

2017

# BALTIMORE BUSINESS REVIEW

A MARYLAND JOURNAL



CFA Society  
Baltimore





## **Baltimore Business Review A Maryland Journal — 2017**

Produced jointly by the CFA Society Baltimore and the Towson University College of Business and Economics

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### Message from the Dean

Towson University, College of Business and Economics



Dear Colleagues and Friends,

I'm so proud to once again present the impactful outcome of the ongoing collaboration between Towson University's College of Business and Economics (CBE) and the Baltimore CFA Society—the eighth issue of the *Baltimore Business Review: A Maryland Journal*. Since its inception in 2010, the *Baltimore Business Review* has become our most precious asset in forming a loyal readership among academics and professionals.

At CBE, we strive to remain relevant to practice, have an impact on regional policy, and be an integral part of the local business community. In this issue, you will see how our faculty mirrors this mission and connects theory to practice in curricular, extracurricular and research activities. You also will get a glimpse at how our students are able to improve their mastery of knowledge by making connections between textbook knowledge and the local business environment.

This year's editorial contributions look to the future and propose how Baltimore can harness its diverse community and existing infrastructure to prosper. Other articles examine topics such as how small businesses can get access to needed credit, consumer behavior online and more. We hope the insights and idea presented here will spark discussion among community and business leaders alike and lead to innovations throughout the state.

I would like to express my appreciation to all who contributed to this issue of the *Baltimore Business Review*. Their generous contributions of time and effort made this publication possible. As always, we welcome your feedback and ideas.

Best regards,

Shohreh A. Kaynama, Ph.D.  
Dean, College of Business and Economics

### Message from the President

[www.baltimorecfasociety.org](http://www.baltimorecfasociety.org)



It gives me great pleasure to share with you the eighth edition of the Baltimore Business Review. This publication fortifies a vital link between the business and academic communities in Baltimore and its adjoining metropolitan areas. CFA Society Baltimore is fortunate to have such a great partner in the Towson College of Business and Economics to make this world-class publication possible.

Many folks have worked tirelessly in order to bring this issue to reality. I want to thank the editorial staff of Niall O'Malley and Farhan Mustafa from the CFA Society Baltimore and Michael Dewally and Yingyang Shao from Towson University. I would also like to extend a special thank you to each and every one of the contributors to this year's edition and Rick Pallansch and Chris Komisar from the Towson University Creative Services team, which has most graciously provided their invaluable services again this year.

If you are not familiar with CFA Society Baltimore, or our parent organization the CFA Institute, our collective mission is to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society. The centerpiece of our organization is the CFA Charter, which is widely regarded as the gold standard for investment professionals. The CFA Program emphasizes intellectual competency and a strong commitment to ethical behavior. CFA Society Baltimore advocates and promotes the principles of the CFA program, but also as a professional organization we endeavor to engage with the local business community by offering educational content via publications such as this one or through one of our frequent speaker events. We would love for you to join us for an event in the near future.

Next to the text of this letter you can see a list of the top ten employers of our society's members. It should come as no surprise that this list is fairly consistent year after year. While that stability is a good thing, our goal is to grow along with Baltimore's financial community and be an integral part of it now and in the future. We believe that our value proposition is compelling to a much broader audience than we currently serve. As such, we have recently embarked on a plan to increase our membership base beyond the traditional cohort of investment analysts and portfolio managers that comprise the core of our membership. We believe that all financial professionals who share our commitment to professionalism and ethical dealing would benefit from joining the CFA Society Baltimore.

I hope you find this issue informative and though provoking. As always, we would love to hear your feedback as to how CFA Society Baltimore can be more helpful to you and please visit our website [www.CFAsociety.org/Baltimore](http://www.CFAsociety.org/Baltimore) to learn more about us.

Kevin E. Osten, CFA  
President, CFA Society of Baltimore



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## The Implications of Overfishing in our Oceans and the Chesapeake Bay

Zachary C. Reichenbach, CFA, CPA/ ABV

Manager, Forensic and Valuation Services, Ellin & Tucker, Chartered

Treasurer, Beneath the Waves, Inc.

When you turn on the news today, you might hear about the myriad of environmental issues our planet currently faces. Media outlets debate at length about climate change and whether or not it is a consequence of our actions. We hear about the depletion of energy resources and whether or not we will come up with alternative solutions to our energy needs. We often hear about the problems with waste and the need for more biodegradable materials and recycling solutions. The world faces many issues that we are working towards developing practical solutions to; however, there are other critical issues the world faces that are just as important as the ones covered by the media. These lesser-known issues are not debated and discussed nearly as much, leaving solutions to these problems farther behind. One of these lesser-known but equally important issues is the plight of our oceans and waterways.

The world's oceans are our lifeblood and are critical for our survival. No matter where you live, the oceans are a critical part of your life. Consider phytoplankton, which is a tiny marine plant living in the ocean. Phytoplankton are estimated to produce over half the oxygen that we and other land animals breathe and are also responsible for absorbing carbon dioxide and buffering the impact of carbon dioxide on the environment.<sup>1</sup> Aside from providing us oxygen, phytoplankton regulates pollution that is present in our atmosphere. Another fact to consider is that our oceans regulate the world's weather and temperature. While land masses that we live on absorb some sunlight, the majority of the sun's heat is absorbed by the oceans.<sup>2</sup> After absorption, the oceans distribute the heat around the world. The world's weather patterns are also driven by the ocean current.

The bottom line is that the air we breathe, the food we eat and the water we drink are based from the water in the ocean and our lives and survival are directly tied to the health of our oceans.

Just as we are dependent on our oceans for our health and survival, we are also dependent on our other waterways, including the Chesapeake Bay. The Chesapeake Bay is the largest estuary in the United States, with over 3,600 species of animals and plants, including the notable blue crab, calling it home. It spans over 6 states and is home to approximately 17 million people including two major mid-Atlantic cities: Baltimore and Washington, DC. The Chesapeake Bay is an important habitat for both wildlife and humans.<sup>3</sup>

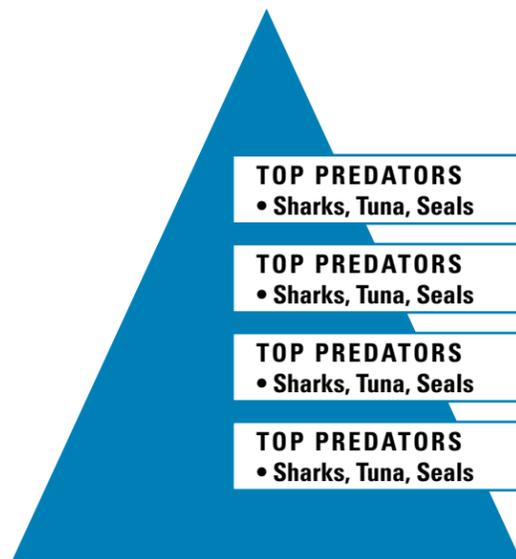


*Beneath the Waves team member tagging a shark*

Like our oceans, the Chesapeake Bay provides many important benefits to us, including food, water and economic opportunity. However, the human-induced threats that plague our oceans also plague the Chesapeake Bay. Some of the more common threats include pollution, waste and climate change. The Chesapeake Bay's pollution and waste have been well-documented. Many locals who have spent time on the Bay can attest to the amount of waste and chemicals in the waterway. This pollution not only contaminates the water but endangers nearby citizens as well as the marine life that live in the Bay.

One of the lesser-known but equally important threats to our oceans and the Chesapeake Bay is overfishing. Overfishing, or unsustainable fishing, is a huge problem as people are taking more fish out of the ocean than that can be replaced by the remaining population. Overfishing has caused populations of several economically and ecologically important species to decline and as a result these species are now endangered.

According to the World Wide Fund (WWF) Global, populations of all species currently fished for food will collapse by 2048, meaning that current marine life will dramatically change in the next 30 to 40 years.<sup>4</sup> These problems are caused by poor fisheries management, mass exploitation of various marine species, and destructive fishing practices.



There are a multitude of consequences as a result of overfishing and in many instances, there may be a trickle-down effect or a chain reaction of subsequent events if a marine species is overfished and becomes extinct. Take a look at the table above that illustrates the food chain for marine life and consider the effects of the food chain if one marine species becomes extinct:

If one marine species in the table becomes extinct, the entire food chain is out of balance. The consequences of a food chain imbalance are not as simple to predict and these consequences could lead to a number of indirect consequences as well. Take the shark for example. Sharks occupy the top of the marine food chain and tend to regulate marine life by eating old, sick and slower fish that may cause harm to the ecosystem. Sick fish and carcasses from dead fish become toxic and can negatively impact the sea floor and marine plants. By eliminating these species, sharks prevent the loss of other species lower on the food chain such as the Phytoplankton. Without sharks, the loss of Phytoplankton, which produces oxygen and absorbs carbon dioxide, would directly impact our way of life. Phytoplankton also provide food to various sea creatures such as whales, shrimp, snails and jellyfish.<sup>5</sup> Therefore, eliminating one species can have a trickle-down effect that could affect an entire ecosystem and also lead to negative impacts to humans.

Overfishing is not just an ocean problem though; it is also a Chesapeake Bay problem. Take oysters as an example. According to the journal *Marine Ecology Progress Series*, the oyster population in the Chesapeake Bay has been estimated to be 0.3 percent of population levels seen in the 1800's due to overfishing and other threats. Oysters filter contaminants out of the water in the Bay, resulting in much cleaner water. The lack of oysters can partially explain why the Chesapeake Bay's water has become polluted. On the outside, a low oyster problem might only seem to affect oyster lovers and fisheries, but taking a deeper look reveals that it has a far greater impact, especially on the health of the ecosystem. The health of the Chesapeake Bay also has an impact on other marine life in the bay including rockfish, menhaden and everyone's favorite, blue crabs.

Ocean health and overfishing are two factors connected to the health of the Chesapeake Bay. If a fish species were to become extinct in the ocean, it would affect the Chesapeake Bay and vice-versa. The challenge with understanding the consequences from overfishing is that there are a lot of indirect consequences that have yet to be discovered.

There are many organizations that have worked to improve the health of the Chesapeake Bay, including the Chesapeake Bay Trust, Chesapeake Bay Foundation and Blue Water Baltimore, to name a few. Beneath the Waves, Inc. is a global non-profit organization whose mission is to raise awareness regarding critical marine issues and promoting the protection of the earth's oceans. In recent years, Beneath the Waves has led research expeditions to better understand the ocean's marine life and the impact marine life has on oceans and other bodies of water.

In 2016, Beneath the Waves led an expedition to tag mako sharks and blue sharks off the coast of Rhode Island in an effort to study these wide-ranging marine predators. Together with partners Oceana, Shark Research at University of Miami, and Pelagic Expeditions, the team equipped 10 sharks with state of the art satellite tags, which will supply researchers with important information on habitat use and movement patterns in the open ocean. The data from this expedition is being collected and inputted into the newly released Global Fishing Watch, a collaborative project by Oceana, Google and SkyTruth. This data will provide the world with cutting-edge access into real-time mapping of sharks and fishing boats as they roam the high seas. The next page shows examples of some of the data from the expedition.



The red lines in the data show the movements of the tracked sharks during the expedition. Beneath the Waves is working with its partners from the expedition to understand the migration patterns of these sharks and how this migration affects various inlets, channels and rivers up and down the east coast (including the Chesapeake Bay). The data collected will look to explain why these sharks migrate to certain places in the Atlantic Ocean and allow researchers to better understand these species and how to better protect them from overfishing.

The illustration below highlights the movement of the tagged sharks (the orange lines) and where fisherman are located (the yellowish dots that look like lights).

The illustration above highlights that fisherman and sharks move in similar patterns and in many instances are very close in proximity to one another. This can partially explain why many of these species of sharks are endangered as fishermen are practicing unsafe fishing methods in areas in which these sharks travel through.

In August 2015, Beneath the Waves traveled to Japan to become the first group to ever launch a long-term behavioral study of sharks in Asia, an important first for shark conservation worldwide. Hammerhead sharks are an endangered species due to their overfishing worldwide. Fishermen kill hammerhead sharks for

their fins, which are used mainly for shark fin soup, a very popular delicacy in parts of Asia. One of the goals of this expedition was to tag hammerhead sharks near Mikomoto Island, Japan, and understand their migration patterns over time. Understanding these patterns will help researchers know where these sharks are at certain times of the year and help to protect them from these threats. The research and gathering of data is still ongoing but the results from these expeditions have been groundbreaking.

Beneath the Waves is one of many organizations leading research expeditions to combat the threat of overfishing and to understand the consequences it has on our oceans and waterways such as the Chesapeake Bay. While a lot of the work that Beneath the Waves has carried out over the years has been ocean-based, there is still a lot of research and work to be done on the Chesapeake Bay. Beneath the Waves plans to focus future efforts on understanding the Chesapeake Bay and provide solutions to the threats that plague our Bay. Overfishing is a serious threat to the health of our oceans and waterways and there is still a lot of research that needs to be done.

**References:**

- <sup>1</sup> Info from World Wide Fund for Nature (WWF) Global website.
- <sup>2</sup> National Oceanic and Atmospheric Administration (NOAA).
- <sup>3</sup> National Wildlife Federation.
- <sup>4</sup> WWF Global.
- <sup>5</sup> NOAA.



## Do small businesses get the credit they need?

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In a recent speech in Philadelphia, Natalia Olson-Urtecho, the Regional Administrator for the U.S. Small Business Administration (SBA), reflected on the SBA's successes in the post-recession era. In particular, she praised the fact that "since President Obama's first year in office, the number of loans approved in the Mid-Atlantic Region (Pennsylvania, Virginia, DC, Maryland, Delaware and West Virginia) through 7a and 504 loan programs increased 46%. That infusion of capital jumped from over \$751 million in 2009 to \$1.7 billion seven years later."<sup>1</sup>

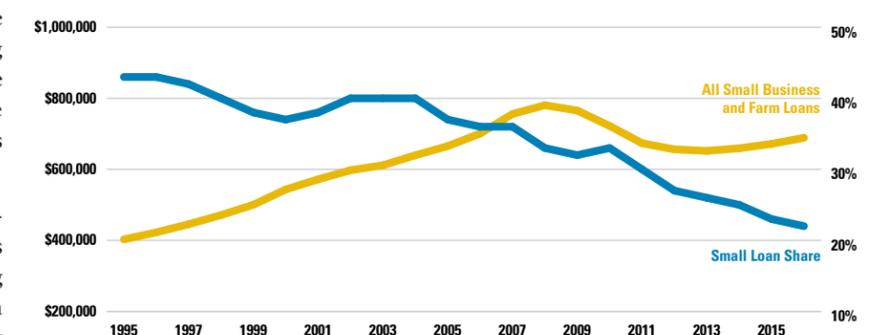
### Capital availability

The discussion of growth of capital available to small businesses in the country and our region is critically linked to the health of the state's economy. Small businesses support the local and national economy through their capital investment and their hiring. As such, policymakers and regulators have advocated active participation of banks, especially large banks, in providing accessible credit to small businesses. This article provides stylized facts of small business lending in the U.S., and in particular, in the State of Maryland, using data from the past 20 years. In particular, we investigate where the overall funding levels are compared to the pre-recession period and how small business owners perceive the current environment.

The overall data presented in Figure 1 shows that the regulatory measures have encouraged more small business lending over time, boosting the amount of outstanding small business loans to close to \$800 billion dollars in 2008. The financial crisis had a sizeable negative impact on overall lending, shaving over \$100 billion in small business loans. An additional concern is the steady decline in the share of small business loans out of all loans under \$1 million. From a high of 43% in 1995, the share of all loan activity going to small businesses has fallen to a low of 22% in 2016. This decline has continued while the amount of small business loans outstanding has increased from its low of 2013 to its current level. While lending to small businesses has increased, it continues to be a smaller part of the portfolio of large institutions. The question now is: have the governmental policies been successful if, though the amount lent is larger, the emphasis on small business lending is declining?

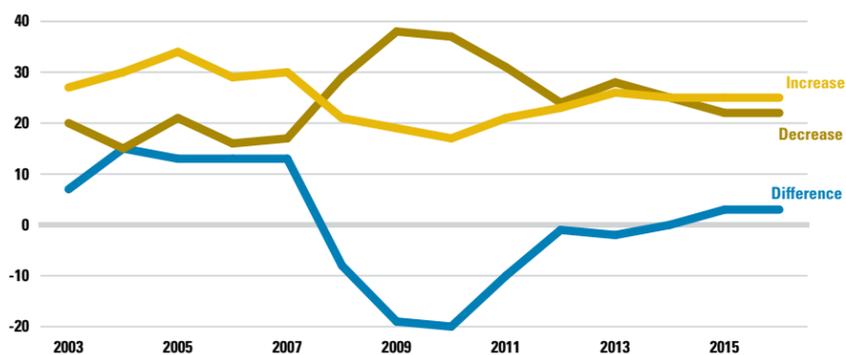
We recognize that there are multiple trends hidden in the picture presented above. Wiersch and Shane<sup>2</sup> (2013) recognize that changes in the make-up of the banking sector in the U.S. are reflected in these trends. As consolidation continues to occur in the banking sectors, fewer and fewer banks remain in the U.S. Considering that smaller banks have an informational and relationship advantage when it comes to small business loans, it is no surprise that larger banks dedicate a smaller percentage of their portfolio to small business loans. Maryland has not been immune to these trends. As recently as 2000, Maryland had 79 lenders carrying small business loans on their books. Before rebounding recently, only 50 lenders carried small business loans in 2011, the worst year on record. Concurrently, the share dedicated to small business loans in Maryland shrunk from 32% in 2000 to 19% in 2013.

**Figure 1: Total outstanding small business loans in Millions of dollars and Proportion of Small Business Loans out of all small loans**



An essential reason for the drop in lending following the recession was the lack of demand for capital. As part of the survey for the construction of the Wells Fargo / Gallup Small Business Index<sup>3</sup>, the questionnaire asks survey participants: "Do you expect the amount of money your company allocates for capital spending – such as computers, machinery, facilities, or other long-term investments to increase a lot, increase a little, stay the same, decrease a little, or decrease a lot?" In Figure 2, we graph the aggregated Increase and Decrease responses and also track the difference between the two. For example, in 2010, 17% of the respondents indicated that they would increase capital spending while 37% indicated they would decrease capital spending. The difference is -20% reflecting a

**Figure 2: Allocated Capital Spending over the next 12 months**



very distressed view about capital spending. With spending frozen or on the decline, the demand for capital is constrained as well and we saw small business lending contracting in 2010.

A second reason was the fragile financial state of borrowers. Banks, large and small, lend prudentially and in the tough economic environment, despite governmental exhortation, were leery of lending to less than creditworthy businesses.

The question today is different. In so far as more small businesses intend to increase capital spending in the 12 months (25%) than plan to decrease capital spending (22%) as of the latest survey and they are back to more solid financial footing, are they still concerned about access to the required capital?

### Small business owners' experience

The Federal Reserve's Survey of Small Business Finances<sup>4</sup> offer insights into the current situation for small business owners looking to access capital. First and foremost, the most recent survey in 2015 shows that credit availability is a low concern for most small businesses. The number 1 business challenge is cash flow, followed by the cost of running the business and hiring and retaining qualified staff. Credit availability ranked 7th tied with taxes.

This situation is reflected that while only 47% of the small businesses had applied for financing in the past 12 months, the majority of the remaining 53% did not apply for financing not because they thought they would be rejected but rather because they either did not have sufficient financing or were simply debt averse. Only 8% of all businesses did not seek financing because they were discouraged.

According to the same data, those seeking financing were successful in securing it. 79% of applicants were approved for at least some financing. The approval rate for small business loans was a smaller 59% compared to higher rates for auto or equipment loans (89%) and mortgages (73%). As one expects, small businesses were more successful in securing loans from small banks than large banks. The approval rate from small banks of 76% is greater than the approval rate of 58% by large banks.

As noted by Gordon Mills and McCarthy<sup>5</sup>, "during the recovery, a number of online lenders and marketplaces have emerged". At a time, when lending from established banking organization was constrained, a segment of small businesses were left underserved. This vacuum was perfect to induce the entry of disrupters, players like OnDeck and Kabbage using their own capital or platforms like Lending Club or Funding Circle linking institutions to borrowers or marketplaces like Fundera or Biz2Credit that simply set up the exchange where lenders and borrowers come to meet. These new avenues for funding offered a stop-gap measure at the time but, as disruptors are wont to do, are continuing to offer their services.

However, these new lenders suffer from poor customer satisfaction. Online lenders earned the worst lender satisfaction in the recent Small Business Finances Survey, easily eclipsed by not only small banks that earns the highest satisfaction but also by large banks. The industry of online lenders has suffered many setbacks in the recent years ranging from issues surrounding usury laws and lending without licensing.

**Table 1: Small Business Lending at Maryland-based Banks**

Name	Total Assets (\$millions)	SB Loans #	SB Loans (\$millions)	Amount per loan (\$thousands)	% of SB Lending
Sandy Spring Bank	4,070	28,509	3,818	134	16%
Eaglebank	3,395	12,994	2,222	171	22%
Columbia Bank	1,962	18,823	2,896	154	18%
First United Bank & Trust	1,324	27,774	1,678	60	13%
First Mariner Bank	1,228	10,506	1,863	177	20%
Old Line Bank	1,140	4,243	776	183	29%
Community Bank of the Chesapeake	979	12,182	2,243	184	35%
Severn Savings Bank	836	691	172	250	13%
Rosedale FS&LA	794	153	50	331	5%
Baltimore County Savings Bank	636	490	106	218	16%

### The Maryland Landscape

Using the Federal Reserve Call report data for small business loans, Table 1 provides a quick glance on the small business lending activities by top ten large Maryland-based banks between 1993 and 2013.

It is evident that lending to small business owners does not represent a significant portion of banks' overall lending. In general, small business loans represent about 19% of total lending and average loan size is about \$186,000 per loan. Large banks tend to be more willing to participate in small business lending, both in terms of total numbers of loans issued and total amount of credit granted. Sandy Spring Bank, as the largest bank in assets, has issued the most number of loans and largest total amount of loans over the last two decades. It is notable that Community Bank of the Chesapeake, formerly named as Community Bank of Tri-County as the oldest independent financial institution headquartered in Southern Maryland, while relatively small in terms of total assets, actually carries the largest share of small business lending compared to other Maryland-based banks.

The presence of not only strong local lenders but also a vast ecosystem in support of small businesses bodes well for Maryland. According to the August 2016 Small Business Economics Trends report by the National Federation of Independent Business<sup>6</sup>, optimism among

small businesses remains subdued at 94.4, below its 40-year average of 98. Yet, optimism has recovered from its low of 81.1 in 2009 but has fallen off its highest value of 100.3 in late 2014. The current uncertain economic and political environment weighs on small businesses' decisions. Among small business owners, 23% deem the economic conditions as not being a good time for expansion while 20% deem the political climate as not being a good time for expansion. This is in contrast to their assessment of credit conditions as their perception of loan availability is as high as it was in 2006. It appears that credit conditions are poised to be supportive of small businesses' expansion plans, as soon as they materialize.

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- <sup>1</sup> SBA successes post-recession by Natalia Olson-Urtecho in The Lebanon Daily News (Pennsylvania), Opinion, Page A9, September 15, 2016
- <sup>2</sup> Why small business lending isn't what it used to be, 2013, Ann Marie Wiersch and Scott Shane, Federal Reserve Bank of Cleveland, Economic Commentary # 2013-10.
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- <sup>6</sup> NFIB Small Business Economic Trends, August 2016, William C. Dunkelberg and Holly Wade - <http://www.nfib.com/assets/SBET-August-2016.pdf>



## The DOL Fiduciary Rule: What Is It and Why Should We Care?

By Farhan S Mustafa, CFA

Senior Research Analyst, ClearBridge Investments, LLC.

*Editor's note: The following article was researched and written before the U.S. elections. It assumes that the DOL Fiduciary Rule would most likely be implemented according to the timeline provided by the Department of Labor. Although the outcome of the election reduces this likelihood, we included the article because it provides useful historical context as well as the CFA Institute's position on an important and relevant topic for our readers.*

### Introduction

In April 2017, the Department of Labor ("DOL") is expected to implement an expanded definition of "fiduciary" to include a larger group of finance professionals and activities than the current standard in the investment management industry. The rule changes include certain exemptions that are expected to be phased in by January 2018. The Securities and Exchange Commission ("SEC") is also expected to propose its own set of fiduciary rules in April 2017.

What is the DOL's fiduciary rule and how will it affect investment professionals and their investor clients? Why do both the DOL and the SEC have fiduciary rules and what are the similarities and differences between them? Given the Chartered Financial Analyst ("CFA") designation's mission to "lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society," what is the CFA Institute's position on the proposed changes? What does all this mean and why should we care?

I will attempt to answer these and other related questions in this article. Additionally, I will present the major arguments in support of, and against, the DOL's fiduciary rule, which would hopefully provide some food for thought for investment professionals and investors.

### Current Regulatory Framework

The Securities Exchange Act of 1934 and the Investment Advisers Act of 1940 ("1940 Act") identify three main client-facing intermediaries: a *broker* is defined as someone who conducts securities transactions on behalf of others; a *dealer* is defined as someone who buys and sells securities for his or her own account; and an *investment adviser* is defined as someone who provides advice to others regarding securities.

Broker-dealers and investment advisers are subject to different federal regulations. The SEC regulates brokers and dealers, while the Investment Advisers Act regulates investment advisers.

- Under NASD rule 2310, a broker-dealer making a recommendation to a retail customer must have grounds for believing that the recommendation is suitable for that customer with respect to his or her portfolio, financial situation, and needs. Furthermore, the broker-dealer is required to make "reasonable efforts" to discover the client's financial status, tax status, investment objectives, and other reasonable information in making the recommendation.
- Under the 1940 Act, investment advisers owe fiduciary obligations to their clients. This requires them to act solely with the client's investment goals and interests in mind, free from any direct or indirect conflicts of interest that would tempt the adviser to make recommendations that would also benefit him or her, or their employer before the client.

### Evolution of the Industry

The investment management industry has been transformed over the decades since these laws were passed. The industry is now composed of a large number of heterogeneous firms that provide a wide range of services and are engaged in a variety of relationships with one another. In addition to broker-dealers and investment advisers, such as *registered investment advisors (RIAs)*, a number of other job titles have entered the marketplace, including *advisor*, *financial advisor (FA)*, *financial planner*, and *financial consultant*. Based on SEC-registered investment advisor form ADV filings for 2016,<sup>1</sup> Maryland-based investment advisors employ nearly 9,000 people, out of which more than 3,700 perform an investment advisory function and around 1,700 are a registered representative of a broker-dealer.

These distinctions can be confusing. A survey and focus group discussions conducted by the RAND Group showed that investors had difficulty distinguishing among industry professionals and perceiving the web of relationships among service providers. Additionally, focus-group participants with investments acknowledged uncertainty about the fees they pay for their investments and survey responses also indicated confusion about the fees.

Interestingly, despite their confusion about titles and compensation arrangements, most survey and focus-group participants said they are happy with their financial service provider. The participants mentioned their financial professionals' personal, service-related attributes, such as attentiveness, accessibility and trustworthiness more than dimensions such as expertise or performance.

If the investing public doesn't seem to care about the legal and regulatory distinctions between broker-dealers and investment advisers, then why should regulators and the rest of us care about this? According to the DOL, many investment professionals operate within compensation structures that are misaligned with their customers' interests and often create strong incentives to steer customers into particular investment products. These conflicts of interest do not always have to be disclosed and advisers have limited liability under federal prison law for any harms resulting from the advice they provide to investors, including "the loss of billions of dollars a year for retirement investors in the form of eroded plan and IRA investment results, often after rollovers out of ERISA-protected plans and into IRAs." According to some estimates, investors "waste" up to \$17 billion in "exorbitant fees" each year.<sup>2</sup>

### DOL's Final Rule

In April 2016, the DOL issued its final rule ("Rule") expanding the "investment advice fiduciary" definition under the Employee Retirement Income Security Act of 1974 (ERISA) and modifying the complex of prohibited transaction exemptions for investment activities in light of that expanded definition. At its core, the Rule describes the kind of communications that would constitute "investment advice" and then describes the types of relationships in which those communications would give rise to fiduciary investment advice responsibilities.

The Rule identifies several types of activities as "investment advice" where the provider of such activities would be considered a fiduciary:

- *Recommendation to distribute plan assets.* A recommendation regarding the advisability of acquiring, holding, disposing of, or exchange, securities or other property. However, only providing plan participants with information about the plan or IRA distribution options will not create a fiduciary.
- *Recommendation as to management of plan assets.* A recommendation regarding the management of securities or property. Individualized advice concerning proxy voting and other ownership rights creates a

fiduciary duty, but guidelines and other information about proxy voting policies provided to a broad group of investors would not.

*Appraisals.* An appraisal, fairness opinion or statement about the value of securities or other property when provided in connection with a specific transaction involving acquiring, disposing or exchanging of the securities or other property by the plan or IRA.

*Recommendation on investment managers or advisers.* A recommendation on the selection of an investment adviser of manager would constitute investment advice. However, general advice on the criteria to consider when making such selections would not be considered a recommendation.

The manner in which the content is provided would also be important for determining whether a person providing it is a fiduciary. In order to be a fiduciary, a person would have to acknowledge that status as a fiduciary with respect to the advice, or give the advice "pursuant to a written or verbal agreement, arrangement or understanding that the advice is individualized to, or that such advice is specifically directed to, the advice recipient for consideration in making investment or management decisions with respect to securities or other property." Consistent with this approach, information that is provided by someone not claiming to be a fiduciary under ERISA or is so general as not to meet the standard for individualized advice will not necessarily trigger the requirements pertaining to being a fiduciary.

The DOL also proposed certain carve-outs from its definition of investment advice, including arms' length transactions, advice from employees of a plan sponsor to the plan fiduciary as long as the employee does not receive additional compensation, platform providers of investment alternatives to plan fiduciaries, swap transactions, employee stock option plan (ESOP) appraisals, investment alternatives, and educational materials. Additionally, the Rule retains certain prohibited transaction exemptions (PTEs) and proposes new ones to allow advisers to continue engaging in common compensation practices. At the same time, a Best Interest Contract Exemption (BICE) would protect plan participants and IRA accountholders from certain new and amended PTEs. The BICE is designed to allow individual retirement advisers or their firms to provide advice under otherwise "conflicted" circumstances while continuing to receive otherwise prohibited compensation for the sales of several commonly purchased investments.

### CFA Standard of Codes & Ethics on the Topic

The Code and Standards are the foundation for the CFA charter and CFA Institute membership. All members are required to comply with the Code and Standards as a professional obligation, and every year, each member affirms continued adherence. This ethical foundation informs members' activities and conduct and is an important distinguishing characteristic of CFA charter holders.

Prior to 2005, the Code and Standards included a section specifically titled "Fiduciary Care" that required members to determine applicable fiduciary duty and



*The Rule would likely hurt independent broker-dealers the most as this group currently operates under the "suitability" standard. This group will need to craft new administrative steps and invest millions in technology and training to meet the rule's requirements.*

comply with it. In 2005, the Standards of Practice Council determined the term "fiduciary" often carried different legal interpretations in different jurisdictions. So they recommended using the terms "loyalty, prudence, and care" instead of "fiduciary" to more clearly define a member's responsibilities. As it stands, Standard III (A) – Loyalty, Prudence, and Care states: *Members and Candidates have a duty of loyalty to their clients and must act with reasonable care and exercise prudent judgment. Members and Candidates must act for the benefit of their clients and place their clients' interests before their employer's or their own interests.*

### CFA Institute's Position on the Rule

Consistent with the Code and Standards' emphasis on CFA Institute members acting with loyalty, prudence and care, the Institute "strongly supports DOL's aim to put clients' interests first." Specifically, the Institute supports the details included in the Rule with regards to investment advice and the types of relationships that would constitute a fiduciary obligation. The Institute also supports the DOL's carve-out of educational materials from the definition of investment advice as long as the materials do not include advice or recommendations as to specific investment managers or products.

The Institute has also taken a position in support of the DOL against some of the common critiques of the Rule. The Institute does not believe that broader scope of the more stringent fiduciary obligations would preclude smaller investors from receiving investment advice. It believes the advisory industry, with the benefits of technology, "will be able to meet the needs of investors and fill whatever temporary void is created" in the provision of advice for clients with small asset levels "should certain current providers discontinue their services." The Institute further takes exception to comparisons made between the Rule and an "exodus" of advisors in the U.K. after implementation of the Financial Conduct Authority's Retail Distribution Review (RDR) in late 2012. Specifically, it points out that the RDR included elimination of commission-based transactions altogether, which is not part of the DOL proposal. Additionally, the Institute disagrees with the argument that potentially conflicted advice, as currently provided by professionals that do not adopt a fiduciary responsibility, is better than no advice at all. Instead, it believes that "investors will continue to receive the retirement advice they need, and technology and providers will step in to fill whatever void is created."

At the same time, CFA Institute disagrees with certain elements of the Rule. First, it believes the Rule is too complex in its current form, which would lead to unnecessarily high compliance costs and ultimately dilute its effectiveness. Second, the Institute is asking for more clarity on when legal liability would attach to an investment professional's action so there is less ambiguity about the Rule's boundaries. Third, the Institute is urging the DOL to work with the SEC to create fiduciary obligations for professionals who provide investment advice to retail investors, as the current Rules are limited to the retirement arena.

### Public Reaction to the Rule

The DOL estimates implementing the fiduciary rule would cost between \$10.0 billion and \$31.5 billion over 10 years in compliance-related costs, including first-year setup and subsequent annual expenses. Savings from technological innovations and market adjustments may reduce costs. Only time will tell whether costs will be more, due to the natural upheaval any major change to business models can cause.

The Rule would likely hurt independent broker-dealers the most as this group currently operates under the “suitability” standard. This group will need to craft new administrative steps and invest millions in technology and training to meet the rule’s requirements. The Rule does not ban commissions or revenue sharing, but advisors will have to sign BICE pledges to act in the client’s best interest and only earn “reasonable” compensation. The risk of potential legal action under such arrangements would likely push advisers away from commissions-based compensation to a fee structure.

At the same time, registered investment advisors, who are already held to a fiduciary standard, will only have to make some operational changes to serve retirement plans and accounts, including documentation to the DOL to show how the clients’ interest are being put first.

It is important to remember that the DOL fiduciary rule only applies to advisors who guide investors in IRAs, 401(k) plans and health savings accounts (HSAs). The DOL has no jurisdiction over personal assets in taxable accounts. However, several organizations are taking steps that may signal the eventual migration of all advisory accounts to fee-based from commission-bearing.

As noted earlier, the investing public is mostly confused about the difference between fiduciary and other standards, and many of them don’t think these standards are meaningful. However, investors with smaller retirement accounts may hear their adviser tactfully suggest that their needs can be better met elsewhere, possibly recommending their own firm’s digital advice solution or another robo-adviser. While this may be annoying for the investor, the hope is that the Rule would drive the more egregious advice businesses out of commission, which tend to put clients into expensive investments that don’t pay off enough for them in the long run.

The Rule faces the potential of court challenges from industry groups as well as Congressional opposition to kill the regulation, although President Obama has pledged to veto such legislation. Meanwhile, the Rule is increasing the pressure on the SEC to approve a uniform fiduciary standard, something SEC Chairwoman Mary Jo White has indicated she supports.

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## The Importance of Online Presence in Today's Businesses

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### Consumer Behavior Online

#### From Strolling to Scrolling

In 2013, the U.S. Census reported that 83.8 percent of households have at least one computer, with 74.4 percent of the total population having internet connectivity (File, 2014). To make this more striking, 1 in 3 Americans has not only a computer, but a tablet and smartphone as well (Anderson, 2015). Americans have nearly unlimited access to information. It is no surprise that in 2014, internet users above the age of sixteen spent an average of 20 hours and 30 minutes online each week, which is more than double the amount of time spent just 10 years prior (Ofcom, n.d.). Rather than strolling through stores, consumers are scrolling through webpages to research their options, compare pricing and qualities, and add those items to their shopping carts. According to SocialTimes, 81 percent of consumers in 2014 researched an item online before stepping foot in a storefront – and that's if they went to a storefront at all (Morrison, 2014). In 2016, online purchases accounted for 51 percent of overall purchases in the United States, and this number only continues to rise (Stevens, 2016).

#### Small Businesses' [Limited] Online Presence

As of September 2015, 60 percent of small businesses did not have a website, and a mere 12 percent of these businesses had a Facebook account (Townsend, 2015). Considering that consumers generally turn to the Internet before making purchasing decisions, the lack of an online presence translates into lost opportunities for small businesses. These businesses are not even in the category of consideration during the shopping process, and their competitors easily make the sale. Thus, having an online presence and a digital marketing strategy is crucial for a business growth and success.

### Elements for a Business' Online Presence

#### Influencing Customers' Journeys to Online Purchases

There are a variety of marketing vehicles that a business has access to, and each plays crucial but distinct roles in a small business' digital marketing strategy. For optimized results, marketing channels these platforms should all be used to create a net attraction to the brand since they are building blocks of an integrated marketing communications strategy that seeks to persuade potential customers at different stages in their journey to a purchase or transaction on a website. The

customer journey to a purchase is made up of four stages: awareness, consideration, intent, and decision. Thus, small businesses can reach customers across time, communication channels, and touchpoints with a consistent message (MMC, 2015).

#### A Website

A website is the central piece of a small business' online presence. The website provides general information about the business – contact information, locations, products and services – and serves as the hub to which other campaigns drive (van Tonder, 2015). Analytics from the website can give a company insight into how each platform is performing. For example, small businesses can compare the number of visitors coming to the website from a Facebook page or an email campaign, their behavior on the page, and their conversion rate. Consequently, companies can figure out which of the platforms is more effective in driving traffic and sales and which needs improvement (Blackwell, 2014b).

#### Display Advertisements

Display advertisements are a type of online advertising that appears next to content on a website that is relevant to a brand's target market (Gupta and Davin, 2015). For example, a company that sells laptops and phone accessories might have a display advertisement on a site that provides users with information about news in the technology industry. Display advertisements are particularly effective in the awareness stage of the customer's journey to a purchase (Google, n.d.).

#### Social Media

Social media are communication platforms built on community interactions, sharing and collaboration. Social media sites, such as Facebook, Twitter, and Instagram, allow brands to express their personality, show the business' involvement in the community, and make the company a resource. In addition, social media allow users to share their experiences with a brand and interact with other consumers. Social media are particularly effective in the consideration stage of the customer journey to a purchase (Google, n.d.). Word of mouth is considered the most effective and powerful marketing strategy since consumers trust recommendations from friends and other users who do not seek an economic benefit from endorsing or boycotting a brand. Social media have acted as a megaphone for consumer and company's messages and have become highly influential in early stages of purchasing decisions. While encouraging users to engage with the brand,

Figure 1: The Periodic Table of SEO Success Factors (Search, 2016).



businesses post content relevant to what they offer while taking context into consideration. The content all have a purpose towards increasing conversions; it should be linked to pages on the company's website that relate to each post specifically (Blackwell, 2014a).

#### Email Campaigns

Email campaigns help nurture prospective and existing customers, and remain a powerful marketing tool when delivering personalized content tailored to a consumer's needs. Email marketing provides a strong return on investment and is simple enough to implement for small business owners (Agius, 2015). Small businesses can inform, remind, or alert consumers of upcoming sales or new products that are highly relevant to them. Considering that 91% of consumers check emails daily (Agius, 2015), emails reach customers where they are — their inbox. Email marketing leverages customer relationships and keeps companies top-of-mind with consumers. Email marketing is particularly effective in the intent stage of the customer journey to a purchase (Google, n.d.).

#### Paid Search Campaigns

Similarly, paid search campaigns (also known as pay-per-click) are most effective in the intent stage of the customer journey to a purchase (Google, n.d.). When a consumer types a word into a search engine, thousands upon thousands of results appear within milliseconds. A business can easily be lost in the search, especially if it does not appear on the first page of results. Paid search campaigns allow ads to be displayed at the top of the first page of a search engine results page and direct quality traffic to a website. Website traffic through paid ads is only driven by relevant searches; that is, ads are displayed only to consumers who indicate an interest in the products or services that a business offers.

#### Search Engine Optimization

Finally, search engine optimization (SEO) makes a website rank higher in the non-paid area of a search engines results page; thus increasing the visibility of a business. Seventy-five percent of Internet users never go past the first page of a search engine results page (Kagan, 2011) and the first five results on page one account for almost 70 percent of all consumers' clicks (Schwartz, 2014). Since most of Internet searches start on Google, ranking in the first page of a browser is of utmost importance. Search engine optimization is most effective in the decision stage of the customer journey to a purchase (Google, n.d.); that is, when consumers are the closest to make a purchase.

In Figure 1, you can see some of the factors that affect SEO, including the content on the page, the quality of the page's links, and the page's online social interactions (Search, 2016).

Each of these factors helps the website to appear higher in the search results, and therefore increases the web traffic for that site.

#### Helping Local Businesses To Enhance Their Online Presence

##### Connecting Theory to Practice through Real-Life, Hands-On Projects

As part of the Google Online Marketing Challenge, a group of students from Towson University ran the Google AdWords campaign for a public, nonprofit, and educational zoo in Thurmont, MD. The AdWords campaign ran for two weeks during late spring 2016 had an overall goal of increasing awareness about the company. Thus, while gaining experience on running an advertising campaign, our team contributed to enhancing the online presence of a small, local business.

#### Google AdWords

Google AdWords is an advertising system that Google offers, where businesses can use keywords that are commonly typed into search engines to attract highly targeted customers. Businesses "bid", or compete in a virtual auction, to have their ads show up earlier in the search results, and therefore before their competitors. Google charges the AdWords account each time someone clicks on the link and goes to that webpage. Certain keywords are searched more than others, so a company must decide between the cost they are paying for each person that follows the link, or the cost-per-click, and the number of other search results that the company will be fighting against for a certain keyword. Businesses can set a budget, and once that budget is reached, Google will no longer push their account for those keyword searches. It is important to choose keywords that are relevant to the product or service so that the people that click are more likely to be future customers, rather than users that click on the link, do not find what they are looking for, and leave the page (Google, n.d.).

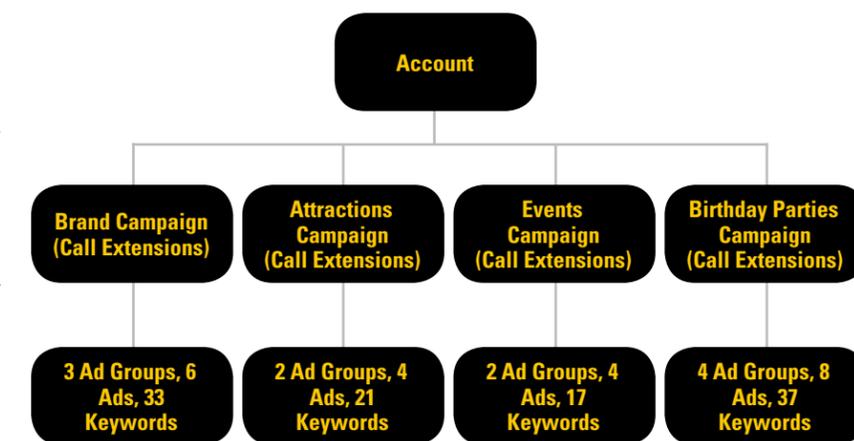
#### Our Business Partner

Our business partner was selected based on a few criteria including the website and no evidence of a previous AdWords campaign. The strength of a company's landing page, or page that consumer is led to by clicking a link on Google, is important with online advertising. Simple changes, such as having headings, links to other pages on the website, pictures, and mobile device compatibility will make a landing page more effective. Our business partner had an online presence with an up-to-date website, but had not run an AdWords campaign in the past. Thus, they benefited from users conducting searches that led them to highly relevant pages on their website.

#### Implementation and Execution

The first step in the process of implementing Google AdWords is to build out the account structure. Within the account there are *campaigns*, *ad groups*, *ads*, and *keywords*. *Campaigns*, the highest level, are a set of ads categorized together to align products and services. Under the "campaigns" category are *ad groups*, or sets of one or more ads that target the same keyword, which then have individual ads and keywords. Since the structure of the campaign is an important factor that sets the tone and influences success, it has to be organized and well thought out.

Figure 2: Account structure from Google AdWords competition



Once the structure and methods of implementation are established, the next step in the process is to run the campaign. This requires constant monitoring to evaluate individual ad performance. More money can be allocated to higher performing ads, while ads that do not perform as well can be paused to increase the effectiveness of the overall campaign. Raising the budget on certain ads allows them to be displayed more often, which increases *impressions*, or the amount of times the ad is shown on the search page to a consumer, and *click-through-rates (CTR)*, or the ratio of the ad being shown and being clicked. These two metrics are important when a campaign's goal is increasing awareness, as was the goal of our campaign. For example, our Birthday Parties Campaign ads were focused on educating the consumer on the options provided by the business, whether it was overnight or day parties. This resulted in the most impressions, or consumers seeing the ad and increasing awareness that the business offered this service. The Brand Campaign, which focused on general and contact info, generated the most clicks in relation to the amount of times the ad was seen. This means that the awareness on the Brand

Campaign actually generated more visits to the site – meaning that consumers became aware of the zoo and contact information. Throughout the campaign, keywords were monitored daily for results and research was done to utilize better performing keywords. This data is provided by Google as a part of the AdWords service. Incorporating these top keywords into our ads was important, as it increased the relevancy of the ad for the consumer and made it more likely that they would click. Running an AdWords campaign is an ongoing process that requires constant edits and flexibility when making those adjustments.

#### Results

As a result of the campaign, 26,500 consumers were exposed to an ad for our business. Of these 26,500 consumers, 180 clicked on the ad – translating to a 0.68% CTR. At the end of the competition, our team ranked 578<sup>th</sup> out of 2,129 teams, performing better than 73% of our competitors.

Impressions and visibility from AdWords, combined with a strong online presence and relevant ads, draw potential new customers to any type of business. The number of consumers who search for products and services online is continuously increasing, with 51 percent of all purchases being online in 2016. (Stevens, 2016). Of small businesses, over half do not have an online presence, which means they are not even being considered by these online consumers. This online consumption trend is predicted to increase significantly at a rapid pace, making it more crucial than ever for businesses to have an online presence.

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## How Baltimore's Natural Advantages and Infrastructure Can Lead to Economic Growth

By Niall H. O'Malley, MBA  
Portfolio Manager, Blue Point Investment Management

In recent history, Baltimore has been challenged by a lack of economic opportunity, but that need not be the case moving forward. One of the most effective ways to enhance economic opportunity is to understand the region's natural resources and then invest in these natural advantages to deliver economic growth to both the city of Baltimore and the state of Maryland. This article looks at the historic natural advantages that have shaped Baltimore, and the infrastructure investment opportunities that can enhance economic growth in the region.

### The Development of Baltimore Town

Following the American Revolution, Baltimore Town had fewer than 6,000 inhabitants, but it had a bevy of natural advantages: a protected deep water port that offered the best inland access and natural resources that extended beyond farmland and timber to include iron, copper and coal. In addition, Baltimore had ample freshwater from the Jones Falls River and Harris Creek. Interestingly, the fresh water content in Baltimore's harbor was a significant advantage for Baltimore over Annapolis in the age of wooden tall ships. The bane of ship owners was the shipworm, a relative of the salt water clam, often called the "termite of the sea." These mollusks bore into wood leaving a network of channels. The combination of the Jones Falls River and Harris Creek introduced enough freshwater into Baltimore's harbor to make it unappealing to shipworms thereby preserving the structural strength of tall ships. So the combination of a deep water port that offered the closest land access to the Ohio River Valley and a lower salinity helped contribute to Baltimore overtaking Annapolis as a preferred commercial port.

### With Ships Come Trade and Ship Building

In 1785, the ship *Pallas* was recorded as the first ship to arrive in Baltimore from China as noted in George Washington's archives. The arrival of the *Pallas* with a cargo from Canton, China was a seminal moment in a spice trade that continues to this day with McCormick & Company. The *Pallas* brought cinnamon, cinnamon flowers, teas, opium, fine china, and silks. Baltimore Town thrived by exporting tobacco, pig iron, grains and refined flour. Baltimore was a primary port for sugar from the Caribbean, as well as immigrants, indentured servants, and slaves. In 1797, commercial growth drove geographic growth when Baltimore Town merged with Fells Point and incorporated as the City of Baltimore.

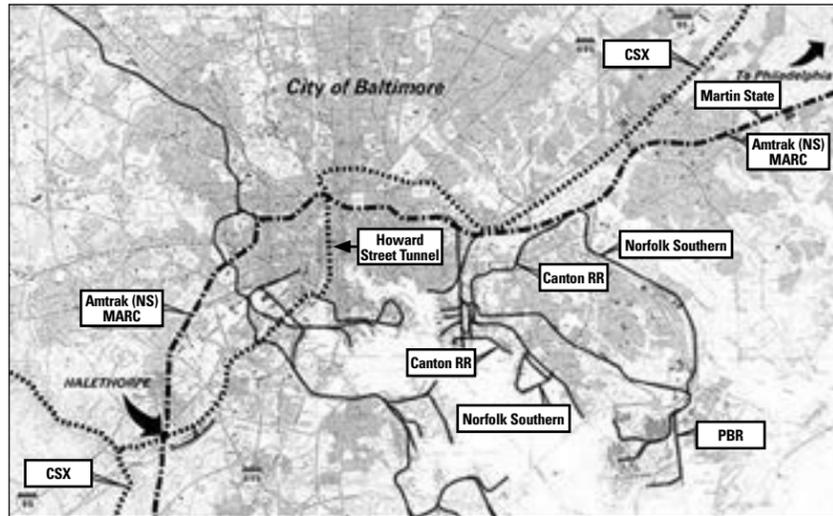


Tall ships Baltimore Harbor circa 1870. uncredited photo, Center Club

With international trade came the need for credit to finance trade and ship building. In the early 1800s Alex. Brown & Sons and Peabody, Riggs & Company provided credit and bills of exchange which fueled trade and ship building. During this period, Federal Hill was called Signal Hill, and the daily arrivals and departures of tall ships were noted with the raising and lowering of flags. During the 1800s there were 72 shipyards in Baltimore, and a number specialized in building a class of ship called the Baltimore Clipper, which offered unparalleled speed and maneuverability.

Baltimore Clippers had distinctive design innovations that allowed them to out sail British ships. First, Baltimore Clippers had distinctive masts that were sloped back. This mast design, known as raked masts, originated in the Chesapeake. Next, the Baltimore Clippers had sharp, V-shaped hulls, which led to them being called sharp built. To increase the sail area, Baltimore Clippers secured a long pole to the bow, which is called a bowsprit. The enormous sail area of a Baltimore Clipper and the sharp built hull design gave it speed and maneuverability. Baltimore Clippers were renowned for their ability to sail close to the wind, which helped them outmaneuver and capture British ships.

A Baltimore Clipper still sailing today is the *Pride of Baltimore II*. The ship's design is based on the design elements unique to the Baltimore Clipper's. The *Pride of Baltimore II* shares the speed and maneuverability of the *Chasseur*. In 1815 when the *Chasseur* returned to Baltimore, it was celebrated as being the *Pride of Baltimore*—a name that has stuck over 200 years later. Privateers like the *Chasseur* helped exact an extraordinary cost on the British Empire, capturing or sinking 1,200 ships between 1812 and 1815. In 1815, insurance rates for British ships skyrocketed to approximately one third the value of their cargo due to extensive losses exacted by privateers like the *Chasseur*. So, the reason the British came to Baltimore in 1814 was not



for the view from Fort McHenry, but a sincere desire to take control of the “hornets’ nest” of ships and ship building in Baltimore.

Following the end of hostilities in 1815, Baltimore’s trade and industrial base grew. A new economic threat emerged for the Port of Baltimore in 1825 with the opening of the Erie Canal. The Erie Canal connected the Hudson River with the Great Lakes, and transformed the relevance of New York as a port. Realizing the significance of the threat, Baltimore invested—privately and publically—in what would become America’s first commercial railroad. In 1827, Alexander Brown and his son George lead the organization of the Baltimore & Ohio Railroad Company, and took leading roles in taking the company public. The stock offering raised \$4 million dollars from over 23,000 investors. The Baltimore & Ohio Railroad sought to compete directly with the Erie Canal by offering more direct access to the Ohio Valley. The age of tall ships flourished as the Baltimore Clipper hull design inspired larger and faster clipper ships that were square riggers with deep keels for cargo but had pointed bows and sterns. The ‘tea clippers’ dominated trade with the East as demand for teas, spices, silk and porcelain grew. The Baltimore & Ohio Railroad transported the grain harvests of the Ohio Valley to the Port of Baltimore for export, while inbound ships carried both cargo and an increasing number of immigrants.

Between 1840 and 1860 the population of the city doubled. There was an influx of German and Irish immigrants to Baltimore dislocated by conflict in continental Europe and the Great Potato Famine in Ireland. Also during this time Baltimore became home to the largest free black population in the country. In the ten years prior to the Civil War, free blacks outnumbered slaves by more than eight to one. The 1861 Pratt Street Riot marked one of the initial conflicts associated with the beginning of the Civil War. Federal troops turned the guns at Fort McHenry and Federal Hill on the City, and Baltimore spent four years under military supervision. During this period, trade with the South was cut off. After the Civil War, ship building began anew in Baltimore, and Isaac Myers started Baltimore’s first African American-owned shipyard, which is celebrated today by the Fredrick Douglass – Isaac Myers Maritime Park in Fells Point.

The success of the Port of Baltimore is tied to the transit options offered by commercial railroads. The vertical north-south leg of the CSX Track in downtown Baltimore along Howard Street is widely considered one of the biggest bottle necks in the East Coast of the U.S.

### Creative Destructive Forces of Innovation Reshape Transportation

Standing today as an Inner Harbor landmark is the Power Plant, an example of the creative destructive forces at work in Baltimore. The Power Plant was built in 1899 to supply power to the United Railways and Electric Company for its electric streetcar system. However, after World War II, the popularity of motor cars led to the demise of Baltimore’s electric streetcar in 1963. In 1965, transportation planning migrated to a six line Metro Subway system. Phase 1 was approved in 1972, and in 1983 Baltimore’s Northwest line – the Green Line – opened. The Red Line extension was estimated to cost \$2.9 billion.

The creative destruction associated with innovation, like the electric streetcar and the plant built to power it, has changed the importance of subways relative to their cost. The long sought Red Line subway extension was canceled due to its estimated \$2.9 billion cost. The Red Line would have required extensive excavation between Lombard Street and Baltimore Street, critical bottle-necks in the city’s already constrained infrastructure. New technologies are changing commuting patterns and ride sharing options. Telecommuting has grown into a commonly accepted practice, and an even newer



Under this plan the Inner Harbor, Pratt Street, Boston Street and Federal Hill would struggle to be more and elevated highway transit points.

technology has gained wider acceptance: ride sharing applications like Uber and Lyft. These ride sharing applications have fundamentally changed point-to-point transit, and are rewriting the rules about the number of parking spaces needed for urban developments as owning a car becomes more optional. In an era of scarce resources and changing commuter options, there is an option to do more with less.

### BaltimoreLink

Constraints breed resourcefulness and invention. Using demographic data, decades old bus routes are being redrawn. A unified approach to urban transit, BaltimoreLink, is having a staged rollout, and is expected to be fully operational in July, 2017. BaltimoreLink includes 30 bikeshare locations that will be co-located with Zipcars to make point-to-point transit more seamless. There will be 12 new CityLink bus routes that use color coding to clearly indicate the bus route. An already observable change is the dedicated bus lanes being established throughout the city to facilitate more timely service. Timetables will be replaced with monitored scheduling every 10 to 15 minutes. The same changes will be made to Baltimore’s LightRail which will become known as RailLink with 10 more hours of service on Sundays.

### Highway versus Inner Harbor

A byproduct of the Eisenhower Interstate Highway System was Baltimore’s proposed East/West expressway in 1960. The plan called for the integration of Route 70, Interstate 95 and Interstate 83, but sacrificed the Inner Harbor, parts of Little Italy, Fells Point, Canton and Federal Hill. Downtown Baltimore would have been cut off as an elevated highway ran down Pratt Street, Boston Street, and across Federal Hill. From a planning perspective, Interstate 83 was never intended to end in Baltimore’s downtown core. But in 1980, Inner Harbor development took hold, and the area began the transition into a tourist destination. At the same time, the nation’s 1776 bicentennial played a leading role in highlighting the historical significance of Fells Point. The planned highway’s circular access ramps would have fundamentally changed many historical elements of Baltimore. Community opposition and over a dozen redesigns over two decades resulted in the hybrid solution that filled in and expanded Light Street, expanded Martin Luther King Jr. Boulevard, and added the elevated roadway that connects to Interstate 95.



Baltimore's Seagirt Marine Terminal due to infrastructure investments can handle the new-Panamax container ships.

### Smart City Challenge

Due to past choices, Baltimore suffers with limited East/West infrastructure, so the city needs further investment in infrastructure to lessen transit bottlenecks. One item sorely needed is traffic light synchronization on East/West thoroughfares. Synchronizing traffic lights with an assumed velocity would enormously help optimize traffic through key bottlenecks on Light Street and Boston Street. Linking the traffic lights to a dynamic smart grid would allow for fine tuning of the traffic patterns on a real-time basis and alleviating a rush hour that has evolved into a 3 to 4 hour rush period. Investing in traffic light infrastructure, maintaining city roads, and BaltimoreLink are key steps that would allow Baltimore to compete for funding under the Department of Transportation's Smart City Challenge, a federally-funded grant initiative to support technology transportation projects.

### Sparrows Point and Middle River

As a country the U.S. was literally made stronger by the steel produced at Sparrows Point. The lasting legacy of Bethlehem Steel is in the Empire State Building, the Golden Gate Bridge, the George Washington Bridge, the Chesapeake Bay Bridge and the nation's rail system. From a ship building perspective, Sparrows Point Shipyard has also had a dramatic impact on the nation's maritime history. It built over 670 tugs, barges, passenger ships, destroyers, cargo ships, dredges, tankers, tunnel tubes and oil rigs. During both World Wars, the Sparrows Point Shipyard, supported by Bethlehem Steel, produced more ships than any other American

shipyard. A total of 384 Liberty ships were built by Sparrows Point Shipyard. At its peak in 1943, Sparrows Point Shipyard employed 46,700 workers. Just down the road in Middle River was Glenn L. Martin, which built aircraft and flying boats. Glenn L. Martin built the China Clipper, Philippine Clipper and Hawaii Clipper for Pan American Airways. During World War II, the Glen L. Martin Company built 1,585 B-26 Marauders, and its Middle River plant employed over 52,000 workers in 1943.

### A New Lease on Life

In January 2016, Sparrows Point was renamed Tradepoint Atlantic. The infrastructure that supported Bethlehem Steel and Sparrows Point Shipyard includes two highways systems, an extensive rail system, deep water piers, and its own power plant that can now support development of one of the most centrally located distribution hubs on the east coast. The former industrial site has 3,100 acres of land that now offers low-cost land for voluminous distribution facilities supported by the infrastructure of the Port of Baltimore. As the waterfront of Baltimore continues to gentrify with housing developments and developments like Port Covington, some of the salt piles and roll-on roll-off cargo will migrate to Tradepoint Atlantic. One key difference is that Baltimore will also be building distribution center jobs that leverage existing infrastructure and the Seagirt container terminal. In July 2016, the Seagirt Marine Terminal received its first new-Panamax container ship which carries nearly three times the cargo of a traditional Panama Canal class cargo ship. A new-Panamax container ship can carry 15,000 20-foot containers.

### The Biggest Rail Bottleneck on the East Coast

In 1986, the Chessie System Railroads and Seaboard System Railroads were merged to form CSX. The Chessie System Railroad included the previously merged Chesapeake & Ohio Railway and the Baltimore & Ohio Railroad. CSX, as an integrated rail transportation railroad covering the Northeast, has been working on a National Gateway project to upgrade bridges and tunnels to allow double-stack intermodal containers. The last tunnel project is the Howard Street Tunnel in Baltimore. Due to rail capacity constraints, this area is widely cited as the biggest rail bottleneck on the East Coast. Adding double-stack capacity to the Howard Street Tunnel would offer a critical missing piece of rail infrastructure that would make the Port of Baltimore a

more desirable destination for logistics companies and ships. More importantly, it would allow a doubling of container shipping volume while lowering container traffic congestion on Interstates 95 and 695, and Route 70. Rail capacity of the Seagirt Marine Terminal would double with additional capacity to spare for future growth. In the past, this was fanciful infrastructure investment. The cost of a totally new rail tunnel replacing the Howard Street Tunnel was estimated to cost in the billions, however, with lessons learned from other CSX National Gateway projects and new technology, the estimated cost is now \$425 million. A public-private partnership of the State of Maryland which operates the Maryland Port Administration, the Federal Government's FastLane grants, and CSX Corp which operates the tunnel would each provide one third of the funding. The State's application for Federal FastLane funding was turned down last year, but the State of Maryland is already preparing to apply again in 2017.

### Need for a Blue Water Harbor

As Baltimore gentrifies, the salt piles and roll-on-roll off cargo will move to Tradepoint Atlantic, as Sparrow's Point is repurposed as a distribution hub, an age-old question arises regarding water quality in the harbor. How can Baltimore attract tourism, sporting events and families to a city with an unaddressed raw sewage overflow issue? While Baltimore has been blessed with a wonderful water supply and reservoir system, it was the last large city the U.S. city to install sewage treatment plants in 1912. Baltimore needs to complete the investment in water treatment infrastructure by separating and upgrading old storm water and sewage lines. The current lack of water treatment infrastructure takes away from the city's core asset. Heavy rains regularly overwhelm the city's sewage treatment facilities resulting in a direct discharge of untreated raw sewage and undesirable health risks.

### Conclusion

Today, even with limited financial resources, Baltimore and Maryland have the opportunity to invest in infrastructure that will power economic growth. After a comprehensive review, there are four key projects that will strengthen the region's natural advantages and relieve infrastructure disconnects: the BaltimoreLink mass transit integration project, a smart traffic light management system, double-stack rail capacity in the Howard Street tunnel, and completion of the storm water and sewer line upgrades. It is important that

Baltimore and Maryland make these critical investments. There is a lot of pride in Maryland, and investing in Baltimore's natural strengths will help foster economic growth and regional competitiveness. The infrastructure investments would also leverage the mission of Maryland's Ambassador, the *Pride of Baltimore*, as she reminds the world of the Port that built a City and a State.

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## Business Valuation and Allocation of Goodwill for Equitable Distribution in Maryland

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### Business Ownership Interests in Divorce

Business ownership interests can be one of the largest assets in a divorce. Standards of value and the treatment of goodwill vary from state to state. In Maryland, the standard of value is fair market value (FMV), (Rosenberg v. Rosenberg, 1985). There are about 34 states that use the FMV standard while other states either use intrinsic value, fair value or another standard (Vuotto, 2016). Fair Market Value is defined in *The International Glossary of Business Valuation Terms*, as:

“The price, expressed in terms of cash equivalents, at which property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm’s length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts” (AICPA, 2016b).

Fair market value is similarly defined under IRS Revenue Ruling 59-60, Section 25.2512-1 of the U.S. Treasury regulations (Gift Tax Regulations), Section 20.2031-1(b) (Estate Tax Regulations), and Section 1.170A-1(c) (2) (Charitable Contributions Regulations).

Although no state has formally adopted fair value as the standard of value, a few states essentially use the fair value standard, which treats the spouse similarly to a dissenting shareholder. In general, when the fair value standard is used, discounts such as the Discount for Lack Of Marketability (DLOM) and Discount for Lack Of Control (DLOC) are not applied.

### Valuation Approaches and Methods

Business valuation theory promulgates three basic approaches to value (AICPA, 2016b):

**1. Asset Approach:** A way of valuing a business using one or more methods based directly on the value of the assets of the business less liabilities. This approach is appropriate where the value of the underlying assets drives the value of the business.

**2. Income Approach:** A way of valuing of a business using one or more methods wherein a value is determined by converting anticipated benefits. The income approach includes the capitalization of cash flows method and discounted cash flows (DCF).

**3. Market Approach:** A way of valuing of a business using methods that compares the subject to similar investments that have been sold. Market data applied may include multiples such as P/Revenue, P/E, P/EBIT, P/EBIDTA, and P/SDCF (Seller’s Discretionary Cash Flow). Public company transaction multiples can be obtained from public and subscription sources. Private company transaction multiples available through subscription databases include Pratt’s Stats, Done Deals®/Mid-Market Comps, IBA Transaction Data, and BizComps. In general, the Discount for Lack Of Marketability (DLOM) is not applied under the market approach (Pratt, 2005). Market comparables are from actual transaction prices and already include the DLOM. The DLOM is applied under the income and asset approaches.

### Discounts and Premiums

Premiums and discounts that may be applied, depending on the standard of value and the valuation method, include (Pratt and Niculita, 2008):

#### Control Premium

The valuation of a controlling interest may warrant a control premium. There are benefits that a controlling shareholder enjoys including the ability to determine the amount and timing of dividend distributions, liquidate the company, take the company public, issue or buy stock, direct management, determine salaries, etc.

#### Discount for Lack of Control (DLOC) a.k.a. Minority Interest Discount

For ownership interests of 50% or less, a minority interest discount may be warranted due to the a lack of control prerogatives in declaring dividends, liquidating the company, going public, issuing or buying stock, directing management, setting management’s salaries, etc.

#### Discount for Lack of Marketability (DLOM)

The DLOM reflects an expectation for the lack of a secondary market in which to negotiate a quick sale. In general, the DLOM is not applied under the market approach when valuing closely held companies. The transaction prices reflected in the private company databases are final prices and the DLOM is already included in the final transaction price (Pratt, 2005).

#### Other Discounts

Other discounts may include the blockage discount, key-person discount, and discounts for built-in gains taxes.

### Goodwill

According to Investopedia, goodwill is defined as follows: “Goodwill is an intangible asset that arises as a result of the acquisition of one company by another for a premium value. The value of a company’s brand name, solid customer base, good customer relations, good employee relations and any patents or proprietary technology represent goodwill.”

Both the standard of value and whether personal goodwill is a marital asset, vary from state to state. Therefore, it is essential to review relevant state cases related to standard of value and the treatment of goodwill. Pratt and Niculita (2008) provide a list of goodwill treatment by state. A list of both goodwill treatment and standards of value by state can be found at <http://www.mbappraisers.com/valuation-for-divorce/>.

### Personal vs. Enterprise Goodwill

Personal Goodwill is attached to the individual. Personal goodwill follows the individual and cannot be sold as part of the business. Personal goodwill may or may not be a marital asset depending on the state jurisdiction. Enterprise goodwill is attached to the business enterprise and is generally a marital asset. In Maryland, goodwill is allocated between personal and enterprise goodwill. Enterprise goodwill is a marital asset while personal goodwill is not (Prahinski v. Prahinski, 1985).

### Allocation of Personal and Enterprise Goodwill

Some valuation analysts have argued that all goodwill is personal goodwill for professional practices. Other analysts may attempt to allocate goodwill based on answers to series of interview questions related to personal goodwill factors and enterprise goodwill factors. The Multi-attribute Utility Model (MUM) is a mathematical model that weights various factors related to personal and enterprise goodwill, and calculates an allocation based on those factors. MUM was originally court tested in Indiana, and has been accepted by various courts in the allocation of goodwill for both equitable distribution, and shareholder transactions/disputes (Marriage of Zells, 1991).

### The Multi-attribute Utility Model (MUM)

The objective of MUM is to form an allocation conclusion dividing total goodwill into personal goodwill and enterprise goodwill. With the five alternative ranges below, MUM will provide a weight of 10%, 30%, 50%, 70%, or 90%. MUM can also be applied using seven alternative or 10 alternative ranges (Valusource, 2016a, and 2016b).

**Table 1 Alternative Ranges used in MUM**

FIVE ALTERNATIVE RANGES			
	From	To	Outcome
1	0%	20%	10%
2	20%	40%	30%
3	40%	60%	50%
4	60%	80%	70%
5	80%	100%	90%

### Personal Goodwill Attributes

The following is a list of personal goodwill attributes used in the Multi-attribute Utility Model (Wood, 2004).

#### Personal Group

1. Ability skill and judgment
2. Work habits
3. Age and health

#### Business Group

1. Personal reputation
2. Personal staff, employees who work for the business because of the individual
3. Personalized name, does the business name include the name of the individual
4. Marketing and branding, name recognition of the individual as opposed to the product or service

#### Industry Group

1. In-bound referrals to the individual
2. Closeness of contact, such as a doctor or dentist having close contact with patients
3. Important personal nature, meaning consumers generally are more concerned with the level of service when that service is of a very important personal nature

### Enterprise Goodwill Attributes

The following is a list of enterprise goodwill attributes used in the Multi-attribute Utility Model (Wood, 2004).

#### Business Group

1. Business reputation
2. Business staff, a.k.a. workforce in place, properly trained, and effectively managed  
Business name, as opposed to the name of the individual
3. Business location
4. Whether there are multiple locations
5. Marketing and branding, name recognition of the business.
6. Systems and organization

#### Industry Group

1. In-bound referrals to the business
2. Is there a repeating revenue stream
3. Copyrights, patents, processes, etc.: Although these items may have to be separately valued, the presence of these items may indicate that the business may have enterprise goodwill. These types of intangibles may also increase the repeating revenue stream, increasing enterprise goodwill.

### Utility of Importance and Utility of Existence

The next step is to measure the utility of each attribute. There are two utility measures: Utility of Importance, and Utility of Existence. The level of utility of importance of each attribute is weighted on a scale of least important to most important. Utility of importance is weighted on a scale of 1-5. Utility of existence refers to whether an attribute exists, and whether its existence strong or weak. Each attribute is weighted on a scale ranging from whether the presence of the attribute is weak or absent, below average, moderate, above average, or strong (Wood, 2007).

### Goodwill Allocation Outcome

The data entered for allocation outcome below was designed to show a 50% allocation to personal goodwill and a 50% allocation to enterprise goodwill. These are actual tables are from the MUM software. MUM is an Excel template that integrates with MS Word. (Valusource, 2016a, and 2016b). Utility of existence is weighted on a scale of 0-4. MUM is multiplicative. Therefore, a utility measure of five, multiplied by an existence measure of four, results in a weight of 20 for that goodwill attribute. There are 10 personal goodwill attributes and 10 enterprise goodwill attributes. The goodwill allocation outcome is a weighted average of the personal and enterprise goodwill attributes. See the allocation outcome tables below.

**Table 2: Personal Goodwill Attributes (PGA) Attribute Assessment and Outcomes**

Personal Goodwill Attributes (PGA)		Importance Utility (IU) 1-5 Scale	Existence Utility (EU) 0-4 Scale	Multiplicative Utility (MU)	Percent
<b>Personal</b>	Ability, Skills, and Judgment	5	4	20	10%
	Work Habits	5	4	20	10%
	Age and Health	5	4	20	10%
<b>Business</b>	Personal Reputation	5	4	20	10%
	Personal Staff	5	4	20	10%
	Personalized Name	5	4	20	10%
<b>Industry</b>	Marketing and Branding	5	4	20	10%
	In-bound Personal Referrals	5	4	20	10%
	Closeness of Contact	5	4	20	10%
	Important Personal Nature	5	4	20	10%
Total Utilities		50	40		
Total Multiplicative (PGA) Utility				200	50%
Number of Personal Attributes		10			

**Table 3: Enterprise Goodwill Attributes (EGA) Attribute Assessment and Outcomes**

Enterprise Goodwill Attributes (EGA)		Importance Utility (IU) 1-5 Scale	Existence Utility (EU) 0-4 Scale	Multiplicative Utility (MU)	Percent
<b>Business</b>	Business Reputation	5	4	20	10%
	Business Staff	5	4	20	10%
	Business Name	5	4	20	10%
	Business Location	5	4	20	10%
	Number of Business Locations	5	4	20	10%
	Marketing and Branding	5	4	20	10%
	Systems and Organization	5	4	20	10%
<b>Industry</b>	In-bound Referrals	5	4	20	10%
	Repeating Revenue Stream	5	4	20	10%
	Copyrights, Patents, Etc.	5	4	20	10%
Total Utilities		50	40		
Total Multiplicative (EGA) Utility				200	50%
Total Multiplicative Utility (TMU)				400	100%
Number of Enterprise Attributes		10			

Remember, MUM is only a mathematical model to allocate goodwill. The actual results are only as good as the data entered. It is important to review the relevant state court cases related to standard of value and the allocation of goodwill. Valuation is part art and part science. The judgement of the analyst is critical if the allocation outcome is to make economic sense.

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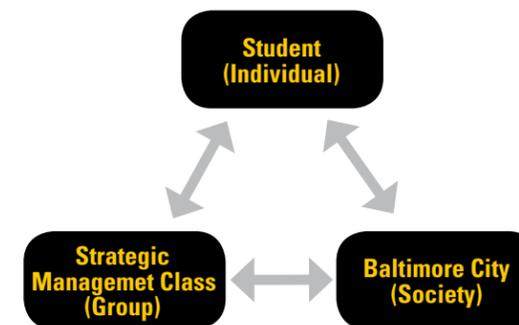
## Imagining Baltimore's Future through Strategic Alliances: Innovative Power in Our Voices

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Considering that Towson University (TU) students are also residents, employees, and interns of the greater Baltimore community, students uniquely experienced the uprising that followed the death of Freddie Gray on April 19, 2015, as well as the issues that led to it. In the aftermath, community leaders debated what instigated a divided community and questioned how companies, organizations, political leaders, and institutions can collaborate for Baltimore's success. Within this context, I challenged students to consider how entrepreneurship and strategic alliances can influence Baltimore innovation. Based on the Social Change Model of Leadership Development (Astin et al., 1996), this assignment considered leadership as a purposeful values-based process through which students, the class, and Baltimore City community work together to impact positive change (Figure 1).

**FIGURE 1: "Imagining Baltimore's Future" Leadership Development Model**



\*Based on The Social Change Model of Leadership Development (1996)

Applying strategic management concepts, students presented innovative solutions based on experiences that affected them, their families, colleagues, and employers. I share their voices and solutions that not only bridge differences, but also, more importantly, inspire hope for the future of Baltimore.

### Inspiration for Learning: Baltimore's Reality and the Death of Freddie Gray

Corporate entrepreneurship and innovation impact financial performance (Zahra, 1993) and strategic renewal (Guth & Ginsberg, 1990) through innovative strategies (Cooper, Markman, & Niss, 2000) and risk-taking (Miller, 1983). Corporate entrepreneurship refers to "vision-directed, organization-wide reliance on entrepreneurial behavior that purposefully ...rejuvenates organization[s] and shape ...operations through recognition and exploitation of entrepreneurial opportunity" (Ireland, Covin, & Kuratko, 2009, p. 21).

Strategic leaders develop effective entrepreneurial strategies by understanding corporate entrepreneurship's embeddedness in the firm's societal context (Thornton, 1999). Baltimore City is diverse, rich in entrepreneurship and creative discovery: Black or African American, 62.9%; White 31.7%; American Indian and Alaska Native, 0.4%; Asian, 2.8%; Native Hawaiian and Other Pacific Islander, 0.1%; and, Hispanic or Latino, 4.8%<sup>1</sup>. On April 19, 2015, our Baltimore reality blurred, as everyone struggled to understand Freddie Gray's death. Although the Department of Justice never stated the cause of death (Baltimore Sun, 2016), questions exist concerning Baltimore's condition, with arguments including socioeconomic divides, unemployment (McCormack, 2015), and questionable law enforcement practices (Wilber & Rector, 2016).

Educational institutions transformed into safe spaces through which students explored economic conditions surrounding Gray's death, while strengthening community commitment and responsibility. Baltimore Sun reporter Pamela Wood (2015) described how educational administrators and faculty integrated Baltimore's societal issues within educational experiences to increase awareness and foster innovation: Baltimore public school district encouraged students to share experiences; a University of Maryland Law School's new course used this case; University of Baltimore's new course considered Baltimore's evolution; and, Mount Saint Mary University's administration facilitated discussion about poverty, race, policing, and social justice.

In April 2015 and 2016, I considered business education within our community context and incorporated societal issues in the classroom by discussing Baltimore news stories, facts, and human experiences to further a more comprehensive understanding of our business world reality. With an open mind, I asked graduating senior students to integrate strategic management theory by imagining themselves as strategic business leaders within their Baltimore community. My main objective was not only improving strategic theory and skill competency, but more importantly, supporting their ethical exploration of strategic leadership community impact. As their voices illustrate, the assignment operationalized Gray's friend Brandon Ross' hope to remember "[Gray] as someone who made the city come together in a tragic situation" (Rentz, 2015).

### Developing Strategic Leaders in a Strategic Management Course

TU's strategic management capstone course *Strategic Management* develops strategic thinking skills by building on knowledge and analytical skills gained from previous business courses (TU, 2016). Applying theory to real examples, students practice analyzing the firm's internal (resources, capabilities, core competencies) and external (societal trends, competitors, industry changes) environments in developing strategies that create value and maximize the firm's competitive advantage.

Through the strategic management process, strategic leaders develop vision, motivate strategic action, and inspire team excellence. Yet, executives' environmental perceptions influence strategic decision-making in combining human capital and social capital to align strategic visions with environmental needs, and maximize value for stakeholders, particularly shareholders

(Ireland et al., 2012); therefore, educating strategic leaders requires creating open spaces to explore our business environmental context honestly.

### The Assignment: Entrepreneurship, Innovation, and Strategic Alliances

Strategic entrepreneurship involves taking calculated risks “to innovate, enter or create new markets, and improve performance” (Ireland et al., 2012, p. 219). Students researched Baltimore City, and recommended solutions that have potential in building on Baltimore’s strengths. As with all innovation, these ideas have implementation challenges, but are theoretically-based and characterized by a common theme calling for increased collaboration among business leaders, students, city administrators, politicians, educational administrators, and residents. In this section, and with their permission, I share student solutions voted insightful by the class.

*Understanding Baltimore.* Students assessed Baltimore’s needs, finding that employment and educational opportunities differed across the city. “As a whole, Baltimore is suffering economically. But, only some sections of Baltimore suffer, while other sections...are well off, ...where majority of residents are Caucasian and the economy is stable. In contrast, in other areas, businesses are collapsing, [economic conditions] in decline for decades, an educational system not ‘up-to-par’, and people... marginalized” (Wallace, 2016).

*Strategic Alliances.* Through strategic alliances, each partner shares complementary resources for a common objective “that when combined, allow for new resources or capabilities that neither firm could readily create alone” (Ireland et al., 2012, p. 194). Students proposed:

- “City of Baltimore, Baltimore City Public Schools, and businesses creating a non-equity alliance called *Charm City Force*: local businesses informing schools [about needed employee skills]; Baltimore City creating training programs for [financially struggling] residents; and, safer school programs for high school students to learn skills” (Reyes, 2016).
- “Baltimore City has over 16,000 homes and 14,000 lots vacant (Baltimore Housing, 2016); [encourage] firms to form alliances to rebuild and repurpose vacant homes and lots” (Williams, 2016).
- Accessing new markets by developing pride and empowering current businesses. “[Historically] Baltimore was a thriving city for both its white and black citizens. But ‘white-flight’ in the mid-1900s took with it

funding, devaluing property, decreasing school funding, and increasing poverty, crime, and incarceration. If we empower minority-owned businesses by partnering with other successful businesses, then communities will [rebuild], and all citizens will eventually thrive. Create alliances between businesses in the inner-city and those in more-developed [areas]; consequently, both firms benefit, learning how to reach both markets” (Wallace, 2016).

- “Baltimore Police Department and Johns Hopkins University, or private agencies, assessing law enforcement mental health. Until Baltimore’s police department is willing to change [employee evaluation processes], police brutality will hurt the city’s economy and reputation” (Noone, 2016).

During class discussion, senior Alexandra Read (2016) made students aware of strategic alliances recently implemented, including: BLocal (Johns Hopkins University, 2016), a strategic alliance among 25 businesses pledging \$69 million to create jobs for minority and women-owned businesses and residents, and in “Baltimore’s most distressed neighborhoods” (Cohn & McDaniels, 2016).

*Innovation.* Process and product innovation result from different methods: internal innovation using the firm’s own resources and capabilities; cooperating through organizational alliances; and, acquiring innovation through acquisitions (Ireland et al., 2012). Students proposed:

- Youth engagement. “There is so much art and talent located in Baltimore that is often overlooked by negative and [at times an] untruthful press. With the right people, who are dedicated to investing back into the youth, Baltimore can thrive. These same young people are the ones who will turn around and invest back into the community when older” (Achilihu, 2016).
- Law enforcement training innovations about Baltimore city and residents’ needs (Geraskin, 2016).
- Homeless employment training programs and outreach, including, “city clean-up processes in which centers are set up in Baltimore and the homeless can pick up trash bags, and get paid per bag” (Reyes, 2016).
- Multi-level sports gaming center based in Baltimore, then expanded to other cities through which “customers win tickets that can be cashed in for free food, drinks or apparel from Baltimore” (Kaiser, 2016).

- Cooperative alliances: “Business community, government, and legislators working harmoniously to revitalize Baltimore... businesses helping communities beyond money; legislators tirelessly using political power to bring projects and boost the economy; government fully invested in the transformation; and, residents [given opportunity to demonstrate the] city is worth investing in” (Robinson, 2016).

### The Outcome? Future Baltimore Business Leaders with Strategic Leader Competency and Community Commitment

As their professor, I was inspired listening to students, who often feel stereotyped and silenced. By encouraging them to use their voices as diverse Baltimore City business interns, employees, and job candidates, they acted as strategic leaders, passionately engaged in researching Baltimore businesses with open eyes and minds regarding the positive efforts of businesses and challenges of Baltimore, the place they called “home.” Through honest constructive dialogue, they genuinely questioned each other, sharing new knowledge, applying theory innovatively, and learning from others’ experiences as Baltimore residents. They asked questions to accurately understand their reality before judging with unintended effects. In this way, they strengthened their commitment to Baltimore City in concluding that business and community successes are interconnected.

As current and future Baltimore employees, students became aware of their community’s desire to innovate collaboratively among Baltimore businesses, community, educational and political leaders. I witnessed a strengthened commitment to remain in Baltimore long-term as responsible contributing business leaders after graduation, using skills necessary for innovation: honest open, engaging dialogue bridging demographic and socioeconomic divides. As graduating senior Alba Reyes said, “I first saw Baltimore when I was 19 years old, and loved it. I plan on staying in Baltimore [to help]. I believe that many share my beliefs and together we will make Baltimore thrive again” (Reyes, 2016).

Thanks to the following students who agreed to share their ideas in this article: K. Achilihu, N. Geraskin, A. Kaiser, C. Noone, A. Read, A. Reyes, M. Robinson, K. Wallace, and E. Williams.

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### Endnotes

- <sup>1</sup> United States Census July 1, 2015



## Towson University Index—Towson University Investment Group

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The Towson University Index (TUI) was created in 2007 to measure the performance of publicly traded companies that had a connection to Towson students. The index is meant to serve as a sample of companies who have a history of hiring Towson University students, are thought to be possible hirers of Towson students, or have some other connection to the University or the state of Maryland. The original TUI had 30 Maryland based companies and 10 companies located outside of the state.

Now composed of 50 publicly traded companies, the TUI contains 31 Maryland-based companies and 19

non-Maryland companies. In designing the index, we used a weighted approach where companies with larger market capitalizations are hold a greater representation than their smaller counterparts. Further, Maryland companies received a greater weight in the TUI than companies based outside of the state.

Figure 1 illustrates the performance of the Towson University Index (“TUI”) in relation to the S&P 500 index for the period between July 2007 and August 2016. Since TUI’s inception in 2007, the index has outperformed the S&P 500 by 19.52%. The three most represented sectors in the TUI are Financials at

**Table 1. Companies Based in Maryland**

Ticker	Company	Market Cap	Sector	Quarterly Revenue*	Employees
ADX	Adams Express Co	1,269M	Financials	13	30
AGNC	American Capital Agency Corp	6,621M	Financials	529	392
AGX	Argan Inc	573M	Industrials	162	862
LEU	Centrus Energy Corp.	33M	Energy	21	507
CHH	Choice Hotels International Inc	2,944M	Consumer Discretionary	268	1,331
CIEN	Ciena Corp	3,076M	Information Technology	671	5,196
OFC	Corporate Office Properties Trust	2,050M	Financials	142	378
CSGP	CoStar Group Inc	5,889M	Industrials	213	2,444
DISCA	Discovery Holding Co	19,730M	Consumer Discretionary	1,556	6,800
FGL	Fidelity & Guaranty Life	1,358M	Financials	21	200
GPX	GP Strategies Corp	419M	Industrials	122	3,300
GVP	GSE Systems Inc	24M	Information Technology	12	335
LHO	LaSalle Hotel Properties	3,632M	Financials	317	35
LM	Legg Mason Inc	4,906M	Financials	747	2,982
LMT	Lockheed Martin Corp	63,320M	Industrials	11,551	112,000
MGNX	MacroGenics, Inc	967M	Healthcare	3	211
MAR	Marriott International Inc	19,010M	Consumer Discretionary	3,942	123,500
MKC	McCormick & Co Inc	10,220M	Consumer Staples	1,091	10,000
MED	Medifast Inc	337M	Consumer Discretionary	69	579
OHI	Omega Healthcare Investors Inc	6,350M	Financials	225	25
OSIR	Osiris Therapeutics Inc	645M	Healthcare	25	211
SASR	Sandy Spring Bancorp Inc.	628M	Financials	38	727
SBGI	Sinclair Broadcast Group Inc	2,497M	Consumer Discretionary	694	7,700
TROW	T Rowe Price Group Inc	18,550M	Financials	1,093	5,991
TWOU	2U Inc	1,650M	Information Technology	52	900
TESS	Tessco Technologies Inc	193M	Information Technology	135	786
SLCA	U.S. Silica Holdings, Inc	1,063M	Energy	138	1,092
UA	Under Armour Inc	22,460M	Consumer Discretionary	1,472	4,300
UTHR	United Therapeutics Corp	7,307M	Healthcare	408	740
UUU	Universal Security Instruments Inc	14M	Industrials	3	15
GRA	W.R. Grace & Co	7,252M	Materials	405	6,500
<b>Total</b>		<b>213,548M</b>	<b>*numbers expressed in millions</b>		

**Disclosure:**

The current TUI is based on the 2015 TUI and was updated with the assistance of Towson University's Internship and Career Services program. Historical company prices were obtained from Yahoo Finance, employee figures were obtained from MSN Money, sectors of the companies and their respective quarterly revenues were obtained from NetAdvantage, a Standard and Poor's service. August 29, 2015 market capitalizations were obtained by dividing recent company market capitalizations by recent company prices and multiplying this number by the share price on August 29, 2015. This calculation assumes the effects of changes due to share insurances to be minimal.

**Table 2. Companies Based Elsewhere**

Ticker	Company	Market Cap	Sector	Quarterly Revenue*	Employees
BBT	BB&T Corp	27,200M	Financials	1,524	33,400
BBY	Best Buy Co Inc	12,360M	Consumer Discretionary	8,533	125,000
COF	Capital One Financial Corp	41,940M	Financials	6,461	47,500
C	Citigroup Inc	163,370M	Financials	10,229	237,000
KIM	Kimco Realty Corp	9,739M	Financials	285	580
MTB	M&T Bank Corp	15,850M	Financials	1,350	15,380
MS	Morgan Stanley	56,280M	Financials	1,225	55,795
NOC	Northrop Grumman Corp	31,020M	Industrials	6,155	64,300
PRXL	PAREXEL International Corporation	3,731M	Healthcare	626	18,660
PNC	PNC Financial Services Group Inc	46,860M	Financials	1,856	49,745
PG	Procter & Gamble Co	193,210M	Consumer Staples	16,518	110,000
RHI	Robert Half International Inc.	6,918M	Industrials	1,339	14,000
SHW	Sherwin-Williams Co	24,060M	Materials	3,279	39,274
LUV	Southwest Airlines Co	24,470M	Industrials	5,139	47,645
SWK	Stanley Black & Decker Inc	15,400M	Industrials	2,882	50,400
SF	Stifel Financial Corp	3,268M	Financials	145	6,338
MW	The Men's Warehouse, Inc	2,743M	Consumer Discretionary	920	18,600
UPS	United Parcel Service Inc	88,170M	Industrials	14,928	237,300
WFC	Wells Fargo & Co	269,710M	Financials	10,187	265,800

\*numbers expressed in millions

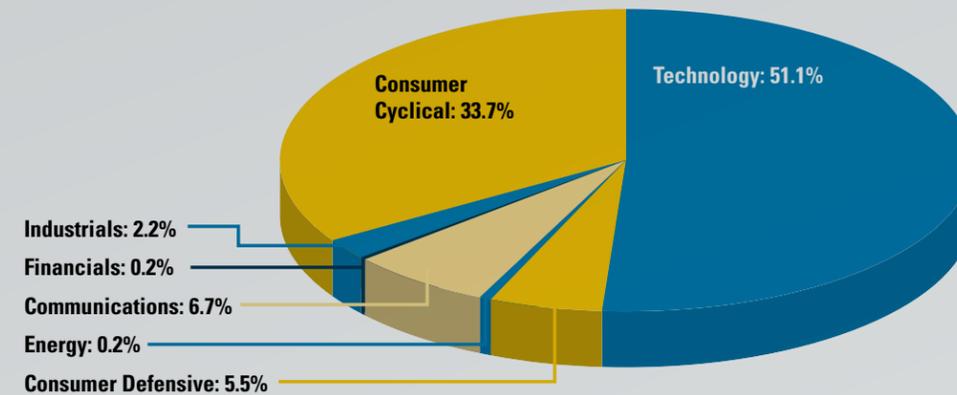
**Figure 1. TUI Relative to S&P 500**



51.6%, Consumer Staples at 14.9%, and Industrials at 15.8.0%. For the trailing 12 months, the TUI has underperformed the S&P 500 by 28.37%.

We noted one acquisition in this year's Towson University Index. TeleCommunication Systems was purchased for \$430.8M by competitor Comtech. This was valued at an enterprise value of \$5 per share and about a 28% premium. Prior to this transaction, TeleCommunications was experiencing cash flow issues. The merger was approved unanimously by both companies' Board of Directors. The deal is expected diversify earnings, reduce operational volatility, and provide access to new customers and markets.

**Figure 2: Sector Allocation of TUIG Survey Portfolio**



Over the past 12 months, the market has experienced above average volatility but has still managed to appreciate 5%. Over prior 12 months we have seen the S&P 500 drop +5% on four separate occasions in less than 5 trading days each time. Notable sectors included financials, technology, and energy. The Fed raised rates in December of 2015 which caused financials to take off. Since then, financials have come far off their highs as the Fed has kicked the can down to road regarding further rate hikes. The technology sector has propelled the NASDAQ 100 index, which is heavily weighted in the technology sector, to an all-time high of 5,342. Lastly, starting in October of 2014, OPEC inaction cause the price of oil to start its decent. Over the past year we have seen oil trade in a range between \$38 and \$53 a barrel. As the price nears \$38, we see buyers initiating long positions and at \$53, we see sellers shorting the commodity. This range bound pattern has put pressure on the energy sector which derives a majority of its revenue from the commodity in some way or another. In all, investor's uncertainty along with other factors have caused the market to trade sideways for a majority of the past 12 months. As the election nears, there is a chance for the market to see further volatility and even see a shakeout that allows investors to get back to the fundamentals.

The TUI serves to demonstrate the opportunities available for the students of Towson University. The index is meant to acknowledge the relative performance of publicly traded companies connected to the University and does not account for the private companies and government organizations that also contribute to growth in the area.

**Campus Community Survey**

During the Fall semester of 2016, the Towson University Investment Group surveyed 200 students on campus, and created a portfolio using the top 30 companies which amounted to a total of 986 votes. The TU Survey Portfolio companies were purchased at their 10/31/2016 closing prices, which is also the portfolio's inception date. The portfolio will be reallocated each year based on new survey results in the future, and its performance will be calculated and compared against the S&P 500.

Major Holdings - The top five most popular companies of this survey make up a whopping 34% of the portfolio. These holdings along with their weights are as follows: Twitter (8.3%), Under Armour (6.7%), Apple (6.4%), Yahoo (YHOO), and Facebook (FB).

Sector Allocation – Figure 2 presents the included sectors and respective weights: Technology (51%), Consumer Cyclical (34%), Communications (7%), Consumer Defensive (6%), Industrials (2%), Energy (< 1%) and Financials (< 1%).

Observations – Students seem to have chosen companies they believe they understand, and are confident in, based on their personal experiences. The heaviest weighted stocks in the portfolio are companies that students on college campuses see or are in contact with every day. It is also notable that more than 50% of our portfolio is invested in the technology sector. We rarely see someone without a device in their hand whether it be a laptop, tablet, or smart phone. Can the technology sector keep up with investors' expectations?



**Towson University Investment Group**

The Towson University Index (TUI) was created in 2007 to measure the performance of publicly traded companies that had a connection to Towson students. The index is meant to serve as a sample of companies who have a history of hiring Towson University students, are thought to be possible hirers of Towson students, or have some other connection to the University or the state of Maryland. The current TUI is composed of 50 publicly traded companies with 31 Maryland and 19 non-Maryland companies. In designing the index, we used a weighted approach where companies with larger market capitalizations hold a greater representation than their smaller counterparts.

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MY INVESTMENT  
PERFORMANCE  
IS A RESULT  
OF YEARS OF  
EXPERIENCE

**AND A DEEP  
KNOWLEDGE OF  
MARKETS.**

*Christine Phillpotts, CFA*

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### About Towson University



Founded in 1866, Towson University is recognized among the nation's best regional public universities, offering more than 100 bachelor's, master's and doctoral degree programs in the liberal arts, sciences and applied professional fields on its 329-acre campus. Serving more than 22,000 students, Towson University is one of the largest public universities in Maryland. The university provides innovative graduate courses and programs that respond to specific state, regional and national work force demands. As a metropolitan university, Towson plays a key role in the educational, economic and cultural life of its surrounding communities, the Baltimore metropolitan area and the state of Maryland.

### About The CFA Society Baltimore



The CFA Society Baltimore is a local member society of CFA Institute, which has over 142,000 members in 159 countries/territories. The CFA Society Baltimore has over 700 members strong, draws from a diverse cross section of local investment firms, financial and educational institutions, and government agencies.

The CFA Society Baltimore's mission is to provide the financial community with information and knowledge, while advocating ethical conduct with regard to investments and financial management. The CFA Society Baltimore also seeks to encourage and aid the education of persons engaged in the investment profession, and to provide members of the society with opportunities to exchange ideas and information amongst their peers.



# It's not just a credential. It's a commitment.

## New CFA Society of Baltimore Charterholders

- Brandon Alderson, CFA
- Vincent Anderson, CFA
- Assadi Mehran, CFA
- Thomas Baker IV, CFA
- David Biser, CFA
- Miles Connolly, CFA
- Kyle Cooke, CFA
- Casey Cunningham, CFA
- Anouk Dey, CFA
- John Ebinger, CFA
- David Faulkner, CFA
- Brendan Feury, CFA
- Andrew Fink, CFA
- Jonathon Fitzgerald, CFA
- Zachary Garber, CFA
- Glenn Garven, CFA
- Jared Hammers, CFA
- Jing Han, CFA
- Theodore Hanks, CFA

- Chad Houser, CFA
- Yan Li, CFA
- William Mathews, CFA
- Joseph Matukonis, CFA
- Fang Meng, CFA
- Daniel Miller, CFA
- Gabriel Morris, CFA
- Michael Pukacz, CFA
- Sean Reitenbach, CFA
- Benedict Richardson, CFA
- Erik Ringo, CFA
- William Rogers IV, CFA
- Avanti Shetye, CFA
- Marcus Whitehead, CFA
- Ka Lun Wong, CFA
- Yuanyuan Yang, CFA
- Joshua Yocum, CFA
- Shuxin Zheng, CFA

**Congratulations  
and best wishes  
to our members  
who have earned the  
CFA credentials  
in 2016.**

Those listed are among the **120,000 professionals** worldwide who hold the prestigious **Chartered Financial Analyst** designation, the only globally recognized credential for investment analysis and advice. Around the world you will find CFA charterholders in leading investment firms, as well as in local organizations like the **CFA Society of Baltimore**. Only those who have mastered three rigorous exams and gained at least three years of hands-on experience earn the right to use the CFA designation. Every year they reaffirm in writing their continuing commitment to the CFA Institute Code of Ethics - to act with integrity, exercise independent judgement, and put investor interest first. All of which makes these professionals an asset to our society and our community.



For further information please visit [www.cfasociety.org/Baltimore](http://www.cfasociety.org/Baltimore)

College of Business  
and Economics



Towson University  
8000 York Road  
Towson, MD 21252-0001

## Towson University Incubator

The Towson University Incubator serves as an entrepreneurial resource and activity hub inside and outside of Towson University. The TU Incubator assists quality early-stage companies and entrepreneurs who have an innovative idea and viable business plan for growth. Uniquely positioned to assist entrepreneurs, the incubator leverages university resources and expertise, particularly in the field of education. Members receive a wide range of support, including affordable office facilities, customized counseling, access to a seasoned advisory board and mentor network composed of business and economic leaders, and collaboration and networking opportunities with member companies and partners. Tap into TU Incubator's resources today!

### FOR MORE INFORMATION, CONTACT:

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