

Interview with Wissam R. Maalouf

The Role of CFA Charterholders in Today's Tumultuous Financial Market



Wissam R. Maalouf, CPA, CFA
Manager, Navigant Capital Advisors

Following the events that shook the corporate world in the past month, we thought we'd keep you abreast of the current financial situation and what the future holds for the US economy and beyond. For that, we met with Wissam Maalouf, CPA, CFA, who let us in on the details of the crisis, the impact of the credit crunch beyond the US and Europe and its implications on the financial profession and CFA charterholders.

MI: Can you tell us about Navigant Capital Advisors and your role in the organization?

WM: I am currently a Manager at Navigant Capital Advisors, the corporate finance subsidiary of Navigant Consulting, Inc. In this role, I am a key member of the team responsible for executing a diverse range of advisory projects, including strategic finance, valuation, and business planning.

MI: How has the current financial situation affected the US economy?

WM: The failure of heavyweights Bear Stearns, Lehman Brothers and AIG underscores the instability in the financial sector, which is a major artery of the US economy. Recently, market participants in this sector lost their appetite for risk and confidence in their counterparties, so they decelerated their lending activities. The slowdown in lending adversely affected all players in the economy, from big buyout funds looking to complete leveraged acquisitions, to "Joe the Plumber" looking for short-term credit for his working capital needs, to Jane Doe looking to find a mortgage.

MI: How do you foresee the rollout of events in the next couple of months?

WM: Warren Buffet compares the market to a "complex adaptive system." I believe that it is usually difficult to forecast the direction of a market, especially during periods of extreme volatility. With the current credit conditions and the expectations

of disappointing corporate earnings, we could witness increased market volatility in the near term. On the other hand, the coordinated moves by the G-7 and the G-20 to tackle the financial crisis appear to be significant steps in the right direction. Also, the latest proposed economic stimulus by the US Congress may help jump-start consumer spending and hence the US and global economy.

MI: Why have the stock markets across the Gulf region experienced heavy losses in the past month?

WM: It is important to note that the latest volatility in the stock markets across the Gulf region could be attributed to foreign investors affected by the credit crunch in their local markets. Momentum investors and the "herd effect" have significantly contributed to the latest hemorrhaging. As the foreign investors' risk aversion began to increase, they started to liquidate their positions in overseas markets, hence exacerbating the losses and putting downward pressure on stock prices. As we experienced during the late 90's and the collapse of Long-Term Capital Management, during times of crisis, global markets tend to be highly correlated despite differences in the underlying economic conditions of the regional economies. This degree of correlation will probably continue in the near term.

MI: What has been the impact of the credit crunch beyond the US and Europe, more specifically in the Gulf region?

WM: Regional economies do not function in isolation from the rest of the global economy. Surprisingly, and to a certain degree, the Gulf region hasn't been impacted by the international credit crisis and the slowdown in the G-7 economies. In fact, it has been showing sound fundamental economic conditions. A recent report by the International Monetary Fund predicts a healthy growth for the remainder of 2008 and 2009.

MI: Is the 700 billion-dollar rescue package a solution or just a short-term aid plan?

WM: This is definitely a long-term plan whose aim is to restore confidence in the American financial system and to restore market liquidity. It is only one aspect of any potential recovery, and must be evaluated and coordinated with other global initiatives.

MI: How, in your opinion, have the latest events impacted the trust in financial institutions?

WM: Banks have a fiduciary duty to all stakeholders. Unfortunately, I believe that the banking institutions have breached that duty by taking excessive risk and miscalculating their positions. For example, the banks had exposure to exotic financial instruments and derivative-based insurance products without really understanding how to price those products and how to calculate the associated risk. The trust in these institutions has certainly been shaken and it will take time to restore the former "trustee-beneficiary" relationship.

MI: Going forward, how will the financial institutions restore the customers' trust in them?

WM: Now that governments globally are calling for more regulations, a new banking order will eventually emerge, which has the potential to restore the much needed confidence. I am not a proponent of government regulations, however, that might be the only way to restore confidence in the system.

MI: What implications would that have for individuals in the financial profession and CFA charterholders in particular?

WM: An economic downturn means a higher unemployment rate, especially for professionals in the financial sector. However, I strongly believe that CFA charterholders are better positioned during tough economic environments to keep their

current jobs, and to network and apply to new jobs. Also, I see a demand for CFA charterholders from investment funds that have excess cash on hand and believe that there could be great buying opportunities.

MI: Do you think the current crisis will affect the number of CFA candidates wanting to pursue their designation and a career in finance?

WM: "Free Market" theory is not dead and the economy will emerge from this crisis leaner and poised for growth. Capitalism has shown throughout history that it is sustainable and could withstand immense shocks. The CFA institute has been witnessing double digit growth rates in enrollment and I believe that this growth will continue in the future.

MI: You have recently earned your CFA charter. Could you tell us more about the CFA designation and the advantages it brings to your job?

WM: Earning the CFA designation has been a rewarding experience. The depth and breadth of the program has taught me to grasp complex subjects and analyze difficult relationships. The curriculum encompasses multiple financial, economic, quantitative, and ethics topics that are relevant to today's marketplace. The CFA Body of Knowledge® is a dynamic rather than a static approach to teaching, in which the materials covered in the curriculum are reflective of the latest finance techniques. The program is very advantageous since it helps the candidate to apply concepts learned to real-world scenarios.

MI: How do you anticipate the CFA designation to help you in your career? Do you think it will open doors to opportunities you wouldn't have had without it?

WM: In my opinion, earning the charter would significantly differentiate the candidate from his/her peers who do not hold the CFA charter. Prospective

employers often seek individuals who hold the charter to join their teams because they value the acquired skills and understand the discipline and intellectual effort involved to successfully complete the program. In addition, the program's global reputation enhances the charterholder's career growth through networking opportunities offered by the CFA institute and local societies.

MI: What is the best advice you could give someone who would like to pursue a career in finance?

WM: Finance is a broad, competitive, and exhilarating field of study. Finance is somehow an art and a science. The art in finance involves making and defending significant assumptions whereas the science in finance involves validating those assumptions. My advice is to differentiate from others through acquiring advanced and unique skills that would give the individual a significant edge. I believe that the CFA Body of Knowledge® offers that edge.

MI: Any recommended resources for financial professionals?

WM: The Economist and the Financial Times are great resources that cover the economy in general and the financial sector in particular.

