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Message from the Dean
Towson University College of Business and Economics

Dear Colleagues and Friends,

It is a pleasure to share with you the inaugural issue of the Baltimore Business Review. This issue is made possible by funding from CFA Institute and the College of Business and Economics at Towson University. It is our goal to provide you the most insightful and thought-provoking analysis of the Baltimore/Maryland economy.

With the economy experiencing the worst financial downturn since the 1930s, I am confident that you will take interest in a wealth of industry knowledge covering such diverse topics as focused investment strategy, specific sector analysis, real estate trends, the prospects of a green economy, innovative market firms, strategic advantages of a CFA charterholder, and strategic partnerships with China. We are committed to presenting cutting edge economic and financial research to the Baltimore community.

I encourage you to provide us feedback and share with us your comments on this inaugural issue. If you wish to be a supporting sponsor in the future, please contact me at your convenience.

Best regards,

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

Shohreh A. Kaynama
Ph.D. The George Washington University, 1991, is the Dean of the College of Business and Economics and Professor of Marketing at Towson University. Her research interests include services marketing, e-Commerce/e-Business solutions, marketing research, international marketing, and decision support systems in marketing. Her work has been published extensively in many credible journals (nationally and internationally). She was named one of the 2005 Top 100 Women in Maryland by The Daily Record and is an honored member of Empire “Who’s Who of Women in Education.” In addition, she serves on the board of SBRC, the Academy of Finance (NAF), Maryland Council on Economic Education, and Towson University Foundation.
Dear Members, Students and Employers,

I am thrilled to share the inaugural issue of the Baltimore Business Review with you. It represents the collective efforts of numerous contributors. The inaugural issue of the Baltimore Business Review seeks to leverage the resources of the College of Business and Economics at Towson University and the Baltimore CFA Society. The goal is to provide insight for members, students and employers that is specifically focused on Baltimore and the companies in Maryland. The funding for this joint project has come from the College of Business and Economics at Towson University and the CFA Institute.

The Baltimore CFA Society (BCFAS) is a not-for-profit professional organization dedicated to life-long learning in matters related to the financial markets while advocating ethical conduct. The BCFAS has a rich history that dates back to 1948. In 2006, the membership elected to change the name from the Baltimore Security Analysts Society to the Baltimore CFA Society. The society’s primary objective is to offer educational programs and provide networking opportunities for its membership. The BCFAS has over 600 members. Eighty-seven percent of BCFAS members are CFA charterholders. However, being a candidate in the Chartered Financial Analyst Program is not a requirement of BCFAS membership. The society’s membership shares one attribute in common which is a commitment to life-long learning. The member price for events is subsidized to the point that membership pays for itself over the program year.

The Baltimore CFA Society is dependent on volunteer contributions to make its programming, networking, educational, and public awareness initiatives possible. The society’s twelve member Board of Directors is representative of local firms. Baltimore has a tradition of being a regional financial center, and relative to its size Baltimore plays an above average role in the financial markets.

The parent organization of the Baltimore CFA Society is the CFA Institute which is based in Charlottesville, Virginia. The CFA Institute is a global organization that has over 95,500 members in 57 countries that participate in 136 regional societies. The membership has varying occupations that include portfolio managers, research analysts, chief executives, consultants, investment banking analysts, and relationship managers. For more information please visit www.cfainstitute.org

In a challenging period, I am pleased to share the collective efforts of many contributors. I encourage your feedback on how we can improve future issues.

Best regards,

Niall H. O’Malley
President, Baltimore CFA Society
www.baltimorecfasociety.org
To Be or Not to Be — CFA Charterholders and Their Strategic Advantages in Baltimore

Joanne Li, Ph.D., CFA
Chair and Professor, Department of Finance,
College of Business and Economics,
Towson University
It is difficult to get a CFA charter. Everyone knows it. The historical passing rate for just Level I exam is around 44%, which includes all the repeated attempts. The CFA exams are often perceived as the most rigorous and challenging exam in the investment field. We all have heard horror stories about how individuals work many years in the industry, retake each level of the CFA exams and still cannot pass Level III by the tenth attempt.

While there are over 200,000 registrations in 169 countries for the CFA 2008-2009 program, there are only approximately 83,000 CFA charterholders. That’s not a lot of charterholders to serve the investment industry around the world. What could be the problem here? Don’t we all cry for more qualified professionals so that we can take proactive measures to prevent the next financial meltdown?

Regardless of how you answer the question, industry likes what is asked of a CFA charterholder — the ability to pass three levels of very demanding exams and at least four years of industry experience in investment. Having a CFA charter is almost equivalent to a seal of approval from the industry that you have proved to know something about investment.

Anyone who ever picked up a CFA curriculum book would agree that the program requires high motivation from the candidates to do a self-study course on graduate level materials. The program covers a vast curriculum of global standards and professional codes of conduct, knowledge of complex investment tools, understanding of asset classes, and applications of comprehensive portfolio management and wealth planning.

Based on CFA Institute’s 2008 annual report, there is a demand to get a CFA charter among professionals. This is not surprising considering the CFA charter provides a comparative advantage for professionals when more and more jobs are requiring the designation all over the world. According to Hong Kong Economic Times, the registration for the CFA exam in Hong Kong continued to rise in 2008. This trend is also evident in other countries outside United States. Based on the CFA Institute’s 2009 presentation, demographics have changed from 68 percent of CFA candidates being from the United States to 71 percent of candidates being from other countries. The CFA Institute has a network of 136 member societies in 57 countries with five offices strategically located in Charlottesville, Virginia, New York, Hong Kong, London, and Brussels. The locations cover four global investment playgrounds: North America, South America, Asia-Pacific and Europe, with the inclusion of Middle East and Africa.

Local Employment Opportunities for CFA Charterholders and Members

How do CFA charterholders or members fare in Baltimore? Based on a CFA Institute’s survey, there are roughly 600 active members in the Baltimore CFA Society. Among the 600 members, 87% are charterholders. Table 1 provides the top 20 employers of Baltimore CFA Society Members. Among the top 20 employers, two are 501(C) organizations: Johns Hopkins University, and the Maryland State Retirement Agency. Four are privately held companies: Brown Investment Adviser, Brown Capital Management, Camden Partners, and Dwight Asset Management. Also, the list includes quite a few well known public companies in Baltimore such as T. Rowe Price, Stifel Nicolaus (capital market subsidiary of Stifel Financial), Legg Mason, Deutsche Bank, and Citigroup.

Table 1: Top 20 Employers of Baltimore CFA Society Members

<table>
<thead>
<tr>
<th>Rank</th>
<th>Employer</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>T. Rowe Price</td>
</tr>
<tr>
<td>2</td>
<td>Stifel Nicolaus &amp; Co.</td>
</tr>
<tr>
<td>3</td>
<td>Legg Mason &amp; Legg Mason Capital Management</td>
</tr>
<tr>
<td>4</td>
<td>MTB Investment Advisors &amp; MTB Bank</td>
</tr>
<tr>
<td>5</td>
<td>PNC Wealth Management &amp; Bank</td>
</tr>
<tr>
<td>6</td>
<td>Brown Investment Advisory</td>
</tr>
<tr>
<td>7</td>
<td>Wachovia/Wells Fargo</td>
</tr>
<tr>
<td>8</td>
<td>Morgan Stanley Smith Barney</td>
</tr>
<tr>
<td>9</td>
<td>Adams Express Company</td>
</tr>
<tr>
<td>10</td>
<td>Campbell &amp; Company</td>
</tr>
<tr>
<td>11</td>
<td>Constellation Energy</td>
</tr>
<tr>
<td>12</td>
<td>Brown Capital Management</td>
</tr>
<tr>
<td>13</td>
<td>Deutsche Bank</td>
</tr>
<tr>
<td>14</td>
<td>Investment Counselors of Maryland</td>
</tr>
<tr>
<td>15</td>
<td>Johns Hopkins University</td>
</tr>
<tr>
<td>16</td>
<td>LaSalle Investment Management</td>
</tr>
<tr>
<td>17</td>
<td>Maryland State Retirement Agency</td>
</tr>
<tr>
<td>18</td>
<td>Camden Partners</td>
</tr>
<tr>
<td>19</td>
<td>Citigroup</td>
</tr>
<tr>
<td>20</td>
<td>Dwight Asset Management</td>
</tr>
</tbody>
</table>

Source: Baltimore CFA Society self-reporting survey regarding employers from its members
Table 2: Top 10 public employers of Baltimore CFA Society Members

<table>
<thead>
<tr>
<th>Company’s name</th>
<th>Ticker symbol</th>
<th>Exchange traded</th>
<th>Market Cap (in billions)</th>
<th>stock price end of day</th>
<th>P/E ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>T. Rowe Price</td>
<td>TROW</td>
<td>Nasdaq</td>
<td>11.48</td>
<td>44.83</td>
<td>36.36</td>
</tr>
<tr>
<td>Stifel Nicolaus &amp; Co.</td>
<td>SF</td>
<td>NYSE</td>
<td>1.55</td>
<td>54.39</td>
<td>28.21</td>
</tr>
<tr>
<td>Legg Mason</td>
<td>LM</td>
<td>NYSE</td>
<td>4.56</td>
<td>31.71</td>
<td>n/a</td>
</tr>
<tr>
<td>M&amp;T Bank</td>
<td>MTB</td>
<td>NYSE</td>
<td>7.79</td>
<td>66.02</td>
<td>25.55</td>
</tr>
<tr>
<td>PNC Fin. Services</td>
<td>PNC</td>
<td>NYSE</td>
<td>20.48</td>
<td>44.70</td>
<td>35.56</td>
</tr>
<tr>
<td>Wells Fargo and Co.</td>
<td>WFC</td>
<td>NYSE</td>
<td>136.46</td>
<td>29.21</td>
<td>32.03</td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>MS</td>
<td>NYSE</td>
<td>43.62</td>
<td>32.09</td>
<td>22.15</td>
</tr>
<tr>
<td>Adams Express Co</td>
<td>ADX</td>
<td>NYSE</td>
<td>0.85</td>
<td>9.92</td>
<td>n/a</td>
</tr>
<tr>
<td>Constellation Energy</td>
<td>CEG</td>
<td>NYSE</td>
<td>6.61</td>
<td>32.96</td>
<td>n/a</td>
</tr>
<tr>
<td>Deutsche Bank AG</td>
<td>DB</td>
<td>NYSE</td>
<td>48.58</td>
<td>78.80</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Source: Price data are collected on 10/9/2009 from Yahoo Finance site

Table 2 presents some market information on the top 10 public employers of CFA members in Baltimore. Out of the top 10 public companies, nine are listed on the NYSE; T. Rowe is listed on NASDAQ. Nine top employers are in the financial services or banking industries; Constellation Energy is in the energy industry. Five are headquartered in Baltimore: T. Rowe Price, Stifel Nicolaus, Legg Mason, Adams Express Company and Constellation Energy.

Four Baltimore Employers at a Glance

T. Rowe Price

T. Rowe Price, headquartered in Baltimore, is a respected participant in the mutual fund industry but its investment services go beyond mutual funds. As of 9/30/09 its assets under management were $366 billion of which $218 billion were in mutual funds. T. Rowe Price also offers subadvisory services and separate account services. T. Rowe Price is the largest employer of CFA Charterholders and candidates in Baltimore, and historically has been one of the largest employers of Towson University graduates. T. Rowe Price manages more than 25 domestic stock funds, 25 bond funds, 15 international funds, 20 asset allocation funds, and 5 money market funds. Based on Morningstar Inc.’s analysis, T. Rowe’s mutual funds have finished in the top third of their categories on average over the past three, five and ten years. Figures 1 and 2 provide 1-year and 5-year performance comparisons between T. Rowe and three major benchmarks: Dow Jones Industrial Average (DJI), S&P 500 (S&P) and NASDAQ.

Figure 1: T Rowe Price Group Inc. 1-year performance versus three benchmarks

Figure 2: T Rowe Price Group Inc. 5-year performance versus three benchmarks
Stifel Nicolaus

Stifel Financial Corp. is a financial services holding company headquartered in St. Louis. Stifel Nicolaus is a wholly-owned subsidiary of Stifel Financial. The Stifel Nicholas Capital Markets unit is headquartered in Baltimore. Through a series of acquisitions Stifel Financial has built a strong presence in equity and fixed income research, investment banking and investment advisory services. Two of the larger regional acquisitions Stifel Financial made were the purchase of Legg Mason Capital Markets in 2005 and Ryan Beck in 2007. Stifel Financial is recognized as having the fifth largest research department in the U.S., and is recognized as the largest provider of small company research in the U.S. Stifel Financial has a significant fixed income and investment banking presence. Assets under management as of 6/30/09 were $64 billion. Figures 3 and 4 provide a 1-year and 5-year performance comparisons between Stifel Financial Corp. and three major benchmarks: Dow Jones Industrial Average (DJI), S&P 500 (S&P) and NASDAQ.

Legg Mason

Legg Mason Inc. is headquartered in Baltimore. Legg Mason is one of the ten largest institutional asset managers in the world with $703 billion under management as of 9/30/09. Legg Mason operates with a diverse group of asset managers around the globe. Western Asset Management fixed income business, with about $500 billion accounts for over 70% of the firm’s assets under management. A well recognized local asset manager is Bill Miller who heads the Legg Mason Capital Management and the Value Trust. Within Legg Mason’s multi-manager structure are different asset managers with differing approaches and styles. Figures 5 and 6 provide a 1-year and 5-year performance comparisons between Legg Mason Group and three major benchmarks: Dow Jones Industrial Average (DJI), S&P 500 (S&P) and NASDAQ.
M&T Bank & MTB Advisors

M&T Bank has a significant regional presence built on regional acquisitions of Allfirst Bank in 2003 and Provident Bank in 2009. The M&T Bank offers commercial banking services, international trade finance, lease financing and insurance. While M&T Bank is headquartered in Buffalo, New York, its asset management arm MTB Investment Advisors is based in Baltimore. MTB Advisors serves as the investment advisor to MTB Group of Funds, a family of mutual funds and institutional clients. Figures 7 and 8 provide a 1-year and 5-year performance comparisons between M&T Bank and three major benchmarks: Dow Jones Industrial Average (DJI), S&P 500 (S&P) and NASDAQ.

CFA Partnerships in Baltimore

CFA Institute has actively established partnerships with many universities to deliver executive programs on variety of topics. In addition, universities in the Baltimore region, such as Towson University, are taking advantage of the Student CFA scholarship program. The Student CFA scholarship offers reduced costs for university students enrolling in the CFA program.

Student scholarships are awarded with the sponsorship from full-time professors who are also CFA charterholders. For instance, the Department of Finance at Towson University currently has two full-time professors that are also CFA charterholders. Each CFA professor can sponsor up to five student scholarships for each fiscal year based on her own established criteria. However, a maximum number of scholarships that a university can offer in a year cannot exceed ten in total.

This kind of scholarship program creates a unique advantage for students enrolled in a CFA-staffed university. To help students prepare for their CFA Level I exam, Towson University Department of Finance has established a CFA mentoring program. Since the inception of the program in 2006, graduate as well as undergraduate students have been attracted to participate in the CFA program. A similar scholarship program is also offered at the CFA Society level.

The Board of Baltimore CFA Society (BCFAS) has approved a student membership category and participation in society activities and seminars since December 2006. BCFAS subsidizes up to 10 slots for students for a nominal fee. It should also be noted that while professors are encouraging students to pursue a CFA designation, curriculum development has often attracted the attention of faculty. After working for more than a year as an editor-in-chief in a CFA prep provider business, I believe CFA 3-level curriculum might be too demanding to execute in an undergraduate curriculum. However, a clear division of topical areas is often a good model to develop undergraduate finance curriculum.

When a CFA charter is awarded, it is a notable accomplishment. The recognition is both in the industry and global arena. Through a strong network of professionals and partnerships between BCFAS and universities, CFA charterholders and members should fare much better in the economic downturn as a result of the strategic advantages created through the CFA charter and the knowledge learned as a CFA candidate.

References

It’s not just a credential.

It’s a commitment.

New Baltimore CFA Society Charterholders

Seth Dadds, CFA
Eric DeVilbiss, CFA
Robert Connors, CFA
Michael Baudendistel, CFA
Frederick Hopkins, CFA
Jason Dudderar, CFA
Patrick Guthrie, CFA
Kirk Streckfus, CFA
Jason Frost, CFA
Kwame Webb, CFA

David Metz, CFA
Alex Humphries, CFA
Michael Monahan, CFA
Cheryl Price-Scungio, CFA
Matthew Murphy, CFA
Dr. William Ryan, CFA
Dongmei Lin, CFA
Todd Skacan, CFA
Luke Torretti, CFA

Congratulations and best wishes to our members who have earned the CFA credentials in 2009.

Those listed are among the 95,500 professionals worldwide who hold the prestigious Charted 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 Baltimore CFA Society. 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.baltimorecfasociety.org.
Value Investing or Investing for Value

David Stepherson, CFA  
Portfolio Manager,  
Hardesty Capital Management, LLC
Value is in the eye of the beholder. I have been in the investment business for 18 years and have met all kinds of different investors—growth, value, momentum and technical. The one common thread among them is that they believe they are purchasing stocks at a good value. Quite simply put, they are buying a stock trading below their estimate of what it is worth. In this sense, all investors are investing for value. But value investing trumps investing for value over long periods of time.

Investing for value and value investing are very different. Value investing is an often-misunderstood investment style. Benjamin Graham and David Dodd are the founding fathers of value investing. Their book *Security Analysis* is still considered the bible for true value investors and a must-read for all investors. Although value investing has evolved over time, it is based on fundamental analysis used to derive the intrinsic value of a company. This calculated value is compared to the current share price for relative attractiveness. Ratios like price-to-book value, price-to-sales, price-to-earnings and price-to-cash flow are used to assist in valuation. Typically, value investors will purchase stocks where the intrinsic value is sufficiently below the current stock price and whose valuation multiples are at the lower end of their historic ranges. Finally, value investors are often, but not always, “bottoms up” investors, which means they pay very little attention to the economic cycle—they are evaluating the company on its own merits.

While the value philosophy has a straightforward definition, it is far more difficult to define a value stock. There is not an agreed-upon definition, and each value index defines value stocks a little differently. Standard and Poor’s, probably the most well-known and respected creator of indexes, defines value for their value indexes using four variables: book value-to-price, cash flow-to-price, sales-to-price and dividend yield. Interestingly, the most commonly used value ratio, the price-to-earnings ratio, is not used. To complicate the issue, the current S&P 500/Citigroup Value Index holds 374 different companies, of which 160 (42.7%) are also in the S&P 500/Citigroup Growth Index. A staggering 35.9% of the companies in the growth index are also in the value index.

Studies show that value investing is the superior style choice over long periods of time. As we can see from the chart below, over the last 25 years, the value style has the highest rates of return while taking lower risk. This dynamic is what investors should seek to maximize. Within small capitalization stocks, as measured by the Russell 2000, the difference is even more pronounced. To be sure, in any given year, different investment styles will work better than others. But, over the long term, value has proven to be the best investment style for investors.

### Table 1: Style Comparison

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</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P500</td>
<td>6.27%</td>
<td>31.73%</td>
<td>18.67%</td>
<td>5.25%</td>
<td>16.61%</td>
<td>31.89%</td>
<td>-3.11%</td>
<td>30.47%</td>
<td>7.62%</td>
</tr>
<tr>
<td>500 Value</td>
<td>10.52%</td>
<td>29.68%</td>
<td>21.67%</td>
<td>3.68%</td>
<td>21.67%</td>
<td>26.13%</td>
<td>-6.85%</td>
<td>22.56%</td>
<td>10.52%</td>
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<tr>
<td>500 Growth</td>
<td>2.33%</td>
<td>33.13%</td>
<td>14.50%</td>
<td>6.50%</td>
<td>11.95%</td>
<td>36.40%</td>
<td>0.20%</td>
<td>38.37%</td>
<td>5.06%</td>
</tr>
<tr>
<td>R2000</td>
<td>-7.13%</td>
<td>31.04%</td>
<td>5.68%</td>
<td>-8.80%</td>
<td>25.02%</td>
<td>16.26%</td>
<td>-19.48%</td>
<td>46.04%</td>
<td>18.41%</td>
</tr>
<tr>
<td>R2000 Value</td>
<td>2.27%</td>
<td>31.01%</td>
<td>7.41%</td>
<td>-7.11%</td>
<td>29.47%</td>
<td>12.43%</td>
<td>-21.77%</td>
<td>41.70%</td>
<td>29.14%</td>
</tr>
<tr>
<td>R2000 Growth</td>
<td>-15.84%</td>
<td>30.97%</td>
<td>3.59%</td>
<td>-10.48%</td>
<td>20.37%</td>
<td>20.17%</td>
<td>-17.41%</td>
<td>51.19%</td>
<td>7.77%</td>
</tr>
</tbody>
</table>

**Source:** Standard & Poor’s, Morningstar
Given the information in Table 1 (previous page), it is not wise to commit all of your money to one style as history shows that any one style can underperform others for long periods of time. Growth, as measured by the S&P 500/Citigroup Growth Index, has outperformed value in 13 of the 25 years. Value, though, has provided a higher return with less risk. Diversification among styles is just as important as it is among securities and asset classes. Blending the two styles in your portfolio is the strategy that should provide the most consistent returns for your portfolio.

The value philosophy can be used to get exposure to other investment styles. This is done by screening for value attributes on all stocks, not just stocks of a specific style. A multitude of stocks can be identified that would otherwise be overlooked, as they may not fit the definition of value. Table 2 (below) presents a comparison of six different companies—two value, two pure value and two pure growth. “Pure value” and “pure growth” are defined as stocks that are only in each respective index. Clearly, the two pure value stocks are the cheapest on a valuation basis. Interestingly, though, the pure growth stocks are relatively cheaper than the value stocks. This is due to the industries in which these pure growth companies operate—defense and biotechnology. With budget deficits skyrocketing and impending regulation in healthcare, these two stocks are out of favor with investors, causing low valuations. Value investors can take advantage of cheap growth stocks and not give up their discipline.

The purpose of the data is not to recommend purchase but to illustrate that using the value philosophy can unearth some hidden gems in every area of the equity market. Having a disciplined, consistent investment approach employing the value philosophy can lead to superior returns over time. Diversification among stocks of different styles is just as important as diversification among asset classes. While diversifying among stocks, employing the value philosophy rather than “investing for value” should lead to superior results. Isn’t that the real value in investing?

Table 2: Using Value Style to Select Growth Stocks

<table>
<thead>
<tr>
<th>Value Stocks</th>
<th>Price to Book</th>
<th>Price to Cash Flow</th>
<th>Price to Sales</th>
<th>Dividend Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>T Rowe Price</td>
<td>4.5</td>
<td>20.7</td>
<td>6.4</td>
<td>2.2</td>
</tr>
<tr>
<td>McCormick</td>
<td>3.3</td>
<td>11.2</td>
<td>1.4</td>
<td>2.8</td>
</tr>
<tr>
<td>Pure Value Stocks</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legg Mason</td>
<td>0.9</td>
<td>4.3</td>
<td>1.5</td>
<td>0.4</td>
</tr>
<tr>
<td>Constellation Energy</td>
<td>1.8</td>
<td>5.6</td>
<td>0.3</td>
<td>2.9</td>
</tr>
<tr>
<td>Pure Growth Stocks</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lockheed Martin</td>
<td>10.1</td>
<td>6.2</td>
<td>0.7</td>
<td>3.4</td>
</tr>
<tr>
<td>Martek Biosciences</td>
<td>1.1</td>
<td>7.7</td>
<td>2.1</td>
<td>0.0</td>
</tr>
</tbody>
</table>

* Source: FactSet

The value philosophy can be used to get exposure to other investment styles.
RIGOR

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De-bunking the Myths of Mid-cap Stocks

David Robertson, CFA
CEO & Founder, Portfolio Manager,
Arete Asset Management, LLC
When investors evaluate stocks, they often prefer the comfort and familiarity of large-cap stocks and view mid-cap stocks as less desirable. Interestingly, as an analyst and portfolio manager, I have found many of the beliefs about mid-cap stocks are inaccurate. In fact, as a professional investor with a mandate to outperform a benchmark, I have especially gravitated to mid-cap stocks because of the market opportunities they present. As one analyst described it, “if your objective is to purchase the stock of a company which will rank in the top ten in total return in the Fortune 500 ten years hence, don’t look in the current ‘Fortune 500’. You are fishing in the wrong pond.” In this article, I will discuss why I believe mid-caps are the right “pond” and in doing so, address why many of the beliefs about mid-sized companies are often false beliefs, or myths.

**Business life cycle**

Much of the investment community’s perspective on mid-sized companies is formed by market capitalization. This is not surprising given that most market indexes are based on capitalization. The strong bias towards capitalization (which is a function of the markets), however, can belie the size and nature of the underlying businesses themselves. By focusing more specifically on business fundamentals, it becomes much easier to see how many mid-sized businesses tend to be experiencing an especially interesting part of their business life cycle.

Business life cycle theory describes that in a company’s formative stages, it is focused on establishing recognition in the market place, optimizing its product or service, finding the right employees, and getting financing. While companies can generate substantial growth during this period, they also face a wide variety of risks. By the time a company becomes mid-sized, it tends to have “proven product lines, sound infrastructure, established market positions and seasoned management.” Despite this level of development, mid-sized companies often have substantial growth available from core markets and still have product and geographic markets left to penetrate.

**Industry structure**

The mid-cap universe represents a very diverse set of industry groups comprised of a variety of different growth rates, competitive dynamics, and economic exposures. Virtually all industries across the universe are well-represented in the mid-cap universe both in terms of market capitalization and number of companies. As compared to the mega-cap universe, the mid-cap universe averages more than twice as many companies per industry and represents 50% more economic industries. As a result, there is substantially greater choice in the mid-cap universe.

Some industries in particular tend to be rife with mid-cap companies. Whether due to the size of the industry, the nature of competition, or other reasons, representation of these industries almost necessitates consideration of mid-cap companies. Historical examples of industries dominated by mid-cap companies include industries such as medical and dental instruments, casinos and gambling, and paper and plastic containers. In addition, many industries in the energy and utility sectors have historically been disproportionately populated by mid-cap companies. Finally, the financial services sector provides an excellent example of the difference in industry composition between the large and mid-cap universes. The large-cap financial services sector is heavily influenced by financial conglomerates. Conversely, the mid-cap financial services sector sports several industries with significant and disproportionate representation such as asset management and REITs.

Yet another interesting characteristic of mid-cap industries, in addition to their representation of economic exposure, is their representation of head-to-head competitive dynamics. Most mid-cap companies operate a single business and thus have relatively pure business models. Many also display a relatively high level of concentration among direct competitors which often conveys meaningful competitive advantages for those participants.

Along with the process of industry structure formation comes an increasingly clear picture of the appropriate scale for industry competition. Many industries are of a size such that a few mid-sized companies can realize optimum economies of scale—big enough to enjoy significant advantages over smaller counterparts, and on equal footing with large company participants. In addition, many larger competitors may fail to see sufficient opportunity in such an industry, have a material competitive advantage over existing players, or identify the opportunity at all.

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* In this paper “mid-cap” stocks refer to the universe of stocks in the same capitalization range as stocks in the Russell Midcap® Index, approximately $1 billion to $20 billion. “Large-cap” and “mega-cap” stocks refer to stocks in the same capitalization range as stocks in the Russell Top 200® Index.
**Universe Size**

It stands to reason that all else equal, a larger universe of stocks represents more opportunities than a smaller one. This is indeed the case with the mid-cap universe as it represents far more stocks than the large-cap universe. One proxy for the respective size of the universes is the Frank Russell 1000 Index. This index is designed such that the 200 largest stocks are “large” or “mega” cap stocks and the 800 smallest stocks in that index are “mid” cap stocks. If consideration is given to all U.S. stocks that span the current range of market capitalizations represented in the Russell Midcap® index, the universe expands to over 1,300 stocks. Clearly there are a lot more mid-cap companies to choose from than mega-cap companies which makes the universe of mid-cap stocks relatively attractive based simply on the law of large numbers.

**Management Quality**

Mid-sized companies also tend to be relatively fertile environments for skilled management teams. By the time smaller organizations grow into mid-sized companies, the management team has generally developed valuable experience along the way and has also had the chance to resolve major internal conflicts in order to become a cohesive unit. In addition, mid-sized firms are often able to attract very talented and experienced managers from conglomerates who have had experience running large businesses. The development and migration of management talent throughout the mid-cap universe has provided an extremely high level of professionalism at these firms.

The war for talent is a two-way street and mid-sized companies often attract high-level talent because of the unique opportunities they present to grow and create value. Due to their stage in the business life cycle, many mid-cap companies are small enough to have attractive growth opportunities that are still meaningful. These opportunities may take the form of complementary products, new customer segments, new geographic markets and the like. Many, if not most, tend to enjoy reasonably strong organic growth opportunities and therefore have little need to engage in forays outside of their realms of expertise. As a result, management enjoys a relatively entrepreneurial environment and is better able to focus on business execution.

**Durability**

Discussion of the business life cycle implies that, “Mid-caps are survivors. Many are small-cap companies that have grown to adolescence.” As one manager describes, “Those companies that survive a move beyond the challenges of a small, startup company—stiff competition, inexperienced management, and insufficient cash flow, among others—may enter an extended growth phase that can last for decades.” While this description fits a large number of mid-cap companies, Tiffany and Harley Davidson are two extreme examples of mid-cap companies that are more than one hundred years old and still have double digit growth expectations. A merely cursory review often understates the durability of many mid-sized businesses.

**Special Situations**

A number of businesses make their way into the mid-cap universe through unique circumstances that rarely occur in the mega-cap universe. For example, a number of companies debut in the mid-cap universe as spin-offs from larger corporations. Often, the market does not fully appreciate the attractiveness of these businesses when they are masked by the more mature, slower growth businesses of a large company. Some notable examples of spin-offs include Hanes Brands (from Sara Lee), Gamestop (from Barnes and Noble) and Tim Hortons Inc. (from Wendy’s). Although these situations are not extremely common, they occur often enough to merit investor attention.

Other special situations that can facilitate realization of intrinsic value include initial public offerings, and acquisitions and mergers. Mastercard and Burger King Holdings are both well-established, well-known franchises that initially offered shares as mid-cap stocks in the last few years. In addition, mid-cap companies have always been targets of larger corporate suitors, but increasingly large pools of private equity over the last several years has also brought mid-cap companies into their purview. Two relatively recent examples of mid-cap stocks acquired by larger firms at significant premiums are Medimmune and Barr Pharmaceuticals, as the pharmaceutical industry has continued its consolidation.
The Myths of Mega-Cap Stocks

Just as many of the attractive characteristics of mid-cap stocks are often under-appreciated, so too are the inherent difficulties companies face when they grow very large. One prominent investor illustrated this phenomenon in Barron’s seventy years ago, “Just as no racing enthusiast would buy an old stud horse to compete with younger horses whose records give promise of many more years of racing victories, no wise investor would put his money in one of the old-line companies which has passed its peak and is resting on its laurels… A good horse can’t go on winning races forever, and a good stock eventually passes its peak, too.”

A number of studies strongly suggest that size and longevity can actually serve to inhibit stock performance. Consider the following:

- Forbes created its original ‘Forbes 100’ in 1917. In 1987, Forbes revisited its first list and compared it with the most recent list of top companies. Of the original 100, 61 no longer existed and another 21 had dropped off the leading company list. The 18 that remained—the survivors—delivered shareholder returns roughly 20% less than the overall market. 7

- Standard and Poor’s initiated its 500-company index in 1957. Only 74 of the original 500 made it to 1997. Only 12 of the survivors outpaced the market, and the original group, as a whole, underperformed the market by one-fifth. 8

- Mauboussin and Bartholdson 2003 ran the numbers from 1980 through 2002 and found that for each holding period, the S&P 500 outperformed the Fortune 50 portfolio… It’s hard for the largest companies to meaningfully outperform the market because they are such a large percentage of the market.” 9

- In recent years, Fortune has measured the total return to investors (income plus appreciation) for the prior ten years for all of the companies in its annual Fortune 500. We have taken the top ten in this ranking for the past five years and determined where they ranked ten years earlier. As we expected, most of these companies were not included in the ‘Fortune 500’ ten years earlier. (Only 32% were listed and none was in the top 100 in revenues).10

The business life cycle serves as a useful paradigm from which to explain the relatively poor performance of large-cap stocks. As Clayton Christensen notes, “there is powerful evidence that once a company’s core business has matured, the pursuit of new platforms for growth entails daunting risk. Roughly one company in ten is able to sustain the kind of growth that translates into an above-average increase in shareholder returns over more than a few years.” 11 In other words, by the time a company becomes a large company, it has generally substantially penetrated its markets and at that stage, it becomes progressively more difficult to generate superior growth.

The “daunting risk” faced by companies as they grow large is expressed even more explicitly in a study conducted by the Corporate Strategy Board. That study found that growth tends to stall for large companies at a certain threshold: “That stall level has risen over the decades, but looked to be in the $20-30 billion area in the late 1990s.” 12 Therefore, one reason for the poor performance of large cap large-cap stocks is that impediments to growth become especially intense once the companies eclipse a certain size threshold.

Additional obstacles exist for the largest companies as well. For example, “Aging public companies rarely have an interest in going out gracefully. Corporate executives often strive, first and foremost, to perpetuate the business.” 13 Several incentives exist for management to perpetuate a business at the expense of shareholder returns, but such poorly aligned interests may be only a symptom of a deeper problem: “Companies that have been around for a while tend to accumulate inertia and biases, making them inherently more rigid than the broader, ever-changing stock market.” 14 Analyzing companies in a dynamic world poses an especially difficult challenge: “In a rapidly changing business environment, a company’s mental models—based on experience, expertise, and knowledge—flip from an asset to a liability. For many companies, mental model inertia lies at the root of an inability to adapt.” 15 The difficulty for management of large companies, and analysts alike, is to determine when the cultural attributes that help create a company’s success eventually become a burden to successfully adapting to a new environment.

It is not hard to see how this can happen. Indeed, the life cycle of a corporation’s “emotional” phases bares a strong resemblance to that of human beings. 16 “In the early years of a corporation, just after its founding, the dominant emotion is passion—the sheer energy to make things happen… As the corporation ages, the bureaucracy begins to settle in. Passions cool and are replaced by ‘rational decision making’… Eventually, rational decision making reveals that the future
potential of the business is limited... Cultural lock-in is established.”17 “The lesson here is that corporate longevity is often, but not inevitably, incompatible with superior shareholder returns.”18

Mid-cap vs. mega-cap: Performance
At the end of the day, the most compelling evidence that mid-cap stocks should not be considered less desirable than large-cap is the record of performance. I have compared performance of mid-caps and large-caps several times over various time periods and the results are always similar to those shown in Table 1. The strongest performing stocks are those in the mid-cap universe. While large-cap stocks post some decent returns, they pale in comparison to the best of the mid-cap universe. A stellar example of looking in the mid-cap “pond” for the best performance is that of Apple Inc. stock since 2004.

<table>
<thead>
<tr>
<th>Table 1. Performance comparisons: Top ten performers of the Russell Midcap® Index and the Russell Top 200® Index (6/30/2004 - 6/30/2009)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Russell Midcap® company</strong></td>
</tr>
<tr>
<td>Apple Inc.</td>
</tr>
<tr>
<td>Southern Copper Corp.</td>
</tr>
<tr>
<td>Diamond Offshore Drilling Inc.</td>
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<tr>
<td>Monsanto Co.</td>
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<tr>
<td>Express Scripts Inc.</td>
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<tr>
<td>Lorillard Inc.</td>
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<tr>
<td>Celgene Corp.</td>
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<tr>
<td>Western Digital Corp.</td>
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<tr>
<td>Blackrock Inc.</td>
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<tr>
<td>Activision Blizzard Inc.</td>
</tr>
</tbody>
</table>

Source: Russell Investment Group, Factset
Note: Index membership determined by status at beginning of period

Conclusion
A variety of myths often make mid-cap stocks appear less desirable than large-caps. Several aspects of mid-cap stocks regarding the business life cycle, industry structure, universe size, management quality, durability, and special situations are often misperceived or under-appreciated. Furthermore, other beliefs often unjustifiably inflate expectations for large-cap stocks. The prevalence of so many myths about mid-caps creates a market opportunity: The best mid-cap stocks substantially outperform the best large-caps. In sum, the evidence overwhelmingly warrants taking a fresh look at the fascinating universe of mid-cap stocks.

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10Hoban 10.
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15Mauboussin and Bartholdson, Floe, 3.
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Technology, media and telecommunications (TMT) is the group of industry sectors that rose from entrepreneurs’ garages to both fuel the stock market boom of the late 1990s and to change the lives of much of the world. These sectors now comprise the largest weighting in the S&P 500 at over 22%. Once considered speculative, their now strong balance sheets and global growth prospects caused many to consider them to be the “conservative” choice during the recent market turmoil. The Baltimore area has played an often unheralded leadership role in the success of the global TMT sector in several key areas, including providing financial and intellectual capital, providing an attractive consumer base for new technologies, and serving as the headquarters for leading companies.

Financial Intellectual Capital

In the area of venture capital, New Enterprise Associates (founded in Baltimore in 1978), has backed several TMT companies such as the world’s largest Internet provider UUNet Technologies that is now part of Verizon (Ticker: VZ). Baltimore-based Alex. Brown and Sons (now part of Deutsche Bank) was one of the county’s premier investment banks for TMT companies. Baltimore’s largest money management firms, Legg Mason and T. Rowe Price, which are also among the nation’s largest, both have been significant TMT investors. Legg Mason was an important investor in TMT pioneers such as AOL and Google. T. Rowe Price has several TMT focused mutual funds including its four- star rated Global Technology Fund.

When it comes to intellectual capital, Johns Hopkins University’s top ranked engineering program has arguably Baltimore’s most famous TMT sector graduate, Michael Bloomberg (’64), founder of Bloomberg L.P. But when it comes to the day-to-day impact on most people’s lives, he is potentially rivaled by Towson University’s Mark Nottingham (’94). Currently a “Principal Technical Yahoo” at Internet leader Yahoo, Mark has been an influential leader in developing the standards and formats that have made the Internet a useful tool. He has chaired several Internet standards working groups including, most recently, a unit at the Internet Engineering Task Force (IETF).

Attractive Market

The size and attractiveness of the Baltimore consumer market has caused many of the country’s largest publicly traded TMT companies to have a significant presence in the Baltimore area even though they are headquartered elsewhere. The classic example is the epic battle between giants Comcast (Ticker: CMCSA) and their “Triple Play” vs Verizon and their “FiOs” for the dollars spent on voice, data, video and wireless by Baltimore area residents.

However, we want to highlight three publicly traded “home-team” companies that are making a significant national and international impact.

Fiber to the World

Ciena Corporation (Ticker: CIEN). The U.S. Congress tasked the Federal Communications Commission and its new Chairman Julius Genachowski, to develop a national broadband plan by February 2010 to address concerns about the country’s declining global rankings in this key area. Implementation of any strategy will likely fall on the nation’s largest telecommunications providers including AT&T and Verizon. These carriers, along with international carriers like BT, often turn to Ciena to provide for their broadband hardware and software needs. In 2009, the market for broadband optical transport equipment was estimated to be $8.6 billion. In 2009 the company is seeing a significant decrease in demand across its customers segments. The consensus among financial analysts is that revenues will drop more than an estimated 25% for 2009 but growth will rebound to double-digit levels over the next several years. Optimism for the company’s future seems shared by investors who have driven its share price to outperform 83% of U.S. stocks over the last twelve months.

Ciena was founded in 1992 and is based in Linthicum, Maryland. It provides communications networking equipment, software and services that support the transport, switching, aggregation and management of voice, video and data traffic. Its optical service delivery and carrier Ethernet service delivery products are used in networks operated by communications service providers, cable operators, governments and enterprises worldwide. Its fiscal 2008 revenues were approximately $900 million and it employed approximately 2,200 people.
Checking Everyone Out

Micros Systems, Inc. (Ticker: MCRS). Over the last forty years, the humble cash register has evolved into the ubiquitous point of sale (POS) terminal that not only calculates the amount that a customer owes but is completely integrated with the entire operation of the enterprise including key functions such as inventory management. When it comes to providing POS terminals to the restaurant, hotel and specialty retail industries, Micros is the largest in the world. Its clients include premier brand names such as Ruby Tuesday’s restaurants, Marriott Hotels and specialty retailers such as Armani Exchange. Micros has been relatively less affected by the economic downturn. It saw a 4.4% decrease in sales for the year ending June 30, 2009 and the consensus among financial analysts is that revenue growth will accelerate to double digits over the next several years. The company’s shares have outperformed 69% of U.S. stocks over the last twelve months.

The Baltimore area has played an often unheralded leadership role in the success of the global TMT sector in several key areas

Micros Systems, Inc. was founded in 1977 and is headquartered in Columbia, Maryland. It designs, manufactures, markets and services enterprise information solutions for the hospitality and specialty retail industries. The company’s enterprise solutions comprise hotel information systems, restaurant information systems and specialty retail information systems. The company operates in the United States, Europe, the Pacific Rim and Latin America. Its fiscal 2009 revenues were approximately $900 million (54% international) and it employed approximately 4,700 people.

A National Broadcaster

Sinclair Broadcast Group, Inc., (Ticker: SBGI). The conversion from analog to digital broadcasting across the U.S. on June 13, 2009 marked the greatest change in over-the-air television broadcasting since the introduction of color TV. In addition to freeing up precious spectrum, the transition to digital television (DTV) promised the capability for broadcasters to provide better quality and more diverse services. Sinclair is at the center of this transition with its national footprint of stations that extends from Nevada to Maine, includes all six networks and reaches over 20% of the U.S. population. The company has been negatively affected by the current economic crisis but the consensus among financial analysts is that revenues will stabilize over the next several years after dropping more than an estimated 15% in 2009. Investors seem more sanguine than some about the future of this broadcaster. Its shares have outperformed 98% of U.S. stocks over the last twelve months.

Sinclair, a television broadcast company, was founded in 1952 and is based in Hunt Valley, Maryland. It operates exclusively in the United States. As of December 31, 2008, it owned and provided programming and operating services or provided sales services to 58 television stations in 35 markets. Its fiscal 2008 revenues were approximately $750 million and it employed approximately 2,500 people.

Closing Thoughts

We expect TMT to continue its historical role as a key driver of U.S. economic growth over the next 12 months. However, we believe that over the long term global economic growth and growth in demand for TMT will likely come from outside of the U.S. But no matter where the growth comes from, we expect that Baltimore will play an important role as a provider of financial and intellectual capital, an attractive consumer market and a home for providers of leading products and services.

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Starmine (a division of Thomson Retuers)
Investors Business daily
IDC
Morningstar

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How is China’s Growth Creating Opportunities in Maryland?

Niall H. O’Malley
Managing Director, Portfolio Manager,
Blue Point Investment Management, LLC
The Definition of Growth

There are many ways to look at investments. As a portfolio manager, I use growth at a reasonable price (GARP) as a framework to shape my observations. The GARP investment framework is a blend of growth and value investing. As a rule, value investors focus on the price of the security, the numerator of the P/E ratio, while growth investors focus on earnings offered by the security, the denominator of the P/E ratio. GARP represents a blended approach and is often referred to as a market oriented investment strategy.

When looking at an equity investment it is important to bear in mind that equity is a residual claim, i.e. what is left over after a company’s liabilities. The residual claim does not increase in value unless there is growth in assets or the equity of the company was undervalued when the investment was made. In a nutshell, growth is very important to equities. The world’s largest emerging market — China — offers growth; however, investing in companies benefiting from China’s growth can be done at a local level. There are a number of Baltimore companies participating directly in China’s growth.

The Chinese Consumer and GDP

The severe financial shocks of 2008 have created an uncertain environment which is not as friendly to growth. This is reflected in the generally anemic growth being experienced in the developed market economies around the world. Unprecedented government stimulus has been used to offset weak consumer demand. Given the challenges of the current operating environment, where are the growth opportunities?

Growth opportunities do exist; they are just harder to identify. One growth story we are familiar with is China. An emerging economic powerhouse, China has four times the population of the United States. The rising affluence of the Chinese consumers creates a huge potential; however, the contribution the Chinese consumer makes towards Gross Domestic Product (GDP) is very different. The easiest way to think of it is as an inverse relationship: 70% of the U.S. economy is driven by consumption while only 35% of the Chinese economy is driven by consumption. The inverse is true with industrial production which accounts for 30% of the U.S. economy, while industrial production accounts for approximately 65% of the Chinese economy.

This fundamental difference carries over into the imbalanced trade patterns between the U.S and China. China just surpassed Canada to become the largest exporter to the U.S. The dollar value of goods China exports to the U.S. is approximately five times what the U.S. currently exports to China.

The financial crisis of 2008 is creating fundamental changes in consumption patterns. The Chinese government is using vouchers and other stimuli to increase Chinese consumer demand, while the U.S. savings rate has swung from a negative figure to approximately 6%. Net U.S. consumption is falling, while structural changes are occurring in China geared towards stimulating greater internal consumption. The Chinese government is actively seeking to correct China’s unhealthy export dependency which has been overly dependent on the U.S. consumer. This creates an export opportunity for U.S. companies that have products and services that meet China’s internal consumption needs.

Marching into China

A less told story is the impressive success U.S. firms are achieving as they grow exports to China. For the purposes of this article the focus will be on how China’s growth is creating opportunities for Maryland based companies. Detailed in figure 1 (next page) is the growth in Maryland’s exports to China over the past ten years.

The chart indicates a significant accelerating rate of growth in Maryland’s exports to China. After observing the significant rate of growth, the question becomes, what Maryland companies are behind this growth? What are the products and services which they provide? Is Maryland’s export success just based on agricultural products such as soybeans and chicken parts, or is there more? The following narrative is a representative sample of the dynamic companies based in Maryland that are already benefiting from China’s growth.

A Journey to China

If you were to take a trip to China, how would these Maryland companies possibly interact with your journey? The most common way of getting to China is flying. When a plane lands it needs to immediately reduce its speed. One of the largest sellers of thrust reversers to the Chinese airlines is Middle River Aviation Services (privately owned by GE). Thrust reversers are those doors that open up on the side of the engines and permit a reverse flow of air to slow a plane when
it lands. Middle River Aviation Services headquarters is adjacent to Martin State Airport where it operates a 1.7 million square foot production facility. Now that you have arrived in China the question becomes: where to stay. Marriott (ticker MAR), a well established Maryland company, makes that decision easier. Marriott offers over 16,290 hotel rooms at 41 new and attractive properties. In the city of Shanghai alone Marriott has ten major hotel properties.

Now that you are rested, you are interested in getting a meal. You may be surprised to know that a growing provider of seasoning to quick serve restaurants in China is McCormick & Co (ticker MKC). The unfortunate problems associated with large scale food contamination in China have led to the first national food safety laws. This removes a thicket of conflicting provincial laws that restricted McCormick’s growth to regional markets near its three production centers in coastal China. Now McCormick has the opportunity to pursue growth initiatives across the country as the new food safety laws come into force.

As you explore China you will notice numerous manufacturing operations. You may wonder what goes on in the factories. What is produced and how? If companies are producing coatings for fiber optics or coatings for automotive components, there is a chance that they are using ultraviolet curing systems manufactured by Maryland’s Miltec (private). If the manufacturing facility is producing high technology items, they may have contracted Washington Laboratories (private) which specializes in Electro Mechanical Compatibility (EMC) certification, which is required by the Federal Communications Commission for any electronic goods exported to the U.S. EMC certification establishes that, among other things, new electronic devices will not interfere with airplane avionics or medical devices such as pacemakers. During your travels you may decide to visit a store and find Black & Decker (ticker BDK) power tools for sale. Black & Decker is quietly building out a sales network in China as it expands its presence in the world’s largest emerging market.

One travel concern that is always important is where to seek medical attention. The largest private hospital system in China is run by Chindex (ticker: CHDX) a Maryland based company. Chindex operates a network of private hospitals and clinics in Beijing, Shanghai, and Guangzhou. Chindex also sells western medical equipment and instrumentation to the Chinese market.

Conclusion
As you can see, China’s growth is creating a number of opportunities for Maryland based companies. Some of the most promising investment opportunities are in companies that are positioned to meet China’s growing consumer demand. From a GARP perspective the challenge is to identify the companies with a first mover advantage and that are positioned to capitalize on their market position. Beyond the forward thinking management teams at the companies mentioned, credit should also be given to the efforts of the Asia Office of Maryland’s Department of Business and Economic Development which has helped facilitate the growing private sector initiatives.

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Disclosures:
The author does not hold a position in any of the companies discussed
The report is not a recommendation or offer to sell any security
“In fact, there is ultimately a limit to how much regulation can do. In the final analysis, you could write all the rules you want, but there has to be a philosophy of ethical behaviour that comes from human beings operating in a professional way.”

—William H. Donaldson, CFA

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Maryland—a Hotbed for Innovative Marketing Firms

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Despite recent economic conditions, Maryland’s business community continues to provide ample opportunities for marketing students, both for internships to gain valuable experience while they pursue their degrees, and full-time employment to launch careers after they graduate. According to Laleh Malek, Director of the Professional Experience program in the College of Business and Economics (CBE), marketing students at Towson University participated in over 160 internships during the past academic year. The majority of these internships were affiliated with CBE’s innovative Professional Experience course, which augments the internship with reflective learning, networking with business executives, and the development of a portfolio that can be used later when seeking full-time employment.

Marketing positions encompass a wide variety of job titles. The U.S. Bureau of Labor Statistics (BLS) notes: “College graduates with related experience, a high level of creativity, strong communication skills, and computer skills should have the best job opportunities.” Traditionally popular marketing positions have included product & brand management, sales, integrated marketing communications/advertising/public relations, marketing research, retail management, channels/supply chain management, and entertainment/sports/event marketing management. Positions related to marketing account for a healthy 44% of all recent entry-level postings for Maryland found on the CareerBuilder.com and Monster.com websites. Overall, marketing-related positions account for over 6% of all managerial positions within the state of Maryland (2008 Bureau of Labor Statistics figures). Nationwide, BLS projects that employment of marketing, sales managers, and related positions is expected to increase by 12% through 2016. Fortunately for marketing students, local opportunities for internships that may ultimately lead to careers in these areas continue to be available.

However, technological changes are changing the rules of the game and, with this, are creating new opportunities for those seeking careers in marketing. Media expert and adjunct instructor Don Cole recently noted in his Media Realism blog the fundamental shift in media being used to support companies’ marketing efforts and predictions of media growth rates as economic conditions improve. The contrast is stark — Internet and mobile communications are expected to continue to grow at double-digit rates, whereas traditional media, such as print, broadcast television and radio, are expected to see declines. Even before the current economic downturn occurred, marketing positions that require a high level of technical competence, such as direct marketing, customer relationship management (CRM)/database management and Internet/online, have become more prominent and with this we are seeing an accompanying shift to more internships that provide experiences in these areas.

Marketing students seeking internships and/or full-time employment within Maryland are finding opportunities in a wide variety of industries populated by firms that are headquartered or have a significant presence in the state. Reflecting the strength and diversification of the state’s economy, they comprise firms and nonprofit organizations that are large and small, local and global, high-tech and low-tech, as well as young and old. Particularly well represented are organizations in financial and other services, retailing, and the nonprofit sector. Among the more coveted positions locally are those with innovative firms, some of which have been high-tech start-ups during the past two decades, and others that have successfully redefined themselves in recent years. In doing so these firms have climbed to become formidable competitors within their industries and consequently the target of many students’ internship and employment searches. Notable among these firms are G.1440, Phillips Seafood, Under Armour, Renegade, Community Analytics, DTLR, and Break Away Ltd. Each is briefly profiled here.
G.1440

Founded in 1998 by entrepreneur and IT maven Larry Fiorino, G.1440 has rapidly expanded from its origins as a software development firm to become a regional IT powerhouse that provides consulting, staffing and software development services to a client list that reads like a “Who’s Who” among Fortune 500 businesses, Federal and State Government agencies, and prominent nonprofit organizations. Among its numerous accolades in recent years is its recognition as a “Future 50” company by SmartCEO magazine, listing on the Inc. 5000 list of fastest growing privately held companies, being ranked #5 in Baltimore Magazine’s 25 Best Places to Work, and being identified as a Small Giant by the Greater Baltimore Technology Council.

Phillips Seafood

A family-owned business for four generations, Phillips has obtained international recognition for its award-winning restaurants and quality Phillips brand of retail seafood products. Growing from a single restaurant in Ocean City, Phillips Seafood Restaurants now operates both company-owned and franchised restaurants around the country. But with its success arose a dilemma; its menu was driven by crab meals and shortages began to grow in its local supply. In 1990, Phillips opened crab processing facilities in Southeast Asia to ensure dependable year-round supplies. Followed by the addition of manufacturing facilities in Asia and the US, Phillips is now a highly successful vertically integrated company.

Under Armour

Former University of Maryland football player Kevin Plank founded Under Armour in 1996 to produce performance apparel—gear engineered to keep athletes cool and dry and light during a game, practice or workout. Over little more than a decade, Under Armour’s success as a purveyor of technically advanced products has led to the expansion of its product line to encompass a wide range of sportswear, casual apparel, and athletic footwear for men, women and children. More recently, Under Armour has moved into retailing, opening its first store in Annapolis during 2007. It has since expanded to a network of 17 retail outlets.

Renegade

Founded in 1988 as a newsletter publisher and training video producer for the cable industry, Renegade has rapidly grown to become a full-service production house and creative agency under the leadership of Timothy Watkins, who acquired the firm in 1993. Although Renegade provides its clients with a wide range of offerings, the firm concentrates on five areas—audio, video and photographic studio and production services; more traditional agency services, such as advertising; new media support, including web design, e-commerce and social media; training support services, such as instructional design and course facilitation; and content, which includes documentary production. Located in Hunt Valley, its state-of-the-art facility includes a studio, soundstage and production offices and the latest in digital/HD technology.

Nationwide, (the Bureau of Labor Statistics) projects that employment of marketing, sales managers, and related positions is expected to increase by 12 percent through 2016.
Community Analytics

Recognized as being on the forefront of research organizations that apply the principles of social networking, Community Analytics helps organizations map influence networks and identify the trusted advisors within targeted communities. Community Analytics is lead by CEO Myra Norton, who is regarded to be among an elite group of social networking experts and entrepreneurs in the newly published book, Design and Launch an Online Social Networking Business in a Week. Using an innovative combination of direct contact, technology and mathematics, Community Analytics helps clients, such as MIT Sloan School of Management and Associated Black Charities, communicate with trusted advisors and deliver resources.

DTLR

Expanding from its inner city origins in Baltimore, DTLR (originally called Downtown Locker Room) has grown to be one of the leading Urban Fashion retailers in the U.S. In just over two decades, DTLR has grown from a single store to become a formidable regional chain of 64 stores located throughout the East coast and Mid-West. Propelled by its novel merchandising that features the latest urban footwear, apparel and music and its pioneering, innovative marketing strategy that employs regional “street teams,” DTLR has successfully positioned itself at the top of the urban retailing industry.

BreakAway, Ltd.

Starting out in 1998 as a developer of popular entertainment games, BreakAway has created hundreds of titles in strategy, action/stealth, and sports games, and along the way has developed a core competency in creating tools for modeling, simulation and visualization. This proficiency in turn allowed the firm to design a strategy-based platform that enables military, homeland security, medical and corporate customers to solve real-world problems using experiential, game-based simulations. BreakAway’s track record of developing innovative technology has resulted in the company’s being named to Deloitte and Touche’s “Fast 50” program for three consecutive years, and founder Doug Whatley’s being recognized as Ernst and Young’s “Entrepreneur of the Year” in 2004.

These firms and the many more that employ Towson University marketing students in internships are providing a valuable experiential learning environment. By working under the tutelage of seasoned professionals to perform meaningful projects and tasks, these students augment their academic backgrounds and graduate better prepared for the rigors of subsequent full-time employment. Based on recent research, this emphasis on practical experience is paying off for CBE graduates and is one of its hallmarks, distinguishing them from their peers at other universities.

But this is a two-way street: the sponsoring firms have access to a talented pool of individuals who, after demonstrating their aptitude and ability to perform in their internships, are often recruited for full-time employment after graduation. Both sides benefit greatly from these out-of-the-classroom experiences.

as economic conditions improve…

Internet and mobile communications are expected to continue to grow at double-digit rates, whereas traditional media, such as print, broadcast television and radio, are expected to see declines.
Seeing Green in the Baltimore Economy

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The push is on for businesses to go green, and some Baltimore firms are already finding bottom line savings, generating new revenue streams and expanding opportunities by tapping into the green economy.

“In today’s challenging global economy, almost everyone is concerned about how to do business in a more environmentally friendly and sustainable fashion,” says local business incubator TowsonGlobal’s director Clay Hickson. While being “green” is desirable for altruistic reasons, being environmentally friendly and sustainable will only receive attention in this economy when it leads to tangible savings, revenues and job creation.

As the sustainability tide rises across our landscape, Baltimore continues to ride high on many fronts. Spurred by increasing fossil fuel prices, global warming concerns and government tax incentives—Baltimore companies are pushing the edge of the green envelope. The 2008 EmPOWER Maryland: Energy Efficiency Act committed the state to a 15 percent decrease in electric consumption by 2015. This legislation coupled with the renewable energy portfolio standard (RPS), which requires a portion of all Maryland retail electric sales come from renewable sources, ensures a future for green initiatives in the local economy.

The global energy situation is a key driver for some of these green initiatives. Natural gas and oil price increases last year fueled interest in energy saving technologies and the use of alternate energy sources, which in turn led, by late summer 2008, to lower energy prices because global demand had decreased (Figure 1). This year oil prices rose again, peaking in early summer. Meanwhile, natural gas prices continue a steady decline as domestic production outstrips demand. Experts suggest that economic recovery will feed increases in energy prices through demand growth.

The development and use of green technologies are caught in the pinch between the constrained credit market and the uncertainty of future energy costs. When energy costs are up, technology investment is good, but when costs are down, the return on investments in green initiatives is uncertain. But this situation has not kept firms in the Baltimore region from moving forward in the green economy.

Maryland’s Green Economy

Maryland is recognized as a leader in two of the 15 segments of the green economy. According to a recent report commissioned by the National Governors Association, the state has approximately 1,300 jobs in the green research segment and 5,600 related to a second segment which includes emissions monitoring, environmental consulting and environmental remediation. Excluding a drop in 2007, Maryland also shows strong growth in venture capital investment in clean technology (CleanTech) – reaching a high of $162 million in 2008. The report also recognizes Maryland’s success in green technology patents over the past 15 years.

Baltimore, too, is claiming its share of patents and venture capital through innovative firms like Solaroad Technologies and Exis Inc. These two young firms participate in a regional business incubator, TowsonGlobal. Solaroad Technologies is developing and testing “solar tubes.” These cylinder devices are less sensitive to the angle of the sun than traditional solar panels and support more flexible applications. These curved panels are a smaller format than flat solar panels and can even save space by being installed upwards rather than spread out. Installed along the highway jersey walls or light poles, the tubes would collect energy from the sun by day and energy from headlights at night. A potential extension of the technology currently in development is a “cube tube” that collects wasted energy from office lights which can then be used to power office equipment.

Game developer Exis Inc. began at the TowsonGlobal incubator in 2003. In addition to traditional video games, it develops interactive training simulation applications to meet the training needs of business and government. Implementation of these solutions in
the corporate world would enhance distance-learning effectiveness and potentially reduce the need for travel related to training employees on new equipment and software.

Supporting these companies is the mission of TowsonGlobal. “We actively search for young companies that are developing innovative products, services and processes that can be applied in this arena,” said its director, Clay Hickson. “We use our physical facilities, advisory board, staff and international network of resources to support these companies so that their technologies have a better chance of actually reaching the market.”

**Employment Outlook**

In the long term, the green economy may produce new jobs. However, the Governor’s Workforce Investment Board indicates expansion in existing occupations. Maryland’s Energy Industry Workforce Report notes that jobs in the green economy will include scientists, engineers, truck drivers and salespersons. While this prediction lacks the marketing appeal of glitzy new career paths, the current thrust of the green economy is about infusing the infrastructure with new practices and technologies that reduce negative effects on the environment. It takes a broad spectrum of jobs to make that happen, and Baltimore may be poised to benefit from that growth in job opportunities across all skill levels.

**Baltimore Spotlight**

**KCI Technologies**

Baltimore-area engineering firm KCI Technologies (KCI) is living green in its new corporate headquarters. Its new facility in Sparks includes low-emitting paints, green-label carpeting, furnishings that contain recycled content, a white solar reflective roof, water efficient landscaping, and efficient mechanical systems. KCI has applied for Leadership in Energy and Environmental Design certification (LEED) from the U.S. Green Building Council, which, when granted, will provide additional tax benefits.

“We’re saving resources and at the same time saving money. It’s a coincidental benefit,” said KCI Chairman and CEO Terry F. Neimeyer.

 Ranked as the second largest engineering firm in the region by the Baltimore Business Journal, KCI provides engineering, consulting and construction services and is involved in many green construction projects. Neimeyer admits that the recession may slow companies from taking more environmentally friendly steps. “I think the recession has dampened the enthusiasm,” he said. “In tight times, people won’t invest the extra dollars required to go green. I see a declining trend in 2010.”

However, local governments are trying to nudge businesses, which have to overcome the estimated 6 percent increase in typical construction costs they incur from building green. Legislation in Baltimore City, Howard, and Baltimore counties increases the performance standards for certain building projects and complements tax incentives to stimulate green construction.

Beyond government incentives, firms are listening to their workers. “Many young employee entrants in the market have been brought up with the ‘save the Earth’ mentality that forces the decisions from the bottom up,” Neimeyer said. “Decreased operating costs and financial incentives from municipalities drive the decisions from the top down.”

**McCormick**

In January 2009, McCormick celebrated the completion of a major solar energy project. McCormick partnered with Constellation Energy to install 2,100 solar panels on two roofs at its Sparks facility. McCormick expects immediate savings of 30% in electricity costs in the first year. In a recent statement, McCormick President and CEO Alan Wilson commented, “These solar panels provide renewable energy, reduce greenhouse gases within the community and provide McCormick with energy cost savings—the classic win-win.”

This solar energy project is the latest and most significant initiative in the spice maker’s strategy to reduce energy costs and their environmental impact. Upgrades to the plant’s lighting system reduced energy use by 10% and recycling efforts in the spice mill resulted in a 50% reduction in solid waste generation. McCormick began developing sustainability metrics and goals in 2005 and continues to see progress in many key areas related to electric consumption, greenhouse gas emissions and waste water volumes. Thinking and acting green has become part of the company’s DNA. “At McCormick, we don’t view sustainability as a side issue, but something that is an integral part of our business and essential to our success,” Wilson said.
Diversified Insurance Industries

While paper recycling programs have become the standard in business today, Baltimore-based Diversified Insurance Industries (DII) has found real bottom-line savings through its recycling efforts and through the elimination of paper documents. DII reports annual savings of $10,000 as a result of its recycling initiatives. “Becoming green actually saves resources and money in the long run,” said DII’s senior vice president Mike Papa.

While many of DII’s environmentally friendly processes are transparent to customers, the firm allows customers to decide whether to receive an electronic or printed copy of their insurance policies. “Some prefer the electronic file,” Papa said. “These tend to be younger and/or more progressive customers. Over time, I expect more contracts will be delivered this way. This saves money, time—and trees.” At DII, being green is a natural outgrowth of being lean and efficient. Eliminating all forms of waste is part of its culture of continuous improvement, not to mention improving its bottom line.

BGE HOME

Given their experience in energy related products, many eyes can be cast on BGE Home’s commitment to the environment. But the company is walking the environmental talk with its new LEED certified headquarters in White Marsh. The facility incorporates state-of-the-art technology inside and out. Inside features include occupant sensors to reduce the energy used for lighting, low-flow water fixtures with infrared sensors, low emitting paints and carpet materials, and specialized entry mats that prevent contaminants from entering the building. Visitors will notice runoff water collection pools to support natural filtering and absorption, as well as drought-tolerant indigenous plants. By setting an example for the efficient use of energy at its own facility, BGE Home may be better positioned to attract customers to its residential energy products and services.

For its residential customers, BGE Home operates an online Energy Saving Center, launched in 2008. It provides customers with access to resources to improve the efficiency of their homes and reduce their energy consumption. The site includes a self-guided home assessment, a virtual home to identify savings in energy and water use, and an online store for do-it-yourselfers to order everything from electricity consumption monitors to outdoor solar ovens.

Customers also may request a full home energy analysis by one of BGE Home’s certified auditors. The 4-hour audit identifies specific areas where improvements to windows, doors, insulation, and HVAC systems can increase the home’s energy efficiency. The home energy audit is often the first step when customers are looking to reduce energy costs. When asked about the current trends in energy product sales, BGE Home vice president of marketing and customer care Catherine M. O’Brien commented, “We see ongoing evidence of energy related product interest—everything from high efficiency HVAC equipment, to attic insulation, to smaller ‘do-it-yourself’ items that can be purchased from our Energy Saving Center’s Online Store.”

While the difficult business climate has increased the pressure on firms to choose carefully where they invest their resources, Baltimore firms are not avoiding sustainability initiatives. “Baltimore is on track,” says KCI’s Neimeyer.

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Residential Real Estate Prices in the Baltimore Region

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The last three months have witnessed a potential shift in home prices. The S&P Case-Shiller 20-City Home Price Index has reported price increases in May (0.4%), June (1.4%), and July (1.6%). Over the same time horizon, the Federal Housing Finance Agency’s (FHFA) seasonally-adjusted purchase-only house price index (HPI), showed a similar pattern with increases in May (0.6%), June (0.1%), and July (0.3%). Given this 3 month pattern of stabilized home prices, many believe the housing market is ready for a turn to the upside.

**Measuring Home Prices**

The Case-Shiller and FHFA Home Price Indexes are the two most watched measurements of home prices. Both indexes use a repeated sales technique that tracks the change in prices on individual homes. That is, the initial sale of the house is recorded. Later when the house is resold, the new price is measured and the corresponding price change is recorded. Given that the same house is used to measure prices at two points in time, the indexes do have some ability to control for quality effects in the price of housing. Even though these two measures use the same basic techniques to track prices, they do differ in several important ways.

- The Case-Shiller indexes use only purchase prices in creating the index. The FHFA follows a similar approach in their purchase-only indexes. However, the FHFA also calculates all-transaction indexes which use purchases and refinance appraisals for pricing data.
- The FHFA price information is generated from mortgage information obtained from Fannie Mae and Freddie Mac. The FHFA only tracks FHA backed mortgages. This means the FHFA index misses the homes which had non-traditional financing, such as subprime, adjustable rate, or jumbo mortgages. The Case-Shiller indexes use information from county officials and homes measured are not limited by value or mortgage type.
- The Case-Shiller indexes are value weighted, giving greater importance to more expensive houses. The FHFA indexes weigh each home equally. Thus, the Case-Shiller Indexes are more applicable to studying the effects of changing home prices on household wealth. The FHFA indexes are more associated with looking directly into home valuations.
- The FHFA National indexes use data from all 50 states and Washington, D.C. Assuming that at least 1000 transactions have taken place in a given area, they provide indexes for all nine Census Divisions, all 50 states and Washington D.C., and every Metropolitan Statistical Area (MSA) in the U.S. except for Puerto Rico. The Case-Shiller National Indexes only use data from 37 states and the Washington D.C.. The states missing are Alabama, Alaska, Idaho, Indiana, Maine, Mississippi, Montana, North Dakota, South Carolina, South Dakota, West Virginia, Wisconsin and Wyoming.

**Residential Housing Price Comparisons**

Given the readily available MSA level indexes through the FHFA, we can easily take a snapshot of how prices in the Baltimore housing market have performed relative to other markets during the financial crisis. When looking at price levels, one can get a different impression based on how far back one goes. From the peak of the housing bubble to the 2nd quarter of 2009, average housing prices in Baltimore have dropped 7.8%. This is consistent with the national reading that shows a 9% drop from the peak. Baltimore has fared better than Washington, D.C. where house prices have dropped 15.3% from the peak. Looking further back, we still see a market that has moved substantially higher. When compared with 1992 levels, Baltimore housing prices have risen 149%. That is higher than Washington, D.C. at 144% and substantially higher than the U.S. average of 104%. Given this information and assuming that the housing bubble is mostly a macroeconomic shock, we have to consider the possibility that housing prices in Baltimore and D.C. may still have some room to fall.

![Figure 1: National Comparison of Average House Price Changes](image-url)
National Comparison

The best way to get a handle on the state of the housing bubble, either inflating or deflating, is to look at the trends in the rate of housing price changes. Figure 1 presents a comparison of housing prices changes in the Baltimore-Towson MSA, Maryland, and the U.S.

Figure 1 shows two distinct trends for Baltimore and Maryland versus the U.S. First, the period between 1992 and 1997 marks a time when house prices were mildly appreciating nationally, but were pretty much flat in Baltimore and Maryland as a whole. This indicates that Maryland was a late entry in the housing bubble. After 2001, Maryland and Baltimore entered a period of price inflation that exceeded national levels. In early 2005, the annualized percentage change in home prices peaked at over 20 percent, more than double the national rate. Since that peak, price inflation quickly changed into price deflation that was roughly in-line with the national average. As of the 2nd quarter of 2009 home prices were decreasing at an 8% annualized pace.

Regional Comparison

We can also study the intensity of Baltimore’s housing bubble by looking at other comparable cities in close geographical proximity to Baltimore. Figure 2 compares the change in housing prices among Baltimore, Philadelphia, and Washington, D.C.

There are some clear similarities and differences among the cities. Until 1999 all three cities exhibited similar house price changes. Over the peak of the housing bubble, we can see that Baltimore’s experience was in between that of Philadelphia and Washington, D.C.

State Comparison

MSA level indexes can also be used to study differences in patterns across cities within Maryland. Many argue that real estate markets are highly localized. Thus, different regions of Maryland may have experienced vastly different patterns in residential housing. We can address this issue using MSA level house price indexes from the FHFA. There are three MSA level home price indexes calculated in Maryland: the Baltimore-Towson index, the Bethesda-Frederick-Rockville index, and the Hagerstown-Martinsburg index. The Bethesda index captures more of the D.C. effect in Maryland home prices. Meanwhile the Hagerstown index represents the most rural of the three MSAs and may help shed some light on potential differences between urban and rural home price movements.

The empirical evidence suggests that the three cities have experienced very similar price movements during the housing bubble. The only sizeable difference was between 2000 and 2003 when the Bethesda area experienced much greater price appreciation than the other two areas. Since 2004, all three areas have exhibited nearly identical price movements. We can also use the indexes to measure the average home price levels across these three cities. Figure 4 displays the relative price levels of the same three MSAs since 1995.

The price levels in all three cities peaked in 2007. The Baltimore and Bethesda MSAs peaked at a price 170% above 1992 levels, while the Hagerstown region peak at roughly 160% above 1992 levels. Price levels have fallen since these peak values and are now between 130 and 155 percent above their 1992 levels. This annualizes out to about a 5% percent return on housing between 1992 and 2009.
Extreme Comparison
It could have been worse. Maryland was much less active in the subprime mortgage market than other areas of the country. There is a clear link between the amount of subprime lending and the severity of an area’s housing bubble. Let’s look at two of the more famous examples: Las Vegas and Fort Lauderdale. Figure 5 compares these cities with Baltimore.

When compared to these extreme locations, Baltimore’s ride through the housing bubble has been fairly stable. The peak appreciation rate in Baltimore was just over 20 percent. The corresponding rate in Las Vegas was 43 percent and in Fort Lauderdale was 30 percent. During the current contraction phase, prices are falling by 8 percent (annualized) in Baltimore, which is much slower than the current 22 percent rate in Fort Lauderdale and the 26 percent rate in Las Vegas.

Where is the Bottom?
When will we see the bottom of the housing bubble? The answer for Baltimore depends on a mix of local and macroeconomics conditions which will drive the housing market. Stability in home prices depends on generating a strong demand for housing while maintaining a controlled supply of housing available on the market. The macroeconomic forces come mostly from financial markets and government policy. The localized forces are made up for mostly labor market and construction markets.

• Mortgage Rates: Home mortgage rates have been at or near historical lows. These rates definitely reduce the effective price of housing and thus should serve to aid potential homebuyers. The uncertainty in mortgage markets is centered primarily on actions by the Federal Reserve and when they decide to start raising interest rates. It is anticipated that once the Fed begins to raise interest rates, mortgage rates will rise off these lows and put pressure on the already suppressed demand for homes.

• First Time Home Buyers Tax Credit: On November 30, 2009, the $8000 first time home buyer tax credit is set to expire. This can only decrease the demand for homes. This has recently been modified and extended to April 30, 2010.

• Unemployment: The unemployment rate in Baltimore and Maryland as a whole is below the national average, but just as with the rest of the country, this rate continues to rise. This puts both demand and supply side pressures on the housing market. The lack of job opportunities will slow job migration into the Baltimore area and thus limit the demand for housing. At the same time, job losses increase the possibility of further foreclosures which only increases the supply of housing, creating further downward pressure on home prices.

• BRAC: According to the State of Maryland 2008 BRAC Action Plan Progress Report, Maryland could see 60,000 jobs created through BRAC. The over 25,000 households that are anticipated to move into Maryland would substantial support localized home markets in the areas around the military bases and the state as a whole.

• Housing Construction: The National Association of Home Builders is now reporting an increase in building permits and housing starts. As of August 2009, Baltimore building permits are down 15 percent from last year, but up from previous months.

These forces give a mixed-bag of signals about the trend in Baltimore home prices. Clearly, the market is stabilizing, but it is too early to say with certainty that the market has turned.

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1 According to the Census Bureau definition of regions, both Baltimore and Fort Lauderdale are in the South Atlantic region. This example shows why the use of Census Regions for studying housing prices can be misleading.
Baltimore Metro Employment and Housing Overview

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Baltimore Region

According to the Census, the Baltimore-Towson Metropolitan area is a varied demographic region which consists of the counties of Anne Arundel, Baltimore, Carroll, Harford, Howard, Queen Anne’s and Baltimore City. For the purposes of this analysis, however, RESI uses the definition of the Baltimore Metropolitan Council’s Baltimore Region, which includes all the previously mentioned counties except Queen Anne’s.

The industry specific tables provided are a compilation of data from the private Quarterly Census of Employment and Wages (QCEW) industry data released by the Bureau of Labor Statistics. According to the latest available QCEW data, the top three largest employment industries in the Baltimore region during the fourth quarter of 2008 were health care and social assistance, retail trade and professional, scientific and technical services. These industries are a significant part of the region’s economic makeup and comprise approximately 4 out of 10 of total employees.

According to QCEW data, while the Baltimore region has seen its fair share of decline in a variety of industries, there have been a number of industries which have been disproportionately affected. For example, between the fourth quarters of 2007 and 2008, the industry with the highest absolute change in employment levels was retail trade, which posted a loss of 8,021 jobs – nearly double the amount of losses posted by the construction sector. During the same time period, the construction industry posted a job loss of 4,777 jobs. In light of the dismal housing and consumer markets, it comes as no surprise that these are the two industries that have been the most affected by the economic downturn. If unemployment continues to increase, the retail trade industry will be affected by low consumer confidence and, therefore, an unlikely recovery in national retail sales in near term. Another weak holiday sales season might translate into more layoffs in this industry during the first quarter of 2010. Unfortunately for the construction industry, activity decline is not only tied to weakening in the housing market but also to the bleak retail industry as fewer retail stores equal less retail space needed.

Nonetheless, there were a number of industries that posted significant employment gains over the time period. The health care and social assistance sector added approximately 3,100 jobs to the region’s payroll between the fourth quarters of 2007 and 2008. The educational services industry also posted noteworthy gains, adding approximately 2,000 jobs. The trend is similar for the nation as a whole. According to the Labor Department, every single major sector of business has showed continued declines in employment, save for education and health services.

While QCEW data is industry specific employment and wage information as reported directly by employers, the Local Area Unemployment Statistics (LAUS) provides a set of more “real time” employment data that estimates total monthly employment and unemployment using Current Population Survey data. According to the LAUS data, during the second quarter of 2009, overall employment in the Baltimore Metro region decreased 4.5 percent when compared to the same quarter in 2008.

### Baltimore Metro Region

<table>
<thead>
<tr>
<th>Industry</th>
<th>2008 Q4 Employment</th>
<th>Year-over-Year Pct. Change</th>
<th>Year-over-Year Abs. Change</th>
<th>Quarterly # of Firms*</th>
<th>Total Quarterly Wages</th>
<th>Average Weekly Wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Forestry, Fishing and Hunting</td>
<td>666</td>
<td>-7.0%</td>
<td>-50</td>
<td>103</td>
<td>$5,924,813</td>
<td>$685</td>
</tr>
<tr>
<td>Mining</td>
<td>173</td>
<td>-7.7%</td>
<td>-14</td>
<td>17</td>
<td>$2,427,130</td>
<td>$1,081</td>
</tr>
<tr>
<td>Utilities</td>
<td>4,072</td>
<td>4.7%</td>
<td>182</td>
<td>25</td>
<td>$103,397,113</td>
<td>$953</td>
</tr>
<tr>
<td>Construction</td>
<td>76,816</td>
<td>-5.9%</td>
<td>-4,777</td>
<td>8,106</td>
<td>$1,147,951,428</td>
<td>$1,150</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>67,120</td>
<td>-2.8%</td>
<td>-1,969</td>
<td>1,964</td>
<td>$1,074,686,385</td>
<td>$1,232</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>37,236</td>
<td>-4.3%</td>
<td>-1,665</td>
<td>2,799</td>
<td>$609,428,013</td>
<td>$1,259</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>138,421</td>
<td>-5.5%</td>
<td>-8,021</td>
<td>8,965</td>
<td>$965,808,674</td>
<td>$537</td>
</tr>
<tr>
<td>Transportation and Warehousing</td>
<td>28,733</td>
<td>0.4%</td>
<td>121</td>
<td>1,388</td>
<td>$321,768,046</td>
<td>$861</td>
</tr>
<tr>
<td>Information</td>
<td>21,348</td>
<td>-4.1%</td>
<td>-914</td>
<td>926</td>
<td>$335,016,503</td>
<td>$1,207</td>
</tr>
<tr>
<td>Finance and Insurance</td>
<td>52,605</td>
<td>-3.0%</td>
<td>-1,620</td>
<td>4,092</td>
<td>$1,161,523,509</td>
<td>$1,698</td>
</tr>
<tr>
<td>Real Estate and Rental and Leasing</td>
<td>20,749</td>
<td>-4.2%</td>
<td>-899</td>
<td>2,845</td>
<td>$265,486,954</td>
<td>$984</td>
</tr>
<tr>
<td>Professional, Scientific, and Technical Services</td>
<td>100,804</td>
<td>0.7%</td>
<td>716</td>
<td>9,789</td>
<td>$2,139,172,526</td>
<td>$1,632</td>
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<tr>
<td>Management of Companies and Enterprises</td>
<td>7,853</td>
<td>21.8%</td>
<td>1406</td>
<td>209</td>
<td>$182,599,584</td>
<td>$1,789</td>
</tr>
<tr>
<td>Administrative and Support Services and Waste Management and Remediation Services</td>
<td>71,925</td>
<td>-4.0%</td>
<td>-2,980</td>
<td>4,328</td>
<td>$663,628,523</td>
<td>$710</td>
</tr>
<tr>
<td>Educational Services</td>
<td>41,540</td>
<td>5.1%</td>
<td>2,012</td>
<td>1,003</td>
<td>$514,957,114</td>
<td>$954</td>
</tr>
<tr>
<td>Health Care and Social Assistance</td>
<td>175,374</td>
<td>1.8%</td>
<td>3,113</td>
<td>6,893</td>
<td>$2,196,943,155</td>
<td>$964</td>
</tr>
<tr>
<td>Arts, Entertainment, and Recreation</td>
<td>16,478</td>
<td>-5.4%</td>
<td>-937</td>
<td>1061</td>
<td>$167,452,335</td>
<td>$782</td>
</tr>
<tr>
<td>Accommodation and Food Services</td>
<td>93,647</td>
<td>-2.2%</td>
<td>-2070</td>
<td>5296</td>
<td>$423,082,994</td>
<td>$348</td>
</tr>
<tr>
<td>Other Services (except Public Administration)</td>
<td>40,678</td>
<td>-0.7%</td>
<td>-296</td>
<td>6665</td>
<td>$337,732,341</td>
<td>$639</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics Quarterly Census of Employment and Wages (QCEW) data
* Firms refers to profit and non-profit entities, often referred to as ‘establishments’
time period in 2008 and the unemployment rate nearly doubled as it jumped from 3.9 percent to 7.5 percent. Not surprisingly, the amount of unemployed persons surged 90.8 percent from 53,618 to 102,277 in the second quarter of 2009. When compared to the rest of the state, the region’s unemployment rate was higher than the state’s overall average of 7.1 percent during the second quarter of 2009. Furthermore, the region falls short when compared to the Washington Metro region, which had an unemployment rate of 6.1 percent during the same time period.

According to data from the Maryland Association of Realtors (MAR), housing activity for the Baltimore Metro region was mixed during the second quarter of 2009. For instance, while sales increased at a 23.3 percent rate from the first quarter of 2009, average home prices slid at a rate of 5.0 percent to $273,981. The glut of homes on the market seems to be lessening as the active inventory of homes for sale dipped by 6.8 percent between the first two quarters of 2009. During the second quarter of 2009, the region falls behind state home sales numbers, which increased by 25.9 percent, nearly 3 percentage points higher than that of the region. Furthermore, the region’s home prices dropped at a higher rate (5.0 percent) than that of Maryland’s rate (1.4 percent).

**Anne Arundel County**

Based on QCEW data, the highest concentration of workers was found in the retail trade industry in Anne Arundel County during the fourth quarter of 2009, with approximately 33,470 employees. However, retail trade also has the second highest job loss between the fourth quarters of 2007 and 2008, following only the construction industry. According to LAUS data, Anne Arundel County’s unemployment rate during the second quarter of 2009 was 6.4 percent, the lowest rate for the region lagging Howard and Carroll County.

MAR data indicate that seasonally adjusted home sales activity in Anne Arundel County took a positive turn in May 2009, when it posted its first year-over-year expansion in sales since January of 2007. August 2009 sales were up 9.1 percent compared to the same time period the previous year. Although sales activity may be on the rise, the average price of home sales has continued its downward slope, falling 4.0 percent from the average price in August 2008 to $365,237—approximately $88,400 short of the $453,646 high posted during the first quarter of 2007.
Baltimore County

Health care and social assistance was the industry with the largest concentration of employees in Baltimore County during the fourth quarter of 2008, followed closely behind by retail trade, according to QCEW data. Activity in these dominant industries was mixed as health care posted year-over-year employment gains and Retail Trade employment declined during the same time period. This pattern closely mimics the trend for the Baltimore region as a whole. LAUS data reveal that the county’s unemployment rate of 7.5 percent for the second quarter of 2009 was only topped in the region by Baltimore City’s rate of 10.3 percent.

Recent MAR data suggest average home prices and home sales inventories in Baltimore County were both down approximately 11.0 percent in August 2009, compared to the same month the previous year. On the other hand, home sales took a smaller dip, dropping just 1.5 percent in August when compared to August 2008. This modest decrease is in stark contrast with August 2008 when sales decreased by 30.1 percent compared to August 2007.

Carroll

Employment in the retail trade industry dominated Carroll County’s employment base during the fourth quarter of 2008, according to QCEW data. Unfortunately, payrolls in the industry declined between the final quarters of 2007 and 2008. The biggest drop in payroll employment was posted in the construction industry, which shed approximately 870 jobs. The unemployment rate for the county, according to LAUS data, was 6.3 percent during the second quarter of 2009. The rate was the second lowest for the region behind Howard County’s 5.3 percent.

Carroll County posted a 34.6 percent increase in homes sales between August 2008 and August 2009—totaling 117 home sales. This is the highest annual sales increase in all the region’s counties for August and is a significant improvement over March 2009, when homes sales amounted to exactly half that figure.

Harford

According to QCEW industry data for the fourth quarter of 2008, Harford County was one of three counties in the region which posted employment gains in manufacturing (the other two were Carroll and Howard). Of those counties, it added the greatest number of workers...
to the industry, expanding by 4.4 percent and adding 198 jobs to payrolls. Retail trade accommodated the majority of Harford County employees; between the fourth quarters of 2007 and 2008, it was the only county in the region to post employment growth, albeit at a minimal 0.2 percent.

Analyzing MAR data, it is evident that housing sales activity in Harford County mimics much of the rest of the region. All of the region’s jurisdictions, except for Baltimore City, began to see annual sales improvement during June 2009, which was a considerable improvement compared to annual home sales activity during June 2008, when most were posting double-digit drops in sales.

**Howard**

The professional, scientific and technical services industry is the biggest industry in Howard County in terms of employment. It also boasts the second highest average weekly wages for all industries ($1,860). Between the fourth quarters of 2007 and 2008, the industry expanded by 4.8 percent, adding approximately 1,030 jobs to county payrolls. Activity in retail trade, the second largest industry in terms of employment in the county, did not fare as well, losing nearly double the amount of jobs added in the professional, scientific and technical services. Even though the county is losing a significant number of retail jobs, it is important to note that average weekly wages in retail trade are nearly one third that of employees in professional, scientific and technical services ($71).

Howard County possessed the highest average home price of the region during August 2009 ($386,756). However, the county has not been immune to the decline in the housing market. Activity in homes sales was at an all-time low in March 2008, when it posted an annual decline of 44.2 percent. The lowest amount of activity was recorded in November 2008, when only 135 settled sales were documented. Since March 2009, the glut of inventories has been declining at a double-digit pace when compared to the same month the previous year.
Baltimore City

The healthcare and social assistance industry is by far the largest employer in Baltimore City. Fourth quarter QCEW data indicate that the industry employed 68,130 workers—approximately one fourth of total jurisdiction industry employment. Although the industry expanded between the fourth quarters of 2007 and 2008, it grew at a rate of less than one percent, adding only 260 jobs to industry payrolls. The retail trade industry had the largest number of establishments during the fourth quarter of 2008 (2,001) but also posted the second lowest average weekly wage of all industries ($525).

Baltimore City, based on MAR data, has posted the greatest annual percentage drops in average home prices since the start of the housing market collapse. Furthermore, Baltimore City is the only jurisdiction in the region that has not yet posted annual improvement in home sales activity. Baltimore City also has the unfortunate distinction of sustaining the highest glut of home inventories of the region. In August 2009, there were approximately 5,300 homes for sale which, at the current pace of home sales, could mean an inventory backlog of approximately 13 months, according to RESI calculations.

Wrap-Up

Economists and politicians continue to argue about just how much impact the Recovery Act money slated for infrastructure, green construction projects and renewable energy investment has had on employment. Despite reports that the recession has ended, the most recent national employment picture is not showing any true signs of improvement, particularly in the construction industry, a sector that has been heavily affected both nationally and regionally. According to the latest job release by the Labor Department, industry employment declined by 64,000 jobs in September, topping losses in manufacturing. Even heavy and civil engineering construction, the group that would be building roads and bridges with money from the Recovery Act, saw a decline of 11,900 jobs. Overall, total national employment shrank by 263,000 jobs in September and is down 5,785,000 jobs, or 4.2 percent, compared to September 2008. Furthermore, the nation’s unemployment rate of 9.8 percent is at its highest level since June 1983. In the future, as more recent state and county employment data become available, we will be able to get a clearer picture of the true effects of the stimulus on Maryland and the Baltimore region.

<table>
<thead>
<tr>
<th>Industry</th>
<th>2008 Q4 Employment</th>
<th>Year-over-Year Pct. Change</th>
<th>Year-over-Year Abs. Change</th>
<th>Quarterly # of Firms</th>
<th>Total Quarterly Wages</th>
<th>Average Weekly Wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, Forestry, Fishing and Hunting</td>
<td>16</td>
<td>n/a**</td>
<td>n/a**</td>
<td>6</td>
<td>$199,234</td>
<td>$979</td>
</tr>
<tr>
<td>Mining**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td>39/51</td>
<td>9.2%</td>
<td>332</td>
<td>12</td>
<td>$97,661,820</td>
<td>1,902</td>
</tr>
<tr>
<td>Construction</td>
<td>10,008</td>
<td>-5.8%</td>
<td>-455</td>
<td>922</td>
<td>$172,152,130</td>
<td>1,248</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>15,383</td>
<td>-3.9%</td>
<td>-620</td>
<td>511</td>
<td>$204,540,188</td>
<td>1,023</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>8,566</td>
<td>-5.7%</td>
<td>-515</td>
<td>635</td>
<td>$134,178,837</td>
<td>1,205</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>16,973</td>
<td>-7.6%</td>
<td>-1,399</td>
<td>2001</td>
<td>$115,884,671</td>
<td>525</td>
</tr>
<tr>
<td>Transportation and Warehousing</td>
<td>9,388</td>
<td>-3.8%</td>
<td>-376</td>
<td>378</td>
<td>$103,520,616</td>
<td>848</td>
</tr>
<tr>
<td>Information</td>
<td>5,165</td>
<td>-14.4%</td>
<td>-870</td>
<td>200</td>
<td>$87,508,369</td>
<td>1,303</td>
</tr>
<tr>
<td>Finance and Insurance</td>
<td>15,564</td>
<td>-7.8%</td>
<td>-1,232</td>
<td>709</td>
<td>$543,111,505</td>
<td>2,667</td>
</tr>
<tr>
<td>Real Estate and Rental and Leasing</td>
<td>4,477</td>
<td>-4.9%</td>
<td>-230</td>
<td>629</td>
<td>$56,240,049</td>
<td>966</td>
</tr>
<tr>
<td>Professional, Scientific, and Technical Services</td>
<td>21,270</td>
<td>0.1%</td>
<td>20</td>
<td>1,734</td>
<td>$512,938,859</td>
<td>1,855</td>
</tr>
<tr>
<td>Management of Companies and Enterprises</td>
<td>1,248</td>
<td>72.3%</td>
<td>524</td>
<td>45</td>
<td>$20,458,929</td>
<td>1,261</td>
</tr>
<tr>
<td>Administrative and Support and Waste Management and Remediation Services</td>
<td>18,714</td>
<td>-9.8%</td>
<td>-2,027</td>
<td>707</td>
<td>$159,696,565</td>
<td>656</td>
</tr>
<tr>
<td>Educational Services</td>
<td>25,874</td>
<td>3.2%</td>
<td>805</td>
<td>267</td>
<td>$378,123,082</td>
<td>1,124</td>
</tr>
<tr>
<td>Health Care and Social Assistance</td>
<td>68,130</td>
<td>0.4%</td>
<td>260</td>
<td>1,469</td>
<td>$949,084,251</td>
<td>1,072</td>
</tr>
<tr>
<td>Arts, Entertainment, and Recreation</td>
<td>4,281</td>
<td>-8.2%</td>
<td>-384</td>
<td>187</td>
<td>$44,001,054</td>
<td>791</td>
</tr>
<tr>
<td>Accommodation and Food Services</td>
<td>20,332</td>
<td>-6.0%</td>
<td>-1,307</td>
<td>1,545</td>
<td>$107,620,227</td>
<td>407</td>
</tr>
<tr>
<td>Other Services (except Public Administration)</td>
<td>10,957</td>
<td>1.0%</td>
<td>105</td>
<td>1,553</td>
<td>$98,574,398</td>
<td>692</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics Quarterly Census of Employment and Wages (QCEW) data  
* Firms refers to profit and non-profit entities, often referred to as ‘establishments’  
** Industries are masked for confidentiality
Towson University Index—
Towson University
Investors Club

MARK PRESTON
Intern, Baltimore CFA Society and
Director of Communications,
Towson University Investment Group,
Towson University

As a tool for understanding local opportunities, the Towson University Index (TUI) was created using forty companies, 30 of which were incorporated locally and ten elsewhere. Companies in the TUI are weighted by market capitalization with the goal of making it comparable to the S&P 500 Index, which is also weighted by market capitalization. The companies included in the TUI have either hired Towson University graduates or are thought likely to hire Towson graduates. The tables represent a sample and are not meant to be inclusive. The table is only representative of publicly traded companies.
Table 1 consists of 30 publicly traded companies that are incorporated in Maryland. These companies represent 60% of the TUI market cap weighting.

Table 2 consists of 10 publicly traded companies that are not locally incorporated, but are significant employers in Maryland. The combined market capitalization of these companies represents 40% of the TUI’s market capitalization weighting.

Figure 1 is specific detail on how the TUI performed relative to the S&P 500 over the past four years.

During the past four years the TUI only clearly outperformed the S&P 500 during the first two quarters of 2006. The relative underperformance of the TUI versus the S&P 500 can primarily be attributed to the heavier exposure to the financial sector in the TUI versus the S&P 500. The weighting of each firm is a function of the market capitalization of the firm (shares outstanding x share price). Three prominent short-

**Table 1. Companies incorporated locally with 60% weight**

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Company</th>
<th>Quarterly Revenues*</th>
<th>YTD return **</th>
<th>Sector</th>
<th>Full-time Employees /Date Recorded</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADX</td>
<td>Adams-Express Co.</td>
<td>5,100</td>
<td>22.67</td>
<td>Financials</td>
<td>n/a</td>
</tr>
<tr>
<td>BAYN</td>
<td>Bay National Corp.</td>
<td>3,408</td>
<td>-45.83</td>
<td>Financials</td>
<td>54 yhoo</td>
</tr>
<tr>
<td>BDK</td>
<td>Black &amp; Decker</td>
<td>1,191,400</td>
<td>12.63</td>
<td>Industrials</td>
<td>25,500 2006</td>
</tr>
<tr>
<td>CEG</td>
<td>Constellation Energy Group</td>
<td>3,864,100</td>
<td>31.13</td>
<td>Utilities</td>
<td>9,646 2006</td>
</tr>
<tr>
<td>CIEN</td>
<td>Ciena Corp.</td>
<td>164,758</td>
<td>132.84</td>
<td>Information Technology</td>
<td>1,485 2006</td>
</tr>
<tr>
<td>DCAI</td>
<td>Dialysis Corp of America</td>
<td>24,173</td>
<td>-20.43</td>
<td>Healthcare</td>
<td>429 2006</td>
</tr>
<tr>
<td>FCN</td>
<td>FTI Consulting</td>
<td>360,525</td>
<td>1.37</td>
<td>Consumer Discretionary</td>
<td>2,228 2006</td>
</tr>
<tr>
<td>FMAR</td>
<td>First Mariner Bancorp</td>
<td>30,562</td>
<td>136.11</td>
<td>Financials</td>
<td>968 yhoo</td>
</tr>
<tr>
<td>GPX</td>
<td>GP Strategies Corp.</td>
<td>53,757</td>
<td>59.2</td>
<td>Consumer Discretionary</td>
<td>1,205 2006</td>
</tr>
<tr>
<td>GRA</td>
<td>W.R. Grace Co.</td>
<td>711,000</td>
<td>228.98</td>
<td>Basic Materials</td>
<td>6,500 2006</td>
</tr>
<tr>
<td>GVP</td>
<td>GSE Systems Inc.</td>
<td>10,650</td>
<td>1.02</td>
<td>Technology</td>
<td>135 2006</td>
</tr>
<tr>
<td>JOSB</td>
<td>Jos. A. Bank</td>
<td>136,213</td>
<td>75.07</td>
<td>Consumer Discretionary</td>
<td>2,228 2006</td>
</tr>
<tr>
<td>MAR</td>
<td>Marriott International, Inc.</td>
<td>2,562,000</td>
<td>27.15</td>
<td>Services</td>
<td>146,000 yhoo</td>
</tr>
<tr>
<td>MATK</td>
<td>Martek Biosciences</td>
<td>92,411</td>
<td>-17.75</td>
<td>Healthcare</td>
<td>506 2006</td>
</tr>
<tr>
<td>MCRRS</td>
<td>Micros Systems Inc.</td>
<td>224,177</td>
<td>83.95</td>
<td>Information Technology</td>
<td>3,801 2006</td>
</tr>
<tr>
<td>MDT</td>
<td>Medifast</td>
<td>40,173</td>
<td>258.7</td>
<td>Consumer Discretionary</td>
<td>265 2006</td>
</tr>
<tr>
<td>MCK</td>
<td>McCormick &amp; Co. Inc.</td>
<td>757,300</td>
<td>5.56</td>
<td>Consumer Discretionary</td>
<td>7,500 2006</td>
</tr>
<tr>
<td>ORC</td>
<td>Corporate Office Properties Trust</td>
<td>209,042</td>
<td>27.15</td>
<td>Financials</td>
<td>313 2006</td>
</tr>
<tr>
<td>OHM</td>
<td>Omega Healthcare Investors Inc.</td>
<td>49,152</td>
<td>6.76</td>
<td>Financials</td>
<td>18 2006</td>
</tr>
<tr>
<td>OSIR</td>
<td>Osiris Therapeutics Inc.</td>
<td>10,469</td>
<td>-58.56</td>
<td>Biotech</td>
<td>73 2006</td>
</tr>
<tr>
<td>PHH</td>
<td>PHH Corp.</td>
<td>750,000</td>
<td>64.1</td>
<td>Financials</td>
<td>5,080 yhoo</td>
</tr>
<tr>
<td>SBGI</td>
<td>Sinclair Broadcasting Group</td>
<td>158,272</td>
<td>0.97</td>
<td>Consumer Discretionary</td>
<td>256 2006</td>
</tr>
<tr>
<td>TESS</td>
<td>Tessco Technologies</td>
<td>108,801</td>
<td>104.7</td>
<td>Consumer Discretionary</td>
<td>3,180 yhoo</td>
</tr>
<tr>
<td>TROW</td>
<td>T. Rowe Price</td>
<td>441,000</td>
<td>26.3</td>
<td>Financials</td>
<td>979 2006</td>
</tr>
<tr>
<td>TSYS</td>
<td>TeleCommunications Systems</td>
<td>67,136</td>
<td>-9.2</td>
<td>Information Technology</td>
<td>2,316 2006</td>
</tr>
<tr>
<td>UA</td>
<td>Under Armour</td>
<td>164,188</td>
<td>17.24</td>
<td>Consumer Discretionary</td>
<td>34 2006</td>
</tr>
<tr>
<td>UTHR</td>
<td>United Therapeutics Corp.</td>
<td>83,980</td>
<td>59.93</td>
<td>Healthcare</td>
<td>360 yhoo</td>
</tr>
<tr>
<td>UUU</td>
<td>Universal Security Instruments</td>
<td>5,915</td>
<td>77.27</td>
<td>Electronics Equip</td>
<td>18 2009</td>
</tr>
</tbody>
</table>

*Numbers expressed in thousands **Percentages based on MRQ; as of September 14, 2009
Sources: Baltimore Business Journal: Book of Lists and Yahoo Finance

**Table 2. Companies incorporated elsewhere**

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Company</th>
<th>Quarterly Revenues*</th>
<th>YTD return **</th>
<th>Sector</th>
<th>Full-time Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>BBT</td>
<td>Branch Banking &amp; Trust</td>
<td>2,747,000</td>
<td>4.37</td>
<td>Financials</td>
<td>29,600 yhoo</td>
</tr>
<tr>
<td>BBY</td>
<td>Best Buy</td>
<td>10,995,000</td>
<td>36.25</td>
<td>Services</td>
<td>155,000 yhoo</td>
</tr>
<tr>
<td>C</td>
<td>Citigroup</td>
<td>37,184,000</td>
<td>5.48</td>
<td>Financials</td>
<td>279,000 yhoo</td>
</tr>
<tr>
<td>COF</td>
<td>Capital One Financial</td>
<td>4,100,000</td>
<td>5.78</td>
<td>Financials</td>
<td>26,000 yhoo</td>
</tr>
<tr>
<td>LUV</td>
<td>Southwest Airlines</td>
<td>2,615,000</td>
<td>12.06</td>
<td>Services</td>
<td>35,296 yhoo</td>
</tr>
<tr>
<td>MTB</td>
<td>M&amp;T Bank Corp.</td>
<td>1,024,976</td>
<td>13.57</td>
<td>Financials</td>
<td>14,187 yhoo</td>
</tr>
<tr>
<td>PG</td>
<td>Proctor &amp; Gamble</td>
<td>18,662,000</td>
<td>-7.78</td>
<td>Consumer Discretionary</td>
<td>135,000 yhoo</td>
</tr>
<tr>
<td>PNC</td>
<td>PNC Bank</td>
<td>3,887,000</td>
<td>-5.43</td>
<td>Financials</td>
<td>51,362 yhoo</td>
</tr>
<tr>
<td>SHW</td>
<td>Shrinwin Williams</td>
<td>1,947,827</td>
<td>2.18</td>
<td>Basic Materials</td>
<td>26,994 yhoo</td>
</tr>
<tr>
<td>WFC</td>
<td>Wells Fargo Corp.</td>
<td>25,082,000</td>
<td>-4.04</td>
<td>Financials</td>
<td>269,900 yhoo</td>
</tr>
</tbody>
</table>

*Numbers expressed in thousands **Percentages based on MRQ; as of September 14, 2009
Sources: Baltimore Business Journal: Book of Lists and Yahoo Finance

The Towson University Index (TUI) was created using forty companies, 30 of which were incorporated locally.
comings in performance of the TUI can be observed in the substantially reduced market capitalization of Citigroup, Legg Mason, and M&T Bank Corporation. Citigroup reports a market cap reduction from $90 billion at July 1, 2008 to approximately $36 billion at December 1, 2008. Legg Mason’s market cap halved from $10.9 billion on July 30, 20007 to $5.2 billion on September 30, 2008. M&T Bank Corporation had an approximated market cap of $8.3 billion on January 30, 2006 which was reduced to approximately $5.01 billion as of January 30, 2008. Since the TUI is based on a statistical sample of only 40 companies versus the S&P 500 the variance is overstated.

Table 4 details top 10 largest non-profit organizations in Baltimore based on 2006 assets. A table detailing top government agencies was incomplete since many of the agencies (federal, state and county) do not release the employment detail required to create a ranked table. Government organizations from the Social Security Administration to the National Security Agency are major employers in Maryland but specific employee detail was not found while researching these tables.

Table 3. Largest Employers in the Baltimore Area

<table>
<thead>
<tr>
<th>Company Name</th>
<th>2006 Local Employees</th>
<th>Last F.Y. Revenue</th>
<th>F.Y. ends</th>
</tr>
</thead>
<tbody>
<tr>
<td>Johns Hopkins University</td>
<td>28,499</td>
<td>$3 billion</td>
<td>June 30</td>
</tr>
<tr>
<td>MedStar Health</td>
<td>23,000</td>
<td>$5.3 billion</td>
<td>June 30</td>
</tr>
<tr>
<td>Johns Hopkins Health System</td>
<td>16,752</td>
<td>$2.2 billion</td>
<td>June 30</td>
</tr>
<tr>
<td>University of Maryland Medical System</td>
<td>11,300</td>
<td>$2 billion</td>
<td>June 30</td>
</tr>
<tr>
<td>Northrop Grumman</td>
<td>9,500</td>
<td>$30.1 billion</td>
<td>Dec. 31</td>
</tr>
<tr>
<td>Wal-Mart Stores Inc.</td>
<td>7,942</td>
<td>$12.2 billion</td>
<td>Jan. 31</td>
</tr>
<tr>
<td>LifeBridge Health</td>
<td>7,108</td>
<td>$920.1 million</td>
<td>June 30</td>
</tr>
<tr>
<td>Giant Food LLC</td>
<td>6,437</td>
<td>$16.4 billion</td>
<td>Dec. 31</td>
</tr>
<tr>
<td>Constellation Energy Group Inc.</td>
<td>5,988</td>
<td>$19.3 billion</td>
<td>Dec. 31</td>
</tr>
<tr>
<td>Erickson Retirement Communities</td>
<td>4,652</td>
<td>$97.8 million</td>
<td>Dec. 31</td>
</tr>
</tbody>
</table>

Source: Baltimore Business Journal Book of Lists
The Towson University Investment Group (TUIG) was founded to bring together highly motivated students in pursuit of investment knowledge and experience. During the third quarter of 2009, the board of directors elected to change the organization’s name from Wall Street Investors’ Investment Club to Towson University Investment Group.

TUIG offers a unique form of student involvement that fills the gap between the classroom and real-world investment management. The TU Investment Group takes multiple investment-geared trips to major cities and investment forums throughout the year. Students also benefit by gaining hands-on experience in analyzing, selecting and managing monetary investments. The student-run organization actively manages an international equity portfolio on the behalf of the Towson University Foundation, Inc.

Our organization is affiliated with the Towson University College of Business and Economics and the Department of Finance. Our members work closely with faculty and students to advance the college’s mission and to promote the academic success and education of students. TUIG is a student run organization dependent on contributions from its members, while offering valuable professional development opportunities.

TUIG’s International Markets Summit is scheduled for Tuesday, March 2, 2010 from 5:30–9 p.m.

For further information about TUIG or the International Markets Summit, visit: www.towson.edu/wiic

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Towson University Investment Group
The International Market Summit

Tuesday, March 2, 2010
Potomac Lounge, Room 208
Towson University

Schedule of Events:
Panel Discussions 6–8 p.m.
Professional Networking: 8–9 p.m.

Topics:
Emerging Markets: The Next Global Leaders?
Domestic Trade Policies in the New Normal

For more information visit: www.towson.edu/wiic/ims
Contributors

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JOANNE LI, Ph.D., CFA, is the Chair and Professor of Finance in the College of Business and Economics at Towson University. She received her Ph.D. in finance from Florida State University in 1997 and was awarded the CFA charter in 2001. She had worked for Stalla Review for the CFA Exams as a curriculum director in the past. Dr. Li established the CFA mentoring program both at Loyola University in Maryland and Towson University. Her research focus is corporate governance, specializing in board of directors. Dr. Li is a retainer speaker for both the CFA Institute and CFA Institute Asia-Pacific. She has presented on the value of corporate governance at many international and national CFA societies including the Thailand Stock Exchange (TSE).

TOBIN PORTERFIELD, Ph.D., Assistant Professor, Department of eBusiness & Technology Management specializes in B2B supply chain relationships and comes to the Towson University faculty with many years of teaching and field experience. He teaches operations management, project management, supply chain management, business analysis and decisions, and information technology. He earned an associate’s degree at Catonsville Community College and then completed his undergraduate and graduate studies at the University of Baltimore. He holds a PhD in business logistics from the R.H. Smith School of Business at the University of Maryland-College Park. His research has been presented at regional and national conferences as well as being recently published in *Transportation Journal*.

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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 328-acre campus. Serving more than 21,000 students, Towson University is the second largest public university 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 Baltimore CFA Society

The Baltimore CFA Society’s mission is to provide the financial community with information and knowledge, while advocating ethical conduct with regard to investments and financial management. The Baltimore CFA Society 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.

The Baltimore CFA Society is an affiliate of the CFA Institute, which has over 95,500 members globally. BCFAS membership, 600 members strong, draws from a diverse cross section of local investment firms, financial and educational institutions, and government agencies.
TowsonGlobal, the Business Globalization Center, is Towson University’s international incubator that helps both domestic and foreign entrepreneurial ventures learn how to compete in the global economy, both at home and abroad. TowsonGlobal provides businesses a wide range of support, including high-quality, affordable office facilities; business counseling; mentoring; networking assistance; workshops and other educational forums. Members also draw from the experience of an active advisory board comprised of executives in technology, financial and legal services, logistics, manufacturing, contracting and venture capital fields. Tap into TowsonGlobal’s resources today!

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