

A Discussion With NYSSA Chairman Kathy O' Connor, CFA

Boyden's Leadership Series presents discussions with business and thought leaders from organizations across the globe. The series focuses on topical issues that offer executives, political leaders and the media insight into current trends in business and talent management in the global marketplace.

This issue features Kathy O'Connor, CFA, Chairman of the New York Society of Security Analysts (NYSSA), a leading forum for the investment community aimed at promoting best practices and the highest professional and ethical standards in the industry. Ms. O'Connor discusses how globalization, technology and increased individual investor involvement in investment decisions are shaping the financial industry, why companies need to specialize to attract capital, NYSSA's continuing education and programming for its members and the importance of having multiple mentors.



Kathy O'Connor

Kathy A. O'Connor is President of KJ Capital Management LLC, an investment management firm in New York. Prior to starting KJ Capital Management in 2008, she has been a Managing Director at Morgan Stanley, New York Life Investment Management and Towneley Capital Management managing mutual funds, institutional and high net worth investment portfolios.

Ms. O'Connor received an MBA from Babson College and a BA from the University of Massachusetts. She holds the Chartered Financial Analyst (CFA) designation and is a member of the CFA Institute and NYSSA.

In addition to her role as Chairman of the board for NYSSA, Ms. O'Connor serves on the Babson College Graduate School Advisory Council.

Boyden: What is the history of your involvement with NYSSA?

O'Connor: When I started my career, I was focusing on small cap stocks at a boutique investment management firm. My boss required analysts take the CFA exam. The CFA Institute encourages Charterholders to join a local professional association, and I attended a few NYSSA meetings to

diversify my network and get exposure to others in the field. Someone from NYSSA recruited me to speak on small cap stocks. Once you get started, you don't stop. It has been a great experience.

Boyden: You are now the Chairman of NYSSA. What are the key areas of focus for the organization in 2012?

O'Connor: The financial industry has gone through major changes. At NYSSA, we are supporting our members through career transitions and improving the quality of the continuing education and programming that we have always offered. This year, in particular, we are moving up the bar on our online programming -- most of our programming is going to be online by the end of the year.

We are also offering a virtual membership, which is new for us. Any finance professional anywhere can access our programs. We want our programming to be available to everyone, online or in person.

Boyden: What new NYSSA programs are being offered in 2012?

O'Connor: NYSSA's members continually talk about a range of investing issues across our 14 committees, such as

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alternative, value and global investing strategies. As an example, NYSSA is holding several global conferences that cover investing in emerging economy countries like Turkey and India. We are offering our members a conference in China to meet with executives of Chinese companies and local government officials in May. We want our members to have personal access to global business contacts.

We also just started a new advocacy committee. Many of our members want to be a part of the development of the regulatory environment or share concerns about some of the existing regulations. These are issues that will be addressed by the advocacy committee.

Each committee represents a special interest within the broader spectrum of investing. NYSSA offers a great forum for special interest dialogues among members and with outside experts who participate in our programs.

Boyden: What are the bright spots you see from an investor point of view?

O'Connor: I look at investments as a value investor. Right now, we have relative stability in the US when you compare markets globally. At the current time, the utility, consumer staples, telecommunications, and insurance sectors have attractive valuations. In terms of geographies or market capitalizations, I like the large multinational companies that pay dividends.

Boyden: How can companies differentiate themselves as they compete for a shrunken pool of investable capital in today's markets?

O'Connor: This is a good question because there are rapid changes taking place today. My general observation is that companies need to find a niche that makes them special, then build, innovate and move forward from there. If companies stray too far from their specialty, people are not going to be able to judge their core strengths.

This holds true for both small and large firms. As an example, Morgan Stanley, which is where I spent some time in my career, has become much more focused on private wealth management. In the past they were more of an investment bank. While they continue to have other businesses, they have decided wealth management is a core business. Companies must identify where their core strengths are. It is much more difficult to succeed in multiple businesses today.

Boyden: So focus is very important?

O'Connor: Companies are faced with global competition. It helps to have a history and identity of doing one thing very well. Once a company establishes an expertise it can build out from its core strength.

NYSSA is celebrating its 75th anniversary of delivering continuing education, information and a professional network to people in finance. This long history helps members trust the organization to provide what they need throughout their career in finance.

At my firm, KJ Capital Management, we focus on being good at managing investment portfolios for a wide range of investors. My partner and I have worked together providing investment advice for over 20 years. It's important to stick with what you know best and then leverage that.

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Boyden: What metrics are you looking at to find value investments?

O'Connor: We compare companies across the board and use several valuation methods. Our objective is to find companies with strong growth and operating characteristics that are also relatively low in valuation. We use common investment metrics such as EBITDA to enterprise value, return on equity, price to earnings, price to book value, revenue growth, income growth, cash flow growth, etc. We are agnostic about location or industry.

However, because we need an extensive history of reliable financial data, we don't look at initial public offerings as a source of return. Our core belief is that public equities offer investors the opportunity to participate in growth that will exceed or at least keep pace with inflation over time.

Boyden: In the past year, the global financial services industry has shed over 250,000 jobs eclipsing the level in 2009. Are you seeing a paradigm shift in employment in this sector or is it just another part of the "over-hiring-over-firing" cycle?

O'Connor: I would say all of the above because these issues are not mutually exclusive. I see this current crisis as a crisis of magnitude similar to the technology boom and bust we had in the late 1990s and in 2000. To some degree there was over-hiring in the financial industry. I also believe the industry is seeing a shift in relevant skill sets. In the current environment, there is a larger demand for people with risk management, compliance and technology skills.

People will always need investment options and financial advice. Companies

will always need access to capital to expand their businesses. That is not going to change. The financial services business acts as a facilitator matching investors with entities in need of capital. The way companies access capital and the investment options for investors will both adapt to provide the most effective and efficient method of capital allocation.

Boyden: What structural changes do you see taking place in the business?

O'Connor: I see two areas of structural change. First, there are significant advancements in technology in every part of the financial services business to enhance the efficiency of managing the vast amounts of data necessary for access to global capital markets.

Another area of change is that individuals are taking more responsibility for their retirement and healthcare – areas that had traditionally been the purview of companies at the corporate level. Individuals will need a lot more investment advice on their options. The industry will continue to restructure to address the demand for helping investors sort through new products and global investment opportunities.

Boyden: How do you expect regulatory mandates and political pressures to shape the financial services sector over the medium term and what will be the key issues?

O'Connor: I wish I had a perfect answer for you. Obviously investors were hurt and a tremendous amount of mistrust was created. It is no surprise the regulations are becoming more aggressive. New regulations have restrictive policies and extensive reporting requirements. Clearly, additional reporting adds to the cost of

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doing business. As intermediaries, financial companies must take some risk to facilitate the capital exchanges between investor and investment.

The regulators and the industry will continue to debate the efficacy of new proposals. In the end, the regulators should try to adopt pragmatic policies instead of policies that are politically popular. The objective is to have an effective and trustworthy financial system. Extensive reporting does not always mean a system is trustworthy.

We may see more consistent licensing requirements for investment professionals. Currently, the licensing and registration requirements vary depending on whether you are a broker, an investment advisor, a financial planner or a hedge fund. You will probably see a convergence of the licensing requirements.

Boyden: What do you expect will be the growth drivers in investment services over the next few years?

O'Connor: Globalization of capital markets is going to change the way we invest for several reasons. Accounting standards are becoming globalized with the International Financial Reporting Standards. These commonly adopted standards make it easier for investors to evaluate companies across the globe. The exchanges now list companies from all over the world and also offer exchange traded funds and other specialized securities. In addition, investors today have a vast number of options.

The industry needs investment professionals to help people evaluate the multitude of opportunities they have today. Globalization of capital markets is going to continue to enhance opportunities and drive growth.

Boyden: What about the proliferation of information?

O'Connor: Yes, that's where technology and people trained in finance are going to have to somehow aggregate and fashion the data to assist in making investment recommendations and decisions. Globalization of capital markets and technology will drive the growth and restructuring of the industry.

Boyden: How is NYSSA preparing its members for these trends? Are there specific pieces of continuing education?

O'Connor: Our programs are very topical as well as classical. There are many core concepts that are common in the industry, such as how to model and evaluate investment securities. For example, financial companies are modeled differently than an industrial company. They don't have the same type of financial statements. At NYSSA we teach the basics of modeling a wide range of investment securities. Additionally, if the reporting standards change, our members need to be aware of how that change would impact a specific model. We help keep our members updated so they have the skills to evaluate investments globally.

NYSSA members or financial professionals take our classes or programs to keep current with the latest methods. We hold more than 100 programs every year on securities modeling, portfolio construction, investment strategy, markets, private wealth management and corporate reporting. The issues are very topical but there is also some basic skill-set training that we continue to offer our members so they can also get refreshed on skills they might need.

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Boyden: How is NYSSA addressing global investing trends in terms of its membership's continuing education initiatives?

O'Connor: While our physical location has historically been in New York, in reality NYSSA's members are working and collaborating across the globe. Our network of practitioners would like to exchange ideas with people in the field regardless of their physical location. Our mission has always been to create a forum for an exchange of ideas, and the programs we have are globally relevant. NYSSA holds regular discussions and conferences to help inform our members on global markets.

We are developing some of our education courses in Spanish and Chinese. Some markets have language preferences and we want our programming on some specific topics to be available in languages that people prefer.

Stepping outside of my NYSSA role, as an investor I think emerging markets have great opportunities because there is higher growth. However, levels of regulations and reporting requirements differ across global markets. Investors need to have a measure of caution before jumping into some of the emerging markets.

Boyden: What types of education programs would you recommend finance professionals take?

O'Connor: It really depends on your objective. You can consider several options: the CFA program, a Master's or Doctoral degree in finance or accounting, or NYSSA educational programs. I have the CFA designation and a Master's degree. The core curriculum for the CFA designation is an excellent study of investment finance.

The advantage of this course as opposed to a Master's degree is that it does not require a GMAT.

The MBA programs offer a broader course of business study. At NYSSA, we offer a variety of investment related educational programs. At the moment, these do not follow a specific core curriculum from A through Z. NYSSA offers programs that are topical and classical. At the current time, it's not a replacement for an MBA or the CFA designation. NYSSA can help you prepare for the CFA exam, act as an addition to other core curriculums and then keep your skills current after completing any core curriculum.

Boyden: When does it make sense for people to do the MBA?

O'Connor: If someone has an undergraduate degree that is not a general business degree it makes more sense to pursue an MBA. An MBA is a well-rounded program that addresses all the components of business – business law, accounting, finance, marketing – and it gives you all of the pieces that you need. So, if your undergraduate degree was somewhat general, an MBA is really going to advance your career because you need it, frankly.

Some people find value in doing both the CFA curriculum and an MBA for a broad business education and then a more specialized focus in investment finance. NYSSA is a forum for ongoing special interest topical and classical investment finance programs.

Boyden: NYSSA has over 10,000 members today. Which sectors within the investment community are most represented and where are the new members coming from?

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O'Connor: We have three sources of new members. Anybody who takes the CFA curriculum understands that the membership in a local chapter or a local society is a great way to connect with like-minded people. Another source of membership is when finance professionals go through career changes. One of the best forums to explore any new opportunities or changes is through the connections within NYSSA. We also have an excellent career development group. Finally, word of mouth attracts members. Many people join NYSSA because they hear about or attend one of the programs.

Boyden: Is your goal to build NYSSA into a true industry “guild” similar to the CFA Institute? If so, what would be its distinction?

O'Connor: We are the largest member society of the CFA Institute. We are more like partners with the Institute. The CFA Institute is a global organization which develops the CFA curriculum and administers the exam globally. They are expanding their opportunities and their reach into many of the emerging markets.

NYSSA is a place where local practitioners can share their ideas. We are expanding to a virtual and physical membership. Most of our programming and discussions come from local practitioners. I think for us, leadership by the CFA Institute is just going to create a much larger flow of people who want to interact with NYSSA. We have an opportunity to continue to partner with them as they expand.

Boyden: What advice would you give to financial services professionals who want to reinvent themselves in this current market?

O'Connor: The market can change very, very fast, and financial services professionals need to be prepared for tomorrow all the time. I would recommend that people pursue lifelong continuing education to develop a multiplicity of skills. Being a part of an association like NYSSA is also critical. You need a network that is outside your company—a professional network that expands across different organizations. You want to spend time with people so that if something changes for you, you can call someone to seek advice or guidance.

The other obvious strategy for people launching their careers is to stay on top of the current job descriptions. Check the job postings and make sure your skills match the postings. You may need to retrain. It is best to retool yourself as often as you can.

Boyden: How would you define a successful manager? When hiring, what do you look for in prospective managers?

O'Connor: I think we haven't had enough stability and execution in management. I like a prospective manager who has the ability to execute on ideas. Coming up with an idea is easy. Execution takes time. I like people who follow through and execute.

Boyden: Given you've held roles at top global companies as well as small firms, what are the upsides and downsides of big firms? And what are the upsides and downsides of small firms?

O'Connor: It really comes down to awareness about your company and levels of control. When you are at a larger firm, there is name recognition. It is easy to explain to any prospective client who you are and what you do. The downside to

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a larger firm is that decisions at very top levels impact your individual business plan. You really don't have any control over that.

With a smaller firm you have complete control over your business plans. However, explaining your business or skills to a prospective client is more difficult. You have to pursue clients and convince them about your experience and credentials. The sales pitch takes more time. The benefit is that your business plan is your own business plan. Nobody can cut your budget or change your role overnight without approval.

Boyden: What role does mentorship play in accelerating progression in one's career?

O'Connor: Mentors are the best way to make progress in a career. They are critical to success in a career. People believe that a mentor is someone who holds your hand and gives you very specific guidance. That has not been my experience. A good mentor is someone you admire, and respect, whose skills are good and who is in a good position.

People need to be aware that a mentor is not someone who is going to sit down over a cup of coffee and tell you how to run your life or career. Rather, you need to ask yourself, "How can I take advantage of what they have learned?" You really need to ask your mentors questions or challenge them with different scenarios. Let them give you the answer that they would think of which may not be the perfect answer but it is important feedback. Then you can use their answers as a guide.

Boyden: Would you recommend multiple mentors?

O'Connor: Absolutely. I look at everyone I meet as a mentor. Especially when you spend time with people at an organization

like NYSSA, where there are many forms and many types of mentors. You can learn from everyone you meet. You have to be willing to ask some questions.

Boyden: Who's your mentor?

O'Connor: At the moment I have several mentors and it is hard for me to just pick one. I worked with Wesley McCain, CEO of Towneley Capital Management when I first started my investment career in New York. He was a tremendous mentor to me. My partner, Jeff Sanders has also had a great impact on my career. We have worked together for over 20 years.

Boyden: What was your biggest mistake you've made in your career during a position you've held or maybe one road you never took?

O'Connor: I place a significant value on education. I would have liked to have pursued more advanced education.

Boyden: Would you have done some additional graduate work?

O'Connor: Yes, absolutely.

Boyden: What has been your most important success in your career?

O'Connor: I've had several successes over my career. One example, is one of the mutual funds we managed was rated five stars by Morningstar (the MainStay Small Cap Value Fund). The other funds received four star ratings. These are respected rankings within the Morningstar ranking system. It was a privilege for my partner Jeff Sanders and me to be asked to join Morgan Stanley.

When I look back, it was mostly a privilege to work with very intelligent, creative and hardworking people.

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We enjoyed providing creative investment options for clients. Lastly, having the opportunity to be chair of NYSSA is an honor. I have the privilege of working with some of the most senior thinkers in our business. It really feels good to be on a great team.

Boyden: If you would not have chosen a career with financial companies, what would have been another career path you would have chosen?

O'Connor: Finance crosses over into so many fields like accounting, economics and technology. When I was choosing what I would do, I didn't really even consider anything else but finance. If I had pursued any of those other topics, I probably would have ended up in finance anyway!

Boyden: What are you most looking forward to in 2012?

O'Connor: From the NYSSA standpoint, stay tuned. We have a lot more to offer. We are celebrating our 75th anniversary and continuing to grow what we offer our members and people in the field of finance.

At KJ Capital Management, we believe global markets will continue to challenge investors. We continually evaluate all of the investment options available. The best opportunities we see are in dividend yielding stocks, real estate investment trusts, high yield corporate debt and energy limited partnerships. We like the concept of infrastructure, consumer staples and healthcare as themes in investing today. We want to provide income and returns that protect our clients from the risk of not having enough capital to meet their needs in the future.

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The views and opinions expressed here do not necessarily represent the views of Boyden only those of Ms. O'Connor.