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CONFERENCE GUIDE AND AGENDA

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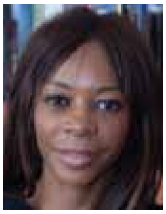
JULY 22–23, 2013

INSIDE:

An Exclusive Q&A With Barry Ritholtz

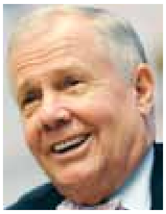
Barry Ritholtz focuses on what the markets are doing now because no one can predict tomorrow.

KEYNOTE SPEAKERS



DR. DAMBISA MOYO
International Economist and Author

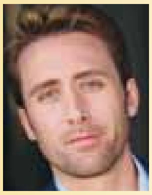
BARRY RITHOLTZ
CEO and Director of Equity Research, Fusion IQ



JIM ROGERS
Investment Expert and Author

ALSO FEATURING

JOHN P. CALAMOS, Sr.
CEO and Global Co-CIO, Calamos Investments



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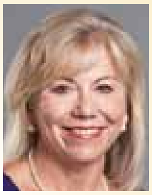
President, EarthEcho International

TOM DORSEY
President, Dorsey, Wright & Associates



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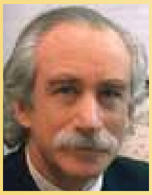
Head of Investment Strategy, ProShares

GEORGE KELLNER
Founder, CEO and CIO, Kellner Capital

RICK LAKE
Co-Chairman and Treasurer, Lake Partners



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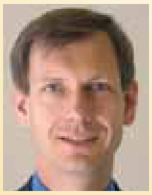
BRAD McMILLAN
CIO, Commonwealth Financial Network



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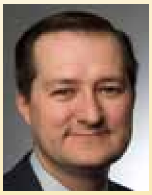
President and CIO, Merk Investments



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Innovative **ALTERNATIVE INVESTMENT STRATEGIES**

Welcome

Dear Colleague:

Financial Advisor and *Private Wealth* magazines are delighted to invite you to our **4th Annual Innovative Alternative Investment Strategies** conference. We are extremely pleased with the support that we have gotten for this event, which has allowed us to continue to build a richer variety of sessions each year.

In line with our commitment to provide quality content, our distinguished keynote speakers, as well as our general-session and breakout-panel presenters, bring diverse backgrounds and accomplishments to the event. As a prelude to the main event, we will for the second time offer an **Impact Investing Conference on Sunday, July 21**, that features some of the biggest names in this growing discipline. Turn to page 3 for more details.

On the first day of our alternative strategies conference on July 22, we are thrilled to open our general session with **Barry Ritholtz**, CEO & director of equity research at Fusion IQ. Mr. Ritholtz is one of the few strategists who saw the 2008 housing implosion and derivatives crisis far in advance. As our lunch keynote speaker that day we are honored to have **Dr. Dambisa Moyo**, an international economist and author who can provide incredible insight on emerging economies. *Time Magazine* has named Dr. Moyo one of the “100 Most Influential People in the World.” Not to be missed on day 2 is keynoter **Jim Rogers**, a well-known author, commentator, international investor and former professor at Columbia University Graduate School of Business. Mr. Rogers co-founded the Global Quantum Fund, which achieved extraordinary returns of 4,200% over a decade when the S&P rose less than 50%.

The conference will feature a distinguished lineup of nearly 70 panelists from well-known firms involved with alternative investing. Please peruse our speaker biographies beginning on page 5 to learn more about their backgrounds. They’ll offer their expertise on topics that include income strategies, asset allocation, tail risk management, MLPs, managed futures, hedge funds, real estate and much more.

We are grateful to our platinum sponsor, RC Securities, as well as our conference exhibitors and sponsors at every level, and to you, our dedicated readers, for helping us make this one of the most important and best-attended events of its kind. This year’s conference will be at the Hyatt Regency Denver at the Colorado Convention Center. You will have the chance to explore new ideas and educate yourself while networking with your fellow professionals. For more information or to register, please visit www.altinvconference.com.

We look forward to seeing you in Denver on July 22–23.

David Smith, Founding Publisher
Financial Advisor and *Private Wealth*

Evan Simonoff, Founding Editorial Director
Financial Advisor and *Private Wealth*

LIVIN' ON A PRAYER

BARRY RITHOLTZ FOCUSES ON WHAT THE MARKETS ARE DOING NOW BECAUSE NO ONE CAN PREDICT TOMORROW.

Senior Editor Ray Fazzi caught up with Barry Ritholtz to get his views on the markets, his concerns about the future and advice for financial advisors. Ritholtz, CEO and director of equity research at online quantitative research firm Fusion IQ, is one of the few strategists who saw the 2008 housing implosion and derivative mess far in advance. He is a keynote speaker at the 4th Annual Innovative Alternative Strategies conference, sponsored by Financial Advisor *and* Private Wealth *magazines, in Denver from July 22–23.*

Let's start out with a basic question: What's your outlook on the markets and the economy?

Let me begin with an answer you will hate: My opinion as to the future state of the economy or where the market might be going will be of no value to your readers. Indeed, as my blog readers will tell you, I doubt anyone's perspectives on these issues are of any value whatsoever.

Here's why: First, we have learned that you Humans are not very good at making these sorts of predictions about the future. The data overwhelmingly shows that you are, as a species, quite awful at it.

Second, given the plethora of conflicting conjectures in the financial firmament, how can any reader determine which author to believe and which to ignore? You can find an opinion to confirm any prior view, which is a typical way many investors make erroneous decisions. (Hey, that agrees with my perspective, I'll read THAT!)

And third, relevant to the above, studies have shown that the most confident, specific and detailed forecasts about the future are: a) most likely to be believed by readers and TV viewers; and b) least likely to be correct. (So you have that going for you, which is nice.)

ACROSS THE SPECTRUM OF POSSIBLE OPINIONS, FORECASTS AND OUTLOOKS, SOMEONE IS GOING TO BE CORRECT. HOW CAN YOU EVER TELL IT WAS THE RESULT OF REPEATABLE SKILL OR MERELY RANDOM CHANCE?

Last, across the spectrum of possible opinions, forecasts and outlooks, someone is going to be correct—how can you ever tell if it was the result of repeatable skill or merely random chance?

That said, I would much rather look at the present

produce weak GDP gains and slow job creation.

Monetary policy in general can help with liquidity—reducing the odds of another credit freeze up—but can only do so much to improve the employment situation and GDP. To move the needle on that requires a fiscal response, one that is unlikely to occur given the dysfunctions of Washington, D.C.

Compare this with say the fiscal response to the crisis out of Germany, and what it has meant for their GDP and employment situation, and you will better understand what is possible versus our foolishness.

As to the markets, I hope you realize they are separate and apart from the economy. The data overwhelmingly shows that most of the time, stocks and the economy are wholly uncorrelated. Over the short and medium term (days weeks months), there is almost no relationship in either direction or magnitude. People often have difficulty accepting that, but the academic studies on it are overwhelming. Over the longer haul (decades), there is some correlation between GDP growth (3%–4%) and corporate earnings (6%), and I assume that is not coincidental. But that is only over long periods of time, and even then they can become somewhat disconnected.

Frame of reference is very important. Currently, we have recovered the entire losses from the 2008–09 crash. Looked at from the March 2009 lows, we are up about 146% over four years. Looked at from the October 2007 highs, we are barely up a few percent over almost six years. And the Nasdaq is still 40% or so below its March 2000 highs, some 13 years ago.

state of the markets/economy than guess about the future. Most people have no idea what happened yesterday—how on earth can they tell you what is going to happen tomorrow?

I think it is of much greater value to be able to put the current situation into broader context, via a variety of variables and factors, than make guesses about the future.

We are currently in a post-credit crisis recovery. History shows us these last about 10 years, and typically

PHOTOGRAPHS BY BILL BERNSTEIN

Markets are neither cheap nor expensive. The psychology out there is that the public remains wary—of everything that burned them over the past few years.

I believe many factors are leading to a sort of delegitimization of investing in the eyes of the public. Everything from lack of prosecution of bankers to HFT [high frequency trading] is causing the public to turn their collective backs on stocks. This is a normal part of the psychology cycle; typically, a bull market will end this disregard.

As one of the observers who foretold the market crash of 2008, are there any current financial trends that have you worried about the future?

These are the three issues that I am most concerned with:

High frequency trading is a real problem. It is hollowing out the structure of the markets. Trading is a zero sum game, and if they are making a billion a year, it's coming from somewhere. HFT is a tax, which they get to split with the exchanges, which have also become corrupt. I would require HFT quotes to have a persistence of 1 second and pay a fee of 1 cent—that will fix most of the HFT problems that exist.

Too Big to Fail remains a problem. Banks should be boring, not speculative super-leveraged hedge funds. I would like to see a full Volcker rule incorporated, and more appropriate capital reserve rules implemented. The Brown-Vittner proposal on capital reserve for TBTF banks seems appropriate.

We still have not fixed the dangers presented by derivatives. I would repeal the Commodity Futures Modernization Act as soon as possible.

What would you say was the best outcome of the disastrous financial events of 2008?

We learned who was full of crap and who was not. Other than that, it was a total catastrophe.

What do you feel has been the most disappointing legacy of the 2008 crash?

1) Lack of prosecutions for fraud; 2) Rewarding the bad actors.

After the S&L crisis, thousands of bankers were prosecuted. Many went to jail. We failed to do that this time, and that is a slow-growing cancer.

As to the bad actors: When a surgery goes awry, you don't send in the same surgeons to repair the damage—you want a fresh pair of hands and eyes, cutters who have no vested interest other than saving the patient.

We failed to do that as a nation. We put the people who helped to create the problem—Tim Geithner! Larry Summers!—in charge of the solution. That is a recipe for failure.

It often seems like economic forecasting these days boils down to, what's Ben Bernanke going to do today? Many people think all this quantitative easing will end very badly. What do you think?

The Fed can always hold the paper to maturity. They then return this back to the Treasury, who gives them cash for it. No muss, no fuss.

This may be a bit contrarian, but I believe that once the decision was made to bail out Citi, BofA, Morgan Stanley, AIG, etc., the Fed had its hands tied. There is too much junk on the books (Thanks to FASB 157) for the Fed to normalize rates.

People do not understand the counter-factual—what the world would have been likely to look like if the banks went through reorgs like GM and Chrysler.

You've said behavioral finance plays a large role in your investment strategy. That being the case, which investor "biases and cognitive errors," as you call them, are you paying close attention to these days?

Well, my answer to the first question certainly goes into that. I also find that the kinds of calls we take from clients and prospective clients are almost a chess game of behavioral economics. It is astounding to observe once you learn what to look for.

What advice would you give financial advisors charged with the task of securing their clients' retirements?

Learn to think in terms of years and decades, not days or weeks. Use a good asset allocation model to own a broad and diverse (low fee) asset classes. Rebalance regularly. Give up the stock picking (leave that to the idiots on TV). Oh, and shut the TV altogether.

You are an outspoken critic of hedge funds, particularly when it comes to the outsized compensation of hedge fund managers. Why do you think most people should pass on hedge funds? Which investors might benefit from hedge funds?

As a group, they are overpriced and underperforming. There is a very non-gaussian distribution of alpha generation among various funds, meaning a handful of managers are creating the vast majority of the alpha. Yet people throw money at alt investments like hedge funds, VCs and PE like they are specific asset classes with mean reversion qualities. (They aren't.) If most people cannot even pick a mutual fund manager, why do they think they can pick VCs and emerging hedge fund mangers?

Which kinds of alternative investments or strategies look promising to you and why?

Managers CAN create alpha, but the rub is, they only seem to do so when they are small—when their AUM is relatively tiny. Once they become big, they morph into wealth transfer machines, moving cash from investors to themselves. The data on this is overwhelming —hedge funds as an industry have captured over 90% of the investment gains for themselves, leaving less than 10% for the risk investors!

MANAGERS *CAN* CREATE ALPHA, BUT THE RUB IS THEY ONLY SEEM TO DO SO WHEN THEY ARE SMALL—WHEN THEIR AUM IS RELATIVELY TINY. ONCE THEY BECOME BIG, THEY MORPH INTO WEALTH TRANSFER MACHINES.

Which thought leaders do you respect the most and have had the most influence on your view of the financial world?

I like Ray Dalio's view of critical self-reflection—analyzing what you did wrong in order to learn from it. Jeremy Grantham's ability to ignore short term and focus long term is pretty amazing. I like what Jeff Gundlach has done in terms of what drives his fixed-income thinking.

Bob Shiller is one of my favorite professors in the world. He is simply a delightful, humble person—and incredibly insightful. I really like what Michael Mauboussin has been writing about, separating luck from skill.

Ultimately, it is the quants like Cliff Asness, James O'Shaughnessy and Paul Wilmott who are driving some very interesting thinking. FA

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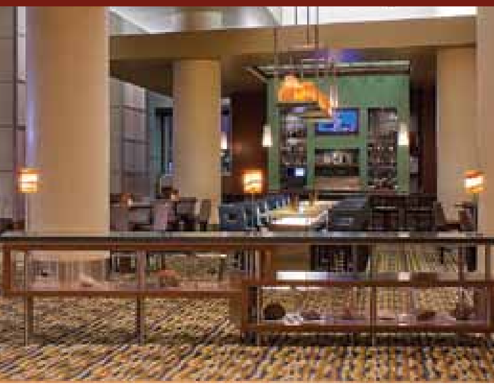

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—John P. Lehning, DundeeWealth US, LP

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