Finance Club Newsletter

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Finance Industry Mogul Gives Sage Advice in Annual Industry Leader Address

By Paul Dykewicz

David Rubenstein, managing director of the Carlyle Group, urged students and young professionals to do what you love as he shared tips for developing careers and surviving the global recession.

Rubenstein, a Baltimore native and a trustee of Johns Hopkins University, spoke modestly of his own professional accomplishments during a speech sponsored by the Carey Business School Finance Club and he used self –deprecating humor to draw laughter from his audience of close to 80 people. Aside from entertaining his listeners, he pointed out that a lack of stellar performance in early jobs may set the stage for a career transition that could lead to far greater success and happiness in the future.

A former White House aide in the Carter administration and a one-time corporate attorney, Rubenstein attained his most notable achievements when he founded a private equity firm in a mid-career shift. In presenting the Finance Club's 2009 Industry Leader Lecture on April 30, Rubenstein humbly contrasted his current role in high finance with his personal story as someone from a blue-collar family who lacked interest in making money when he originally divined his career goals.

"My goal was not to make money because I had never been around money," Rubenstein said. As a result, he advised students not to fret about what they will do when they finish school, since career paths have a way of veering off in unforeseen directions.

"The best thing to do will be to love what you're doing," Rubenstein said. "Because if you don't love what you're doing, you'll never be very good at it and you'll never rise to the top."

Upon graduation from college, Rubenstein said he had three goals. First, he wanted to practice law. Second, he aspired to become involved in politics. Third, he desired to work in the government and perform public service.

Someone who Rubenstein chose to emulate early in his career was Ted Sorenson, a chief advisor to President John F. Kennedy. Sorenson had written speeches for President Kennedy and served in the White House as a 31-year-old aide before he took a position at a law firm where Rubenstein became his employee. As President Kennedy's speechwriter, Sorenson is credited with creating a famous quote.

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2). The 2009-2010 Finance Club is looking for hard-working, dedicated volunteers to fill vacant positions on the executive committee - see page 7 for more details.

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Using words written by Sorenson, President Kennedy inspiringly said, "Do not ask what your country can do for you; Ask what you can do for your country.

After a few years of working for Sorenson, Rubenstein said he expressed an interest in entering public service and his mentor assisted the then-25-year-old lawyer in landing a job as chief counsel for Sen. Birch Bayh, D-Ind., who was running for president in 1976.

"Unfortunately, Birch Bayh lost every primary," Rubenstein said. "Shortly after I joined [him], everything went wrong."

Winning by Losing

However, Rubenstein's career actually benefited from that failure. Unexpectedly, he was contacted about working for Gov. Jimmy Carter, D-Ga., who won his political party's nomination for president. Incumbent President Gerald R. Ford, who lost popularity early in his tenure for pardoning former President Richard M. Nixon, made a late charge in the campaign to cut the 33-point lead that Carter held when Rubenstein joined the Democrat's team to lose by just 1% on Election Day.

After Carter narrowly won the election, he needed to find White House advisors and he turned to his campaign staff. President Carter named the then-27-year-old Rubenstein as the White House's deputy domestic policy advisor.

When Carter lost the bid for re-election, Rubenstein was out of work for a brief time before he returned to practice law for roughly the next six years.

Unfulfilled, Rubenstein said he recruited three other people and raised $5 million in 1987 to start The Carlyle Group, which grew into one of the world's largest private equity firms. This year, the overall sales of all of the companies that the Washington, D.C.-based private equity firm owns will approach $100 billion. Those companies employ 400,000 people.

"Don't worry about what you do directly out of school because what you're going to wind up doing will likely be much different," Rubenstein said.

Five Economic Foes

A White House advisor when the United States endured one of its worst economic periods, Rubenstein shared his view of how the current recession became so severe. He cited five main reasons for the crisis.

The first key reason for the current weakness in the economy is excessive borrowing, Rubenstein said. Before the Great Depression, the amount of leverage assumed by debt holders was 2.5 times as much as the annual gross domestic product (GDP) of the United States. Prior to the current economic downturn, the leverage ratio was 3.5 times the U.S. GDP. When loans began to default, an economic slowdown ensued, Rubenstein added.

The second key factor that Rubenstein cited for the current economic woes was the normal slowdown in the economy that occurs about every seven years. That situation exacerbated a third problem that he described as the government's inability to effectively intervene. To that end, inconsistent government policies about which companies to save and which to let fail led to uncertainty in the marketplace.

A fourth factor was that the businesses erred by continuing to make ill-advised deals in the face of deteriorating economic conditions. In 2007, it became clear that the economy was slowing. Yet, $350 million in U.S. corporate buyouts occurred, Rubenstein said.

As a result, people were overpaying for acquisitions and banks could not syndicate the loans to complete the deals successfully, Rubenstein said.

In leveraged buyouts, the equity portion of a given deal might only be about 35% of the total purchase price, with the rest consisting of debt financing. Pension funds and other institutions typically provide the equity funding for a transaction.

For the last 40 years, a good buyout fund obtains a rate of return that is 700 to 2,000 basis points above what the S&P 500 might gain.

But in 2005-2007, banks were competing with each other aggressively to provide loans for buyout deals, Rubenstein said.

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A $1 billion company could be acquired without the use of any equity. However, banks had $350 billion of loans to syndicate but no takers. The value of those loans deteriorated dramatically.

The fifth factor was that all of the problems were connected with the rest of the world. As the economic crises grew, the information flow was so staggeringly quick that news of problems spread fast and unsettled financial markets elsewhere in the world, Rubenstein said.

"The information velocity is just unbelievable," Rubenstein said. It caused people to become panicky, he added.

'Great Recession'

The current economic climate appears to be a "Great Recession," Rubenstein said. Since the end of World War II, a typical recession lasts roughly nine months, unemployment rises by about 2.5%, industrial production falls 5-6%, and the stock market drops 15%, he said.

In contrast, the Great Depression lasted for 44 months, unemployment soared to 25%, industrial production sank 47%, and the stock market plunged 98%, Rubenstein said. No job holders lived in 34 million U.S. homes, while 60% of the people in the country then were classified by the government as poor.

Without federal deposit insurance during the Great Depression, 9 million people had their savings accounts completely wiped out. Roughly 11,000 of the 25,000 banks that existed then failed.

"The situation was so bad that actually there were 2 million homeless people wandering around in the United States out of a population of about 125 million," Rubenstein said. "And more people were leaving the United States than coming into the United States, which was a rare occurrence."

The current recession is not nearly as bad as the economic slide that occurred during the Great Depression, Rubenstein said. He predicted that the economy will bottom out by the end of the year, after roughly a 25-month period of decline.

"Unemployment has gone up from 4.5% to 8.5%, but that is a deceptive number," Rubenstein said. "If people who wanted a full-time job but only had a part-time job were counted, the unemployment rate today actually would be 15%. For minorities, it's much higher. Today, the unemployment rate for blacks is 13%. For Hispanics, it's 11%. So, the unemployment rate is higher than the 8.5% that has been reported."

The unemployment rate reached 10.2% in October of 2009. Before the "Great Recession" ends, the unemployment rate may go up to10.5%, Rubenstein said. The stock market has dropped 57% from its peak to its trough, he added.

Even though the standard definition of a recession is two consecutive quarters of negative growth, the economy's return to positive growth will not mean the current problems have ended, Rubenstein said. Indeed, the federal government still will be saddled with $11 trillion in debt.

"That is more debt that you, your children and your grandchildren can possibly sustain," Rubenstein said.

To explain the mammoth size of $1 trillion, Rubenstein said to imagine someone putting $1 million into a bank everyday, starting on the day that Jesus Christ was born. Even with that incredible level of savings, the total after 2009 years still would not amount to $1 trillion, Rubenstein said.

In addition, the $11 trillion does not include the roughly $5 trillion in Fannie Mae and Freddie Mac debt that the federal government does not count in its overall deficit. Since Fannie Mae and Freddie Mac are quasi-government organizations, their financial obligations likely will need to be assumed by the U.S. government, Rubenstein said.

A further burden for the U.S. government is $34 billion in unfunded Medicare and Medicaid obligations, as well as $7 billion in unfunded Social Security obligations, Rubenstein said.

Federal Budget Challenges

Once all of the indebtedness that the U.S. government is obligated to pay is counted, it

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totals about $57 trillion, Rubenstein said. It equals about $38,000 for every person. So far, the U.S. government has managed its deficit by selling its debt obligations to foreign entities that receive interest payments of 2% or 3%, Rubenstein said. Gradually, the interest rates will increase.

As the latest recession ends, the U.S. government will face annual deficits of more than $1 trillion, including $1.7 trillion this year, Rubenstein said. Out of the 250 countries in the world, none of them has an annual budget that exceeds the amount of money that the U.S. government will run up as a deficit during the current fiscal year, he explained.

Another problem will be inflation, which will rise to 4% or 5%, Rubenstein said. Taxes also will need to be increased, especially to pay for mounting social security requirements as the population ages, he added.

Lower annual growth of 1% to 2% should be anticipated rather than the modern norm of 3%, 4% or 5%, along with a reduced standard of living for Americans, Rubenstein said. Savings should increase, while spending will fall and the value of the dollar will dip.

"Winston Churchill once famously said that Democracy was the worst form of government, except every other form," Rubenstein said. "The dollar is the worst form of currency, except every other one." As the economies pick up around the world, gradually people will start selling dollars and our dollar will go down," Rubenstein predicted.

Compensation will drop, particularly in the financial services world, Rubenstein predicted. At the same time, the influence of the United States will diminish a little, he added.

At the end of World War II, the United States accounted for 48% of the world's gross domestic product (GDP), Rubenstein said. Now, the U.S. share of the world's GDP has fallen to 23%.

One lesson from the current economic fallout is that market "bubbles" have been around since the earliest days and they likely always will exist, Rubenstein said.

"Our ability to control the world's economy and be a major factor will not be what it once was," Rubenstein said.

One lesson from the current economic fallout is that market "bubbles" have been around since the earliest days and they likely always will exist, Rubenstein said.

"Greed always overtakes fear after awhile, and I think you'll still have bubbles," Rubenstein said. "Secondly, no matter how smart the economists are, they can't accurately predict when the economy will go into a recession, when it will go out of recession or how deep it will be. Third, businessmen are not able to really predict when the economy will go down and when they should stop making investments, because people were doing deals and doing investments that they should not have done."

Another lesson is when the government provides financing, it becomes the boss, Rubenstein said.

Gold Rules

"Remember the golden rule; he who has the gold, rules," Rubenstein said.

Further, politics always will trump economics, whether Democrats or Republicans are in control, Rubenstein said.

Another lesson is that is that politicians tend to focus on current problems and lose sight of the potential consequences of their actions, Rubenstein said. For example, the emphasis on combating unemployment leaves inflation, the weakening U.S. dollar, and unfunded pension obligations as less immediate concerns, he added.

Despite the challenges, the U.S. economy still is the world's most resilient, creative and emulated, Rubenstein said. It remains a wonderful place to open and operate a business, Rubenstein added.

Also apparent is that only two economies in the world can move themselves out of a recession, Rubenstein said. They are the United States, which can borrow money to do so, and China, which can spend the money it has to spur the

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economic growth.

"Every other country is either dependent on the United States or China to get their economies jumpstarted," Rubenstein said.

The good news is the U.S. economy is the world's largest and it will remain the biggest for the next 20-plus years or so, Rubenstein said. China was the biggest economy in the world for 15 of the last 18 centuries.

"Europe came alive and became a bigger economy — at least Britain did — in the 1700s," Rubenstein said. "The United States became the biggest economy in the world in the 1870s."

Identify Niches

For aspiring job seekers and entrepreneurs, look at the businesses that have been adversely affected by the economic downturn and which ones have been helped, Rubenstein advised his audience. Try to figure out what niches might exist and which industries will do well and benefit from that knowledge, he added.

"When I was in the federal government, we had roughly 2 million civilian employees," Rubenstein said. "The budget today is 25 times greater than when I was in the federal government. We have today, 2 million civilian employees. How can we have 2 million civilian employees when I was in the government and we still have 2 million civilian employees and the budget is 25 times as big? The reason is we've outsourced everything."

The "beltway bandits" that operate businesses as U.S. government contractors are booming, Rubenstein said. The Carlyle Group owns a number of them, he added.

"They are now doing extremely well, and they're going to do even better because when you take an extra trillion dollars and stick it through the federal budget system, that money sticks to a lot of firms in Washington, D.C., and to a lot of these consulting firms," Rubenstein said.

As a percentage of GDP, federal spending will be higher than it has been since World War II, Rubenstein said. As a result, businesses that support the federal government could do "very well," he added.

"I think there are going to be many great opportunities Rubenstein said. And, you should try to do things that are unconventional," Rubenstein advised.

As the country tries to extricate itself from the current recession, there will be a lot of "disequilibrium," Rubenstein said.

Very few people make "great fortunes" at the top of markets, Rubenstein said. Instead, a large percentage of the people in the "Fortune 400" list of the wealthiest people made their money by targeting niches or identifying disequilibrium in the marketplace, he explained.

"I suspect many of you will find opportunities to do that as well," Rubenstein said.

During a question-and-answer session, Rubenstein addressed the micro-finance business and acknowledged that giving small loans to impoverished people in developing countries has been "very successful."

"I think businesses like that have a great future and I don't think our business schools probably teach people enough about that because I don't think business schools have enough professors who know that area that well," Rubenstein said.

Muhammad Yunus, a Bangladeshi banker, economist and Nobel Prize winner for his innovative micro-finance program, showed that it is possible to provide small loans to poor people in the developing world to help them find livelihoods.

"Right now, it's a great time to not go into Wall Street and not go into major financial service firms because they probably don't need people as much and it will be harder to get jobs," Rubenstein said.

Private Equity Prediction

Private equity's death has been predicted during every downturn but it will survive because the firms will be able to generate better returns than you legally can obtain with your money otherwise, Rubenstein said. A key of private equity investment is to give a management team an equity stake in the business that they lead and let them drive performance improvements within three to five years, he explained.

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As long as a buyer does not overpay in a private equity deal, the transaction likely will turn a profit 90% to 95% of the time, Rubenstein said. However, the amount of leverage used in future deals will be reduced and the multiples paid for acquisitions will be closer to five or six times EBITDA rather than 10 times EBITDA, he added.

"Some of the best known private equity firms in Europe will not be around," Rubenstein said. Private equity firms have not suffered as much as hedge funds and, as a result, generally will be more resilient to the current financial fallout, he added.

In ten years, half of the top global private equity firms will be foreign, whereas now only one of the top ten firms is outside of the United States, Rubenstein said.

As far as contrarian investment opportunities, emerging markets such as China, India, the Middle East and sub-Saharan Africa will be prime places for growth, Rubenstein said.

New Membership Sign-up and Renewal now offered on-line

The Finance Club at Johns Hopkins introducing the opportunity to sign up or to renew your membership online for the 2009 Academic Year.

Signing up for membership online is easy with Eventbrite's online application and secure payment through PayPal. Below are instructions about how to use the following link to sign up:

http://jhufcmembership.eventbrite.com/

1. On the Finance Club's Eventbrite page, click "Order Now" for the "Finance Club Membership 2009" event.

2. You will be taken to the Order Summary and Registration Page. Please complete the registration application below the Order Summary. Please note that any field with a red asterisk is a required field.

3. Once you've completed the registration application, click the "Check out with PayPal" button to move onto the Finance Club's secure PayPal page to provide your debit/credit card information to complete your dues payment online.

4. You will receive a confirmation email from both Eventbrite and PayPal for your registration and dues payment respectively.

Should you have any technical difficulties or questions about the registration or dues payment process, please do not hesitate to contact the Finance club's IS VP Director, Lee C. Mitchem at leemitchem@gmail.com for further assistance.

We hope that this process makes it easier for you to sign-up and renew your membership with the Johns Hopkins Finance Club. Eventbrite also will be used for future event notifications to dues members, giving them advanced notice and access to upcoming Finance Club events. Thank you for your support!

Investment Team Aspires to Start Venture Fund

The Finance Club's Investment Committee is preparing a proposal to ask for Dean Yash Gupta's support to create a venture fund.

Such funds exist at a number of top business schools and it would give qualified students and alumni at the Johns Hopkins Carey Business School a chance to gain valuable experience in analyzing investments and managing money. If the fund is launched, it will be a milestone achievement that should help to enhance the skills that Carey Business School graduates bring to prospective employers.

With the tentative name of the "Dean's Fund," the money would be managed to take into account the investment risk to limit potential losses, while seeking capital appreciation and income. The initiative also would give a selected and motivated group of students and alumni a chance to apply the techniques learned in the classroom to value risky assets, choose securities for investment and

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manage a portfolio.

The participants thus will obtain valuable experience in fiduciary management of investment assets. Profits from the fund will serve to provide income that can be used for purposes that include funding training and providing financial assistance.

The plan calls for the assets to be managed for total return. No management fees will be charged by the portfolio managers to maximize the potential return of the investments and to limit expenses. As a result, the net return should be maximized. The assets likely will be selected based on fundamentals. The portfolio's composition will be determined by the students and alumni who manage the fund under the guidance of a faculty advisor.

Also envisioned is the creation of a investment advisory committee that could include faculty and professional volunteers who will offer the benefit of their knowledge. Success in analyzing investment opportunities and managing the portfolio potentially could impress prospective employers and propel participants toward careers in equity research, money management and risk management.

Another possible byproduct of the fund's creation is to enhance the Carey Business School's reputation and to help attract top students to the program. It also would allow the Carey Business School to provide an opportunity comparable with one that upper-echelon institutions already offer through their own venture funds.

If you are interested in participating in this initiative or learn more about it, please contact Raghav Nayar, the Finance Club's Investments Director, by emailing him at **Nayar.raghav@gmail.com.**

Finance Club Offers CFA and CFP Study Groups, Investment Research Opportunities

The Carey Business School Finance Club is seeking students and alumni who are interested in participating in study groups to prepare for chartered financial analyst (CFA) exams, the certified financial planner (CFP) exams and participate in investment research.

The CFA and CFP study groups are designed to help students and alumni in developing the skills that they will need for the rigorous exams.

If you are interested in participating in the study groups or the investment activities, please contact Raghav Nayar, the Finance Club's Investments Director, by emailing him at nayar.raghav@gmail.com.

Watch for upcoming information about the CFA Open House that is planned to be held in Baltimore. A final date will be determined soon.

New Leaders Needed in the Finance Club

Any students or alumni who are interested in joining the leadership team of the Finance Club for the 2009-10 school year are invited to express their interest. A number of positions remain available but those who already have committed to help bring impressive capabilities that should make the coming year another outstanding one for the club.

Anyone interested in learning more about these volunteer positions is encouraged to email his or her resume to Finance Club Secretary Philip Benvenuto at pbenven1@jhu.edu. The Finance Club has been one of the most dynamic at the Carey Business School in recent years and another ambitious slate of activities and initiatives is planned for 2009-10.

If you want to join a great team and make an important difference, here is your opportunity.

Bylaw Change Opens Membership to Undergrads

By Paul Dykewicz

The annual meeting of the Finance Club approved bylaw revisions that now allow Johns Hopkins undergraduates to become full-fledged members.

The change will allow undergraduates interested in finance careers or educational opportunities a chance to develop professional contacts, to volunteer along with graduate students and to develop their leadership skills. In turn, the club should be able to tap into an additional source of volunteers and participants, especially in Baltimore where many of the undergraduates are based.

University officials contacted Finance Club President Paul Dykewicz last spring before the May 19 annual meeting to inform him that undergraduate students were interested in the Finance Club. Minor bylaw revisions, already under development, were amended to allow the additional change to permit undergraduate students to join the club.

With events planned for the Washington and Baltimore campuses during the 2009-2010 academic year, undergraduates will have plenty of opportunities to volunteer and to attend activities. Carey Business School students who are interested in joining the Finance Club can contact its Secretary Philip Benvenuto by email at pbenven1@jhu.edu.

Finance Club Forms Leadership Team

A new slate of Executive Committee members is starting to plan Finance Club activities for the 2009-10 academic year.

Finance Club President Paul Dykewicz still is looking to fill two key positions, Event Director, and Communications Director, as well as to name co-directors to other areas of responsibility to support existing club leaders in carrying out ambitious plans. An almost entirely new group of leaders is teaming up this year, with the notable exception of a handful of important contributors from last year.

One of the returning leaders is Lee Mitchem, who accepted an appointment for 2009-10 as the club's vice president, information systems, after serving as information systems director last year. Treasurer Manreet Jassar once again will once again serve in this vital capacity. Both played key roles in launching the club's online system for new club members to pay dues and for existing members to renew their memberships.

New team members are Secretary Phil Benvenuto, Co-Treasuer Chang Liu, Career Director Christian Gorissen, Industry Director Helen Bai, Investments Director Raghav Nayar, and Marketing Director Jeffrey Coats Jr. Any students or alumni interested in joining the club, renewing their memberships or volunteering for the leadership team should email Phil Benvenuto, pbenven1@jhu.edu.

The Finance Club's adviser once again this year is Dr. Ken Yook, an associate professor and a valuable mentor for finance students and alumni alike. He can be reached at kyook@jhu.edu.

Watch for further details about the club's CFA Open House that will be scheduled and announced in the coming weeks.

Bloomberg Training Planned for January

Finance club president Paul Dykewicz announced that Bloomberg Training will be offered to club members on Wednesday, Jan. 27 at 6pm. Reservations will be required for this limited capacity event that will be held at the Bloomberg offices in Washington D.C.

Since space is limited, plan to sign up earlier if you definitely want to attend. The waiting list will be established once capacity is reached to insure any openings will be filled. If the training session reaches capacity and additional interest remains, a second session will be requested. Watch for an upcoming email announcement for further details.

Executive Committee 2009-10

President	Paul Dykewicz
Secretary	Phil Benvenuto
Treasurer	Manreet Jassar
Information Systems Vice President	Lee Mitchem
Co-Treasurer	Chang Liu
Industry Director	Helen Bai
Co-Industry Director	Vacant
Events Director	Vacant
Investments Director	Raghav Nayar
Communications Director	Vacant
Marketing Director	Jeffrey Coats Jr.
Director At-Large	Vacant
Career Director	Christian Gorissen