

New Risk Management Strategies

Wednesday, May 4, 2011; 2:30 PM - 3:45 PM

Moderator:

Jon Najarian, Co-Founder, optionMonster.com

Speakers:

Jim Lenz, Chief Credit and Risk Officer, Wells Fargo Advisors

John Moninger, Executive Vice President, Advisory and Brokerage Consulting Services, LPL Financial

David Morton, Chief Research Officer and Co-Chief Investment Officer, Foxhall Capital Management

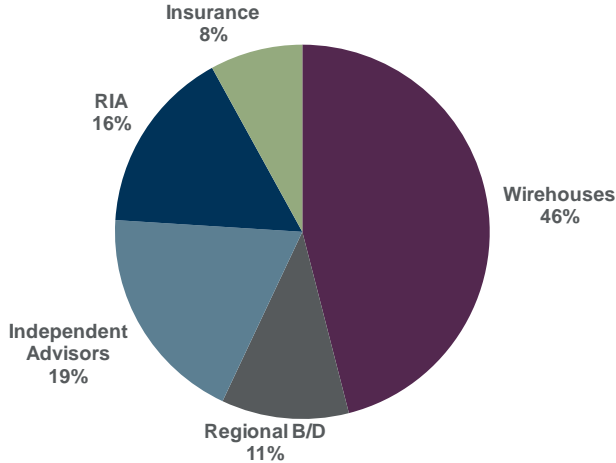
Colbert Narcisse, Chief Operating Officer, Global Investment Strategies and Solutions Group, Morgan Stanley Smith Barney

Lisa Shalett, Chief Investment Officer, Merrill Lynch Global Wealth Management

The Ramifications of the Great Recession

Consolidations Cause a Shift in the Industry Landscape

Intermediary Breakdown



Wirehouse	FA headcount	Assets (\$ bn)
Morgan Stanley Smith Barney	18,087	1,500
Bank of America Merrill Lynch	15,142	1,410
Wells Fargo Advisors	15,102	1,100
UBS Wealth Management	6,760	707
Total	55,091	4,717
<i>% of Total</i>	<i>18%</i>	<i>46%</i>

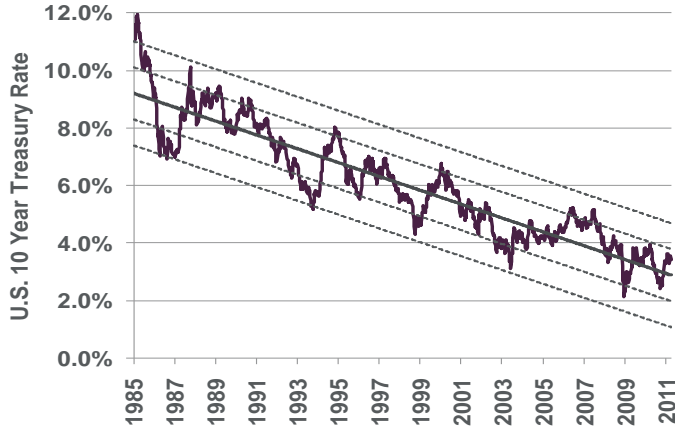
Revisiting Risk

Market Dynamics Force Risk Trades

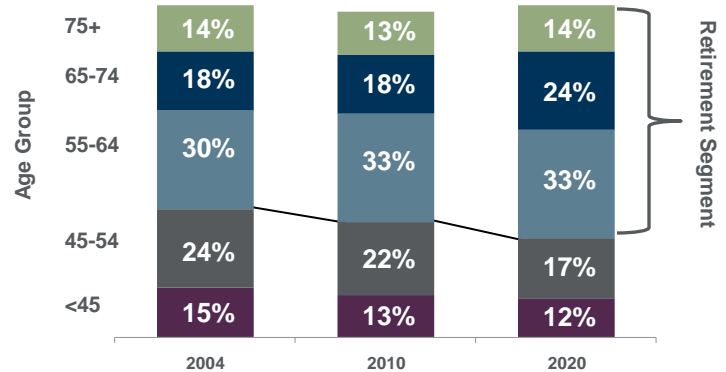


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U.S. 10 Year Treasury Rate



Investable Assets by Age Group



Source: Bloomberg. Data as of April 15, 2011. McKinsey Analysis.

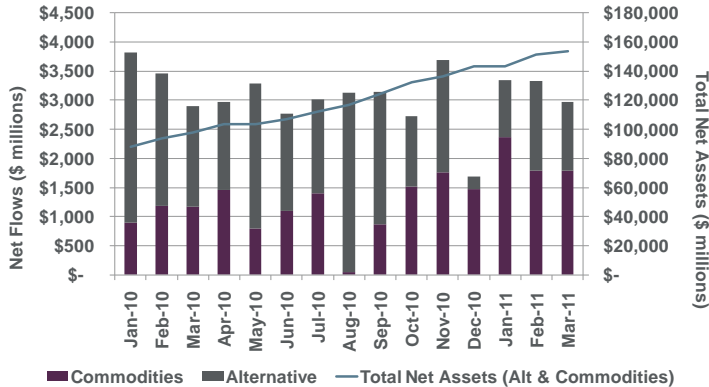
Tomorrow's Investment Solutions

Asset Allocation and Portfolio Construction to Play Crucial Role



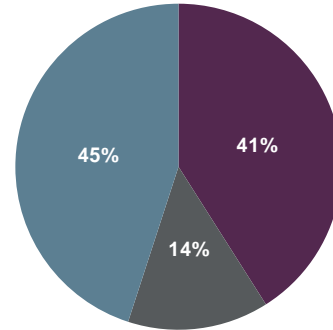
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U.S. Mutual Fund Net Flows and Net Assets



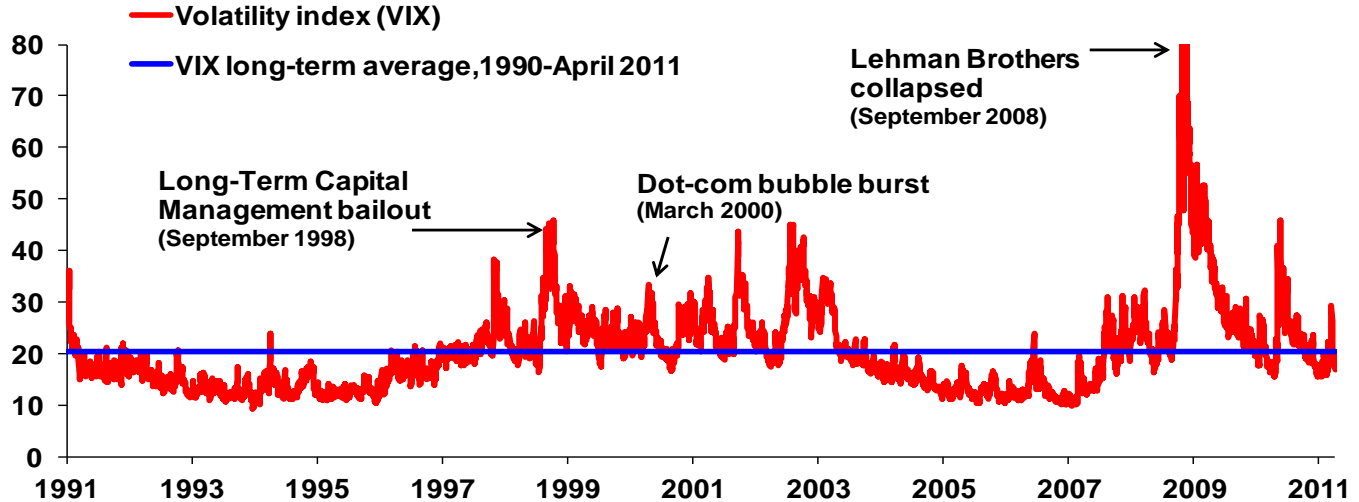
Source: Morningstar. Net flows and net assets as of March 31, 2011. McKinsey Analysis.
 *Survey examining the investment practices of 120 of the largest 350 defined benefit pension plans in the U.S.

Alpha – Beta Separation*



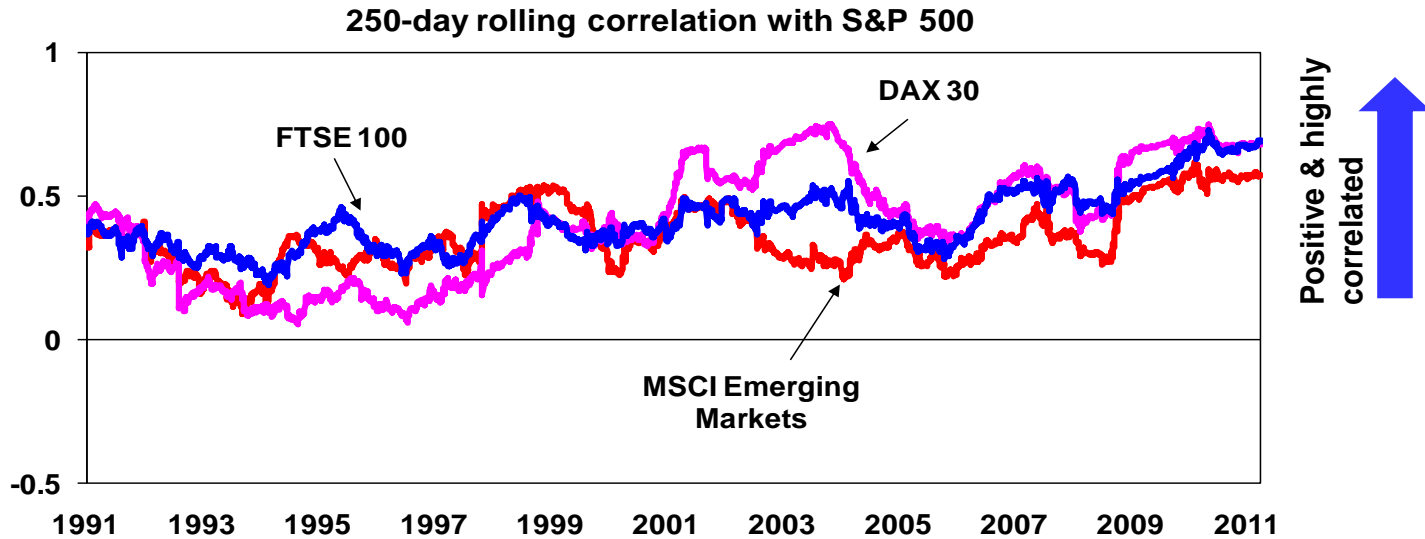
- Plans making the distinction
- Plans considering making the distinction
- Plans not making the distinction

Unprecedented rise in market volatility during the 2008 market crash



Note: VIX is the Chicago Board Options Exchange's volatility index.
Source: DataStream.

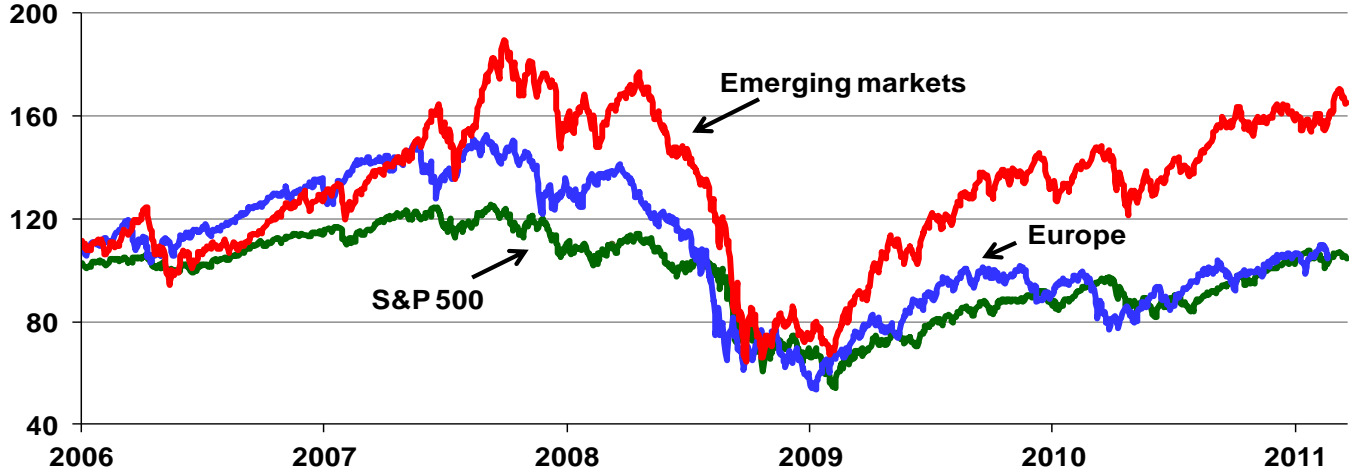
Global stock markets are highly correlated



Source: DataStream.

Stock prices around the world gained strongly, but most remained below their pre-crisis peaks

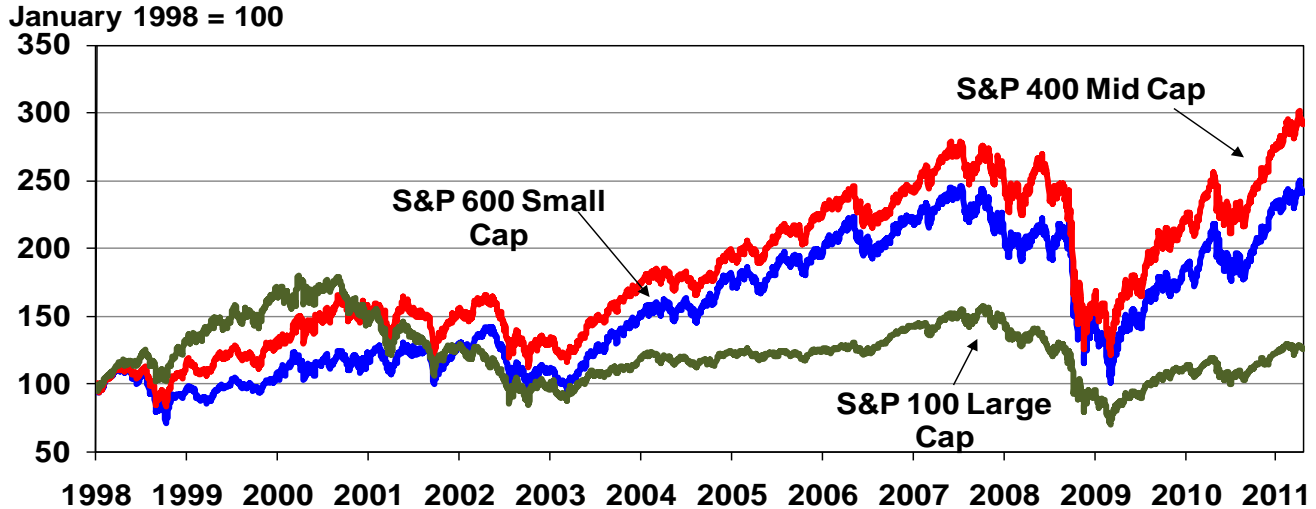
January 2006 = 100



Note: Data are as of April 20, 2011.

Source: Bloomberg.

The U.S. small- and mid-cap stocks outperform large cap stocks



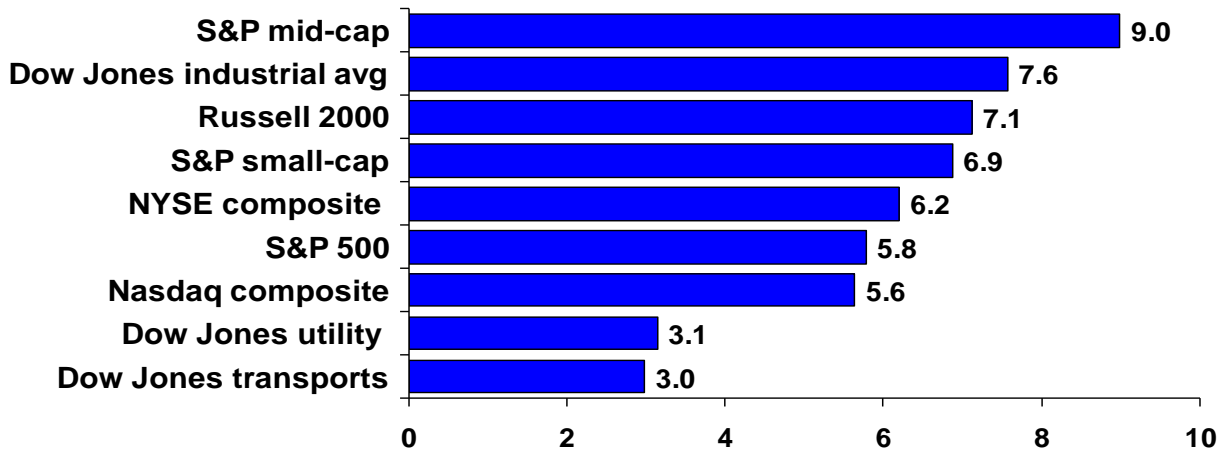
Note: Data are as of April 19, 2011.

Source: Bloomberg.



2011: U.S. stock market is off to a good start

2011 YTD gains for key U.S. stock indexes (%)
(as of 04/20/2011)

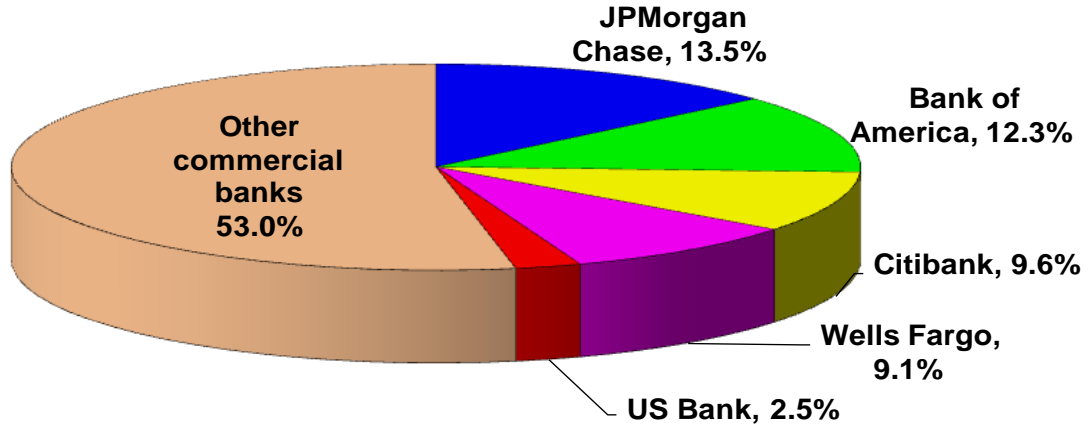


Note: Data are as of April 19, 2011.
Source: Bloomberg.

Five largest banks control almost half of the U.S. national banking assets (2010)



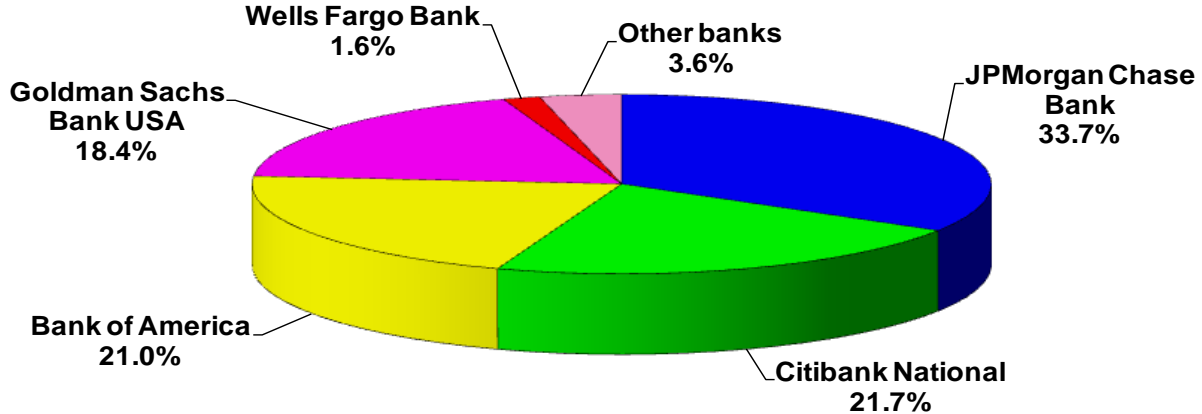
All FDIC insured commercial banks
Total assets = US\$12 trillion; Total number = 6,529 banks



Derivatives activity is dominated by few large banks

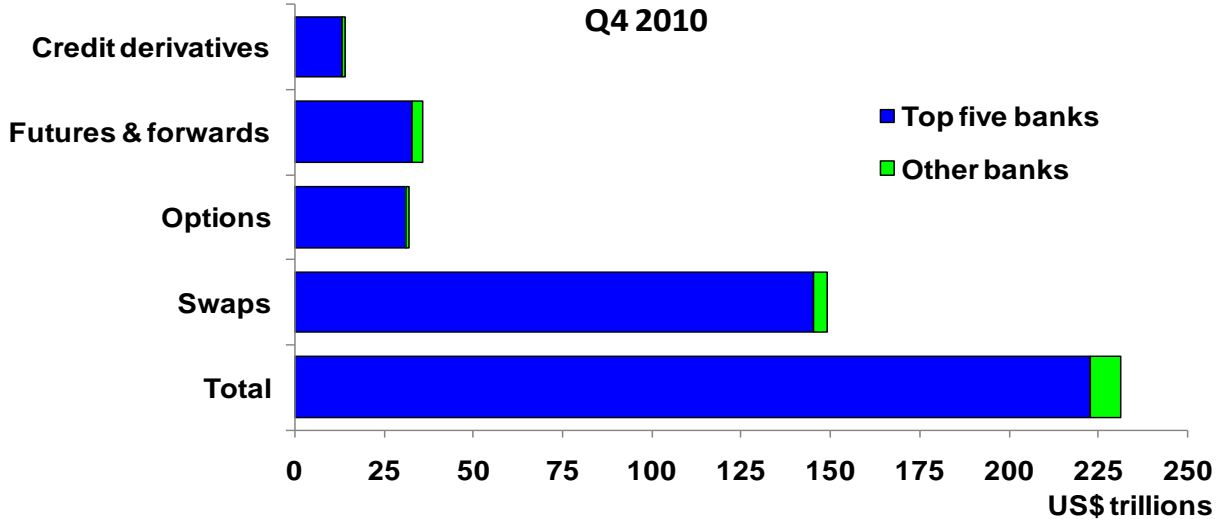
The top five banks hold 96% of all derivatives

The notional amount of derivative contracts held by large U.S. commercial banks, fourth quarter 2010 (% total)



Source: Comptroller of the Currency.

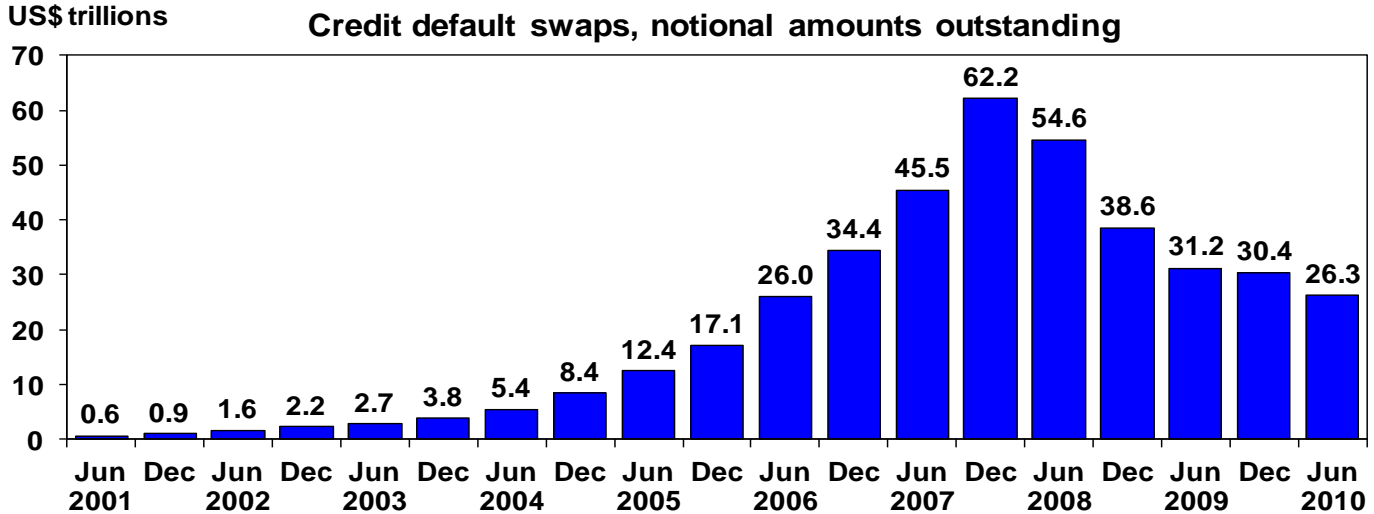
Derivative contracts are concentrated in top five largest banks



Note: Other banks include only U.S. commercial banks with derivatives activity.

Source: OCC's quarterly report on bank trading and derivative activities, Comptroller of the Currency, fourth quarter, 2010.

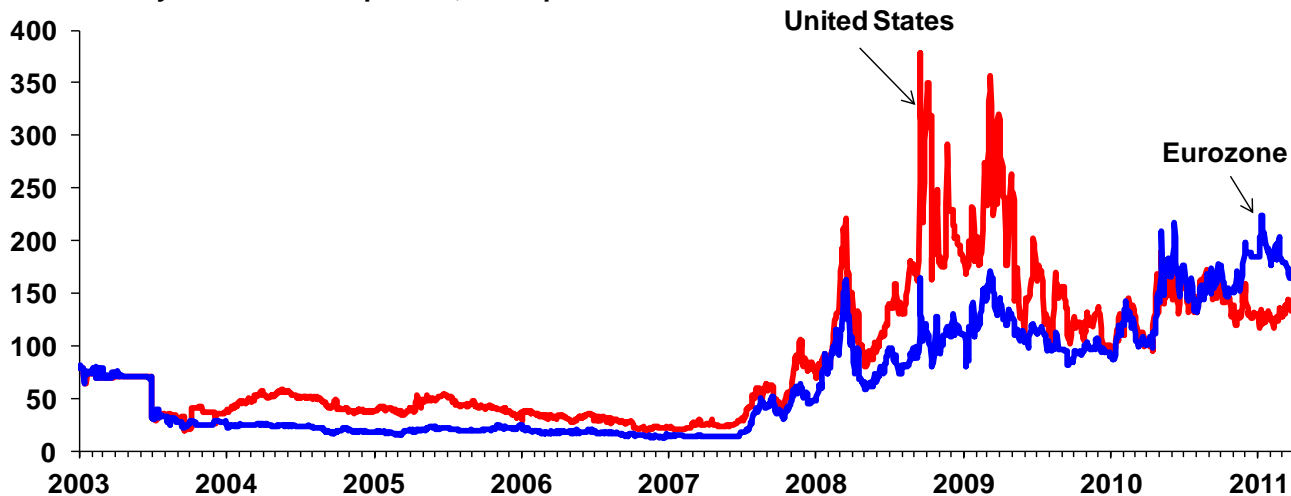
Despite significant decline after the crisis, the CDS market is still valued at \$26 trillion



Source: International Swaps and Derivatives Association.

Bank CDS spreads: Still elevated

Median 10-year bank CDS spreads, basis points



U.S. bank bailout returns 9.4%

Return on TARP investment



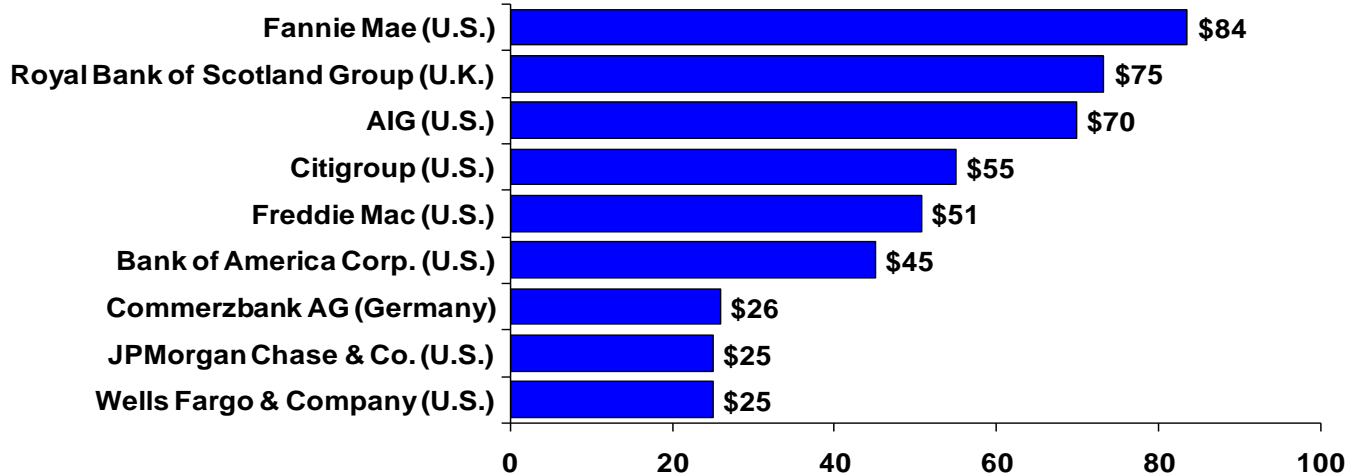
	TARP bailouts (\$B)	Return on TARP (\$B)	Return on TARP (%)
Citigroup	45	12.4	27.5
Bank of America Corp	45	4.3	9.5
Wells Fargo & Company	25	2.3	9.2
GMAC Financial Services	16.3	2.2	13.4
JPMorgan Chase & Co	25	1.7	7.0
Goldman Sachs Group Inc	10	1.4	14.2
Morgan Stanley	10	1.3	12.7
Hartford Financial Services group	3.4	0.8	24.8
PNC Financial Services group	7.6	0.7	9.8
Others	144.0	3.9	2.7
Total	331.3	31.2	9.4%

Note: Data are as of April 20, 2011.
Source: Bloomberg.

Financial institutions received largest government bailouts (all countries)



Bailout funds received from governments (US\$ billions)



Note: Data are as of April 20, 2011.

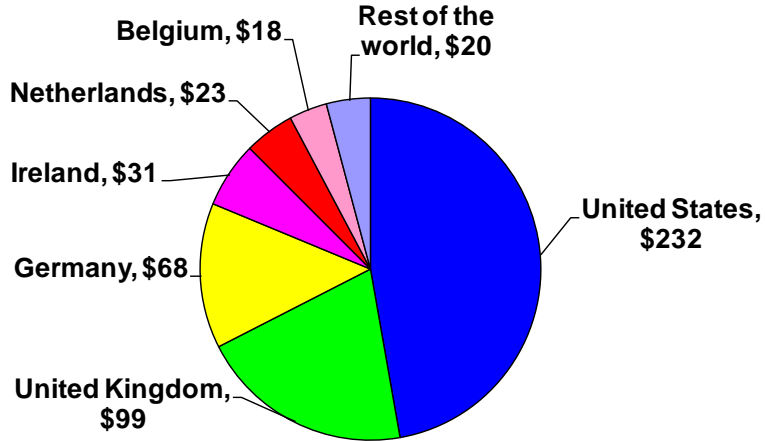
Source: Bloomberg.

Government capital investments in financial firms

Most recently available data, as of April 6, 2011 (US\$ billions)



Total outstanding = \$491 billion

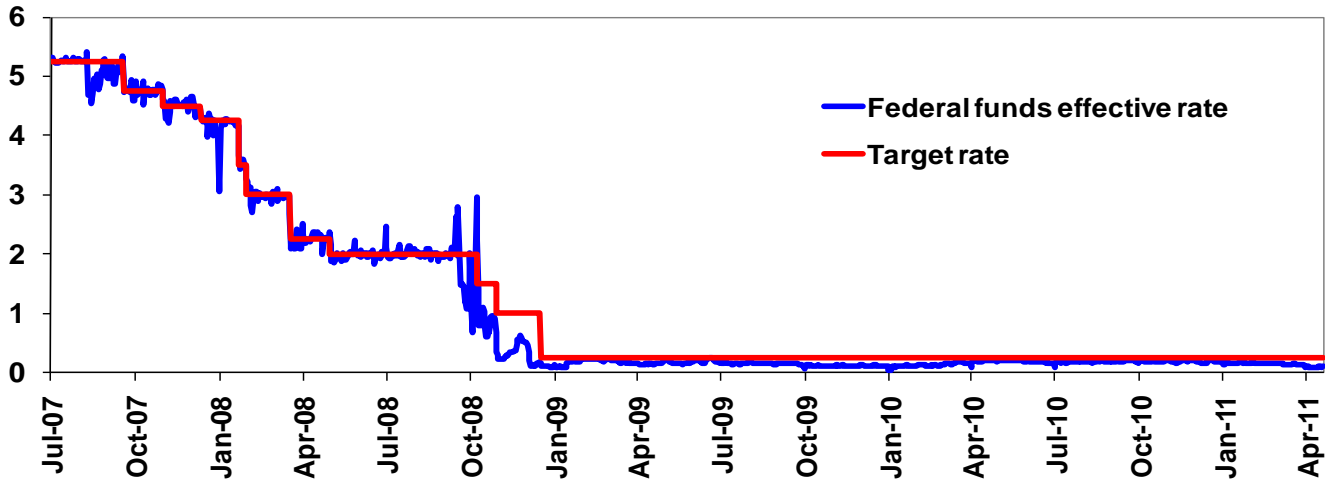


Source: Bloomberg.

Continued accommodative monetary policy in the United States



U.S. federal funds rate (%)



Source: Federal Reserve.

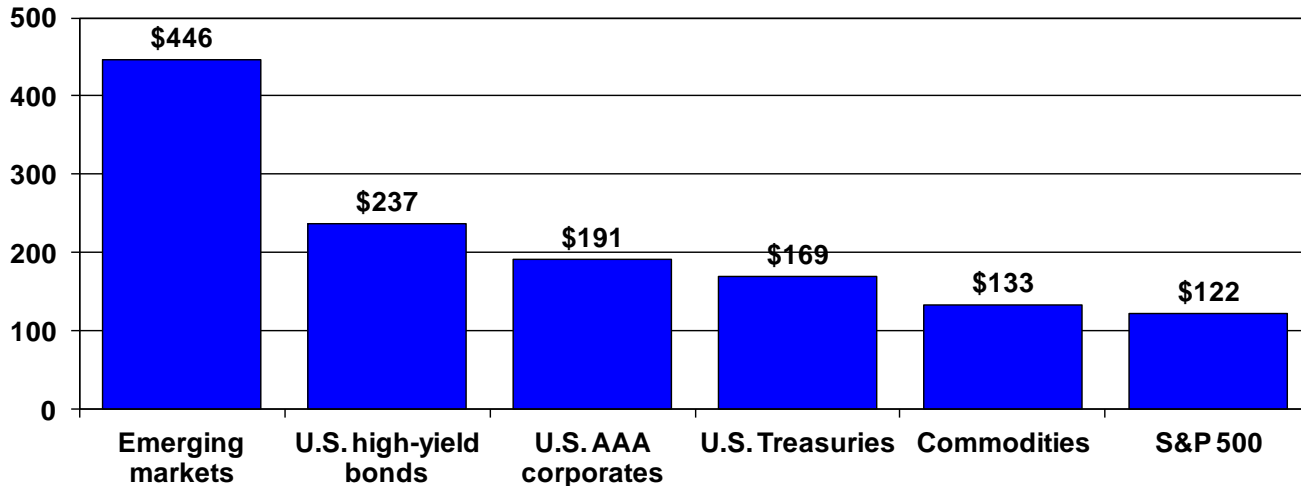
U.S. Treasury yields remained low by historical standards



Source: Federal Reserve.

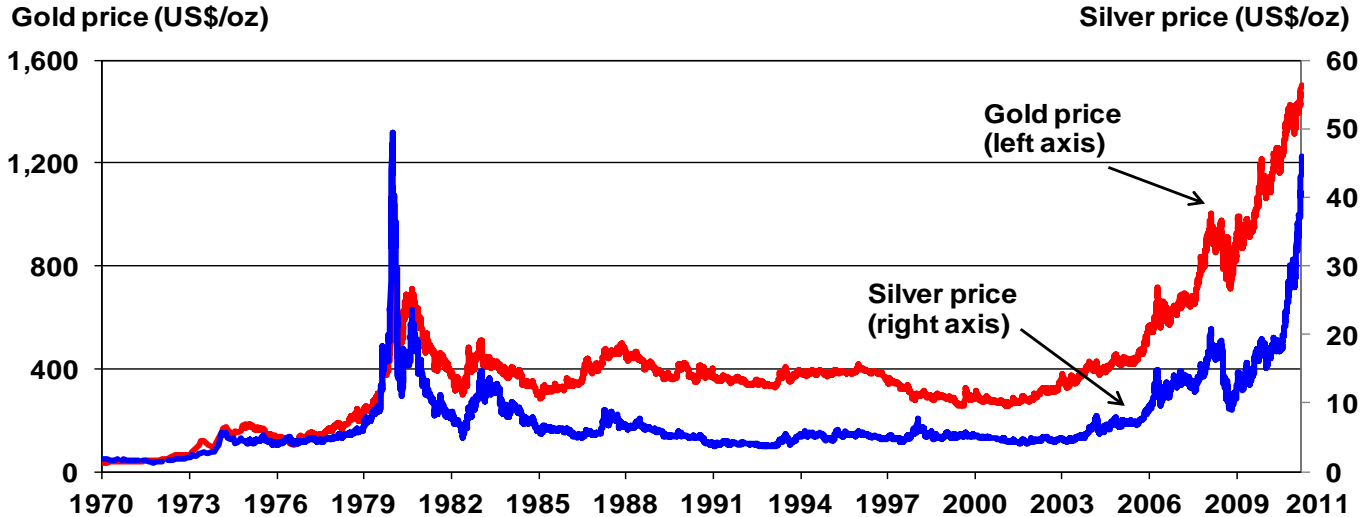
Investment returns for selected asset classes

As of March 2011, a \$100 investment made in December 2000 gives you:



Sources: Bloomberg, Milken Institute.

Gold prices hit record highs and silver rallied to its strongest since 1980



Source: Bloomberg.



Silver ETF (SLV) down 15% in past 3 days



Silver has been down 15% in 3 days 11 times

source: Bespoke Investment Group



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Three Day Declines of 15%+ In Silver: 1980 - 2011

Date	Price	Three Day Decline (%)	Percent Change (%)				
			One Week	One Month	Three Months	Six Months	One Year
1/22/80	34.0	-30.2	-0.1	2.9	-59.9	-52.6	-56.2
3/10/80	29.8	-17.5	-41.5	-48.4	-40.7	-35.6	-59.7
12/10/80	14.8	-17.6	5.3	3.4	-21.1	-30.6	-43.3
9/25/81	8.7	-15.1	11.7	6.8	-5.4	-19.0	-0.5
2/28/83	10.3	-24.0	5.1	1.3	32.0	18.5	-6.4
5/26/87	7.5	-17.8	4.1	-8.3	2.3	-8.0	-12.2
4/22/04	6.0	-16.4	-3.5	-4.2	6.5	21.3	20.7
4/24/06	11.8	-18.9	17.6	4.9	-7.7	-0.9	17.0
3/20/08	16.8	-16.9	10.2	8.9	4.0	-24.7	-17.7
10/17/08	9.3	-15.6	-0.4	1.7	19.9	26.3	86.6
5/4/11	39.7	-18.3					
Average			0.9	-3.1	-7.0	-10.5	-7.2
Percent of Time Positive			60.0	70.0	50.0	30.0	30.0