mac, compared to Certificates of Deposits (CDs). Plaskett explained that prices for some agency bonds are built up at the moment, but they are not guaranteed for the future and, as a result, will start to wind down at the end of 2009. We currently hold the Vanguard GNME fund, so it will be interesting to see how it performs.

When asked about bonds they would recommend to customers, the three representatives expressed a belief in Coca Cola and Bank of America. Plaskett explained that he likes to stick to the companies he knows, which mirrors the Buffett philosophy. Doctor Seeley made a comment earlier in the semester about our class seeming to like the big name companies. Looking at our current holdings confirms this prospect, for we are invested in Proctor & Gamble, Exxon Mobile, Honeywell, Johnson & Johnson, Morgan Stanley, Cisco Systems, and Microsoft. It seems that in turbulent economic times, investors are more likely stick to familiar territory.

As students in the Applied Portfolio Management class, we are continuing to learn about how to value stocks and be smart investors. Due to the market circumstances of today, we have faced difficulties in losing our equity holdings to stop outs, but we have fought back by constantly introducing new stocks to purchase and occasionally repurchasing what we lost. Last period for instance, we made four major purchases in an attempt to increase our equity holdings.

Ultimately, Jay Plaskett, Matthew Boltz and Joe Peccolo gave our class an extensive overview of the fixed income securities field, the market, and the finance industry. For the most part, their advice to the class aligned with our existing policies, and it was comforting to have the support of three experienced professionals.

Journal Entry: September 26, 2008

We began class with a demonstration about how some stocks are downgraded in rating. A Security National Marketing stock was originally a AAA stock in July 29. This means that the stock had the highest rating given to bonds by bond rating agencies, and it was thought to have virtually no risk of default. Since July 29, the stock price rapidly tumbled, as shown in the chart:

7/29	7/30	8/4	8/7	8/12	9/3	9/4
71.80	50.35	47.19	40.25	39.69	21.00	4.00

On August 8, the stock was downgraded from is original AAA ranking to a CAA rating, meaning that it is in poor standing and there are issues that may be in default. Furthermore, there may be present elements of danger with respect to principal or interest. Investors who own this stock may be fearful of the sale price because of paralysis and continued devaluation of market; however, some may be smart to purchase the stock at this time because the price is so low.

The Weekly Economic Market Review was conducted on behalf of my team, and I was one of two group members who presented the material. The week included some interesting economic events on the financial calendar, including the announcement of Existing Home Sales, Initial Jobless Claims, GDP Final and Consumer Sentiment. These numbers are shown below:

Day	Item	Expected	Actual
W	Existing Home Sales (Aug)	4.93 M	4.91 M
Th	Initial Jobless Claims	450 k	493 K
F	GDP – Final (2Q)	3.4%	2.8%
F	Consumer Sentiment	70.9%	70.3%

It is interesting to note that there is a significant gap between the actual and expected values for Initial Jobless Claims. This is because Hurricanes Gustav and Ike badly skewed jobless claims, pushing initial claims for the week of September 20 up 32,000 to a recessionary level of 493,000; however, excluding the effects of the hurricane, the numbers would yield a less severe 430,000.

Each team gave preliminary presentations providing a background analysis and current suggestion about whether to sell, hold or buy more of each holding within their sector. I felt that each team conducted a thorough preliminary report, looking at factors such as market potential, market share, investment and operating income, consumer preferences, and market valuation. Ironically, all of the teams proposed that we maintain our existing holdings, which is most likely a safe bet during these turbulent economic times. However, as previewed in the first paragraph, some stock prices are currently sitting at all time lows, and it may be valuable for us to acquire holdings for a price that is significantly undervalued compared to what may come as the economy hopefully begins to stabilize.

Creston A King III, CFA, was our guest speaker for the week. He has served as a portfolio manager over government money market funds, along with several other positions through Davis Advisors and U.S. Global Investors, Inc. Along with providing us background information on his experiences and career, King gave us the advice to "turn off the TV and stop reading the newspaper." He believes that investors should not allow news they acquire through the media to dictate their investment decisions because they are essentially behind the curve of the news announcement and its effect on the market. I found this to be valuable information.

Journal Entry: October 10, 2008

In our last meeting, we discussed the necessity of writing a memo to the Portfolio Committee discussing our concerns about the communication gap between the groups of the class. Sarah Biebelhausen drafted a preliminary memo and the rest of us wrote back with our suggestions. The completed memo was sent on Monday morning, and we received a response on Monday evening. The Committee, although first seeming slightly offended, agreed that they had also witnessed the need for heightened communication.

Before discussing the major changes that were made as a result of this problem, I wanted to dig further into the consequences that could have resulted had there not been changes made. One of the major factors of market failure is insufficient information. Although our class is not the market, this is a comparable circumstance because many of our decisions in class are based on the information provided by our classmates. Without a fluid line of communication between all the individuals who vote towards portfolio changes, we could essentially face our own version of market failure. Needless to say, this would be devastating to our portfolio.

On a more positive note, from our last meeting to current, I have witnessed a significant improvement in communication between the class and the portfolio committee. The Portfolio Committee meets every Monday and posts their minutes on Blackboard for the class to review. As well, the Blackboard Discussion capabilities have been initiated, and some people have already started providing valuable information. Most of those who made comments are on the Portfolio Committee, and I believe it is necessary to get some of the other individuals more involved in the threads so that they are up-to-date and able to make educated decisions in class.

Within just one week, and due to the craziness of the market, we had stopped out of twelve of our holdings. This left our portfolio to consist of 59.9% cash, 10.9% bonds and a mere 19.5% equities. Moreover, a major portion of equities is in an Ishares S&P 500 ETF. Looking at the nine sectors of the S&P 500, our portfolio had no holdings in the consumer staples, information technology, telecommunication services, or utilities sectors. The remaining sectors were broken down as follows (as a percentage of the total portfolio holdings):

Consumer Discretionary	Energy	Financial Services	Healthcare	Industrials	Materials
10.9%	17.0%	7.5%	12.4%	17.3%	2.3%

Considering our significant amount of cash and minimal amount of securities holdings, it was apparent that our portfolio was at risk of loss due to not enough diversification. Moreover, we had no holdings in the most heavily-weighted sector of the S&P 500: information technology.

We concluded the presentations that gave recommendations as to if we should hold, sell or buy more of our current (some now past) holdings. Upon finishing the presentations, the class hastily (but carefully) made the decision as to which stocks we would purchase, some even being ones of which we had just stopped out. The reason we supported the decision to repurchase these stocks is because the individual or team made a compelling argument as to why it would be a valuable investment to add to our portfolio. Some reasons included: undervalued stock, high dividend yield, and promising company positions. Our weightings are now more closely in line with those of the S & P 500. Although we may face more losses by putting more of our money into the market, I am relieved that we are at least more diversified at this point. I would like to help make further suggestions as to what other stocks could potentially benefit our portfolio. I feel this is necessary because our portfolio is still 59.9% cash.

I am not an avid investor, but I am very familiar with the terms and reasons for why a stock may be considered valuable. In listening to some of the presentations, it became clear that the students in the class all contain vast variations of financial and investing knowledge. Is this something that Professor Seeley wanted so as to create diversification among the portfolio managers? I could see where this could be beneficial, but since one student even admitted to not knowing the positives to holding a stock with high dividend payments, I am not sure that we are all on the same page. I believe that, even though most of us do not have the money to invest ourselves, we should be aware of financial terms and devices that will determine the securities we buy and the portfolio we manage.

Journal Entry: March 6, 2009

Just as we learned in Marketing 361, Joe Bowman, a patent attorney from a local law firm that spoke to our class today, explained the four "P's" of marketing: product, production, price and placement. A fifth "P", perhaps not as important as the first four, but still crucial to a company's well-being is protection. This involves the protection of their patents, trademarks and copyrights.

In our previous finance courses, we studied intangible assets, those expenditures that add value to the company, but cannot be touched or held. One example of an intangible asset is intellectual property, including: patents, trademarks and copyrights. But how do companies value these assets and in what way can these items affect our investment decisions?

Since they have identifiable useful lives, copyrights and patents are amortized on a straight-line basis over their economic or legal life, depending on which is the shortest. They are then reassessed each year for impairment. In the case of an impairment, a loss is recognized by subtracting the asset's fair value from the asset's book value. On the other hand, trademarks have an indefinite useful life. In either case, some costs with respect to intangible assets must be capitalized rather than treated as deductible expenses. Generally, costs associated with creating, acquiring or enhancing intangible assets require capitalization under treasury regulations.

When determining the impact of intellectual property on our investment decisions, Mr. Bowman explained the value of intangible assets. Although they do not have the obvious physical value of a factory or equipment, they can prove very valuable for a firm and can be critical to its long-term success or failure. For instance, I think a company like Coca-Cola has obtained high value through its brand-name recognition. This brand-name recognition has had positive effects on its bottom line profits and drives sales year after year.

Especially during a tumultuous market, investors may flock towards those companies they know and trust the most. In looking at some of our past and present portfolio holdings, it is clear that our class has found solace in many large, well-branded corporations. Such names include: Starbucks, ExxonMobil, Johnson & Johnson, Visa, Honeywell, Cisco Systems, Microsoft and Proctor & Gamble. On the contrary, I found that major players like Amazon.com, Google, Research in Motion, Foster Poultry Farms and Best Buy are currently amidst litigation proceedings for supposed copyright or trademark infringements of other companies.

What are the implications of these court cases involving the illegal use of another's intellectual property? Well, Mr. Bowman gave details as to why investors should be concerned about such allegations. This is because violation of intellectual property patents is the most expensive litigation for a company to date. According to Wikipedia, "a typical patent infringement case in the US costs $1-3 million in legal fees for each side" and can run $30 million or more in pharmaceutical cases (even though billions of dollars may be at stake).

According to my research, Research in Motion (one of our holdings) has been brought to court a number of times for patent infringement. In 2006 and prior to our purchase of it, Research in Motion (RIM) agreed to pay $612.5 million to NTP Inc. to settle a four year patent battle over the e-mail service offered to millions of BlackBerry users. Following the announcement of the settlement, RIM shares tumbled in trading on the Toronto Stock Exchange by 3.4%. Clearly, patent and copyright infringement comes at a costly price.

Following Mr. Bowman's presentation and after conducting my own research, I can say that I now better understand the importance of those intangible assets that I learned about in Finance 412. Patents, trademarks and copyrights are essential in establishing a company and building brand-name recognition, but just as critical is making sure each company does not infringe on the intellectual property of another. These litigation proceedings are expensive and can in turn affect the share price and revenue of the company at fault, so investors must be aware of any current infringement allegations.

Journal Entry: March 13, 2009

Steve Leuthold has been an investment strategist, manager and researcher for over 30 years and has authored many books and articles about the stock market. He is currently the Chief Investment Officer of The Leuthold Group. Today, he talked to our class about identifying undervalued and overvalued stock markets using market valuations and trends.

Mr. Leuthold provided us with a graph comparing S&P 500 performance and recessions. Typically, during times classified by the National Bureau of Economic Research (NBER) as recessions, the stock market experienced recession-related lows. The only exception was in 2002, when the market bottomed after the recession due to fear of another terrorist attack. Consumer confidence also moves in line with S&P 500 performance. Further research shows that the market typically bottoms approximately 60% of the way through a recession. If this statistic is accurate, Leuthold says, the market bottomed the week of March 2 because it has already lasted fourteen months and is estimated to last another fourteen months.

Regardless of his analysis of the current market, Mr. Leuthold is certain of one thing: the fear of investors and consumers today is unjustified. He also disagrees with those who proclaim a comparison between the 1974 recession and the one we are experiencing today because the statistics do not yet align. According to my research, consumer prices in 1974 rose 12.2%, unemployment jumped from 5% to more than 7%, interest rates climbed to 12%, the stock market fell 28%, automobile sales collapsed and real economic growth was -5%. Furthermore, the resignation of President Nixon in 1974 also increased feelings of instability.

The reason some compare this recession to the one in 1974 may be as a result of the heightened media and news outlets available today. The constant coverage of the downturn in the economy has induced a more panic-stricken (albeit, still not as knowledgeable) public. With stock market information and online investing tools so readily available today, Mr. Leuthold says more people are currently invested in the market than ever. This does not necessarily mean that these investors are making educated decisions.

As we have studied in previous finance courses, the efficient market hypothesis asserts that financial markets are "informationally efficient" or that prices on traded assets already reflect all known information. What about those investors who are not sufficiently educated? Their haphazard decisions also affect the market. Does this mean then that the market cannot be efficient without the many "informationally *in*efficient" investors of today?

Increased fear also plays into the risk-return tradeoff. In Finance 412, we learned about the risk-return tradeoff, where those who desire a higher return on their investment are often willing to take on more risk in order to see a profit. Since so many investors are fearful of losing their money, they are reluctant to investing in the stock market and are likely to be attracted to more secure investments, such as bonds. Leuthold explains that this population most likely includes those within ten years of retirement who want to bail out of the market in an attempt to "save" their depleting nest egg. On the contrary, young investors are seeing the current market as a great opportunity to buy in.

Most will not argue with the idea that the market today is undervalued. Whether investors see current conditions to be a time to buy in or a sign to get out, Mr. Leuthold will argue that there was much more to worry about during the recession of 1974.

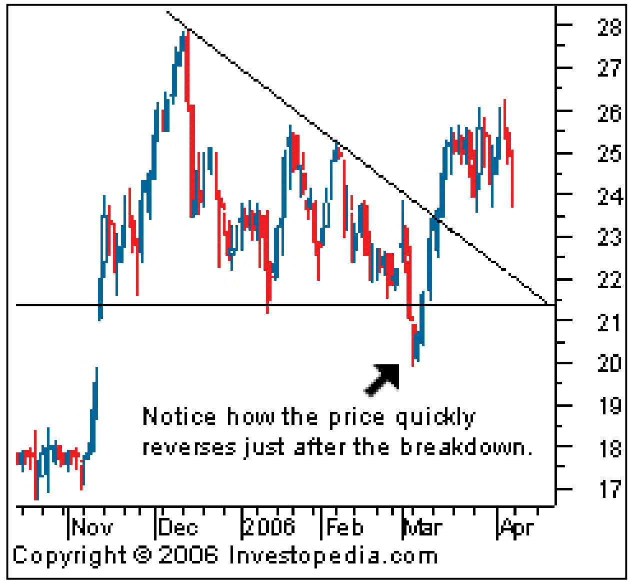
Journal Entry: March 27, 2009

Today, technical analysis was the topic of Professor Seeley's lecture. He provided the class with an explanation about how fundamental analysis differs from technical analysis.

Professor Seeley explained that fundamental analysis involves making investment decisions based on the examination of the economy, an industry, and company variables that lead to an estimate of value for an investment, which is then compared to the prevailing market price of the investment. Technical analysis, on the other hand, involves the examination of past market data, such as prices and the volume of trading, to estimate future price trends and thereby make investment decisions. Technical analysts use data from the market itself and believe that past price movements will signal future price movements and future fundamental changes (i.e. earnings); fundamental analysts use external data. Ultimately, how does an analyst determine which procedure to base his decisions? Is either decision really affective?

Technical analysts say that the prices in the market are reflective of all relevant information; they also believe that these prices tend to repeat themselves because investors collectively tend toward patterned behavior. For this reason, they focus on identifiable trends and conditions. One security that formed an apparent trend was AOL from November 2001 through August 2002. Each time the stock rose, sellers would buy and then sell the stock, thus creating a "zig-zag" movement in price. This series of "lower highs" and "lower lows" is an apparent sign of a stock with a downward trend. In other words, each time the stock edged lower, it fell below its previous relative low price, and each time the stock moved higher, it could not reach the level of its previous relative high price.

Despite these trends, there are times when technical analysts may be deceived by their principles. For instance, when a breakdown occurs and a security goes below a certain support level, technical traders will short-sell the underlying asset because selling pressure is likely to follow. A false breakdown, as displayed in the graph, would also have triggered technical analysis adherents to sell or sell short, but the price does not make the sharp move they were expecting. Thus, these traders would face a significant loss.



But, both procedures have their risks. In December of 2008, the S&P 500-stock index fell 46% from the all-time high of 1576 hit in October of 2007. During the seemingly endless decline of the market, investors were told time and time again that based on fundamental analysis, stocks are cheap. Our class has experienced this same interpretation of the stocks we analyze and introduce. Nearly every discounted cash flow model seems to reveal an undervalued stock, sometimes to the extreme. However, share prices continue to fall. Similarly, the many assumptions required in fundamental analysis create a huge margin of error that threatens any investor.

Since both technical analysis and fundamental analysis can often be misleading or not 100% reliable, it is important to use one to supplement the other. At times though, one can be a major focus of the entire market, like when technical condition controlled the lack of breadth in the 1999 market move. As a result, one must become familiar with both concepts and use them as additional and not sole input when making investment decisions.

Journal Entry: April 3, 2009

With the majority of media reports revolving around the terrible condition of our economy, many people are convinced that we are currently in a depression. They compare the unemployment rate, the layoffs, and the company failures to the Great Depression and believe that things are as bad as now as they were then. The truth is that we are not yet in a depression. However, even if we were, it would be almost impossible to compare the data and statistics of today to those during the Great Depression, because a depression in the 21st century would look much different than it did then. This is due to a changed government, work force, and consumer base.

Today's conditions pale in comparison with the 1930s. For instance, in February of this year, unemployment reached 8.1%, which is not good, but still not as bad as in the early 1980s. During the 1980s, unemployment remained over 10% for 10 months and during the Great Depression, unemployment reached an alarming 25%! Moreover, the level of government involvement also differs. At the onset of the Great Depression, the Fed raised interest rates, trade was halted by the Smoot-Hawley Tariff Act, and Treasury Secretary Andrew Mellon's resolution to the economy was to liquidate everything from farmers and real estate to labor and stocks.

During the Great Depression, 20% of working Americans held agricultural jobs compared to the fewer than 2% that do today, and 75% of today's workers are in the service industry whereas less than 50% were in 1930. Moreover, consumer spending has changed since the 1930s. The typical family that lived during the Great Depression spent just under 25% of their disposable income on food compared to just below the 10% we spend on food today. Rather than having to cut back as much on purchasing food, modern day consumers are forced to eliminate more discretionary items. This may include designer clothing, cable television, dining out rather than at home, and recreational travel.

On the other hand, some overlaps may occur in the area of government policies. Some may feel that the recent actions taken by government are missteps in fixing our current economy. Similarly, and according to historian and investment consultant Peter Bernstein, “The Great Depression was a mass of policy errors that made it worse.” Contrarily, he says that while our government may be making policy errors, they have not aggravated the situation.

Still, economists have not yet come to an agreement on the official definition of a “depression.” According to investopedia.com, a depression is “a severe and prolonged recession characterized by inefficient economic productivity, high unemployment and falling price levels.” Dictionary.com defines depression as “a period during which business, employment, and stock-market values decline severely or remain at a very low level of activity.” But, in an article that Professor Seeley provided to the class, Harvard University economist Robert Barro says a depression is a “decline in per-person economic output or consumption of more than 10%,”

Regardless of one’s definition of the word “depression” it seems most economists would agree that the likelihood of our current recession becoming a depression is not zero. In March, a Journal poll based on Barro’s definition of “depression” averaged the odds of a depression at 15%. Barro himself puts the odds of a depression at about 20%. John Lonski, chief economist at Moody’s Investors Service, also believes the likelihood of a depression to be 20%, which he lowered from 30% based on recent news that was better than he had expected. Those like Paul Kasriel of Northern Trust who believe the countercyclical policies currently in place will prevent a depression put odds at just 1%. In the end, only time will tell who is right.

Journal Entry: April 10, 2009

We have seen it time and time again – companies large and small being charged with financial-statement fraud, violating regulations, cheating their investors, and receiving heavy litigation fees. You would think that especially after Enron, more companies would be less willing to put themselves in danger by altering their books. However, just as an investor weighs their risk versus their potential reward, so do businesses. When a company is under pressure to show impressive returns to their clients and stockholders, they may be more willing to risk getting caught. This is because saving their company in the short-term could mean more returns in the short-run or at least until they can "catch up" with their inflated numbers.

In Deloitte's March 2009 Audit Committee Brief, it is said that headlines have been bombarded with cases of financial-statement fraud both in the United States and abroad. This is not a surprise given the current condition of the economy and the fact that many companies are experiencing losses. Such an increase in fraud occurrences was also seen in the savings and loan crisis of the 1980s and also during the most recent recession in 2000. As a result of elevated levels of financial fraud, corporate governance is expected to be at an all-time high, both by auditors and investors. These expectations have strengthened because fraud is not only expensive for the charged company, but it can also have long-term effects on the reputation and economic conditions of the company. In fact, during a recent Deloitte Dbriefs webcast, 63% of the 1,400 people surveyed believed the number of accounting frauds would increase in the next two years. Only 37% expected there to be either no increase or a decrease in accounting frauds during that time period.

The Audit Committee Brief explains that fraudulent actions are created as a result of what they call the "Fraud Triangle." This triangle discusses opportunity, attitude/rationalization and incentive/pressure. Opportunity arises when one feels that detection is not likely. For example, the feeling that one could commit fraud unnoticed could arise when a company downsizes and the designation of roles is not clearly stated. Furthermore, an employee or third party may feel that their unethical behavior is rational and therefore justified. One instance is when management feels meeting earning targets in any way possible is helping their company along until the economy turns around and another is when a disgruntled employee misappropriates assets to make up for money they felt they deserved but did not receive. Lastly, and the factor that may attribute to most of the fraud cases happening today, is as a result of pressure or incentive. Often, a manager's compensation is linked to their company's earnings, thus creating the pressure to stabilize the financial statements. Demands are also created for companies who are publicly traded, for they must demonstrate their ability to meet revenue and earnings targets as well as an ability to survive economic downturns.

Audit companies like Deloitte have had to heighten their treatment of financial-statement fraud due to the fact that their regulators have increased expectations for them. One such regulation that auditors must strictly adhere to is the Sarbanes Oxley Act of 2002. Under Section 301 of this regulation, audit committees must establish procedures for receiving anonymous complaints and concerns in regards to questionable accounting or audit matters. Ultimately, a strong fraud risk management strategy can be the most critical component in preventing mischievous behavior. In the end, however, company managers, employees and auditors will make their decision to commit fraud based on the risk and return of their actions. Clearly, for some, the potential reward has been worth the risk.