2014

PANTHER FINANCIAL

VOLUME 1

CHAPMAN UNIVERSITY
ARGYROS SCHOOL OF BUSINESS AND ECONOMICS
Janes Financial Center

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TABLE OF CONTENTS

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THE NEXT DIMENSION

BY BRAD STEIMAN
DIRECTOR, HEAD OF CANADIAN FINANCIAL ADVISOR SERVICES AND VICE PRESIDENT • DIMENSIONAL FUND ADVISORS CANADA ULC

Theoretical and empirical work in finance over the past 50 years has led to an evolution in our understanding of how financial markets work. Each of the major advancements has brought a more detailed view of dimensions of equity returns, which, in turn, has informed more sophisticated approaches to capturing equity premiums for investors.

With each major step, academic research has provided data and insight to render a more intricate view of the capital markets. In simple terms, this evolution in asset pricing is akin to the development of more powerful telescopes or improved imaging technology in digital cameras. In both cases, an expanding body of knowledge and refined tools enable the astronomer and photographer alike to capture and process larger quantities of information, with progressively higher resolution bringing a deeper, more intimate view of their respective worlds.

Applied to investing, higher resolution in asset pricing offers opportunities to better understand the variables driving expected returns and design strategies for more refined applications and greater statistical reliability.

Now the equity market picture is coming into sharper focus. Recent academic research has made significant progress in identifying ways to implement another return dimension—expected profitability.

Dimensional sets the bar very high when evaluating empirical research. A variable that appears to drive differences in average returns must meet specific criteria to be elevated to a dimension of expected return. We require it to be[1]:

1. Sensible
2. Persistent across time periods
3. Pervasive across markets
4. Robust to alternative specifications
5. Cost-effective to capture in well-diversified portfolios

The expected profitability premium meets this high standard, and we regard it as a new dimension that offers great investment potential.

VALUATION OF A COMPANY

Valuation theory has long established the connection between expected profits and expected returns. The following illustration of a simple valuation model shows that the price of a stock is a function of current book equity (what a company owns minus what it owes) and expected profits discounted back to present value.

$$\text{Price} = \text{Book Equity} + \frac{\text{(Expected) Profits}}{\text{Discounted}}$$

The discount rate applied to expected profits goes by many names. It is often referred to as the company's cost of capital, the required rate of return, or the expected return. They are all one and the same, although investors typically view it as expected return. This simple and powerful equation allows us to highlight the relationship between relative price (price scaled by book), expected profits per unit of book value, and expected return.

First, if we hold expected profits fixed, a lower relative price implies a higher expected return for a stock. This relationship points to the relative price (or value) dimension, a return premium that is well-documented in financial research.

On the other hand, if we hold relative price fixed, higher expected profits imply a higher expected return. Valuation theory and common sense suggest that expected profits should be related to expected equity returns, after controlling for other dimensions—relative price and company size.

[1]Marlena Lee, "From Premium to Dimension: Raising the Bar on Research," white paper, Dimensional Fund Advisors, June 2013.

THE BREAKTHROUGH

Although academics have long known about this return dimension, it proved to be a difficult asset pricing riddle to solve because expected profits are by definition not observable, while proxies for the established equity dimensions can be directly observed. For instance, you can identify a security as a stock (market dimension), determine a company's market capitalization (size dimension), and calculate a company's price-to-book ratio (relative price dimension). But the challenge for researchers has been to identify something we can observe today (i.e., a proxy) that contains information about profits in the future.

Recent academic research reveals that a firm's current profitability is a powerful indicator of future profitability. This collective research validates expected profitability as a fourth dimension of expected returns in the equity markets. The research also documents several proxies for expected profitability that, when controlling for company size and relative price, yield appreciable differences in average stock returns.

It is significant that various proxies authenticate the expected profitability dimension. More evidence is always better than less, and it improves confidence that the research can be applied to build robust portfolios. With this in mind, a good proxy should exclude nonrecurring items of profitability, be comprehensive by including the major costs of doing business, and be consistently applicable across companies and sectors.

Based on the criteria, direct profitability appears to be a great proxy for expected profitability, and it can be used to systematically improve expected returns in real-world portfolios. In accounting terms, it is defined as *operating income before depreciation and amortization, minus interest expense, scaled by book equity.*

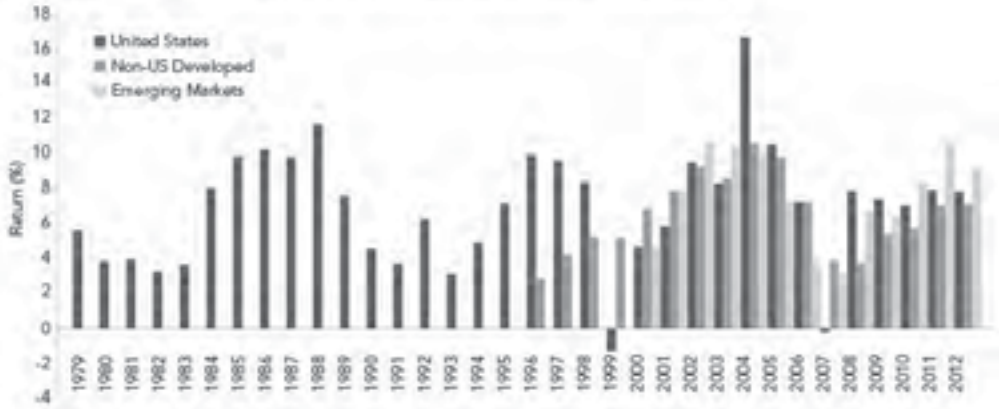
THE EVIDENCE

Using the direct profitability proxy (DPB), we can explore the pervasiveness and persistence of the expected profitability dimension across countries and regions. **Table 1** (pg. 4) presents the historical performance of high and low direct profitability stocks in the US market, non-US developed markets, and emerging markets for various periods in which the data for each is available.

The data shows that high direct profitability stocks outperformed low direct profitability stocks in all three regions. In the US, the expected profitability premium (high minus low direct profitability) is 5.33% per year. The premium for non-US developed markets and emerging markets is 5.46% and 6.12%, respectively. All three premiums are reliably different from zero, as indicated by t-statistics exceeding 2.0.

Overall, the table reveals that the expected profitability dimension is pervasive across markets.

Figure 1 SUMMARY STATISTICS FOR THE EXPECTED PROFITABILITY PREMIUM



Expected profitability is measured by direct profitability, defined as operating income before depreciation and amortization, minus interest expense, scaled by book equity. Past performance is no guarantee of future results. Asset class and profitability filters were applied to data retroactively and with the benefit of hindsight. Returns are not representative of indices or actual portfolios, and do not reflect costs and fees associated with an actual investment. Source: Dimensional using CRSP, Compustat, and Bloomberg data. CRSP data provided by the Center for Research in Security Prices.

Figure 1 illustrates the persistence of the expected profitability dimension through time. This figure plots the difference in annualized five-year rolling returns between high and low direct profitability stocks for the US, non-US developed, and emerging markets, based on the same periods as **Table 1.**

In all three regions, we see that high direct profitability stocks outperformed low direct profitability stocks throughout most of the respective periods.

THE RISK

We believe markets process information efficiently and prices reflect the market's estimation of expected risk and return. This implies that companies that have similar expected profits but different levels of risk will have different discount rates, and therefore different prices, as investors demand higher expected returns for investing in assets with higher non-diversifiable risks. The following examples show how the expected profitability dimension is consistent with a risk-return view of the market. **Figure 2** shows a hypothetical illustration in which two stocks—companies A and B—have the same expected profitability but sell at different relative prices. One example of why this might happen is if the future profits of one company are more uncertain than the other.

Investors might demand a higher expected return to hold stock of the company with less certain future profits. As a result, they might pay a lower relative price for the same expected profitability. The market is not fooled, so to speak, and in this example, company A has a lower relative price for a reason. It is riskier and has a higher cost of capital.

Table 1 SUMMARY STATISTICS FOR THE EXPECTED PROFITABILITY PREMIUM

	US Market 1/1975–12/2012			Non-US Developed Markets 7/1991–12/2012			Emerging Markets 7/1995–12/2012		
	High DPB	Low DPB	H–L	High DPB	Low DPB	H–L	High DPB	Low DPB	H–L
Annualized Average Return (%)	17.03	11.70	5.33	10.15	4.69	5.46	13.50	7.38	6.12
Annualized Standard Deviation (%)	17.27	21.14	9.03	17.36	18.57	4.77	23.88	25.65	5.35
t-statistic	—	—	3.64	—	—	5.30	—	—	4.79

Expected profitability is measured by direct profitability (DPB), defined as operating income before depreciation and amortization, minus interest expense, scaled by book equity. Past performance is no guarantee of future results. Asset class and profitability filters were applied to data retroactively and with the benefit of hindsight. Returns are not representative of indices or actual portfolios and do not reflect costs and fees associated with an actual investment. Source: Dimensional using CRSP, Compustat, and Bloomberg data. CRSP data provided by the Center for Research in Security Prices.

Now reflect on the relative price and expected profitability of large cap companies C and D as shown in **Figure 3**. This illustration shows two stocks that have the same relative price but different levels of expected profitability. For example, imagine two oil exploration firms. One has higher expected profitability but is more sensitive to regulatory risk because of the region in which it operates. Investors might not be willing to pay a higher relative price for the higher expected profitability because of that regulatory risk.

Once again, we believe the market is not fooled. Although company C has higher expected profitability, it has the same relative price for a reason. In this example, investors demand a higher expected return to hold the stock of the firm that is more sensitive to regulatory risk. It has a higher cost of capital because it is considered to be riskier.

Figure 2

Company	Size Market Capitalization	Relative Price Price/Book	Expected Profitability Direct Profitability
A	Large Cap	3.33	0.43
B	Large Cap	6.09	0.43

These example companies are used to illustrate relative price and profitability and do not imply they represent any that were bought or sold for a Dimensional portfolio.

In both cases, investors demand a higher expected return to hold companies with higher non-diversifiable risk. However, risk is a complex and ethereal concept. It is hard to specifically define, it means different things to different investors, and it is always present even if it has not been realized.

What is the lesson? This research indicates that investors balance risk and return while incorporating their expectations and preferences into securities prices. We should rationally use the information in prices to improve a portfolio's expected return.

THE APPLICATION

We believe direct profitability provides a robust and observable proxy for expected profitability. When combined with company size and relative price, the new dimension may enable investors to target sources of higher expected returns even more precisely, while maintaining broad diversification and low turnover in their portfolios.

Figure 3

Company	Size Market Capitalization	Relative Price Price/Book	Expected Profitability Direct Profitability
C	Large Cap	3.76	0.68
D	Large Cap	3.74	0.29

These example companies are used to illustrate relative price and profitability and do not imply they represent any that were bought or sold for a Dimensional portfolio.

THE FINAL CHAPTER?

Major advances like profitability come less frequently today. Past events were clustered around a time when researchers gained access to high-powered computers and vast amounts of data to test their ideas and advance new theories. At that time, finance was a new research area and, like a saturated sponge, was brimming with potential discovery. Academics only had to squeeze a little to gain a lot of insight into markets. Some 50 years later, it takes a lot of squeezing to render a few additional drops of insight to help us build better portfolios. But the potential improvements are well worth the effort.

The evolution of asset pricing is a remarkable story about the role of financial science in providing improved tools that help people invest with greater clarity and confidence. The final chapter on asset pricing may never be written. But the story just got even more compelling.

The comments of Eduardo Repetto, Gerard O'Reilly, Mark Gochnour, Bryce Skaff, Karen Dolan, and Bryan Harris are gratefully acknowledged.

AROUND THE WORLD WITH INVESTMENT SKEPTICS

BY MICHAEL ASHLEY SCHULMAN, CFA
MANAGING DIRECTOR, SENIOR PORTFOLIO MANAGER
HOLLENCREST CAPITAL MANAGEMENT

U.S. money managers may be the most skeptical investors in the world when it comes to the sustainability of 2013's rise in domestic stocks. It seems that while we see a lot of our own problems clearly, foreign investors, especially Europeans, tend to view America's political and fiscal problems as almost hackneyed and its promise – particularly when it comes to shale energy and re-shoring of manufacturing – as exciting. They also may believe the late, great investment adviser, Marty Zweig's admonition to never fight the Fed. The problem now, of course, is that the stock market skeptic isn't just fighting the Federal Reserve – he's fighting everybody. All the world's central bankers appear to have adopted the Fed's Doctrine: when faced with the stark choice between inflation and deflation, always err on the side of creating too much inflation. Given the fact that financial repression has made it impossible for the saver to achieve positive real rates of return without risk, equities may continue to be driven by the T.I.N.A. factor (There Is No Alternative).

The world's central banks believe they have done their job by keeping rates low and that it's time for political leaders to do theirs; returning to stability and prosperity should be a shared responsibility. According to the Bank for International Settlements (BIS), colloquially known as the central bankers' bank, "cheap and plentiful central bank money" has merely bought time. Investors round the world tend to forget that monetary stimulus is not there to make life easy for financiers; it is there to compensate for the ongoing, violent adjustment still needed in most economies to correct the distortions that gave rise to the financial crisis. According to the BIS, "low interest rates and unconventional monetary policies have made it easy for the private sector to postpone deleveraging." The most dangerous aspect of the efforts of central banks is that it deludes the private sector from making its own reforms. Although the U.S. has taken most of its lumps and European banks are slowly going through the gut wrenching process, the emerging markets (EM) have yet to take the medicine of financial deleveraging, fiscal reform, and better governance.

There are few positive political developments in the EMs. In the past few months we have seen the parliament in Thailand dissolved, massive protests in Ukraine, hardened demonstrations in Brazil, police force strikes in Argentina, continued strife in Egypt, and even highly unusual rioting in Singapore. Thus, we may see further political risk rotation from developed markets to the EM in 2014. The "Fragile Five" EMs – South Africa, India, Indonesia, Brazil, and Turkey – have high inflation, large current account deficits, challenging capital flow prospects, weak currencies and weak growth. In addition, all the Fragile Five have national elections in 2014, and each election could lead to political upheaval because economic growth has produced a large, politically active and relatively frustrated middle class. In the context of current subdued global growth, this middle class is realizing that the last decade of high EM growth has brought little improvement in their actual quality of life and little in the way of pro-market structural reforms. Watch out for continued unrest in the EM.

EMs are vulnerable to rising global interest rates, lower commodity prices, and political instability. Over the past several years, much analysis has focused on the supposed coming social unrest in Europe and the U.S [remember Occupy Wall Street]. However, these forecasts ignored the facts that developed economies – particularly European ones – have relatively low income inequality, high levels of household wealth, broad safety nets, do not suffer from

persistent inflation, and enjoy a much higher quality of governance when compared with most EM economies. Even Europe's Mediterranean countries – Portugal, Italy, Greece, and Spain – the most politically strained of the developed market economies, have much higher levels of governance than most EM economies. Thus, the first half of 2014 is likely to see a continuation of 2013's capital outflows from EMs and inflows into developed markets.

Emerging markets have become victims of their own success. Other than Malaysia and Mexico, which are forging ahead with controversial and politically sensitive improvements, most of the EM economies are not making headway in terms of structural reform, especially the deficit EMs which are battling uncomfortably high inflation even as growth continues to moderate well below trend. The pain is likely to get worse with downside risks to domestic demand and overall growth before any competitiveness gains kick in.

Back in the U.S., many investors have developed a fair amount of policy fatigue in the last year. A continuation of the European debt crisis and America's own political theater and dysfunction, while causing no shortage of financial indigestion, have led many professional investors to ignore the unpredictable risk introduced by global policy makers and seek themes and individual stocks that might actually provide excess returns. Nonetheless, Washington, D.C. holds the key to what can go right or wrong. CEOs are absolutely ready to invest in America. We could see growth like never before if our elected officials can display leadership and provide us with a road map that doesn't hand us surprises every six months.

A rebound in capital expenditures (capex) is probable and could fill some of the demand void. Indeed, a strong rebound in capex is overdue, but it is too early to tell if a 'boom' (such as the 1990s tech cycle) can occur. Long-term capital return expectations have fallen into the low single digits, a phenomenon that may have something to do with the prolonged investment surge around the world over the past twenty to thirty years. This expansion generated enormous growth, especially in the developing world, but it may have also brought about diminishing returns. If so, corporate investment alone will be unable to sustain aggregate demand growth. However, capex adds productive capacity which will eventually enhance the supply curve and growth.

Stock market corrections tend to be triggered by widespread fears of an imminent recession. It's hard to see a significant correction ahead if the big worry is that better-than-expected economic indicators will cause the Federal Reserve to taper quantitative easing (QE) by $10 billion to $15 billion per month. The beginning of the end of QE is bound to be messy for financial markets. [Personally, I'm rooting for a refreshing pause in stock price appreciation so that the market can consolidate its gains, but it's not up to me.] Global growth should accelerate in 2014, mainly driven by reduced fiscal austerity in the advanced economies. Expect decent expansion in the US as the housing and labor markets continue their recovery, corporations open their purse strings, and the Eurozone sees its first full year of growth since 2011.

THE 2014 PANTHER ASSET ALLOCATION MODEL

PREPARED BY THE JANES FINANCIAL CENTER RESIDENCE

THE PANTHER ASSET ALLOCATION MODEL			
US Equity	Real Assets	US Bonds	Emerging Markets
70%	15%	10%	5%

The CFA Society of Orange County Foundation (CFAOCF) annually reaches out to Southern California Business Schools with a request for proposals to manage the foundation's scholarship funds. In November of 2013, the residence of the Janes Financial Center submitted and presented to CFAOCF a proposal to manage a portion of the scholarship funds in 2014.

The residence's proposal offered an investment philosophy based on the 2014 Panther Asset Allocation Model which is developed specifically in response to the CFAOCF proposal and as part of their professional training with the Janes Financial Center.

Participating in this RFP competition for the first time, the residence was successful in securing one of the three fund management spots with CFAOCF for the duration of the calendar year 2014 by offering the following model and analysis.

The model calls for an allocation of 70% in US Equities, 10% in US Bonds, 5% in Emerging Markets, and 15% in Real Assets. This allocation attempts to maximize potential risk adjusted return given our economic outlook for 2014.

It is our opinion the global market will continue to experience sluggish economic growth well into the 4th quarter of 2014. Consumer confidence in 2014 can best be described as dazed. This will be the result of low- and medium-income households continued concerns regarding income, job prospects, financial outlook, and government policies. We predict that personal spending will continue to lag personal income through 2014.

Inflation should tick slightly higher in 2014, but we believe that it will remain around the upper band of 1-2%, and will be mainly driven by energy cost.

Seasonally adjusted unemployment is expected to remain in the 6% to 7% range. Another unemployment number we closely followed is the U6 number. The U6 unemployment number accounts for discouraged and marginally attached workers. Discouraged workers are defined as individuals that would like to be employed, but are not actively searching, and marginally attached workers are defined as individuals currently employed on a part-time basis due to the inability to find full-time employment. The number provides enhanced transparency of the labor force and in turn consumer confidence and sentiment. The Bureau of Labor Statistics most recent U6 unemployment numbers are reported in the low teens. Single digit U6 unemployment numbers offer a positive indicator of favorable consumer behavior.

Long-term interest rates are expected to move higher bringing the 10-year Treasury yield to the 3.5% to 4% range. This is mainly as a result of the Fed's announced tapering of bond purchasing. Higher long-term interest rates might be possible, if market psychology derives investors back to

higher allocations into equities. In such scenario, reallocation from bonds to equities will create upward pressure on long-term interest rates as well.

U.S. EQUITY

Investors are likely to remain uncommitted to the equity market as a result of the continuing concerns regarding sluggish global economic growth, low consumer confidence numbers, unclear messaging by the Federal Reserve, and unpredictability of the political environment exacerbated by 2014 being a midterm elections year.

Another point of consideration is the high correlation between the recovery of the equity market and the expansion of the Federal Reserve's balance sheet since the early days of quantitative easing beginning 2010. It is of interest to observe on the graphical representation of the logarithmic return of the S&P 500 and Federal Reserve's total assets, that during the twelve month period of July 2011 to July 2012 as the Federal Reserve's total assets leveled off, the S&P 500 exhibited a significant amount of volatility. With tapering set to commence in 2014, it is questionable if the equity market in fact will be able to sustain its growth in the absence of the Fed in the bond market and the lackluster economic growth.

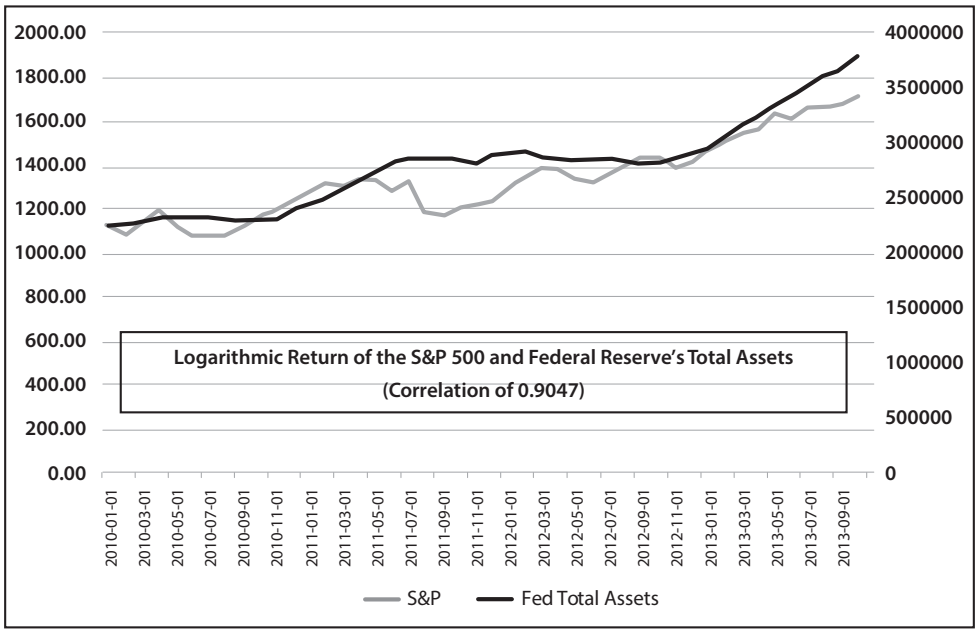
As a result, 2014 has the potential to offer equity investors healthy returns but at higher levels of volatility. Compensating for the high risk associated with equities in 2013, it is prudent to include assets classes, similar to Real Assets and Venture Capital, which will help in the reduction of the overall portfolio risk.

INTERNATIONAL EQUITY

International Equity has historically been included in portfolios to support diversification of systemic risk resulting from political and economic risk within the U.S. This was possible due to the historical low correlations between international markets and US equities.

Such low correlation has not existed since the most recent global economic and financial events. International Equity currently offers similar risk profile to US Equity with a lower potential return. As such, the inclusion of International Equity in 2014 will have an adverse impact on the overall return and risk profile of portfolios.

Reconsideration of International Equity inclusion in the asset allocation model should be extended as signs of consistent international economic growth, reasonable investment returns, and lower correlations to U.S. equities are evident.



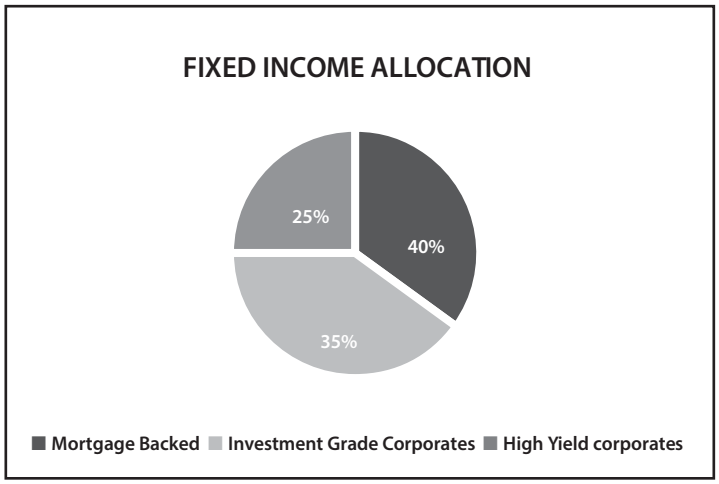
EMERGING MARKETS

Unlike international equities, emerging markets securities continue to offer low correlation to the U.S. Equity markets. Accordingly, inclusion of emerging markets securities in the asset allocation model has an overall positive impact on the risk adjusted return of portfolios.

Investors have been disappointed at best by the overall performance of Emerging Markets securities throughout 2013 as they chased after investment opportunities in light manufacturing and commodity producing economies well after the commodity super cycle had ended.

Investing in emerging markets in 2014 calls for a change of strategy, which offers a better return potential, focusing more on economies driven by consumption rather than commodity production.

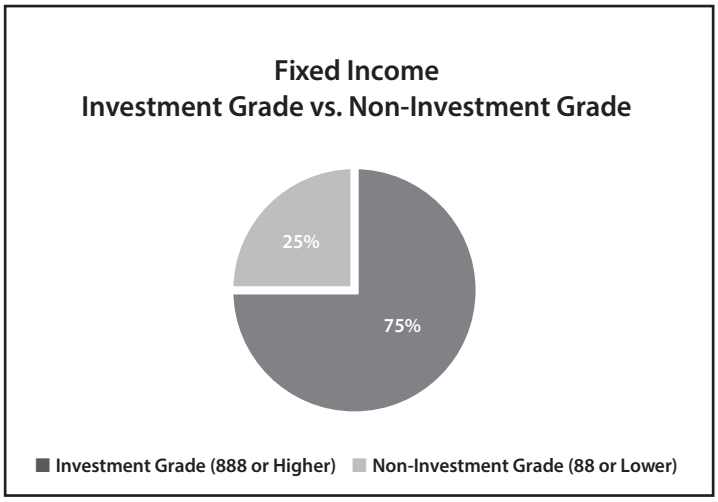
For 2014 we like emerging economies that are demonstrating healthy growth signs driven by household consumption (50% + of GDP), imports of goods and services equal to or greater than exports, service focused economies (service representing 40% + of GDP), unemployment in the lower part of the 6% to 7% range, and debt to GDP ratios of 50% or less.



U.S. BONDS

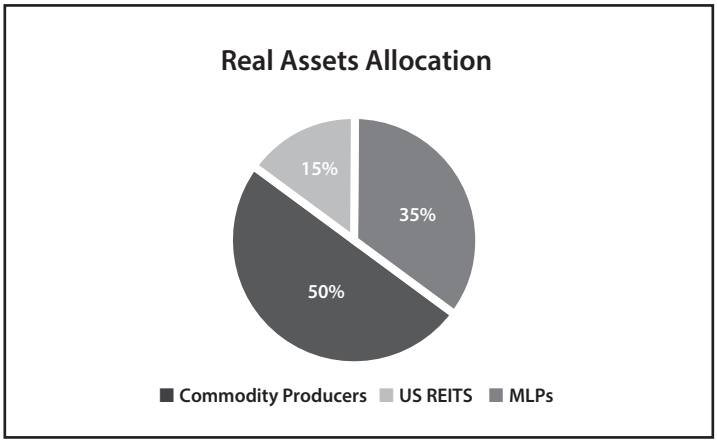
U.S. Bonds on aggregate offer better opportunities in 2014 than international bonds. Given that interest rates have no place to go but up from the current levels, consideration must be given to the potential for declining bond values. Low duration bonds offer less price sensitivity to shifting interest rates, and hence make great fixed income investment opportunities in 2014. Accordingly, we like fixed income opportunities with short maturities, high coupons, and yields.

The allocation model offers a suggested well-diversified fixed income portfolio by allocation within the Fixed Income class 40% in Mortgage Backed securities, 35% in Investment Grade Corporates, and 25% in High Yield Corporates. For Mortgage Backed securities, we believe the opportunity is in the Investment Grade Commercial fixed rate GNMA, FNMA, and FHLMC pass through securities.



REAL ASSETS

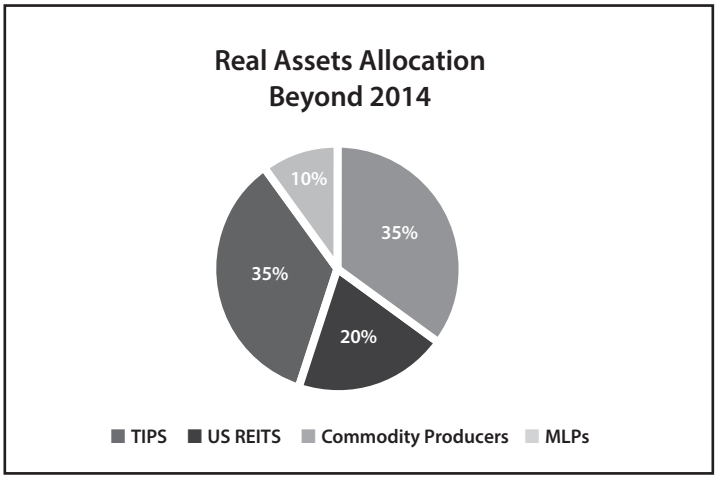
With low correlation to the overall market, Real Assets play a critical role in the overall performance of the allocation model boosting the model's risk adjusted return.



Within the Real Assets realm, for 2014, the model calls for an allocation of 35% to commodity producers, 50% US REITS, and 15% Master Limited Partnerships ("MLPs").

Commodity producers offer investors an indirect means of investing in commodities with lowered exposure to volatility resulting from commodity speculation.

US REITS, for the Real Asset allocation, we like pure play on actual retail and specialty property vs. mortgage backed securities.



With the boom in oil and gas production in the US, we believe that MLPs will offer investors a very attractive return in 2014 and beyond.

Thinking beyond 2014, as inflationary concerns come into play, Real Asset allocation should expand to include Treasury Inflation-Protection Securities ("TIPS"). This will provide a much more appropriate allocation in Real Assets in an inflationary investment environment. The allocation within Real Assets would include 35% in TIPS, 20% in US REITs, 35% in Commodity Producers, and 10% in MLPs.

PRIVATE EQUITY

Private Equity is a highly correlated asset class to Real Asset. Furthermore, Private Equity in the recent past has underperformed Real Assets, and we believe that this will hold true moving into 2014. Accordingly the inclusion of Private Equity in the allocation model would only service to reduce the overall risk adjusted return, and as such Private Equity is excluded from the 2014 model.

VENTURE CAPITAL

For investors with accessibility to Venture Capital Funds, we find it appropriate to allocate as much as 20% of the overall portfolio to this asset class. As a non-correlated asset class with potential high expected returns, allocation to Venture Capital has the ability to significantly improve the risk adjusted return of allocation models.

ASSET ALLOCATION INCLUDING VC	
US Equity	65%
Real Assets	10%
US Bonds	5%
Emerging Markets	5%
Venture Capital	15%

WHY INVEST IN CURRENCIES

BY AXEL MERK
PRESIDENT AND CHIEF INVESTMENT OFFICER • MERK INVESTMENTS LLC

The U.S. debt burden and accommodative monetary policy are exerting downward pressure on the U.S. dollar. The stock market is in bubble territory. Bond fears abound. Where can one hide: where to invest to both profit and protect?

Investing outside the U.S. dollar may provide attractive opportunities. Alas, while currency markets are the biggest and most liquid markets in the world, the currency asset class is still a big unknown to most individual investors and often considered too risky to meddle with. Yet, the currency asset class may provide valuable profit opportunities and diversification benefits through its unique attributes. One way to unleash these opportunities is through including an actively managed currency basket in a diversified investment portfolio, just as one might select a diversified basket of stocks for the equity portion of the portfolio.

UNIQUE ASSET CLASS

To understand the role currencies can play in a portfolio, it is useful to review how currency markets work and what is unique about currencies as an asset class:

1. Currency markets are well suited for active management
2. Currencies are less volatile
3. Currencies are uncorrelated

INEFFICIENCY INTRODUCES OPPORTUNITY

There are a number of characteristics that make the currency asset class particularly attractive for active management:

The variety of players and motivation of players in the currency space may provide a greater likelihood of market inefficiencies to try to capitalize on as an investor, as compared to equity and bond markets. For example, there are corporate hedgers, governments, central banks, and tourists participating in the currency markets, not explicitly attempting to profit from currency movements.

Currencies offer a pure play on macro views and an opportunity to take advantage of the "mania of policy makers," particularly in today's era of currency wars.

There are a limited number of major currency pairs to focus on, determine a view of, and invest in, versus the thousands of stocks and bonds to decide among.

The global currency market is the most liquid in the world with over $5 trillion in daily turnover, compared to under $1 trillion for the US bond market and New York Stock Exchange combined.

UNCORRELATED RETURNS

The currency asset class has historically exhibited very low correlations to many other asset classes. This has held true over both long and short periods of time. Moreover, while many other asset classes have become increasingly correlated, the currency asset class has maintained this unique attribute over recent periods. In addition to having low correlation to other asset classes, currencies also have low correlation with each other; when one currency moves up versus the dollar, another one might move down, or not move at all. This means that combining several currencies in a currency basket can have a significantly improved risk-adjusted return over an investment in any single currency. Adding an uncorrelated component, like a currency basket, to an investment portfolio may lower the overall portfolio's return/risk ratio.

CURRENCIES ARE LESS VOLATILE, MORE DOWNSIDE RESILIENT

Contributing to the somewhat ominous reputation of currency investing is the common misconception that currencies are more volatile than stocks, when in fact currencies have historically been significantly less volatile than stocks.

The reason why many people have burned their fingers, and then some, in the currency markets is that they have used excessive leverage and made significant bets, often on a single currency that they cannot afford to lose. The same has happened in the stock market, in the real estate market and in every other asset class. Nobody would advise an investor to bet their life savings on one single stock and lever it to the hilt. Similarly, nobody should invest in any one currency unless they are willing to take the risk to lose the bet. There are no safe assets left, including the U.S. dollar. Rather than considering any single currency (like any single stock), we should consider what investment benefits the currency asset class might provide, approached prudently and methodically, within the context of your overall portfolio.

It naturally follows that currencies' low volatility and low correlation may help buffer the portfolio when other asset classes tumble. We call this the downside resilience of currencies. Hence, diversifying into the currency asset class may not only improve the risk/return on the upside, but it may also help protect against downside risks.

IMPROVED RETURN/RISK TRADEOFF

Piecing all of the above characteristics together one can summarize: Due to profit opportunities in the currency asset class, its un-correlated nature, and its downside resilience, adding an actively managed currency component to an investment portfolio may enhance its overall return/risk profile.

While there are no safe assets, one can improve the risk-adjusted return and downside resilience of any portfolio. Adding a managed currency component might be a prudent way to do this, especially given the current policy and investment environment.

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TACTICAL ASSET SELECTOR

THE DIRECTION OF COMMODITY PRICES

BY R. DAVID RANSON
PRESIDENT AND DIRECTOR OF RESEARCH • H.C. WAINWRIGHT & CO. ECONOMICS, INC.

Commodity prices are cyclical, but their underlying price trend relates chiefly to the changing value of the dollar. That is why commodity prices tend to follow the price of gold.

Asset prices respond variously to economic forces, and an understanding of these responses is a powerful guide to choosing among the major asset classes. Usually, in explaining commodity prices, analysts pay most attention to the growth of major world economies such as the United States and China. But the price of any commodity is also a function of the value of the paper money in which prices are expressed, in most cases the US dollar.

A fall in the value of paper money is easily recognized in the form of its depreciation relative to gold. The flat-to-down price picture for commodities since 2011 followed the decline in gold, just as their long upward march since 2001 followed the rise. Since April, when the price of gold plunged another 15 percent, commodity prices should be expected to continue to follow gold down.

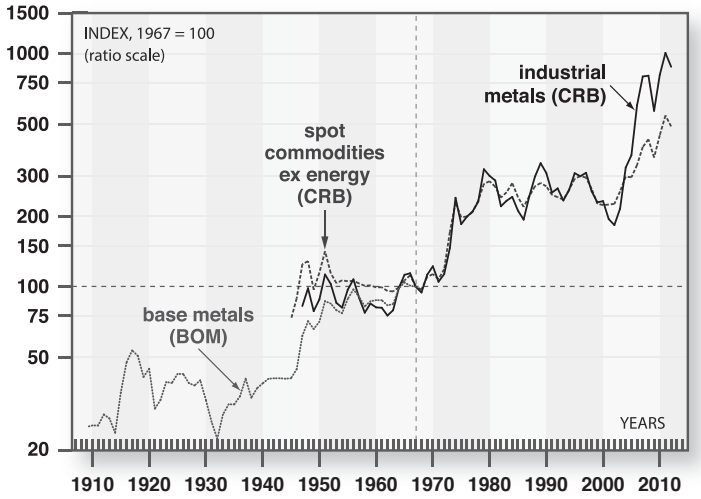
Commodity prices do respond to growth in the short run, and on a global scale, but these price changes are not sustained over time. Supply-demand and inventory considerations do not explain their long-run behavior. Their long-term price history is part of a general price movement in tangible assets, including commercial real estate, precious metals and collectibles. All are driven primarily by the changing value of the US dollar. This report explores how commodity-price performance is related over the long haul to the career of the US dollar, and assesses the present commodity price outlook.

Industrial-metals prices since before World War I. We have much longer histories for industrial metals prices than most other statistics. The US Bureau of Mines has published annual price averages for many metals well back into the 19th century. Since the middle of 1946, Reuters Bridge Commodity Research Bureau (CRB) has compiled monthly spot-price data for a couple of dozen commodities including industrial metals like copper, lead, steel scrap, tin and zinc. From this we can see something of the long-term trend in commodity prices.

Figure One

PRICE HISTORY OF INDUSTRIAL METALS AND OTHER COMMODITIES

Calendar-year averages, from 1909



Data: Annual averages of month-end prices for all commodities other than energy and for industrial metals (Reuters Bridge Commodity Research Bureau) and annual prices for base metals (Bureau of Mines/H.C. Wainwright Economics). The base metals included in our calculation include aluminum, copper, lead, nickel, steel scrap, tin and zinc. The metals included in the Commodity Research Bureau Index are copper scrap, lead scrap, steel scrap, tin, and zinc.

Figure One illustrates the annual-average history of these indices, beginning in 1909, plotted on a ratio scale. The picture, especially since 1970, is a roller-coaster. The chart suggests that industrial metals fluctuate with even wider amplitude than other commodities.

Industrial-metals prices as an inflation indicator. It's no coincidence that highs in commodity prices coincide with highs in official measures of inflation such as the consumer price index. **Figure Two** shows how the CPI tends to accelerate after industrial-metals prices rise and to decelerate after they decline.

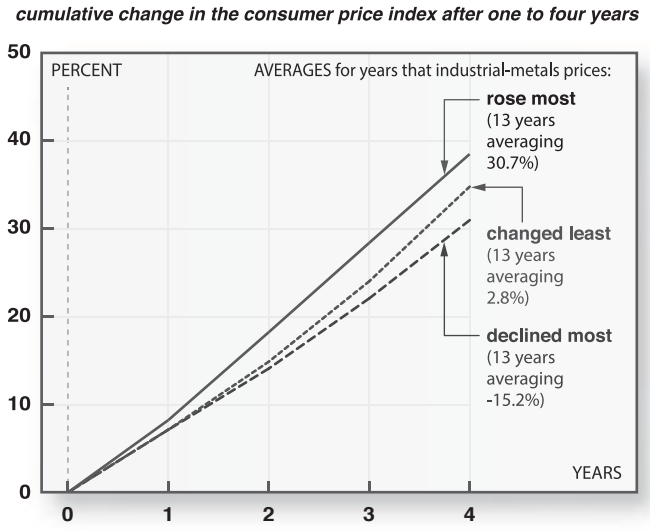
Least-squares analysis confirms that movements in industrial metals prices, as with gold, are leading indicators of officially-

"Is the commodities super-cycle over?" Strategic Asset Selector, H. C. Wainwright & Co. Economics Inc., July 11, 2012.

Figure Two

INDUSTRIAL-METALS PRICES AS A LEADING INDICATOR OF CPI INFLATION

From 1950



Data: Calendar-year averages of the monthly alternative consumer price index based on constant 1980 methodology (Shadowstats) and of month-end price index for industrial metals (Reuters Bridge Commodity Research Bureau).

measured inflation. But in further testing, the correlation with subsequent CPI movements is not as close as for the precious metals, nor do industrial metals move as early. **Figure Three** illustrates the fact that precious-metals prices are, in turn, a leading indicator of industrial-metals prices.

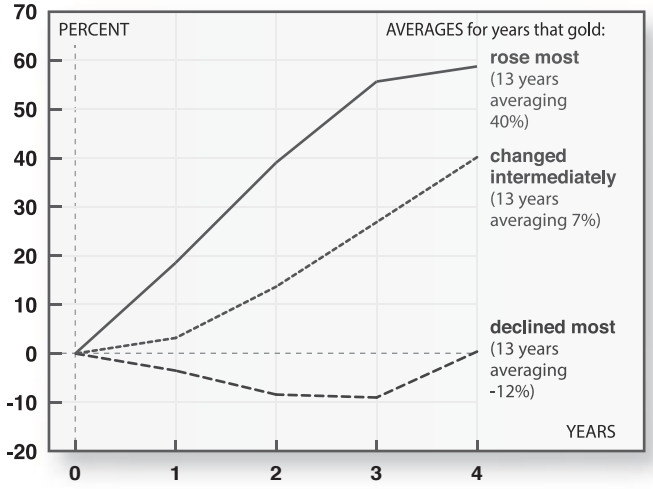
Thus, just as price movements in industrial metals anticipate official inflation, so price movements in the precious metals anticipate those in the industrial metals. **Figure Three** suggests that it takes two or three years for the divergence in price consequences in different gold-price environments to reach its widest. The correlation between gold and immediate and subsequent price movements in industrial metals is strong, and the average time lag is about six months.

Any major move in the price of gold is followed, over the following year or two, by a sympathetic move in commodity price—assuming that there is no offsetting change in the supply-demand balance resulting from a change in the growth of the global economy. **Figure Four** shows metal prices tend to move in the same direction as gold. Some of the response is immediate but some takes a few months to occur. So metals prices were weak after the peak in gold in 2011, and weaker still last April when there was an even more abrupt drop in gold. Since June gold has been on the rebound and, at a lesser speed, metals prices are moving up too.

Figure Three

GOLD AS A LEADING PRICE INDICATOR FOR INDUSTRIAL METALS

From 1970



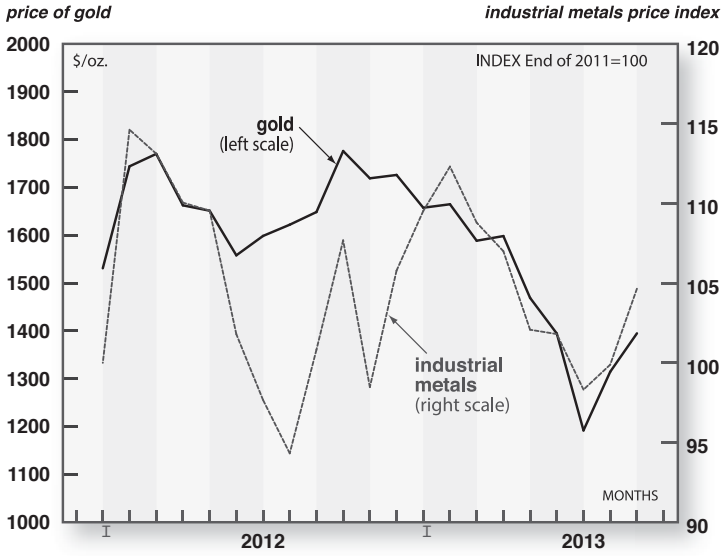
Data: As for Figure Two, together with calendar-year average spot prices for gold (Metals Week).

Response of different groups to the price of gold. The price of gold earns its significance from the fact that it moves more quickly than other indicators of inflationary pressure, including commodity prices. A time when the price of gold has declined is not a time for investing in commodities. The leading role of gold in influencing the price behavior

Figure Four

GOLD AND INDUSTRIAL METALS PRICES

since the End of 2011

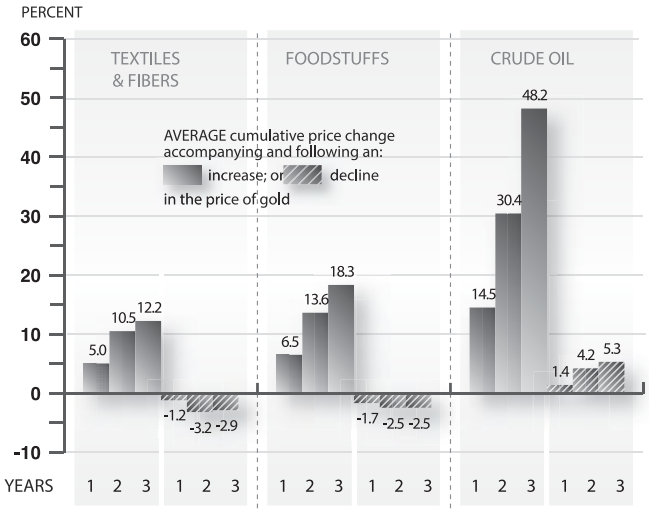


Data: As for Figure Two.

Figure Five

GOLD AS A LEADING INDICATOR FOR DIVERSE COMMODITY GROUPS

calendar-year average data from 1950



Data: Calendar-year averages of month-end prices for textiles and fibers, foodstuffs and crude oil (Reuters Bridge Commodity Research Bureau) and gold (Metals Week).

of several commodity groups is illustrated in **Figure Five**. The data suggest a wide range of price sensitivity to gold in different commodity groups. But in all cases it takes at least three years for the effects of a change in the gold price to be fully reflected in the prices of any of these commodity groups.

Inflation is the appropriate environment for investing in commodities, especially if the economy is strong. But it might be unwise to depend on official inflation indicators such as the CPI to determine when an environment of inflation exists. Commodity prices are much more closely correlated with gold than with consumer prices. And, as during the decade 2001-11, it's possible for the price of gold to move a long way with very little response in the official cost of living.

Comparative influence on metals prices of changes in the dollar and changes in national output. The relationship between real GDP growth and changes in industrial metals prices is purely cyclical. The correlation is quite strong in the short run, but diminishes and reverses itself over longer time frames. The first column of **Table 1** illustrates this, comparing the correlation between annual changes in the data with the correlations between two-year, five-year, ten-year and twenty-year changes.

The table demonstrates that the well-recognized positive relationship between metals prices and national output is fleeting. Although positive for one- and two-year data, when multi-year average data are used the correlation turns negative. The correlation may eventually disappear over very long time frames. These results show a positive relationship on a cyclical basis, probably reflecting the influence of economic growth on the supply-demand picture for metals. But on a longer-term basis the relationship is inverse, probably reflecting the negative influence of inflation (as expressed by metals prices) on economic growth.

The second column of **Table 1** shows that the relationship between metals price movements and in gold works very differently. The correlation is not only strong, but becomes stronger and stronger as the time frame for expressing changes in the data is lengthened. The relationship with gold exists on both a cyclical and a long-term basis.

Table 1

CORRELATIONS BETWEEN PRICE CHANGES IN INDUSTRIAL METALS AND CHANGES IN THE PRICE OF GOLD AND REAL GDP

Multi-year average data from 1949		
Data time frame (years)	**Correlation with changes in real GDP**	**Correlation with changes**
1	+.258	+.418
2	+.159	+.513
5	–.195	+.527
10	–.548	+.589
20	–.177	+.635

Data: As for **Figure One,** together with annual totals of real gross domestic product (Bureau of Economic Analysis).

2013 Conclusions. The prices of industrial metals and other commodities are correlated with gold, but take time to respond fully to movements in gold prices. When gold plunged in April, industrial metals prices dropped as well. The reason is not a matter of supply and demand in the usual sense; we measure all these prices in US dollars, and the value of the dollar simply rose. Since June the dollar has been falling back, the price of gold has been rebounding, and metals prices have begun to climb back too.

While lagging behind gold, industrial-metals prices perform in advance of officially-recognized inflation. As with other asset classes, it's necessary to recognize the presence of inflation long before the broad investment community does, and for that purpose the precious metals are indispensable.

THE JANES FINANCIAL CENTER

CHAPMAN UNIVERSITY | ARGYROS SCHOOL OF BUSINESS AND ECONOMICS

Chapman University and the Argyros School of Business and Economics are pleased to house the Janes Financial Center. The Center provides students and the campus community with real time financial information and state-of-the-art financial analysis technology. The Center will supplement the academic body of knowledge administered to the Argyros students in the areas of finance and investments with practical, hands-on experience affording Argyros students a robust resume and expertise, making them more competitive candidates in the employment market. The Janes Financial Center is a hub for collaborative activities between members of the Finance and Investment industries.

- Conference room with a dedicated Bloomberg terminal and wall mounted 55" LCD display
- Classroom for investments, portfolio management courses, lab for students involved with the School's Student Managed Investment Fund, and an event venue for both the internal and external communities
- 12 Bloomberg terminals, the industry standard for detailed financial data and sophisticated data analysis
- Touch-screen interactive market wall
- Variety of large LCD screens for displaying dynamic market data, video, and customized information
- 76 feet of full color LED stock tickers wrapped around the outside of the Center

ENDOWING THE JANES FINANCIAL CENTER

$1,000,000

Endowing the Financial Center will support the efforts of the students and faculty in perpetuity. This Financial Center is already transforming the student educational experience within the Argyros School of Business, using state of the art tools used by financial institutions around the world. Your partnership on this journey is essential to our success.

CLASSROOM NAMING OPPORTUNITY

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The Classroom in the Financial Center is the main hub of all student learning exercises, trainings, clinics, special sessions and seminars. This space is exclusive to the Financial Center and may be used by internal and external communities. We will recognize the Classroom sponsor with appropriate signage in various locations throughout the Argyros School of Business and Economics.

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The Conference Room in the Financial Center will be used for teaching, events, trainings, and seminars. This space is exclusive to the Financial Center and will be used by internal and external communities. We will recognize the Conference Room sponsor with appropriate signage in various locations throughout the Argyros School of Business and Economics.

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In planning the Janes Financial Center, it was essential that we provide students with access to Bloomberg terminals. These are used by corporate financial managers, portfolio managers and analysts throughout the equity, fixed income, commodity and real estate sectors. In addition to increasing our students' financial IQ, experience with Bloomberg terminals will give our graduates a significant advantage in the job market because they will be able to make immediate contributions to employers.

CALIFORNIA'S 2013 TOP 40

The honor of California's 2013 Top Corporation in our ranking goes to Ligand Pharmaceuticals Inc. (LGND). Specializing in the development and acquisition of royalty revenue generating medications, Ligand is considered a Biotech Cash Caw. The company is constantly developing its partnerships to insure an ongoing flow of resources supporting its R&D activity and its pipeline of product.

Ligand earned the top ranking by delivering a stellar performance for its investors. Ligand delivered a total return of 153.61%, return on equity (ROE) of 30%, a return on invested capital (ROIC) of 21.37%, and an impressive free-cash-flow margin (FCF margin) of 41.47%. The company also managed to recover very nicely from negative diluted earnings per share (diluted EPS) in 2012 by delivering a 2013 diluted EPS of $0.48.

Coming in at #2 is Oaktree Capital (OAK). The Los Angeles based global investment firm known for its closed-end funds secured its second place ranking by growing its diluted EPS from $3.80 in 2012 to $6.43 in 2013, delivering to its investors an ROE of 54.89%, and a total return of 41.21%.

The #3 spot was secured by the Santa Monica based entertainment company that brought us the Academy Award winning movies Juno, Precious and The Hunger Games franchise. Lions Gate Entertainment Corporation (LGF) offered investors in 2013 a Total Return of 93.36%, diluted EPS growth of 220%, an impressive ROE of 74.78%, and a ROIC of 18.4%.

Notables on the list include Hewlett-Packard – 10th, Jack In The Box – 17th, The GAP Inc. – 19th, Clorox Company – 20th, Qualcomm Inc. - 24th, Google Inc. – 27th, Mattel – 29th, Netflix Inc. – 32nd, Big 5 Sporting – 34th, Walt Disney – 36th, and coming in last on our list is Wells Fargo.

Apple (AAPL) did not make the cut. If there was one California stock most frequently mentioned in investor conversations through 2013, it was Apple. The company did not make it onto our list for 2013 due to the fact that its diluted EPS retreated by over 10% when compared to 2012 diluted EPS, and the stock price appreciated by an anemic 5.4%.

Facebook (FB) made the list, ranking 8th. The company was a reoccurring topic of investor conversations in 2013 given its lackluster IPO. The investment community in part had initially dismissed any real action in Facebook until the company demonstrated its ability to monetize its mobile business.

Interestingly enough, when we set out to rank the top California based publicly traded companies based on who offered the best overall performance for their investors in 2013, Facebook earned a high ranking on our list as a direct result of the company discovering how to monetize its mobile business, which resulted in Diluted EPS growth from $0.02 in 2012 to $0.59 in 2013. Investor confidence in Facebook's ability to be a profitable enterprise in the long run propelled the stock price offering a total return of 105.30%.

Another newcomer that made the cut, coming in at #15, is Opentable Inc. (OPEN). Publicly traded since 2009, Opentable acts as an intermediary between restaurants that accept reservations and the consumers that patronize these restaurants. Opentable currently has 30,000 restaurants in its worldwide network, with 12 million diners utilizing Opentable for reservations each month. Opentable offered its investors a total return on the stock of 62.64%, a diluted EPS growth from 2012 to 2013 of 36%, and a healthy FCF margin of 23.81%.

CALIFORNIA'S 2013 TOP 40									
Rank	Tiker	Short Name	Total Return	EPS Diluted 2013	EPS Diluted 2012	ROE	ROIC	ROIC/WACC	FCF Margin
1	LGND	LIGAND PHARM	153.62%	$ 0.48	$ (0.10)	30.01%	21.37%	1.80	41.48%
2	OAK	OAKTREE CAPITAL	41.22%	$ 6.43	$ 3.80	54.89%	13.45%	1.70	92.86%
3	LGF	LIONS GATE	93.36%	$ 1.47	$ 0.46	74.78%	18.40%	2.08	10.10%
4	CLCT	COLLECTORS UNIV	87.23%	$ 0.89	$ 0.70	35.93%	40.13%	3.57	16.37%
5	CRVL	CORVEL CORP	108.34%	$ 1.57	$ 1.07	29.38%	29.38%	3.15	9.30%
6	HNNA	HENNESSY ADVISOR	171.66%	$ 0.95	$ 0.27	19.32%	9.52%	1.28	24.98%
6	GILD	GILEAD SCIENCES	104.49%	$ 1.87	$ 1.68	29.75%	17.94%	1.82	26.02%
8	FB	FACEBOOK INC-A	105.30%	$ 0.59	$ 0.02	10.95%	10.26%	1.37	36.33%
9	LLTC	LINEAR TECH CORP	35.44%	$ 1.78	$ 1.70	44.08%	25.35%	2.46	42.60%
10	HPQ	HEWLETT-PACKARD	101.11%	$ 3.09	$ 0.21	20.95%	11.66%	1.57	7.49%
11	PFMT	PERFORMANT FINAN	1.98%	$ 0.74	$ 0.49	73.93%	22.19%	2.62	19.08%
12	IGTE	IGATE CORP	154.66%	$ 1.28	$ 1.05	105.06%	9.94%	1.28	9.92%
13	AMGN	AMGEN INC	34.80%	$ 7.31	$ 5.93	24.69%	11.28%	1.59	29.97%
14	JCOM	J2 GLOBAL INC	67.22%	$ 2.72	$ 2.55	18.79%	14.53%	1.60	44.39%
15	OPEN	OPENTABLE INC	62.64%	$ 1.42	$ 1.05	16.77%	18.20%	1.56	23.81%
16	SSBI	SUMMIT STATE BAN	62.53%	$ 0.86	$ 0.62	8.37%	7.97%	1.82	35.98%
17	JACK	JACK IN THE BOX	74.90%	$ 2.25	$ 1.36	14.25%	13.59%	1.80	7.66%
18	INTU	INTUIT INC	29.74%	$ 2.32	$ 2.35	30.16%	24.16%	2.73	29.66%
19	GPS	GAP INC/THE	27.54%	$ 2.75	$ 2.03	42.98%	31.83%	3.12	6.41%
20	CLX	CLOROX CO	30.75%	$ 4.30	$ 4.23	534.91%	24.31%	3.71	10.33%
21	WAGE	WAGEWORKS	233.93%	$ 0.62	$ 0.29	11.29%	9.77%	1.03	21.83%
22	ORCL	ORACLE CORP	15.68%	$ 2.35	$ 2.13	25.55%	17.79%	1.75	36.51%
23	XLNX	XILINX INC	31.09%	$ 2.15	$ 1.87	21.09%	15.15%	1.45	28.88%
24	QCOM	QUALCOMM INC	22.37%	$ 3.93	$ 3.40	18.86%	15.94%	1.60	31.09%
25	BEN	FRANKLIN RES INC	38.90%	$ 3.52	$ 3.06	22.93%	16.87%	1.34	24.72%
26	AGN	ALLERGAN INC	21.34%	$ 4.52	$ 3.88	16.02%	17.51%	1.78	24.85%
27	GOOG	GOOGLE INC-CL A	58.43%	$ 36.42	$ 34.14	16.25%	14.05%	1.44	18.89%
28	VAR	VARIAN MEDICAL S	10.61%	$ 4.13	$ 3.79	26.91%	22.11%	2.54	12.88%
29	MAT	MATTEL INC	34.29%	$ 2.54	$ 2.45	28.57%	21.23%	2.39	6.88%
30	EXPO	EXPONENT INC	39.77%	$ 2.75	$ 2.61	17.12%	15.79%	1.70	14.89%
31	DECK	DECKERS OUTDOOR	109.73%	$ 4.17	$ 3.59	14.31%	10.64%	1.32	7.30%
32	NFLX	NETFLIX INC	297.63%	$ 2.39	$ 0.29	10.82%	10.00%	1.00	1.00%
33	SYMC	SYMANTEC CORP	27.66%	$ 1.46	$ 1.23	15.92%	13.45%	1.41	18.20%
34	BGFV	BIG 5 SPORTING	54.74%	$ 1.30	$ 0.83	15.74%	13.53%	1.26	0.43%
35	IRIX	IRIDEX CORP	160.77%	$ 0.22	$ (0.11)	8.44%	9.27%	1.08	-2.47%
36	DIS	WALT DISNEY CO	55.34%	$ 3.64	$ 3.07	15.45%	11.01%	1.13	14.78%
37	AVY	AVERY DENNISON	47.49%	$ 2.72	$ 1.91	14.04%	12.33%	1.36	3.11%
38	NTAP	NETAPP INC	23.55%	$ 1.82	$ 1.27	14.38%	11.37%	1.23	17.10%
39	MCK	MCKESSON CORP	67.65%	$ 7.07	$ 6.48	14.68%	11.19%	1.50	1.83%
40	WFC	WELLS FARGO & CO	36.71%	$ 3.89	$ 3.51	13.99%	6.44%	1.00	68.80%

"THE FAMILY OFFICE—THE REST OF THE STORY"

BY STEWART DARRELL, CFA
FAMILY INVESTMENT OFFICER • GENSPRING FAMILY OFFICES

Recently, I had the pleasure of attending an Anaheim Ducks ice hockey game and enjoyed the festivities from a friend's box seats. Being a weekday game, my 14 suite mates were lawyers, bankers, investment bankers, and entrepreneurs – all savvy successful business professionals. Inevitably, the conversation turned to our respective professions. As I spoke the words "family office", I was universally met with blank stares, not an uncommon experience when describing my profession. In this rowdy setting, I was limited to my "elevator speech", which sparked the interest of several of my new friends. I did my best to fill them in on the details over the intermittent roar of the crowd, but am certain it wasn't all that productive. So, in an effort to appease my own aching need to complete the conversations of that night (at least theoretically), I humbly offer, as legendary commentator Paul Harvey used to say, "The Rest of the Story."

In the United States the concept of the family office evolved out of necessity during the late 19th and early 20th century as some of the great American families, such as the Rockerfellers, Carnegies, Morgans and Fords, accumulated vast fortunes. With significant wealth came considerable responsibility, and the establishment of single-family offices (SFOs) to exclusively manage the financial, business and personal affairs of these multi-generational families. As America prospered, more fortunes were made and the number of family offices expanded generally as a result of one of the following scenarios:

1. Investable assets of the family outgrew the expertise and time constraints of the family business personnel who had historically been tasked with oversight responsibilities, making professional management a necessity.
2. The family business was sold and the wealth creators realized they needed a dedicated professional structure and specialized personnel to manage their affairs.
3. The family attempted to manage their own affairs to the detriment of their business and/or the level of time and complexity proved overwhelming, ultimately leading them to seek professional assistance.

As more families achieved significant wealth the demand for family office services grew, but the costs of running a single office became prohibitive to all but an elite sub-set of the most affluent (>$500 million in net-worth). By the 1990's, families began to combine offices and share resources to defray the costs of specialized personnel - the "multi-family office" or MFO industry was born. Today there are over 2,500 SFOs and 140 MFOs worldwide, according to a recent survey conducted by Family Wealth Alliance.[1]

The family office industry is and always has been about serving families. Just as each family is unique, so are their needs. These needs can generally be categorized into ten distinct but interrelated elements offered by SFOs and MFOs:

1. **Estate planning** directly influences everything that goes on within family offices. Wealth transfer objectives are usually a priority and family offices help to ensure that goals are in synch with estate plans. Family offices are responsible for monitoring and recommending changes as the legal backdrop evolves and objectives are fine tuned.
2. **Lifestyle analysis** helps families determine their ability and willingness to take risk based on desired

[1]The Family Wealth Alliance Report (2011)

lifestyle goals and corresponding capital levels. Risk management and a goals-based investment approach provide the framework to help families set realistic expectations and accomplish their goals.

3. **Managing investments,** portfolio construction, manager due diligence, manager selection and ongoing monitoring are key functions of family office investment teams. Thoughtful advice and creative investment strategies help a family's asset base work for them over the short- and long-term.

4. **Education** is a critical component in sustaining wealth across generations. With comprehensive curriculums, family offices can deliver content geared toward a family's unique needs. Paired with training and mentoring, education helps family members make thoughtful financial decisions.

5. **Expense management** goes well beyond budgeting and paying monthly bills. Family offices approve disbursements, categorize and code transactions, manage cash balances, and design and monitor control systems to protect and efficiently manage financial resources.

6. **Tax planning** dovetails with estate and charitable planning to help to ensure federal, state and local tax law requirements are satisfied. Family offices seek the most advantageous tax structures for their families.

7. Management of trusts and trust-related issues are common **Fiduciary** services performed by family offices. These services include accounting, liability support and advice for Trustees.

8. **Philanthropy** is often an important activity orchestrated by family offices. From charitable trusts to next generation involvement to foundation creation and governance, philanthropic endeavors lead to a lasting family legacy and a positive impact on the broader community.

9. **Family Governance** provides a framework for the development of family mission statements, family constitutions, and governance systems to help current and future generations deal with any number of challenges.

10. **Documentation** is an important administrative task that family offices provide. This activity includes maintaining trust and tax documents, ownership schedules and governance paperwork, among a plethora of other family documents that need to catalogued, filed and accessible.

Ultimately, the services family offices provide are based by what families need. Not every family needs a comprehensive multi generational family office. Some families may find only certain family office components beneficial to their situation, such as investments, administration or governance. The beauty of family offices is that their services can be customized and personalized in the best interest of a particular family.

Now, I can rest assured knowing the story I started telling rink-side is now complete. However, I would be remiss if I did not conclude my own commentary as Paul Harvey almost always concluded his– "Good Day!"

Stewart Darrell is a Family Investment Officer for GenSpring Family Offices, www.genspring.com, in Costa Mesa, CA. He can be reached at stewart.darrell@genspring.com.

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JANES FINANCIAL CENTER RESIDENCE—2014 STOCK PICKS

2014 calls for tactical investing in equities. We predict ongoing volatility in the stock market as investors continue to be uncommitted and easily swayed to exit equities at the hint of unfavorable economic and market data.

Such volatility will continue until economic data exhibit signs of stable recovery at averages similar to those prior to the financial crises, the return of stable consumer confidence numbers, clear guidance from the Federal Reserve, and a more predictable political environment. As such, while we expect reasonable return in equities in 2014, the added risk resulting from market volatility will offer investors an overall lower risk adjusted return. Consequently, tactical investing in equities should offer an improved risk adjusted return over the broad equity market.

One such tactical investment opportunity with an improved risk adjusted return in 2014 is in the Healthcare sector and Technology sector that provide critical support services to the healthcare industry. Medical service providers and health insurance companies, however, are excluded as we believe they will underperform in 2014 while working through the implementation of the Affordable Care Act and adjusting to contracting profitability margins.

Considering our overall market outlook and focus in specific industries of the Healthcare sector and supporting Technology firms, we utilized an internally developed algorithm to identify specific companies in these industries. These firms as listed on our 2014 stock picks, we believe, are attractively priced, have great potential for growth in 2014, and have historically performed well for their investors.

The list is composed of eleven companies in the industries of genetic drugs manufacturing, biotechnology, medical appliances & equipment, medical instruments & supplies, medical laboratories & research, healthcare information services, technology – scientific & technical instruments, and technology – business software & services.

Within technology – business software & services companies, while F5 Networks and Netscout Systems, do not solely provide services to healthcare companies, a considerable amount of their services are rendered to healthcare related firms.

JFC RESIDENCE – 2014 STOCK PICKS

Ticker	Short Name	Sector -Industry
MYL	MYLAN INC	Healthcare - Drugs Genetic
LGND	LIGAND PARMA	Healthcare - Biotechnology
AMGN	AMGEN INC	Healthcare - Biotechnology
TECH	TECHNE CORP	Healthcare - Biotechnology
EW	EDWARDS LIFE	Healthcare - Medical Appliances & Equipment
BCR	CR BARD INC	Healthcare - Medical Instruments & Supplies
CVD	COVANCE INC	Healthcare - Medical Laboratories & Research
CPSI	COMPUTER PROGRAM	Technology - Healthcare Information Services
FLIR	FLIR SYSTEMS	Technology - Scientific & Technical Instruments
MTD	METTLER-TOLEDO	Technology - Scientific & Technical Instruments
FFIV	F5 NETWORKS	Technology - Business Software & Services
NTCT	NETSCOUT SYSTEMS	Technology - Business Software & Services

MS IN **ACCOUNTING**

The Master of Science in Accounting (MSA) is a 10-month program designed to qualify graduates to sit for the California CPA exam while obtaining a master's degree. Students will pursue the degree in a highly personalized learning environment. The program offers students:

- A keen understanding of the strategic role of accounting in business organizations
- The ability to apply ethical principles and responsibilities in accounting
- Expertise in the field using relevant academic and professional research
- The ability to communicate effectively and persuasively

Based on undergraduate accounting courses completed, students have the flexibility to create their own schedule. Benefits also include courses in our AACSB accredited MBA program.

Course Highlights

30 credits

Required

Economic Analysis for Business
Business Analysis
Financial Reporting and Analysis

Electives

Advanced Financial Accounting I and II
Forensic Accounting and Fraud Detection
Advanced Business Law for Accounting

Capstone

Professional Ethics and Responsibilities in Accounting

Application Requirements

34 credits of prerequisite coursework

Online application

Statement of Purpose

Official transcripts

GMAT or GRE score

Two letters of recommendation

Interview

International applicants must also submit:

- TOEFL, IELTS or PTEA score
- Copy of diploma
- Financial verification

Taking **Bold** Steps

chapman.edu/MS-Accounting mba@chapman.edu • (877) 242-7622

JANES FINANCIAL CENTER RESIDENTS

RJ Forgeon
Lead Portfolio Manager

EQUITY

Ed Engle
Equity Co-Portfolio Manager

Gregory Zuckerman
Equity Co-Portfolio Manager

FIXED INCOME

Daniel Lagner
Fixed Income Co-Portfolio Manager

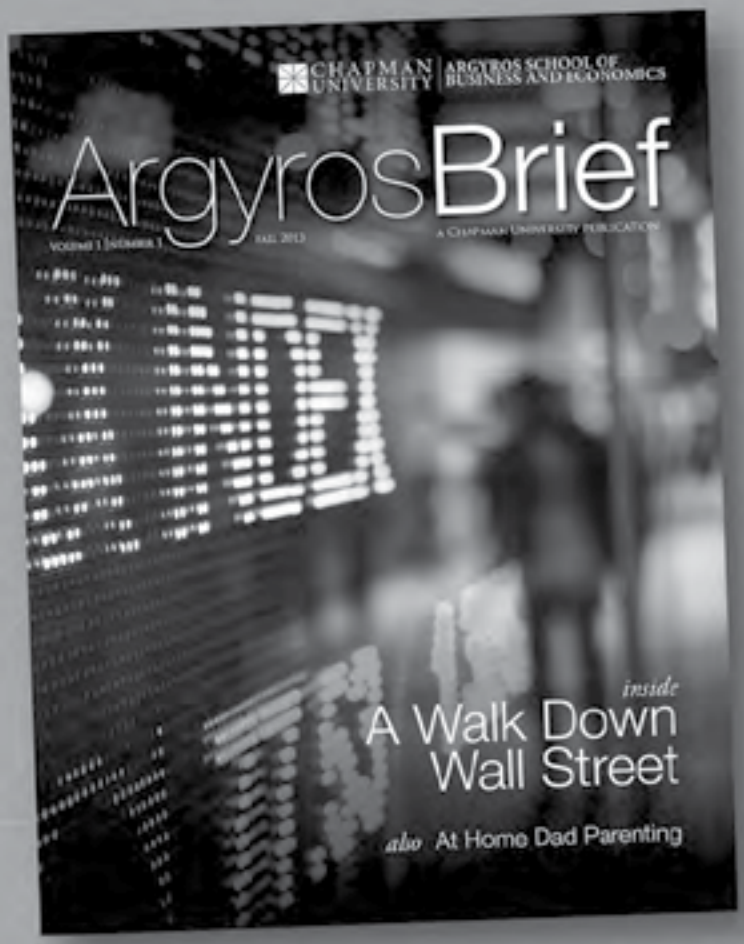
Gregory Zuckerman
Fixed Income Co-Portfolio Manager

ECONOMIC TEAM

Mike Lathrop

Andrew Remlinger

Coming this Fall



THE SECOND ISSUE OF ArgyrosBrief

A semi-annual publication from the Argyros School of Business and Economics.

Learn about the continued achievements of The Argyros School from the latest in faculty research to the expanding reaches of our professional network.

Join the mailing list at chapman.edu/Argyros-Brief

CHAPMAN UNIVERSITY | ARGYROS SCHOOL OF BUSINESS AND ECONOMICS

CHAPMAN UNIVERSITY
ARGYROS SCHOOL OF BUSINESS AND ECONOMICS

The George L. Argyros School of Business and Economics at Chapman University strives to be the nexus where leading edge business theory and the best of business practice are fused, in a personalized and focused setting, so as to equip our students for their ultimate careers as responsible, ethical leaders in a global economy; foster our students' entrepreneurial proclivities; and prepare our students for lifelong learning.

The Argyros School aspires to be a nationally recognized private business school. To realize this objective, the Argyros School will:

- Admit students of unquestionable quality, as measured by prior academic performance, leadership potential, standard examinations, high integrity, creativity, and work experience;
- Offer distinctive market-centered curricula that fit the needs of the business community that recruits and employs our graduates;
- Facilitate the placement of our graduates in the business community by highlighting the contributions that our alumni/ae can make to their organizations;
- Continue to uphold the principles of the Chapman Plan;
- Recruit, employ, and retain faculty who conduct innovative research with lasting consequence;
- Support our faculty members' research endeavors, leading to scholarship that advances the theory of business and economics and has a high impact on business practice;
- Exemplify high quality and adhere to high intellectual standards in all its undertakings-only those programs and initiatives that can be offered with consummate quality will be embarked upon;
- Engage in continuous improvement through outcomes assessment and other techniques;
- Be responsive to the needs of our students, our alumni/ae, and our business partners;
- And, offer a work environment characterized by mutual respect, collaboration, and fun.

The Argyros School offers programs leading to the Bachelor of Science with majors in Business Administration and Accounting. It also offers the Bachelor of Arts in Economics. These programs combine a strong commitment to the liberal arts with strong professional education in business. At the graduate level, the Argyros School provides the Master of Business Administration (MBA), the Executive MBA and the Masters of Science in Accounting. The Argyros School has four research centers: the A. Gary Anderson Center for Economic Research, the Ralph W. Leatherby Center for Entrepreneurship and Business Ethics, the Walter Schmid Center for International Business and the C. Larry Hoag Center for Real Estate and Finance.