2015 INVESTMENT GUIDE

SPECIAL ISSUE

Forbes

137 WAYS TO GET RICH

STOCK BUYS,
REAL ESTATE STRATEGIES,
TAX PLOYS AND INCOME PLAYS
PLUS: OUR MUTUAL FUND HONOR ROLL

Hypothetical Growth of $10,000 during manager's tenure
Fidelity® Diversified International Fund (FDIVX) vs. Benchmark
(4/12/2001–3/31/2015)[1]

Average Annual Total Returns as of 3/31/2015	1 year	3 year	5 year	10 year	Manager Tenure Since 4/12/01	Expense Ratio[2]
Fidelity® Diversified International Fund	3.80%	10.97%	7.66%	5.75%	7.11%	0.91%
MSCI EAFE[3]	–0.78%	9.17%	6.30%	5.11%	5.30%	

Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate, so investors may have a gain or loss when shares are sold. Current performance may be higher or lower than what is quoted, and investors should visit Fidelity.com/performance for most recent month-end performance.

Fidelity INVESTMENTS

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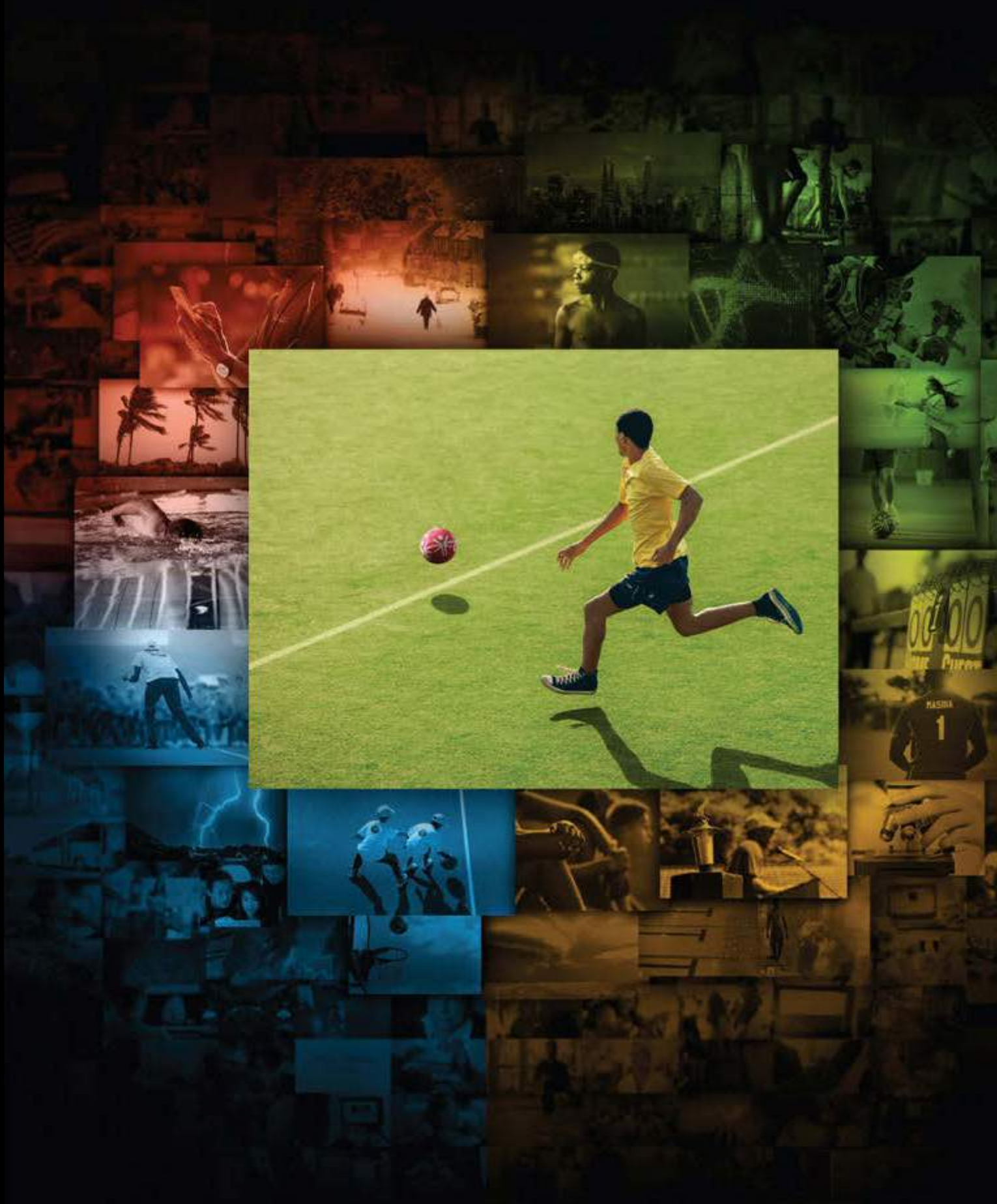
Or call your Advisor.

[1]The chart above illustrates the performance of a hypothetical $10,000 investment made in the fund and a benchmark since the inception date of the product. Benchmark returns include reinvestment of capital gains and dividends, if any, but do not reflect any fees or expenses. It is not possible to invest in an index. This chart is not intended to imply any future performance of the investment product.

[2]Expense Ratio is the total annual fund operating expense ratio from the fund's most recent prospectus.

[3]The MSCI EAFE Index is recognized as the preeminent benchmark in the United States to measure international equity performance. It comprises the MSCI country indexes that represent developed markets outside of North America: Europe, Australasia, and the Far East.



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The New Force Changing Media

BY LEWIS D'VORKIN

I GO BACK A WAYS. I've wandered from wire services, to newspapers, to magazines, to television—and finally the Internet. I honored a picket line at the *New York Times* in the '70s. I was laid off in the '80s during an ad slump, then again in the '90s after a corporate sale. I survived four CEOs at AOL in the '00s before starting a news company about the time Lehman Brothers imploded. Forty years into this business, nothing compares with what I'm living today. The Age of the Millennial is upon us, and it's shaking the very foundations of the news business.

Millennials are the force behind a handful of surging news startups. They represent a critical audience segment for others. It's more than their numbers—by some estimates, 50% of the workforce by 2020. It's the behavior. They're inseparable from phones and social networks. FORBES is right in the middle of it. Our website reaches 11% of Millennials across the Web. They're 30% of the total audience. Two-thirds of our 18 million smartphone-only visitors are Millennials.

Journalists must start to think of their work in dramatically different terms. How they create, organize and display content needs to change. Content engines need to be reconfigured to match the trifecta of audience, device and context. Is the consumer on the beach, the train, a sofa or racing from meeting to meeting?

Real solutions need to come from within. For us, the journey began five years ago. We retooled a newsroom steeped in print to work for the era of social media, too. Now it's time for a culture that understands the print-to-social-to-mobile connection. That's why we're setting up a lab to develop ways to deconstruct traditional stories for mobile audiences of all ages.

Millennials. Mobile. Social. They are catalysts for the latest grand forces that have been in play for years. From offline to online. From printing presses to the Web. From quotes to sound bites. From TV to cable. From newspapers to blogging. From message boards to social networks. The lexicon will continue to evolve as technology drives new generations to change their behavior. Media institutions adjust with fearful, stubborn reluctance, always losing valuable time. Now is the moment to get on with it, building the experience consumers want on the platform of their choice. F

"With all thy getting, get understanding"

ELEPHANT IN THE ROOM MONEY

BY STEVE FORBES, EDITOR-IN-CHIEF

DEVELOPING COUNTRIES, such as Brazil, Indonesia, India and South Africa, have made clear their ambition to grow into global economic powerhouses. Turkey's government has openly declared its goal to become one of the top 10 economies by 2023 (it ranks 18th today).

But all of these nations have overlooked a crucial requirement of economic greatness: a stable currency. Investors and entrepreneurs yearn for sound money, just as marketplaces function best when weights and measures are reliable and fixed.

China grasped that truth in the early 1990s and in 1994 fixed the yuan to the U.S. dollar, as Hong Kong had done with its dollar a decade before. China's trade, and its economy, boomed. (So ludicrous has economic thinking become that the U.S. complained this was an act of economic warfare, "currency manipulation." American officials believed that because the Chinese economy was doing well, its currency should rise against the dollar, just as if the yuan were an equity. By this kind of reasoning, the dollar in credit-challenged Illinois should be worth less than it is in thriving North Carolina.)

Countries have long been told by "development experts" at the IMF and elsewhere that devaluing their currencies would help them grow by making their exports cheaper and imports dearer, a modern variant of the old mercantilist superstition that plagued much of Europe from the 1500s to the 1700s, which held that a country's power came from hoarding gold and silver. Today the cry for a country is: Get a merchandise trade surplus! Cheapening a currency, however, is repellent to foreign *and* domestic investment. Investing is risky enough, but if the risk is compounded by uncertainty over the value of the currency from which future income streams flow, then, perforce, there will be less risk-taking. Money is the means by which we trade with one another and invest. Hinder that, and we suffer. Money itself is not wealth. It measures value the way clocks measure time and scales measure weight.

Ambitious countries must grasp the fact that economies with sound monetary policies always outperform those with chronically unstable money. Britain is a classic example of this truth. Even though in the late 1600s it had a solid representative government (by the standards of the time), strong property rights and a robust tradition of innovation (its textile and shipbuilding industries were technically far ahead of those on the Continent, and the English farmer was three times more productive than his French counterpart), Britain was a second-tier power. Then it latched onto the concept of sound money and fixed the pound to gold. This small island became a globe-girdling empire and home to the Industrial Revolution. Its capital mushroomed, financing not only what became the world's largest economy but also the development of much of the rest of the world, including the U.S.

Within a few years after WWII, defeated Germany and Japan lashed their currencies to the gold-backed dollar. This, combined with repeated reductions in taxation (a course Britain had followed for most of the 19th century but then forgot until Margaret Thatcher's ascendancy), rapidly turned these once prostrate nations into rich, world-class economies.

So what should striving countries do today? They should start by formally fixing their currencies to either the dollar or the euro. In the 1990s the Baltic states of Lithuania, Latvia and Estonia tied their currencies to either the U.S. dollar or the deutsche mark. Lithuania and Estonia each used a currency board, whereby their currencies were backed almost 100% by a stable currency. Subsequently, all three countries adopted the euro and have prospered from these moves. Turkey, for example, could formally tie its ominously weakening lira to the euro and thereby avoid another debilitating slide into a big inflation.

A currency board would work wonders for beleaguered

Ukraine. It's no surprise, given Vladimir Putin's aggression, that Ukraine's currency, the hryvnia, has slid sharply, hurting the economy. The move to a currency board would strengthen Ukraine, helping it to survive until the U.S. elects a President who knows something about foreign policy.

India, whose loose-money habits have long hindered growth, could start by attaching the rupee to the dollar and/or the euro. In a few years India would be in a position to take the next step and adopt a gold standard. Within a generation of doing that it would surpass the economy of its former colonial master, Britain, as well as that of China.

How to Treat Capital

Companies, as never before, have been buying back their stock. They're also returning capital by boosting dividends. Unlike in the 1990s and early 2000s, when companies purchased shares and then effectively reissued them to executives and directors as part of their compensation, these buybacks are the real deal: They're shrinking the number of shares outstanding. Of course, some of these moves nowadays are financial engineering: Stagnant earnings look better when spread over fewer shares. IBM became the poster boy for this. And, amazingly, other critics declared that returning capital on this scale was a form of short-term corporate behavior: make shareholders happy now at the expense of funding critical research and development and long-term capital expenditures that would secure a company's future financial health.

Actually, the current wave of returning capital to stockholders should be applauded, not denigrated. It's a stark and healthy contrast to what's happened in the past, especially in the 1960s and 1970s, when companies had a lot of cash on their hands. In those days the tax code punished returns of capital. The corporate tax rate was 48%, compared with the 35% federal rate today. The highest tax rate on investment income for individuals was 70%. The capital gains levy was 25%, which was raised in 1970 to 35% (by 1976 the maximum rate was almost 50%). Back then individuals, not institutions, owned most stock. You don't have to be a finance major to see that returning capital by either dividends or stock buybacks meant transferring wealth to Uncle Sam.

The result was that corporate chieftains were tempted into expanding their domains by buying other companies or diversifying into new businesses they really didn't understand. Conglomerates—corporate collections of different, unrelated businesses—proliferated. The theory that a capable executive could quickly learn to run any business if he crunched enough numbers became conventional wisdom. I recall attending a dinner at which the CEO of a large can company justified his acquisition of a large commercial insurance company, saying, "It's a surefire way to increase earnings per share!" In fact, conglomerates loved trying to buy property and casualty insurance companies in order to get their hands on assets these outfits held in reserve for future insurance claims.

Almost all conglomerates flopped and were busted up. The only one that has stood the test of time is the original one: General Electric.

The lowering of tax rates, especially under President Ronald Reagan, made the corporate hoarding or inefficient use of capital no longer viable. Activist investors are sure to pounce if they see idle capital sitting on a balance sheet or if a company isn't running its businesses efficiently.

So why isn't there more business investing? Because government policies have created a hostile environment. The Federal Reserve has profoundly disrupted the systematic functioning of our credit markets, to the detriment of small and new businesses. An ever volatile dollar hinders investment. Our horrific tax code—the U.S. corporate tax rate is now the highest in the developed world—is a dampener. The cascade of regulations requires deploying more and more precious brainpower on dead-end activities.

Cheer, then, for equity buybacks and higher dividends. And work to make sure that we get candidates at all levels who have some semblance of understanding free markets and what enables them—which are we, the people—to blossom. F

Restaurants: Go, Consider, Stop

Edible enlightenment from our eatery experts and colleagues Richard Nalley, Monie Begley and Randall Lane, as well as brothers Bob, Kip and Tim.

Le Philosophe

55 Bond St., between Bowery and Lafayette St. (Tel.: 212-388-0038)

This NoHo French bistro is worth going to for the radishes with mustard butter and salt alone. All else is equally delicious. The duck à l'orange is perfection, and the grilled flat iron steak comes with frites that are as good as you'll get anywhere. For a sinful finale to a perfect meal have either the profiteroles or the chocolate mousse.

K Rico

772 Ninth Avenue, between 51st and 52nd streets (Tel.: 212-757-9393)

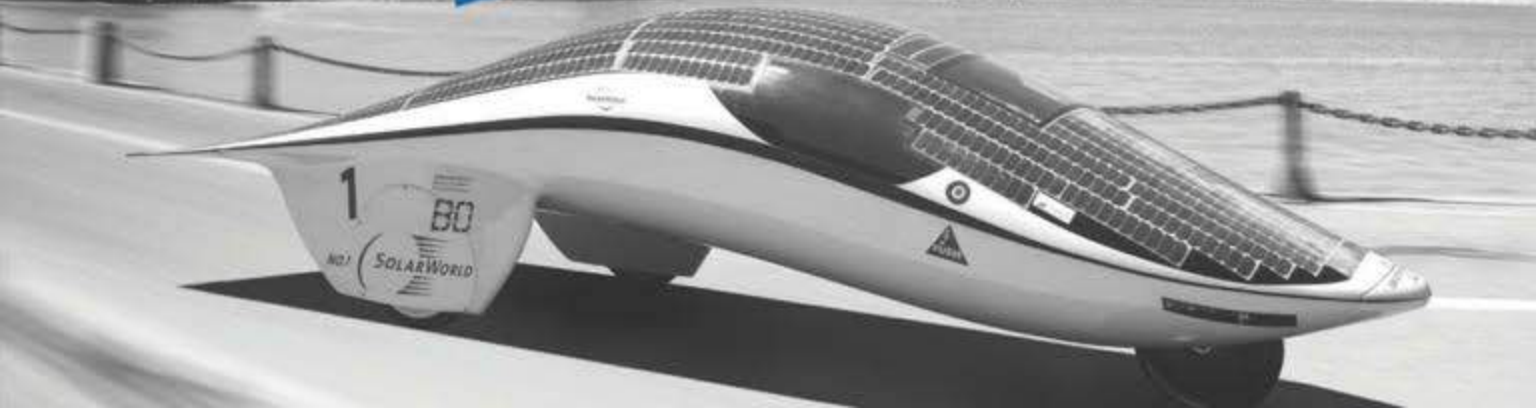
The fare at this new steak house is simply too expensive for what's delivered. The first yellow flag comes with the waiter's effusive recommendation of the Tomahawk steak special, with no reference to its $78 price. In fact, everything—the cod, short rib croquettes, cauliflower, Brussels sprouts, chocolate flan and créme brûlée—is good, not memorable.

The Green Table

75 Ninth Avenue, between 15th and 16th streets (Tel.: 212-741-6623)

The food is fresh and tasty at this rustic-tiled farm-to-table emporium in the bustling Chelsea Market. For a fun starter try the four different deviled farm eggs. Mother couldn't make a better chicken pot pie, and the delicious chocolate hibiscus trifle, with its layers of pink peppercorn caramel and hibiscus Chantilly, is worth every calorie.

STAN GROSSFELD/THE BOSTON GLOBE VIA GETTY IMAGES



A signed page from Bill Clinton's *Back to Work*. In the 2011 book's epilogue, Clinton praises the Republican Bogle's push "to reduce the obsession of Wall Street and corporate America with 'short-termism.'" Today Bogle is working with the Obama Administration on a new fiduciary standard for investment advisors.

Bogle has long been inspired by a tribute from Rear Admiral Horatio Nelson to his troops after the 1798 Battle of the Nile between the British and French navies, depicted here. The signature line—"From the deck of the HMS *Vanguard*"—gave the company its name.

This portrait of Bogle as Admiral Nelson ran in American Airlines' in-flight magazine in 2010. The publication sent him the original.

SEAT OF POWER

A Tiger's Lair

VANGUARD FOUNDER John C. "Jack" Bogle pioneered passive index investing, but his Malvern, Pa. office is a hive of activity. Though he's officially retired from the company he built into a colossus, Bogle, 86, still spends most days here poring over data, reports and books to keep making his case that the best way to build wealth is buying a broad index fund, minimizing expenses and ignoring the instinct to fiddle. Anyone who thinks differently ought to beware. Says Bogle: "I love a battle."

A long-term optimist on stocks, Bogle has several bull sculptures and stuffed animals in his office. But they're outnumbered by tigers—a nod to his alma mater, Princeton University, from which he graduated in 1951.

Bogle has always stressed the importance of stripping out fees and expenses whenever possible. His office illustrates the point: The rug, desk and couches are decades old, and he replaced his desk chair only recently, after its wheels broke.

Hundreds of books line Bogle's shelves, but his desk holds classics such as Benjamin Graham's *The Intelligent Investor*; he wrote the foreword to an updated 2005 edition.

Mentor and Wellington Management founder Walter Morgan was a fellow Princeton grad and a conservative investor fond of saying, "The crowd is always wrong." Useful advice when inflating bubbles feel like they'll never burst.

Swept up in war fever, Bogle's father crossed the border to join Canada's air force in 1916. This scale model is a Sopwith Camel, the plane he flew during World War I—though he didn't see combat, having crashed into a tree during a training run in Great Britain.

Vanguard managed $97 billion in assets when it broke ground on its Malvern campus in 1992. Today: more than $3 trillion.

BY STEVE SCHAEFER
PHOTOGRAPH BY JONATHAN KOZOWYK

LeaderBoard

64
Percentage of Americans who own their homes, the lowest share in nearly 20 years.

RICHEST BY STATE

Vermont

POPULATION:
626,562

GROSS STATE PRODUCT:
$27.2 BILLION
(0.6% GROWTH YEAR-ON-YEAR)

GSP PER CAPITA:
$43,354
(RANKS NO. 32 NATIONWIDE)

RICHEST:
JOHN ABELE
$600 MILLION

HEART SURGERY is no one's idea of fun, but the fact that it's much less invasive (and safer) than it used to be is due in large part to John Abele. In 1978, seeking investors for Medi-Tech, a catheter company in which he held an equity stake, he met businessman Pete Nicholas. The two agreed to create a holding company that would buy Medi-Tech, and in 1979 Boston Scientific was born.

The company spearheaded the manufacture of artery-opening stents, catheters and angioplasty balloons. It went public in 1992, and within three years Abele had become a billionaire. (Raised in Connecticut, he now lives in Shelburne, Vt.)

He soon began giving money away. In 1997 he founded the Argosy Foundation, through which his family (he and his wife, Mary, have three children) has donated over $100 million to hundreds of nonprofits, including the American Cancer Society, Vermont Foodbank and FIRST, which organizes robotics competitions for kids. Although he hasn't signed the Giving Pledge, Abele, now 78, says his goal is to end up with a net worth of $0.

NEW BILLIONAIRES

Extra Credit

A Stanford professor's side project lifts him into the ranks of the world's richest.

CALL THEM THE prosperous pedagogues: Pat Hanrahan became Stanford University's second billionaire professor when stock in Tableau Software, a data visualization company he cofounded, hit a new high in June. Hanrahan, Tableau's largest individual shareholder, devotes just 20% of his time to the business, preferring to spend the majority teaching computer graphics in Silicon Valley.

Tableau emerged from research that entailed analyses of large databases of information, which Hanrahan conducted more than a decade ago with a Stanford Ph.D. candidate named Chris Stolte. Hanrahan has long been an expert in digital graphics, too; he was a founding employee of Pixar, where he helped create the 3-D animation software RenderMan, used in *Toy Story*, the *Lord of the Rings* trilogy and more.

Hanrahan, Stolte and Stanford Business School graduate Christian Chabot spun out Tableau from Stanford in 2003 and headquartered the company in Seattle. They raised $15 million in venture funding over the next decade before going public at $31 a share in May 2013; the stock now trades above $120.

With Chabot as CEO, Tableau has grown substantially in the enterprise business-intelligence market. Revenue has nearly doubled every year since 2010, rising from $34 million to $412 million.

Fellow comp-sci professor David Cheriton became Stanford's first active billionaire thanks to some timely angel investments—including a $100,000 check in 1998 to two young programmers named Larry Page and Sergey Brin. Other billionaire academics include Broadcom cofounder Henry Samueli, an electrical engineering professor at UCLA and hedge fund pioneer David Shaw, a senior research fellow at Columbia.

RICHEST BY STATE BY MAGGIE MCGRATH; NEW BILLIONAIRE BY BRIAN SOLOMON AND LIYAN CHEN
CHRIS LYONS (LEFT)

LeaderBoard

55
Percentage of Americans currently invested in the stock market.

SPORTSMONEY
HIGHEST-PAID ATHLETES

TOTAL / SALARY, WINNINGS / ENDORSEMENTS ($MIL)

Floyd Mayweather / Boxing	1	$300 / $285 / $15.0
Manny Pacquiao / Boxing	2	$160 / $148 / $12.0
Cristiano Ronaldo / Soccer	3	$79.6 / $52.6 / $27.0
Lionel Messi / Soccer	4	$73.8 / $51.8 / $22.0
Roger Federer / Tennis	5	$67.0 / $9.0 / $58.0
LeBron James / Basketball	6	$64.8 / $20.8 / $44.0
Kevin Durant / Basketball	7	$54.1 / $19.1 / $35.0
Phil Mickelson / Golf	8	$50.8 / $2.8 / $48.0
Tiger Woods / Golf	9	$50.6 / $0.6 / $50.0
Kobe Bryant / Basketball	10	$49.5 / $23.5 / $26.0
Ben Roethlisberger / Football	11	$48.9 / $46.4 / $2.5
Rory McIlroy / Golf	12	$48.3 / $16.3 / $32.0
Novak Djokovic / Tennis	13	$48.2 / $17.2 / $31.0
Zlatan Ibrahimović / Soccer	14	$39.1 / $33.1 / $6.0
Lewis Hamilton / Racing	15	$39.0 / $36.0 / $3.0
Ndamukong Suh / Football	16	$38.6 / $38.2 / $0.4
Fernando Alonso / Racing	17	$35.5 / $34.0 / $1.5
Gareth Bale / Soccer	18	$35.0 / $25.5 / $9.5
Jon Lester / Baseball	19	$34.1 / $33.7 / $0.4
Derrick Rose / Basketball	20	$33.9 / $18.9 / $15.0
Sebastian Vettel / Racing	21	$33.0 / $32.0 / $1.0
Rafael Nadal / Tennis	22	$32.5 / $4.5 / $28.0
Neymar / Soccer	23	$31.0 / $14.0 / $17.0
Mahendra Singh Dhoni / Cricket	23	$31.0 / $4.0 / $27.0
Carmelo Anthony / Basketball	25	$30.5 / $22.5 / $8.0
Maria Sharapova / Tennis	26	$29.7 / $6.7 / $23.0
Carson Palmer / Football	27	$29.0 / $28.5 / $0.5
James Rodríguez / Soccer	27	$29.0 / $24.5 / $4.5
J.J. Watt / Football	29	$27.9 / $20.9 / $7.0
Robinson Canó / Baseball	30	$27.6 / $24.1 / $3.5
Dwyane Wade / Basketball	31	$27.2 / $15.2 / $12.0
Kimi Räikkönen / Racing	32	$27.0 / $25.0 / $2.0
Peyton Manning / Football	32	$27.0 / $15.0 / $12.0
Clayton Kershaw / Baseball	34	$26.9 / $25.7 / $1.2
Wayne Rooney / Soccer	34	$26.9 / $19.9 / $7.0
Gerald McCoy / Football	36	$26.7 / $26.5 / $0.2
Chris Paul / Basketball	37	$26.1 / $20.1 / $6.0
Albert Pujols / Baseball	38	$25.9 / $23.4 / $2.5
Radamel Falcao / Soccer	38	$25.9 / $21.9 / $4.0
Ryan Howard / Baseball	40	$25.6 / $25.0 / $0.6
Dwight Howard / Basketball	41	$25.5 / $21.5 / $4.0
Cliff Lee / Baseball	42	$25.2 / $25.0 / $0.2
Miguel Cabrera / Baseball	43	$25.1 / $22.1 / $3.0
Amar'e Stoudemire / Basketball	44	$25.0 / $22.0 / $3.0
Sergio Agüero / Soccer	45	$24.9 / $17.9 / $7.0
Blake Griffin / Basketball	46	$24.7 / $17.7 / $7.0
Serena Williams / Tennis	47	$24.6 / $11.6 / $13.0
Prince Fielder / Baseball	48	$24.3 / $24.0 / $0.3
Joe Johnson / Basketball	49	$24.2 / $23.2 / $1.0
Joe Mauer / Baseball	50	$24.0 / $23.0 / $1.0

Top Jocks

THE 100 highest-paid athletes banked $3.2 billion over the past 12 months, up 17% from the prior year. A boxing match for the ages (if not in the ring, at least for the bean counters) fueled most of the gains when Floyd Mayweather and Manny Pacquiao squared off May 2 in a bout that generated $600 million in revenue—the richest night in sports history. The boxers ultimately earned $300 million (Mayweather) and $160 million (Pacquiao) over the past year from purses and endorsements, shattering the old record for athlete earnings: Tiger Woods' $115 million in 2008.

BY KURT BADENHAUSEN

TIGER: NO LONGER ON TOP

TOTAL EARNINGS ($MIL)

AL BELLO/GETTY IMAGES; ANDY LYONS/GETTY IMAGES

LeaderBoard

17.4 MILLION
Number of "millionaire households" (those with more than $1 million in private wealth) worldwide in 2014, up from 15.3 million in 2013.

SPORTSMONEY
HIGHEST-PAID ATHLETES (CONT.)

		TOTAL / SALARY, WINNINGS / ENDORSEMENTS ($MIL)
CC Sabathia / Baseball	51	$53.9 / $23.0 / $0.9
Chris Bosh / Basketball	52	$23.8 / $20.8 / $3.0
Zack Greinke / Baseball	53	$23.7 / $23.7 / $0.1
Eli Manning / Football	53	$23.7 / $15.7 / $8.0
Dale Earnhardt Jr. / Racing	55	$23.6 / $14.6 / $9.0
Justin Verlander / Baseball	56	$23.4 / $22.7 / $0.8
Andy Dalton / Football	57	$23.3 / $22.3 / $1.0
Mark Teixeira / Baseball	58	$23.0 / $22.5 / $0.5
Masahiro Tanaka / Baseball	58	$23.0 / $22.0 / $1.0
Felix Hernández / Baseball	60	$22.9 / $22.7 / $0.2
Cole Hamels / Baseball	61	$22.7 / $22.5 / $0.2
Jimmie Johnson / Racing	61	$22.7 / $16.2 / $6.5
Wladimir Klitschko / Boxing	63	$22.5 / $19.0 / $3.5
Andy Murray / Tennis	64	$22.3 / $6.3 / $16.0
Matt Kemp / Baseball	65	$22.2 / $21.0 / $1.2
LeSean McCoy / Football	66	$22.1 / $21.3 / $0.9
Tony Romo / Football	67	$22.0 / $17.0 / $5.0
Drew Brees / Football	67	$22.0 / $11.0 / $11.0
Adrian Gonzalez / Baseball	69	$21.5 / $21.1 / $0.4
Tyron Smith / Football	70	$21.4 / $21.1 / $0.3
Jacoby Ellsbury / Baseball	70	$21.4 / $21.1 / $0.3
Deron Williams / Basketball	72	$21.3 / $19.8 / $1.5
Luis Suárez / Soccer	73	$21.0 / $16.5 / $4.5
Usain Bolt / Track	73	$21.0 / $0.0 / $21.0
Matt Cain / Baseball	75	$20.8 / $20.4 / $0.4
David Wright / Baseball	75	$20.8 / $20.0 / $0.8
Carl Crawford / Baseball	77	$20.7 / $20.4 / $0.3
Jayson Werth / Baseball	78	$20.6 / $20.4 / $0.2
Hanley Ramirez / Baseball	79	$20.3 / $20.0 / $0.3
Russell Westbrook / Basketball	79	$20.3 / $15.8 / $4.5
Cesc Fabregas / Soccer	79	$20.3 / $15.3 / $5.0
Justin Rose / Golf	82	$20.2 / $8.2 / $12.0
Yaya Touré / Soccer	83	$20.0 / $17.0 / $3.0
Rudy Gay / Basketball	84	$19.9 / $19.3 / $0.6
Adam Wainwright / Baseball	85	$19.8 / $19.7 / $0.2
Jordan Spieth / Golf	85	$19.8 / $8.8 / $11.0
Kevin Love / Basketball	87	$19.7 / $15.7 / $4.0
Frank Lampard / Soccer	87	$19.7 / $15.7 / $4.0
David Ortiz / Baseball	87	$19.7 / $15.7 / $4.0
Alex Smith / Football	90	$19.6 / $19.1 / $0.5
Eden Hazard / Soccer	90	$19.6 / $16.1 / $3.5
Kei Nishikori / Tennis	92	$19.5 / $4.5 / $15.0
Devin McCourty / Football	93	$19.3 / $19.1 / $0.3
Mesut Özil / Soccer	93	$19.3 / $12.8 / $6.5
Aaron Rodgers / Football	95	$19.1 / $11.6 / $7.5
Billy Horschel / Golf	96	$19.0 / $16.0 / $3.0
Maurkice Pouncey / Football	97	$18.9 / $18.8 / $0.1
Max Scherzer / Baseball	97	$18.9 / $18.7 / $0.2
Jeremy Lin / Basketball	97	$18.9 / $14.9 / $4.0
James Harden / Basketball	100	$18.8 / $14.8 / $4.0

DEAL FLOW
Nike, including its Jordan Brand, has deals with **47** athletes in the top 100. **Adidas** and its subsidiary, **Reebok**, have **14** athletes under contract by our count. **PepsiCo** is also a huge player in sports: Its brands, including **Gatorade**, have deals with **20** of the 100 highest-paid sports stars.

INCOME IMBALANCE
Zack Greinke earns **99.8%** of his money from salary and only **0.2%** from endorsements. **Usain Bolt** earns **99.9%** of his money from endorsements and appearances and only **0.1%** from prize money.

AS TIME GOES BY
Oldest: Phil Mickelson **45**
Youngest: Neymar **23**

WEALTH'S WORLD CUP

COUNTRY	# OF ATHLETES	TOP EARNER	EARNINGS ($MIL)
Argentina	2	**Lionel Messi**	$73.8
Belgium	1	**Eden Hazard**	19.6
Brazil	1	**Neymar**	31
Colombia	2	**James Rodríguez**	29
Côte d'Ivoire	1	**Yaya Touré**	20
Dominican Rep.	4	**Robinson Canó**	27.6
Finland	1	**Kimi Räikkönen**	27
Germany	2	**Sebastian Vettel**	33
India	1	**Mahendra Singh Dhoni**	31
Jamaica	1	**Usain Bolt**	21
Japan	2	**Masahiro Tanaka**	23
Philippines	1	**Manny Pacquiao**	160
Portugal	1	**Cristiano Ronaldo**	79.6
Russia	1	**Maria Sharapova**	29.7
Serbia	1	**Novak Djokovic**	48.2
Spain	3	**Fernando Alonso**	35.5
Sweden	1	**Zlatan Ibrahimovic**	39.1
Switzerland	1	**Roger Federer**	67
U.K.	7	**Rory McIlroy**	48.3
U.S.	62	**Floyd Mayweather**	300
Ukraine	1	**Wladimir Klitschko**	22.5
Uruguay	1	**Luis Suárez**	21
Venezuela	2	**Miguel Cabrera**	25.1

TEAM PLAYERS VS. SOLO STARS
77 team athletes
Average earnings: $27 million
23 individual athletes
Average earnings: $49.4 million

WHERE ARE THE WOMEN?
Only two female athletes made the cut: **Maria Sharapova** at **No. 26** and **Serena Williams** at **No. 47**. Last year's list featured three female tennis stars, but China's Li Na retired in September.

LISA BLUMENFELD/GETTY IMAGES; AP PHOTO/PETR DAVID JOSEK

LeaderBoard

$248 BILLION
Total invested at the end of 2014 in tax-free 529 education savings plans—an alltime high, up 9.2% over 2013.

BUSINESS LIBRARY

The New Classics

The best investing books of recent years, curated by FORBES editors.

Irrational Exuberance, 3rd Edition

by Robert J. Shiller *Princeton University Press, 2015*
The Nobel laureate adds a new chapter on bond market froth to his seminal examination of financial bubbles.

John Bogle on Investing: The First 50 Years

by John C. Bogle *Wiley, 2015*
A compilation of 25 notable speeches from the Vanguard founder covering the obvious (index funds) and the less so (organ donation).

The Physics of Wall Street

by James Owen Weatherall *Mariner Books, 2014*
Weatherall, a philosophy professor, tackles financial complexity for a lay audience, focusing on the quants whose recent outsize influence has upended investing.

The Hedge Fund Mirage

by Simon Lack *Wiley, 2012*
The deck is stacked in favor of the guys running the firms, Lack says, noting that most hedge fund investors would be better off—really—in T-bills.

The Big Short

by Michael Lewis *W.W. Norton, 2011*
Lewis autopsies the crash of 2007–08, fingering a "doomsday machine"—that is, the poorly understood derivatives markets—as the official cause of death.

The Little Book That Still Beats the Market

by Joel Greenblatt *Wiley, 2010*
The enormously successful fund manager lays out his precepts for success in the markets—value investing chief among them—in this easy read that's great for getting young people started on their financial education.

Pioneering Portfolio Management

by David F. Swensen *Free Press, 2009*
The man in charge of investing Yale's endowment lays out his strategy for institutions looking to duplicate his impressive multidecade returns.

FIRST WORLD PROBLEMS

No Summer Chopper To the Hamptons

JUST IN TIME for beach season, East Hampton, N.Y. has passed a law severely limiting helicopter traffic to its local airport. That's a bummer for billionaire Hamptons homeowners Carl Icahn, Ron Perelman, Steve Cohen and others, who can no longer easily take to the skies and avoid hoi polloi on the Long Island Expressway. What to do?

BY BUS:
The Hampton Jitney
(one way: $30)
Okay, Steve Cohen hasn't been on a bus since he took a Greyhound to see Foghat live in 1974. But the Jitney's "Ambassador Service" boasts extra-wide seats and copious legroom. (It was designed, the company notes, with basketball players in mind.) Sure, with weekend traffic it can take five to six hours to get out to the oceanfront paradise, but as Foghat advised: "Slow ride, take it easy."

BY TRAIN:
The Long Island Rail Road
(one way: $20.50)
Yes, the widely loathed LIRR will be packed with drunken louts and those looking to star in an eastward-oriented *Jersey Shore* spinoff. Not if you leave at 6:25 a.m. Sunday, though, which will get you to East Hampton from Manhattan (with one transfer) in three hours for a Jackson and change.

BY PARACHUTE:
Skydiving New York City
(tandem jump: $279)
If you can get to Flushing, Queens, you can get airborne with this jump company. Stuff a few extra greenbacks into the pilot's satchel and he'll surely be willing to fly an extra 100 miles east and push you out there.

BY FERRY:
You Really Don't Want to Know
There is no ferry service between New York City and East Hampton. You can get there via sea if you're willing to depart from New London, Conn. with your car (itself a 2.5-hour trip at bare minimum) and then endure a baffling 2.5-hour sail 'n' drive involving three separate ferry companies. You know what? Maybe just swim.

FIRST WORLD PROBLEMS BY BRIAN DAWSON
ILLUSTRATIONS BY DAVID URBAN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2,303
Length, in days, of the current bull market, the third-longest in American history.

PROVENANCE

The Art of the Steal

The Donald scored his new Virginia B&B, in the shadow of Thomas Jefferson's Monticello, for pennies on the dollar.

IN MAY Donald Trump and his son Eric opened the ten-room Trump Albemarle Estate, a lavish bed-and-breakfast (rooms start at $399 a night this summer) near Charlottesville, Va. in a manse that—in case you've been living in the bottom of a chardonnay barrel for the last couple of decades—formerly belonged to the late media billionaire John Kluge, once America's richest man. Trump paid just a fraction of the assessed worth of the property, which has a tangled history.

1985
John Kluge and his third wife, Patricia, build Albemarle House on 22 acres south of Charlottesville. The 23,500-square-foot manor boasts 45 rooms, a helipad, stables and a private chapel.

MAY 2015
Trump, taking advantage of recently relaxed local lodging bylaws, opens Albemarle Estate as a bed-and-breakfast.

OCTOBER 2012
Trump finally buys Albemarle House from BofA for $6.7 million, completing his acquisition of the entire estate.

JUNE 2011
Patricia files for personal bankruptcy.

MAY 2011
Trump purchases the 776-acre vineyard for $6.2 million, plus $1.7 million in equipment and inventory. He sticks signs out front: "No trespassing. This land is owned by Trump Virginia Acquisitions LLC." He lets the lawn go unmowed.

DECEMBER 2010
An attempted auction of the winery attracts no bids, and Patricia's lenders close in. Farm Credit of the Virginias takes possession of the winery after it fails to sell at auction; a month later Southern National Bancorp of Virginia forecloses on Vineyard Estates.

JANUARY 2011
An additional lender, Bank of America, files to foreclose on Albemarle House proper, alleging that Patricia defaulted on $23 million in loans. Before that auction Donald Trump quietly cuts a deal with the trustees for Patricia's son, John Kluge Jr., to buy 217 acres that surround the mansion for less than $500,000. The deal also gives Trump right of first refusal to match the purchase price of any attempt to buy the house. At auction Trump bids a lowball $3.6 million. It's not enough; BofA takes possession.

2007–2011
Patricia takes out some $65 million in loans to expand wine production and makes plans to build a luxe subdivision, Vineyard Estates, with 24 multimillion-dollar homes (it will never be completed).

FALL 2009
Patricia lists Albemarle House for $100 million. In early 2010 she slashes the price to $48 million. Still no takers.

SUMMER 2010
Kluge wines are well received (they're served at Chelsea Clinton's wedding), but winery finances are a mess. To help pay creditors, Patricia auctions personal property and Albemarle House furnishings, reaping $15.1 million for 933 items. In September John Kluge dies at 95.

1989
FORBES declares Kluge, with a net worth of $5.2 billion, America's richest person. We later call him a "cheapskate billionaire" for skinflint habits like leaving his hat and coat in his car to avoid having to tip restaurant coat checkers.

1990
Kluge and Patricia, a onetime nude model and actress, divorce; Patricia settles for an estimated $100 million, plus Albemarle House.

1999
Patricia and third husband, William Moses, establish the Kluge Estate Winery & Vineyard on 960 acres near the house.

BY ERIN CARLYLE
CLOCKWISE FROM TOP: RON GALELLA/GETTY IMAGES; ANDREW SHURTLEFF/ZUMAPRESS/NEWSCOM(2); GETTY IMAGES; STEVE HELBER/AP; BRENDAN HOFFMAN/PRIME

LeaderBoard

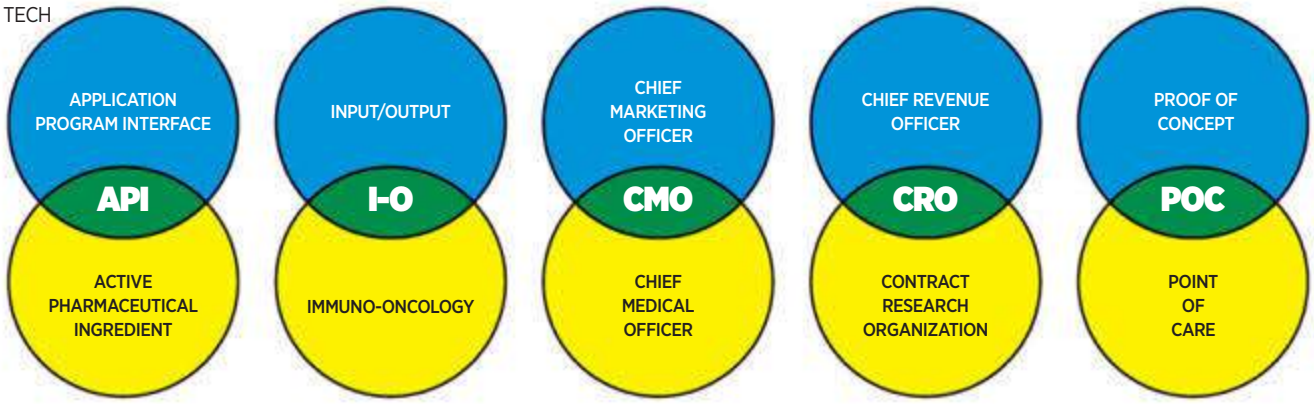
29
Percentage of Americans age 55 and older who have no savings or retirement plans whatsoever.

JARGON WATCH

Tech Plus Biotech: OMG!

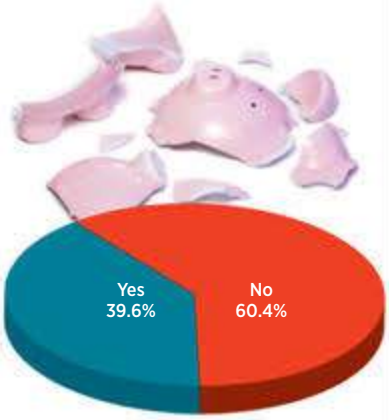
TECHNOLOGY COMPANIES are getting heavy into health care and biomedicine. Consider Calico, Google's life-sciences drug venture, which focuses on antiaging remedies in the eternal quest to stave off death—or at least cheat it a few years.

When execs meet Larry Page in the boardroom, though, they might need interpreters, because tech geeks and bio-nerds use much of the same alphabet soup to refer to completely different things. Here's a translation guide.

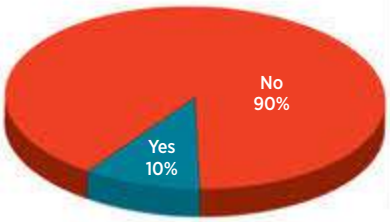


ASK 50 BILLIONAIRES

Is Failure in Business Inevitable at Some Point?



Have You Ever Owned a Company That Went Bankrupt?



30 UNDER 30

Street Urchins

Smart calls from the Forbes 30 Under 30, in 30 words or less.

Ali Khan

FIDELITY INVESTMENTS | 29

Recently promoted to lead manager of Fidelity's Select Software and Computer Services fund, Khan tracks trends and changes in cloud computing in an effort to forecast the next Salesforce.

Brij Khurana

PIMCO | 30

Khurana's team manages $120 billion in fixed-income portfolios and has seen solid growth in stable value strategies—portfolios "wrapped" by an insurance company or bank—during recent market volatility.

Joan Payson

BARCLAYS | 27

In February the vice president awarded Macy's its only sell rating, continuing a streak that began with a bearish call on Michael Kors that proved accurate.

30 UNDER 30 BY KATHRYN DILL; JARGON BY LUKE TIMMERMAN
ILLUSTRATIONS BY PATRICK WELSH; RUBBERBALL/MIKE KEMP/GETTY IMAGES (LEFT)

LeaderBoard

$304,480
Inflation-adjusted cost for middle-income Americans to raise one child born in 2013 to age 18—that's 24% more than in 1960.

FRANCHISES

Fast-Food Flashback

One beloved and two creepy corporate mascots are back on the menu.

MUCH LIKE AN undercooked burger, a trio of fast-food mascots of yore are coming back up. Since early May McDonald's, Burger King and KFC have resurrected classic ad characters—the Hamburglar, the King and Colonel Sanders—giving them a trendy gloss for the social media age.

It's all very big business, of course; in 2014 kids ages 12 to 17 saw an average of 1,620 fast-food ads—more than four a day. The three restaurant chains, meanwhile, used all those commercials to drum up some $42.7 billion in revenue last year. If investing is more your speed than flash-fried nostalgia, our annual ranking of America's best and worst franchises starts on page 92.

THE HAMBURGLAR

MCDONALD'S REVENUE, 2014: $27.4 billion

DEBUTED: Circa 1975, as an alarming troll-like thief in prison garb, a black cape and, unaccountably, a long T-shirt reading "Lone Jogger." The '70s were a strange time.

SINCE: In 1985 McDonald's beefed up the Hamburglar's persona, giving him a cartoony makeover and a personality more mischievous than menacing. He was put out to pasture some two decades later.

TODAY: In early May McD's unveiled the new Hamburglar—now played by an insufferable hipster human with three-day scruff who stars in ads promoting the company's new sirloin burger. He is also noticeably thinner.

THE KING

BURGER KING REVENUE, 2014: $1.06 billion

DEBUTED: Sometime in the 1950s, as a George Washington look-alike in a crown and royal blue breeches, sitting on a Whopper and holding a soda big enough to give every last one of his courtiers diabetes.

SINCE: In the late '60s BK introduced another regal cartoon mascot—the unimaginatively named "Kurger Bing"—who looked to be about 5 years old. (Heir to the throne, presumably.) In the early 2000s a human king with a giant, creepy plastic head and frozen smile starred in the chain's TV ads.

TODAY: The Creepy King returneth from exile! BK reportedly spent $1 million to have the King be part of Floyd Mayweather's entourage in the Manny Pacquiao fight and another $200,000 to sit with American Pharoah's trainer at the Belmont. He's back in ads as well.

COLONEL SANDERS

KFC REVENUE, 2014: $14.2 billion

DEBUTED: The real Harland Sanders founded Kentucky Fried Chicken in 1930 and showed up on his first chicken bucket in 1957.

SINCE: The Colonel (a purely honorary title bestowed upon Sanders by a Kentucky governor) died in 1980 at age 89; he was buried in his signature white suit. In the late 1990s KFC ads starred a jaunty, corpulent animated Colonel voiced by actor Randy Quaid.

TODAY: In May Darrell Hammond (best known for his dead-on portrayal of Bill Clinton on *Saturday Night Live*) made his first appearance as the Colonel in TV ads, cackling dementedly and bellowing "I'm back, America!" And that's finger lickin' ... good?

BY BRIAN DAWSON
FREDERICK M. BROWN/GETTY IMAGES; MCDONALD'S/SPLASH NEWS/CORBIS; AP PHOTO

1
Rank of Apple among U.S. retail investors' most widely held stocks. SPDR S&P 500 ETF is second.

SEAL THE DEAL

Boardroom Stilettos

WHEN IT'S FINALLY time to sign the papers—to buy the company, to sell the house, to say "I do" (or "I don't")—the pen you choose matters. And if you're going to ink the deal, there's no finer way to do so than with a fountain pen, even one with a medium nib.

Written off long ago, the anachronistic, thoroughly tactile fountain pen has enjoyed a mighty renaissance in a world of ephemeral e-mail, texts and the dreaded emoji. (Sales worldwide have been on the rise the last few years.) So whether you prefer gold, platinum, silver, resin or old-fashioned wood, choose one of these eternally elegant models and you'll be signing with a true sign of power. Now, about your penmanship. ...

BY MICHAEL SOLOMON
PHOTOGRAPH BY DAVID ARKY FOR FORBES; STYLE DIRECTOR: JOSEPH DEACETIS; BLOOMBERG (TOP)

LeaderBoard

FOLLOW THE LEADER

Billionaire Stock Picks

DO YOU want to invest like George Soros, David Tepper or Larry Robbins? These are the top trades—ten buys and ten sells—of the world's richest active hedge fund stock pickers. To compile the list, we looked at the U.S. trades of billionaire hedge fund managers in the half-year ending Mar. 31. The top picks are ranked based on the number of billionaires who bought or sold the stock in a material way—at least 10,000 shares. We included picks only if at least six top managers agreed—we excluded some billionaire hedgies, such as Carl Icahn and Chase Coleman, because they didn't follow the crowd.

Name	George Soros	Ray Dalio	Steve Cohen	John Paulson	David Tepper	Paul Tudor Jones II	Daniel Och	Israel Englander	Leon G. Cooperman
Net Worth	**$24.2 bil**	**$15.4 bil**	**$11.4 bil**	**$11.2 bil**	**$10.4 bil**	**$4.6 bil**	**$3.9 bil**	**$3.8 bil**	**$3.7 bil**
Fund	Soros Fund Management	Bridgewater Associates	Point72 Asset Management	Paulson & Co.	Appaloosa Management	Tudor Investment	OZ Management	Millennium Management	Omega Advisors
2014 Return	**Est. 8%**	**3.6%**	**Est. 16%**	**–29%**	**2.2%**	**2.7%**	**5.5%**	**11.8%**	**–2.1%**

BUY

SUNEDISON World's largest renewable-energy development firm bought seven portfolios in Asia, Africa and South America.

GENERAL MOTORS Iconic carmaker posted stronger-than-expected sales and agreed to repurchase $5 billion worth of stock.

MICRON Longtime hedge-fund darling is still getting hype despite a 22% stock drop in the past year.

T-MOBILE Merger with Dish Network uncertain, but T-Mobile still stands to benefit from broader telecom consolidation.

YAHOO Plan to spin off Alibaba stake with smart tax-dodging strategy is winning over hedge-fund titans, if not the IRS.

DOW CHEMICAL Daniel Loeb's activist fight at Dow has drawn votes of confidence from fellow billionaires.

ACTAVIS Dublin-based drug giant beat out Valeant to buy Botox-maker Allergan.

BAIDU "China's Google" put $200 million into Uber to fight back rivals Alibaba and Tencent.

BANK OF AMERICA Improved profit margin injected confidence as share price rose 13% in the past year.

DIRECTV AT&T's $48.5 billion takeover will create the country's largest TV-service distributor. No wonder investors are cheering.

SELL

AMERICAN AIRLINES Stock fell 1% over the past year as the airline's first-quarter revenue dropped amid industry's overcapacity.

ALIBABA Despite scoring history's largest-ever IPO, Chinese e-commerce giant has been plagued by counterfeiting accusations.

ABBVIE Hedge-fund investors are pulling back after its planned $54 billion inversion deal with Shire fell apart.

HCA HOLDINGS Biggest for-profit hospital operator by revenue saw its stock soar 52% year-over-year. Time to take gains?

APPLE The world's most valuable company now sells a much-hyped watch, but not everyone agrees with Carl Icahn's optimism.

TIME WARNER CABLE The uncertain fate of the cable company amid the telecom industry's merger mania is drawing concerns.

DOLLAR GENERAL Despite Carl Icahn's lobbying, Family Dollar chose Dollar Tree over Dollar General in an $8.5 billion merger.

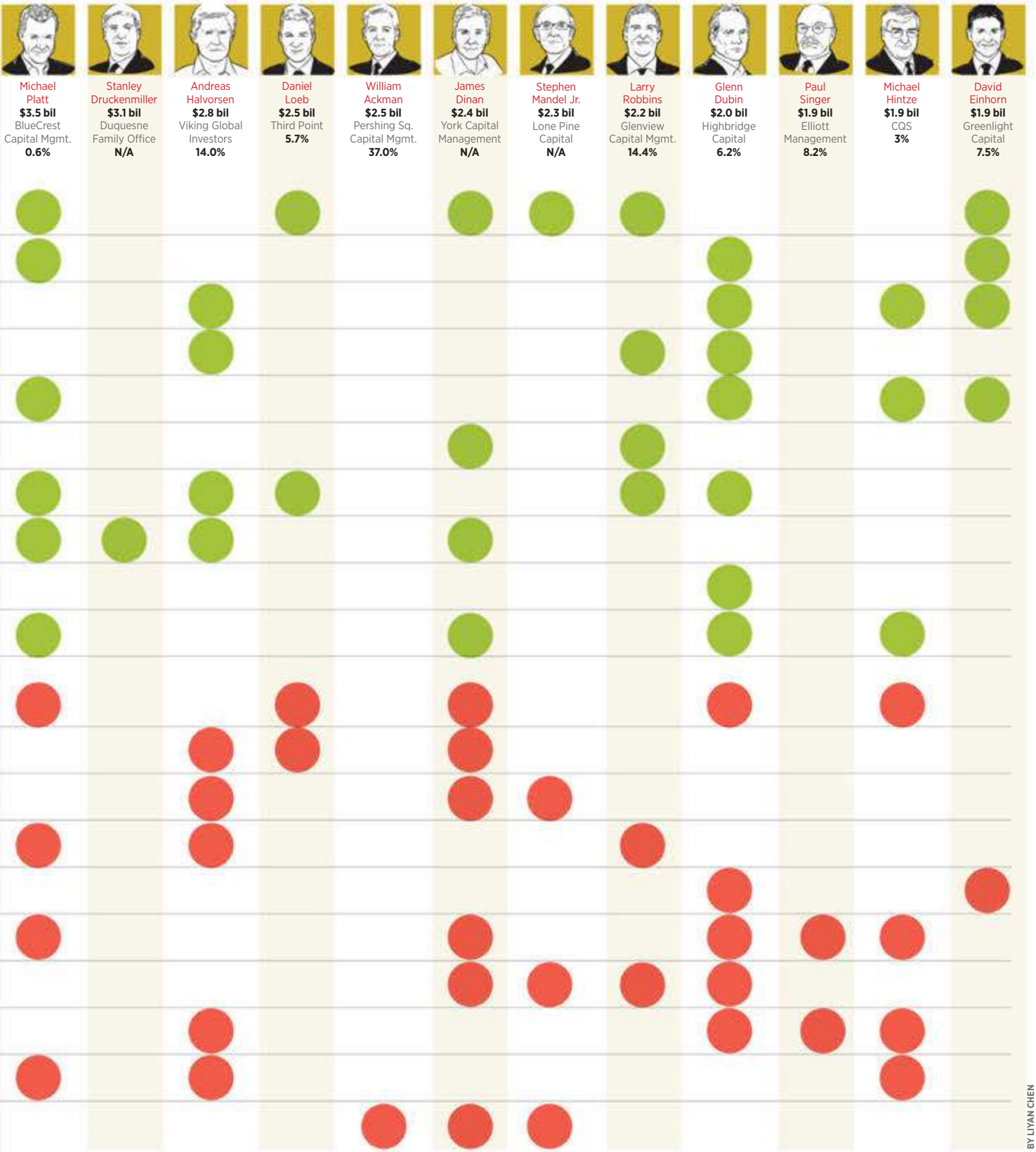
MEDTRONIC Medical device maker restructured its $50 billion merger with Covidien amid U.S. government's inversion crackdown.

CITIGROUP The bank is set to shell out millions in fines to settle accusations of manipulating foreign-exchange rates.

ACTAVIS Outspent Valeant to buy Allergan. Now the hard part: making the merger work.

$4.6 TRILLION

Amount invested in 401(k) corporate retirement plans at the end of 2014—more than double that of a decade ago.



SOURCES: FORBES; FACTSET.

BY LIYAN CHEN
ILLUSTRATIONS BY PATRICK WELSH

UPHOLDING INTERNATIONAL LAW

UNDER THE LANGUID and feeble Obama Administration U.S. power and influence have continually contracted. NATO has become ineffectual. Terrorist groups such as ISIS have advanced from strength to strength.

Totalitarian states have flaunted their nuclear weaponry. North Korea has possessed itself of rocket delivery systems it claims can reach the American mainland. Communist China is carving out a new empire for itself in the South China Sea. And Russia has been flexing its muscles and engaging in provocative acts toward the West. Vladimir Putin has been threatening Ukraine and the Baltic states with outright invasion, daring Barack Obama to respond and knowing full well that he's hesitant, fearful and dithering. Putin behaves like another Hitler—and is reasonably sure that he can get away with it.

What's to stop him? German Chancellor Angela Merkel is a shrewd and capable woman but not a Cold War leader. She'll never take a firm stand at the risk of conflict with Russia. French President François Hollande is best described as a wimp presiding over a country in visible economic and military decline. Britain has a more vigorous economy, but Prime Minister David Cameron's priority is balancing the budget and reducing the deficit, not standing up to Russia. Cameron continues to cut defense spending, with Putin taking due note of Britain's declining military power.

The U.S. won't make good on any shortfall in Europe's contribution to the defense of the West. Obama's line is that the U.S. already provides 70% of NATO's military expenditure and won't contribute any more. Thus, the West is falling back into a posture of 1930s-like appeasement.

There is, however, one exception to this response of retreat: U.S. Attorney General Loretta Lynch. She is a vigorous, persistent and single-minded woman, determined to uphold the one aspect of international order that she's in a position to influence—the law.

For many years the Fédération Internationale de Football Association (FIFA), which supposedly supervises the conduct and legal morals of world football (soccer), has been a disgrace. Under its elderly administrator, Sepp Blatter, who has held four consecutive terms in office, FIFA has used its financial power to buy support from the 100 or so small nations that constitute the majority of its members to keep the Blatter machine in control.

After huge efforts by Attorney General Lynch, which took place over many years when she was U.S. Attorney for the Eastern District of New York, the Department of Justice has issued a series of indictments (with more to come) and has already arrested some of those named. Blatter's initial reaction was to dismiss the clean-up attempt and set himself up for a fifth term. But because of hints that his own freedom could be in peril, he's had second thoughts and resigned.

The corrupt machinery of FIFA now lies at the triumphant feet of Attorney General Lynch. Subsequent legal actions will doubtless take many years, as is the nature of international justice, but the ultimate result can't be much in doubt.

POWERFUL PLAY

No one should underestimate the significance of sports. Thanks to TV, it's now the most important activity on Earth for a great majority of people, especially the young. And the most popular international sport, by far, is soccer. Nothing can demonstrate more effectively the reality of U.S. power in the world than its ability to bring soccer's administration under the aegis of the American legal system.

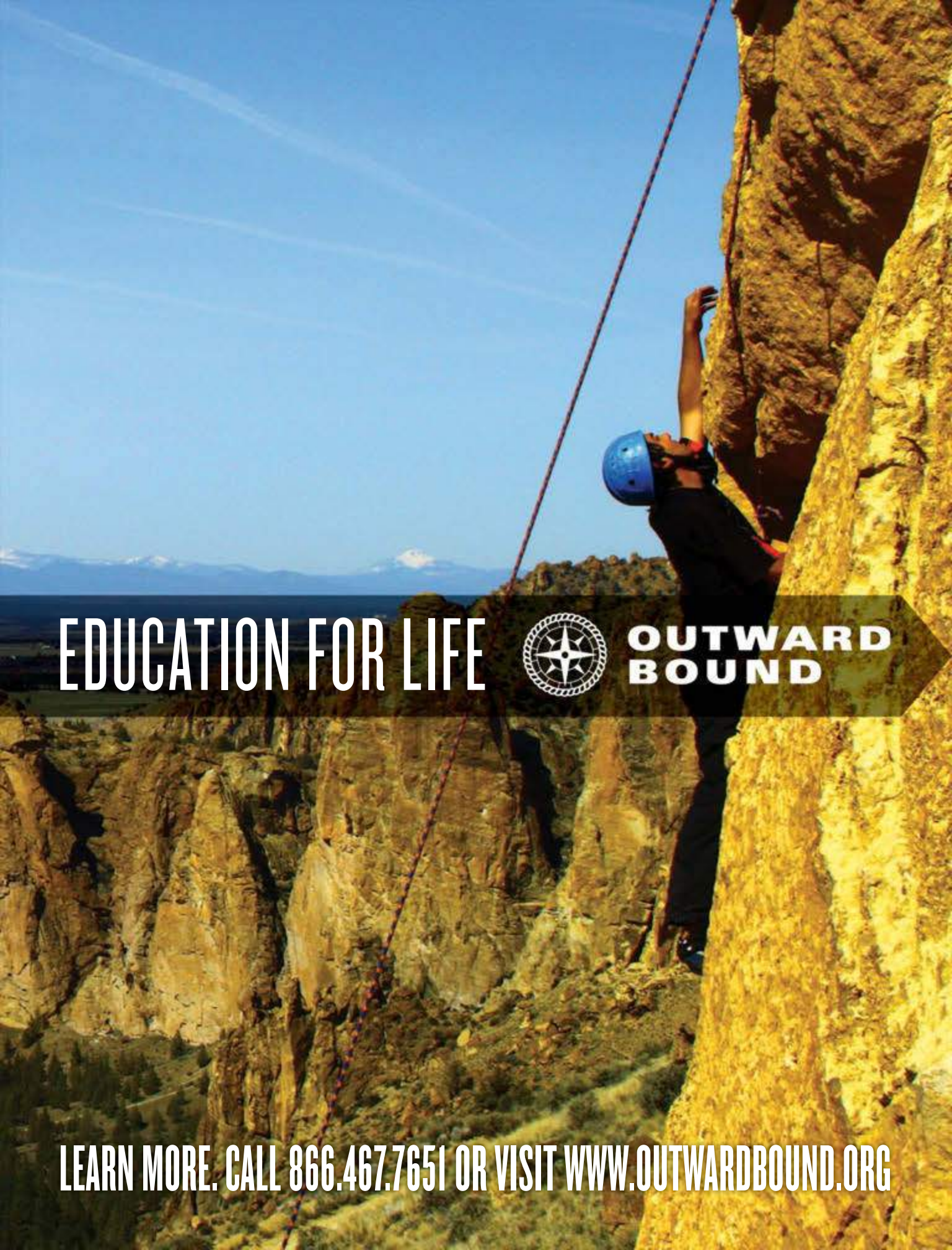
Nor does the lesson end there. Of the two countries that were beneficiaries of FIFA corruption, Qatar and Russia, Qatar could easily be stripped of its right to host the World Cup in 2022. This was a contentious decision, with the fraud particularly blatant and disgraceful. Under a purified FIFA it shouldn't be difficult to expose the bribes in explicit detail and award hosting rights to another country.

Rescinding Russia's right to host in 2018 may be a much more difficult and explosive matter. The corruption was far less obvious though probably far more deep-rooted. Its ramifications go right to the heart of Russia's regime and may possibly involve Putin himself. All the more reason, then, that the U.S. attorney general persist in her efforts to get to the bottom of the scandal and reveal exactly how Russia won the right to host the World Cup. If this involves issuing indictments against officials high up in the Kremlin hierarchy, so much the better.

America may have a feeble and ineffectual President, but its attorney general has shown that the U.S. is still capable of upholding the international rule of law. F

THOMAS KUHLENBECK FOR FORBES

PAUL JOHNSON, EMINENT BRITISH HISTORIAN AND AUTHOR; DAVID MALPASS, GLOBAL ECONOMIST, PRESIDENT OF ENCIMA GLOBAL LLC; AND AMITY SHLAES, WHO SERVES AS PRESIDENTIAL SCHOLAR AT KINGS COLLEGE AND CHAIRS THE COOLIDGE FOUNDATION BOARD, ROTATE IN WRITING THIS COLUMN. TO SEE PAST CURRENT EVENTS COLUMNS, VISIT OUR WEBSITE AT WWW.FORBES.COM/CURRENTEVENTS.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THE BIRTH OF BOND

IAN FLEMING, WHO WROTE the James Bond novels, was a wealthy but melancholic man, whom a friend called "a death-wish Charlie." Fleming smoked 70 custom-rolled Morland cigarettes a day and drank martinis—three measures of Gordon's gin, one measure of vodka (shaken, not stirred)—in glasses the size of a soup bowl. He suffered his first heart attack at 52 and a fatal one at 56. He was unhappily married to a once widowed, once divorced newspaper heiress, who belittled the Bond novels as "pornography" to her smart London friends.

The oasis in Fleming's life was his beach house on Jamaica's northern coast. For the first two months of every year Fleming enjoyed a happy and amazingly productive getaway from his gloom. The Jamaican respite is the key to understanding how Fleming developed the Bond character. Author Matthew Parker has recreated this part of Fleming's life in a wonderful biography, *Goldeneye—Where Bond Was Born: Ian Fleming's Jamaica* (Pegasus Books, $27.95). If you like Bond, you'll enjoy this book.

Fleming was born in 1908 into a rich family in London's Mayfair district. The family wealth originated with Fleming's Scottish grandfather, Robert Fleming, a merchant banker. Fleming's father, Valentine, was a member of Parliament, and young Ian's connected future seemed guaranteed. But a self-destructive streak showed up early. Following his Eton education, Fleming contracted gonorrhea, which led to his early departure from the Royal Military Academy at Sandhurst.

Fleming then went into the family business, banking, at which he failed. The outbreak of World War II gave him the excuse to leave banking. He used family connections and landed a job as the personal assistant to Admiral John Godfrey, the director of naval intelligence in the Royal Navy. Surprisingly, Fleming excelled at the administrative work and later, during the war, as an operations strategist. He helped plan the British navy's role in Operation Overlord, the D-Day invasion that turned the war to the Allies' advantage.

After World War II Fleming joined the Kemsley newspaper group, which owned the *Sunday Times* of London. He took his winter vacations in Jamaica and grew so fond of the island that he bought land along its north coast. In 1946 Fleming began to build a house he called Goldeneye, one of his WWII naval operations code names. The ensuing five years of holidays at Goldeneye were the happiest of his life. Famous film and stage actors, such as Katharine Hepburn, were flocking to Jamaica. Life became an endless party.

But in March 1952 Fleming married a woman he would soon come to resent and later that year fathered a boy who would grow to have his own troubles. A month before his marriage Fleming began to create the world of James Bond. His soon-to-be wife, Ann, wrote in her diary: "This morning Ian started to type a book. Very good thing." However, Fleming didn't adapt well to domestic responsibility. Melancholy set in, which would plague him for the rest of his life.

MISERY BEGETS GENIUS

At Goldeneye Fleming found a routine and focus that eluded him the rest of the year in England. Each morning he'd awaken around sunrise and descend the small cliff to his private beach, where he'd swim and snorkel. When he returned to the house, he'd consume a Bondian breakfast of eggs cooked to order, local fruit and Blue Mountain coffee. Then he'd repair to his writing room, open his big rolltop desk, bring out his Imperial portable typewriter, draw the curtains, shut out the world and write for hours without interruption. Fleming could regularly bang out 2,000 words a day and wrote the draft of his first novel, *Casino Royale*, in four weeks.

From *Casino Royale* in 1952 to *The Man With the Golden Gun* in 1964 (the year he died), Fleming wrote a Bond novel every year at his beach house in Jamaica. He also wrote a children's novel in England, while recovering from his first heart attack. It was titled *Chitty Chitty Bang Bang* and was made into a movie in 1968. After Fleming's death novelist Kingsley Amis was asked to rewrite parts of *The Man With the Golden Gun*, but those rewrites were never used.

The thing that will tip some people into becoming outrageously productive isn't predictable. In Fleming's case it was a deepening depression that was relieved only by an imaginative fantasy life and his magical island home. F

RICH KARLGAARD IS THE PUBLISHER AT FORBES. HIS NEW BOOK, *TEAM GENIUS: THE NEW SCIENCE OF HIGH-PERFORMING ORGANIZATIONS*, COMES OUT IN JULY. FOR HIS PAST COLUMNS AND BLOGS VISIT OUR WEBSITE AT WWW.FORBES.COM/KARLGAARD.

THOMAS KUHLENBECK FOR FORBES

The New Money Masters

THE NEXT GENERATION OF FINANCIAL LEADERS—16 LUMINARIES, FROM JPMORGAN'S MARY ERDOES AND BLACKSTONE'S JONATHAN GRAY TO HARVARD'S RAJ CHETTY AND DAILYWORTH'S AMANDA STEINBERG—SHARE THEIR BEST IDEAS FOR PROFITING IN THE YEAR AHEAD.

EDITED BY JANET NOVACK AND MATT SCHIFRIN

THE NEW MONEY MASTERS

Mary Callahan Erdoes 47

HOMETOWN: Winnetka, Ill.

ALMA MATER: Georgetown, B.S.; Harvard, M.B.A.

SPECIALTY: Asset management

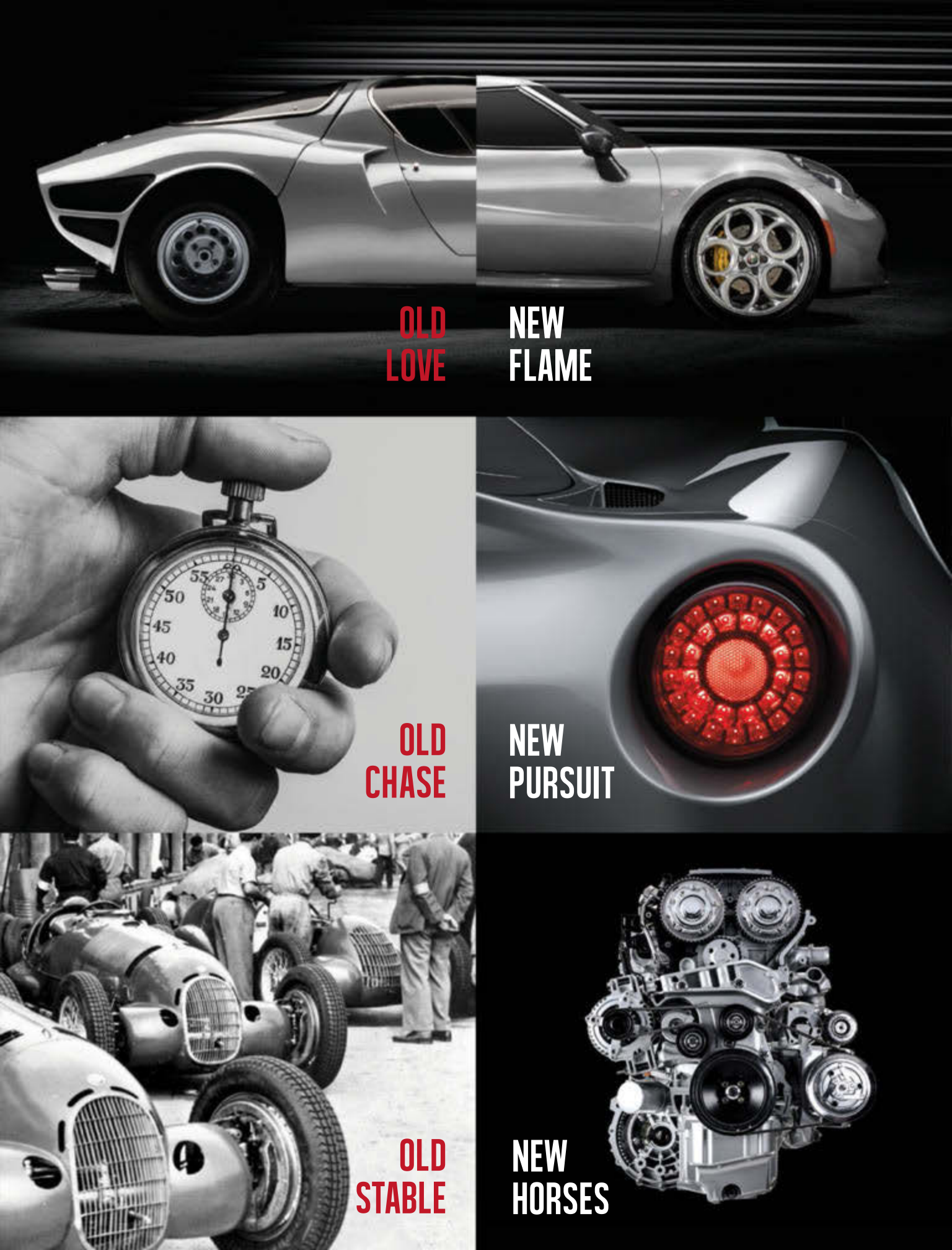
DAY JOB: CEO, J.P. Morgan Asset Management

CRED: Presides over $2 trillion in client assets. On short list of people to succeed Jamie Dimon as CEO of JPMorgan Chase.

PAY-IT-FORWARD WISDOM: Seize every opportunity to teach your children value investing. Erdoes first learned about it from her father, a Chicago investment banker, who would take her to the supermarket and point out the difference in price-per-unit between branded and generic goods. "That was value buying and value investing," she says. "It has stuck with me."

BIGGEST WORRY: Investor reaction when interest rates start rising. People have become accustomed to getting both income and appreciation. "It has worked to be addicted to fixed income, but in reverse it does not work," Erdoes says.

BEST IDEA: Buy illiquid assets. Counterintuitive as it sounds, Erdoes believes that those who don't have immediate need for cash should buy alternative assets like private equity, real estate or venture capital. "At this point, given the world's desire for liquidity, every investor who can afford illiquidity should invest in it," says Erdoes, suggesting that the public markets are more priced for perfection. Private equity funds, according to Erdoes, have a competitive advantage in seizing opportunities in rapidly changing sectors like tech or oil. Broker-sold liquid alternative funds are another option. For investors concerned about the impact of rising rates on their fixed-income portfolios: JPMorgan Strategic Income Opportunities Fund (JSOAX). For equity investors worried about near-term volatility: a long/short equity strategy like JPMorgan Hedged Equity Fund (JHEQX). —*Nathan Vardi*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NEW FLAME
OLD CHASE
NEW PURSUIT
OLD STABLE
NEW HORSES

Double-Duty Dollars

SOCIALLY RESPONSIBLE INVESTING UNDER THE NEW RUBRIC OF "IMPACT INVESTING" IS FINALLY ATTRACTING BIG NAMES AND DEEP POCKETS. PROPONENTS PREDICT IT WILL GO MAINSTREAM—BECAUSE MILLENNIALS DEMAND IT. JUST DON'T EXPECT MARKET-BEATING RETURNS.

BY LAUREN GENSLER

In 2001, after 29 years cultivating Napa's Silver Oaks Cellars and its iconic cabernet sauvignon, Justin and Bonny Meyer sold their 50% stake to partner Ray Duncan for $110 million. With Justin's health iffy, they hoped it would give them more time together for philanthropy and to build their newer winery, Meyer Family Cellars. But just eight months later Justin died of a heart attack at 63, leaving Bonny, then 52, to manage the money and their shared charitable mission.

For starters she sold the family home to create a $5 million charitable kitty. But it seemed like a pittance when, at the 2004 Global Philanthropy Forum at Stanford, she rubbed elbows with billionaires who had hundreds of times that amount to give away. "I'm thinking, how in the heck am I ever going to come close to doing what they're doing?"

Meyer found an answer in her sizable noncharitable portfolio, then a conventional mix of stocks and bonds. "It occurred to me that I could do a lot more good in the world and enjoy it more by investing [that portfolio] in social entrepreneurs," she says. While the term "impact investing" wouldn't be coined for another three years, she threw herself into it.

For decades socially responsible investing meant keeping businesses you disapproved of—say, tobacco or weapons producers or polluters—out of your portfolio. The Forum for Sustainable & Responsible Investment estimates that more than one out of every six dollars invested in the public stock market is now socially screened in some way. A good many socially responsible mutual funds are little more than index funds minus the screened-out stocks.

By contrast, impact investing is more targeted, funneling money into businesses (often startups) likely to do good. In some ways it's more like traditional private equity or venture capital investing: It is available primarily to the well-off, it's riskier than the traditional stock-screening approach, and it has a potentially higher change-the-world payoff. Financial returns? They're all over the lot, with some impact investors consciously sacrificing profits and others dreaming of venture-capital-like returns.

Regardless of return, more investors are clamoring for this type of proactive do-gooder action. At the end of 2014, $60 billion was committed to impact investments worldwide, up 25% from year-end 2013, a study by JPMorgan and the Global Impact Investing Network finds. It predicts 16% growth in 2015. Geographically, the most impact money is invested in North America and Sub-Saharan Africa; everything from an Uber-like app for auto rickshaws in India to early childhood education in Utah has attracted impact dollars.

To be sure, some very smart investors—most notably Berkshire Hathaway CEO Warren Buffett—question the wisdom of chasing both profit and social good with the same buck. "I think you should make the most money you can and then use that for whatever philanthropic goals that you have," Buffett said at The Forbes 400 Summit on Philanthropy earlier this month in New York City.

But other billionaires who once shared Buffett's skepticism have changed their minds. "I always had this naive notion that capitalism was about making money and philanthropy was about doing good," Pershing Square Capital Management founder Bill Ackman said at the same summit. But then, true to the activist investor he is, Ackman got impatient with how traditional charities operate. He once baited Buffett by describing a charity as a company where "the CEO spends pretty much all his time raising money to pay off debt, only half of the board of directors show up at the meetings, and there are ten other companies in the space."

Ackman thinks that philanthropists shouldn't fund a nonprofit if there's a for-profit trying to solve the same problem, since the for-profits should be better able to sustain themselves long term. While he and his wife, Karen, as signers of the Giving Pledge, plan to give more than half their wealth to

Seed investor: Bonny Meyer plowed cash from the sale of her Napa winery into impact investing—before it was cool.

charity, Ackman likes the idea of getting a return on his impact investments and recycling the money into new ones.

In March Ackman put $5.8 million into Bridge International Academies, a for-profit that has built a chain of more than 400 private nursery and primary schools in Kenya and Uganda that rely on technology and a standardized "school-in-a-box" approach to deliver quality education for just $6 a child a month. "It's a volume business. You need to keep prices so low that someone living on $1.25 per day can afford your service," says Bridge cofounder Shannon May. "If you can figure out how to drop prices on anything for someone living in poverty, there's an unbelievably massive market."

Bridge now has nearly 119,000 students, is opening a new school every two and a half days and plans to expand to Nigeria and India by early next year. It expects to become profitable at 500,000 students. Meanwhile, an acquisition or an initial public offering is a possibility, May says.

Ackman isn't the only billionaire betting on Bridge. Facebook cofounder Mark Zuckerberg invested $10 million in the same March round. Bill Gates put in an undisclosed amount in 2013 after sitting next to Bridge cofounder Jay Kimmelman (May's husband) at a dinner. The first billionaire to back Bridge, with $1.8 million in December 2009, was eBay founder Pierre Omidyar, who set up his Omidyar Network in 2004 with the then unorthodox notion of mixing philanthropy and profit.

Before them all was little Bonny Meyer, who invested $150,000 of her wine money in 2008, when Kimmelman came to her office to present the concept before the first school opened. He was only one in a parade of social entrepreneurs who wore a path to her door once word of her interest got out. "Meyer Family Enterprises became a magnet," she says. "We never had to go looking for investments."

Meyer's story shows just how far impact investing has come in the last decade, as seasoned money managers, billionaires and finally the big investment houses have started to get involved. But the sector is still young, with only limited opportunities for less-wealthy investors. The opportunities should grow as financial service companies make a play for the nest eggs Millennials will create on their own and with the $30 trillion they're projected to inherit in North America alone.

In a U.S. Trust survey last year of investors with at least $3 million in investable assets, 67% of Millennials, compared to 36% of Baby Boomers, said they viewed their investment decisions as "a way to express my social, political or environmental values." Spectrem Group found a similar generational divide in a May survey of folks with investable assets of $100,000 or more; young investors were not only more likely to already own socially responsible mutual funds but also more familiar with the concept of impact investments.

Sensing the potential for a new river of fees, the big investment banks are finally moving in. "The biggest development in the last two years has been very visible engagement by mainstream asset managers and brokers," says Antony Bugg-Levine, who pioneered impact investing while at the Rockefeller Foundation and now runs the Nonprofit Finance Fund. He reports that UBS, Morgan Stanley, Merrill Lynch and BlackRock are all coming up with programs to meet rising client demand.

JPMorgan, for its part, is testing the waters by allocating $100 million of its own capital to impact investing funds. "The question today is not whether it will go anywhere but how quickly is it going to go," says Amy Bell, the bank exec in charge of that experiment.

Meyer, for her part, was forced to forge her own path. At first she made all her impact investments directly, even taking referrals from her wide circle of friends interested in sustainable practices. One such recommendation, she says, led to her first and worst investment. She sunk $500,000 into a company with a new technology for removing contaminants such as oil from dirt. She doesn't expect to get any of her money back.

She's had big hits, too. She quintupled her money when a solar startup she had invested in was bought out by billionaire Elon Musk's SolarCity in 2013. She earned 8% interest on a loan to Impact Hub, an office and events space for socially and environmentally focused startups.

But like all pioneers she's taken her share of arrows in the back. She ended up firing a string of conventional financial advisors who were either opposed to or of no help in picking impact investments. With little infrastructure to support her, for a time she employed her own staff of two to evaluate deals and manage her money.

Even with a staff, vetting all those potential startups was a challenge. Life got easier when private equity and private debt funds for high-net-worth impact investors began to sprout. Nearly 70% of the 300-plus impact funds listed in ImpactBase were launched after 2009. These funds are open only to what the SEC calls "accredited investors"—those with at least $1 million in investable assets or income of $200,000 a year for an individual or $300,000 for a couple. Minimum

YOUR PLAY

- **Impact notes.** Residents of 47 states can invest $20 to $10,000 in impact notes at Vested.org. The return ranges from 0.5% for a one-year note to 3% annually for a ten-year note. The money is managed by the Calvert Foundation, which has so far paid every investor in full, plus interest.
- **A donor-advised fund.** You donate appreciated stock (the most tax-efficient way to give) to the ImpactAssets Giving Fund or the Tides Foundation, claim a tax deduction and then spread your charitable kitty across impact investments. Minimums are $5,000 at ImpactAssets and $100,000 at Tides, but you don't need to be an accredited investor.
- **Solar bonds.** Earn 5.75% on a 15-year $1,000 BBB+ rated solar bond from SolarCity. The money helps customers pay upfront solar costs. These are brand-new; buyer beware.

CHRIS LYONS FOR FORBES

THE NEW MONEY MASTERS

David Eiswert 42

HOMETOWN: Oakland, Md.

ALMA MATER: University of Maryland, M.A.; St. Mary's College of Maryland, B.A.

SPECIALTY: Global stocks

DAY JOB: Portfolio manager, T. Rowe Price Global Stock Fund

CRED: Former star technology fund manager now running global stock fund. Average return: 19%.

PAY-IT-FORWARD WISDOM: Don't stress over credentials. "I didn't go to the right college or have the right pedigree, but I came to investing with industry knowledge, creativity and more humility than the cookie-cutter M.B.A.s."

HIS MENTORS: Brian Rogers, chief investment officer of T. Rowe. "Very grounded. Taught me to think of investments as businesses instead of stocks." Elevation Partners' Roger McNamee: "Roger is so imaginative and optimistic. He warned me that spreadsheets are a mind-killer."

UNCONVENTIONAL WISDOM: Secular stagnation is over. The "old normal" will make a comeback as the cap-ex cycle returns, bringing some wage inflation. "No one believes this will happen," says Eiswert.

BEST IDEAS: JPMorgan Chase (JPM) at 10.5 times forward earnings. Also handbagmaker Coach (COH), where a turnaround is under way. "CEO Victor Luis is executing to a T." *—Matt Schifrin*

investments typically range from $250,000 to north of $1 million. Management fees can be hefty, averaging 2.4% of assets for private equity funds, according to one study.

As private impact funds have proliferated, so have financial advisory firms to help investors vet them. Meyer now uses as her main advisor Imprint Capital, a San Francisco-based impact-investing-only registered investment advisor formed in 2007. "They get it," she says with audible relief.

Yet even a true believer like Meyer, who aims to have 100% of her portfolio in impact investments by 2020—she's at 70% now—admits it wouldn't be prudent to just fund private concerns. Of her impact portfolio, 23% is in public companies selected through do-gooder funds like Parnassus Core Equity Fund and Generation Global Equity Fund, run by a London-based investment firm founded in 2004 by former Vice President Al Gore and ex-Goldman Sachs executive David Blood. (It's closed to new investors.) Another 23% is in fixed income through funds like TIAA-CREF Social Choice Bond Fund and Breckinridge Sustainable Bond Strategies. These funds buy bonds that back clean energy and affordable housing.

Meyer believes she'll eventually reach her goal of averaging a market rate on her impact portfolio—but she hasn't yet. Which raises the question: What qualifies as an impact investment—and what should it earn? "Just like there's a thousand different kinds of people, there's a thousand kinds of impact investments," she answers. "Some have very low returns and higher social benefits. Some have a very solid, healthy return but not as high a social impact."

Consider Unitus Seed Fund, which raised $23 million from the likes of Gates, Concur CEO Steve Singh and billionaire venture capitalist Vinod Khosla to invest in startups serving the mass market in India. Its investments so far include that auto rickshaw app and a portable breast cancer screening device. Unitus is aiming to earn a market rate of return, but will invest only in ventures that have a positive social impact. "A low-cost liquor distributor would not be an impact investment," explains cofounder and managing partner Will Poole, an e-commerce pioneer who spent 13 years as a Microsoft executive.

At the low end of the profit-motive spectrum is a new concoction known as social-impact bonds. These are essentially a way for those with lots of money and strong ideas about public policy to put their money where their mouths are. Investors fund a specific new idea they feel will make government work better. If it's successful, the government agency pays for it and the investors make a profit. If it's not, the government got a free experiment. Among other things, this forces the parties to agree in advance on what constitutes success.

For instance, billionaire Jay Robert "J.B." Pritzker has committed $6.4 million to two bond issues, one in Utah and one in his Chicago base, to provide early childhood education to low-income children—one of his big causes. Pritzker's payoff in Utah will come only if the program reduces the number of low-income kids needing expensive special education services later.

At the high end of the profit-motive spectrum are some B Corps. So far 31 states have authorized a new form of for-profit corporation—known as a Benefit or B Corp—that commits to serving the public good. In April online crafts marketplace Etsy became the second B Corp to go public. It will use $300,000 of its IPO proceeds to start a foundation dedicated to educating women and minorities on how to build sustainable businesses. But VC Jim Breyer and his firm, Accel Partners, are even bigger winners. The 27% stake that they acquired for less than $60 million was worth $424 million at the time of the IPO. "Great culture can greatly influence long-term shareholder value," a satisfied Breyer observed at The Forbes 400 Summit. F

CHRIS LYON FOR FORBES

THE NEW MONEY MASTERS

Raj Chetty 35

HOMETOWN: New Delhi, India

ALMA MATER: Harvard University, Ph.D., A.B.

SPECIALTY: Economics

DAY JOB: Professor at Harvard

CRED: Chetty earned his Ph.D. at 23, won tenure at the University of California, Berkeley at 27 and returned to Harvard at 29 with a full professorship. At 32 he won a MacArthur Foundation genius award and at 33 the John Bates Clark Medal, for the most promising economist under 40. Using big data sets and behavioral insights, he has done groundbreaking work on income inequality, school quality, taxes and retirement.

BEST INVESTMENT: His house in Cambridge, Mass. In 2010 Raj and his wife, Sundari, a neuroscientist and Harvard stem cell researcher, bought it for $1.6 million. It has since doubled in value, and its location has paid off in saved commuting time.

PAY-IT-FORWARD WISDOM: Money matters. Social scientists "debate whether money is ultimately the best metric of whether a policy works," Chetty notes, but growing up in both India and the U.S. convinced him that "it plays an important role in happiness and well-being."

BEST IDEA: Pay up for better school districts or private schools. While saving for emergencies and retirement is important, putting $10,000 extra into your child's primary education may have a greater payoff in overall family wealth than investing $10,000 in the stock market, Chetty says. His research has found that having standout teachers in the early years boosts college completion and earnings of young adults. This is true, he says, not only for poor children "but for families at the 75th or even 99th percentile of the income distribution." *—Janet Novack*

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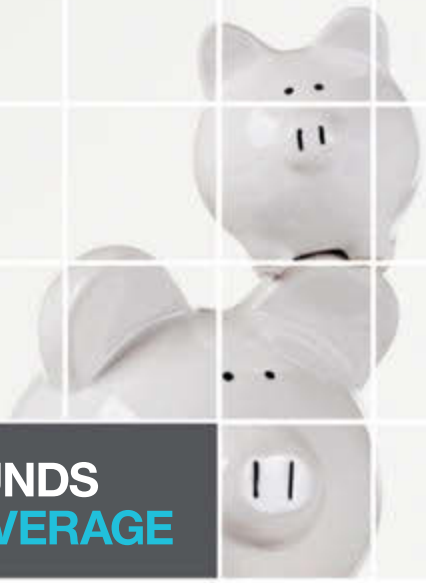

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A Hundred Grand In Your Hands

WHAT TO DO WITH A $100,000 WINDFALL.

BY WILLIAM BALDWIN

A rich aunt leaves you a pile of money. What's a better use for it, liquidating debts or adding to investments?

Finding the optimal application of a windfall is no simple matter, given that the right answer depends on assets, liabilities, tax brackets and future spending plans. But even before dissecting your balance sheet, you can make some educated guesses about where priorities will lie. Paying down high-cost debt is near the top. Investing in low-return assets that have no tax advantage is near the bottom.

David Blanchett, a Kentucky resident with two kids (and more expected), illustrates the conflicting demands on a young family. Given that his job is to oversee retirement research at Morningstar, it's no surprise that he has maxed out his 401(k) contributions. But what does he do with the next dollar that falls into his lap?

Building home equity is a nice idea. Also desirable: 529 college savings accounts, which generate tax-free returns. Yet Blanchett and wife, who recently earned a veterinary degree, still haven't finished paying for their own education.

Pondering all this, Blanchett says he'd use spare cash first to pay down a vet school loan. "Paying off a loan gives you a guaranteed rate of return equal to the interest rate," Blanchett says. You are not going to get a high guaranteed return elsewhere.

Herewith, 14 ways to put extra cash to use, based on liquidity, aftertax return and risk. They are in rough descending order of utility—rough, because every person's circumstances are different.

1. Matched 401(k) contribution

A typical retirement plan has the employer chipping in, up to a limit, 50 cents for every dollar the employee puts in. Liquidity is poor (it's hard to get at the money before age 59½), but where else can you get an instant 50% return on an investment?

2. Emergency fund

A pot you can tap during unemployment or disability is a must. It does not have to be held in cash. Get double use out of this asset by investing for long-term goals at the same time. In other words, take some risks with your liquid assets.

DOUGLAS B. JONES FOR FORBES

3. Credit pay-down

Rid yourself of credit card and higher-cost car debt. Since the interest is not deductible, the aftertax return is whatever the bank is gouging from you.

4. Student loan pay-down

Blanchett, the retirement expert, is anxious to liquidate college loans with rates as low as 3%. Reason: "It's a dangerous type of loan because it doesn't go away." In a pinch, you might be able to erase a home or car loan by handing in the deed. You can't hand back a diploma.

Interest on student loans is sometimes deductible. If you are getting a deduction, your aftertax return is less than the interest rate.

5. Unmatched 401(k) contribution

The reason to put the legal maximum ($18,000 for employees under 50; $24,000 for those 50 or over) into a 401(k), even if some of the dollars don't get an employer match, is that the annual contribution is a use-it-or-lose-it opportunity. The payoff is an immediate deduction for the deduction combined with a deferral of tax on earnings.

6. Roth contribution

A worker with less than $183,000 of adjusted gross income on a joint return can divert $5,500 ($6,500 if 50 or older) of earned income to a tax-free Roth IRA. What's the tax shield worth? It depends on holding periods, returns and tax brackets. Using different assumptions and a 30-year investing horizon, we saw increments of 0.7 to 1.3 percentage points to annual returns.

7. Mortgage pay-down

A 4% mortgage might cost only 2.5% after allowing for the benefit of deducting interest on tax returns. That looks like cheap money—cheap enough that you might be tempted to leave your mortgage untouched and sink extra cash into the stock market (see No. 11).

We're assuming that you already have an emergency kitty (see No. 2). Do you now put excess dollars into your mortgage or into stocks in a brokerage account?

In asking yourself whether you have tolerance for the risk of taking the latter course, it might help to turn the question around. Suppose your mortgage were paid off. Would you take out a $100,000 home equity loan and invest the proceeds in stock now? With companies trading on Wall Street at abnormally high multiples of their earnings?

"In March 2009 that would have been a brilliant move," says Stephen Janachowski, a Tiburon, Calif. wealth manager who looks for ways to reduce his clients' risks. "Today I don't like that strategy at all."

You might earn a lot more than 2.5% investing in stocks. But understand that the 2.5% return on your mortgage pay-down is a guaranteed return, while the return in the stock market is iffy. So, in addition to comparing the return on your mortgage with what you think you can get in stocks, compare it with what you know you can get on Ginnie Maes. These are federally guaranteed pools of other people's mortgages.

Ginnie Maes won't yield anything close to 2.5% aftertax. To give you an idea, the Vanguard GNMA fund yields 2.1% before tax.

The main disadvantage to a mortgage prepayment is that it is a very illiquid investment. Once you have sent the money to the bank, you can't get it back without a refinancing. That would entail closing costs and a possible loss of your interest deduction.

One more subtlety: Those homeowners who, before the pay-down, have a high ratio of mortgage debt to home value stand to gain an extra benefit from a mortgage pay-down. Getting the debt/value ratio below 80% is likely to lower the interest rate in any future refinancing.

8. 529 account

Money set aside for college gets a tax exemption. Nice, but it goes low on the priority stack, for two reasons.

The first relates to liquidity: If money in a 529 is not used for the purpose intended, profits are subject to both a tax and a penalty. The other is that 529 assets reduce the amount of financial aid your children can get. In contrast, the same money tucked into retirement accounts (see No. 1 and No. 5) is generally sheltered on financial aid forms. Home equity (see No. 7) is sometimes sheltered from the college grab.

9. Tax-exempt bonds

You can get a 2.5% yield out of a long-term tax-exempt bond fund. That's good but not great, given that your fund might own bonds from the next Detroit. One thing working in favor of the muni fund is high liquidity.

10. Roth conversion

Prepaying the tax on an IRA to make it into a Roth IRA is a form of investment. It creates a hidden asset: a tax shield. That asset is extremely valuable but appears nowhere on any official balance sheet.

Consider investing in this asset if you want something that escapes notice on both estate tax returns and college aid forms. But you also have to consider the income tax effects. The conversion doesn't make sense if your tax bracket is likely to be a lot lower in retirement. It's also counterproductive if you have a child within a year of applying for tuition aid (the conversion creates "income" that makes you look rich).

Liquidity: zilch. You have a limited window to undo the conversion.

11. Stocks

Liquidity: high. Economics: poor, at the moment. Tax treatment: very good. Dividends and long-term capital gains get favorable rates. Losing positions can be harvested for tax benefits. Winning ones can be given to charities and low-bracket relatives.

12. Nondeductible IRA

This investment works as the first step in a scheme to create a Roth IRA. (The direct Roth contribution is not available to rich people; the nondeductible IRA is.) The second step is to convert the new account to a Roth IRA.

Someone whose retirement assets are mostly in 401(k)s and Roth IRAs, as opposed to taxable IRAs, can do the conversion cheaply. Someone with a large balance in taxable IRAs, though, should view a nondeductible IRA as a waste of time.

13. Deferred fixed annuity

A 55-year-old male puts in $100,000 and gets $2,000 a month beginning at age 75 (if he lives that long). Makes sense if his tax bracket will be fairly low at age 75. Women get less.

14. UTMA

A kiddie account (under the Uniform Transfers to Minors Act) has this advantage: The first $2,100 of income is taxed at low rates. Beyond that, the income is taxed in the parent's bracket and the account accomplishes nothing. F

A Hundred Grand On Demand

NEED CASH FAST AND DON'T LIKE YOUR BROKER'S MARGIN LOAN RATE? HERE ARE FIVE BETTER WAYS TO GET YOUR HANDS ON $100,000.

BY WILLIAM BALDWIN

Assumption: You have substantial assets (home equity, retirement account, brokerage account), but you are short of liquidity. What's the best way to get your hands on some cash? We'll scorecard five methods on their investment costs and tax effects. An A+ indicates a small ding to your net worth.

1. Securities sale

You could unload some positions, selecting, if possible, ones that have not appreciated.

The investment cost here is the lost opportunity to be in the market. Over the long term being out of the stock market is going to cost you—who knows?—maybe 7% a year. Over the short term it might save you money. A correction, seemingly overdue (if Fed Chairman Janet Yellen is right about that), could start tomorrow. The tax bill is small if you have securities that haven't gone up. **Cost: B+. Taxes: B.**

2. Margin loan

Instead of selling securities, borrow against them. You may prefer this method if either you are a confirmed bull or else all your securities are highly appreciated and you don't want to pay capital gains taxes.

Big downside: Most brokerage firms charge rapaciously for this riskless, floating-rate debt. A typical rate on $100,000 of margin debt is 6% or more at a time when the cost of money, as measured by Libor, is 0.2%.

Interactive Brokers, an upstart firm that targets traders and speculators, is an interesting exception to the rule. Its margin rate on $100,000 is 1.6%.

The tax treatment is good but not great. You can deduct margin interest against investment income, with excess amounts carried forward. If you have highly taxed investment income (such as from a real estate investment trust), great. But if your investment income consists of dividends and capital gains that would otherwise be taxed at a favorable 15% or 20% rate, your interest deduction isn't worth as much. A margin loan at 6% might have an aftertax cost of 5%. **Cost: F at most places, A– at Interactive. Taxes: B.**

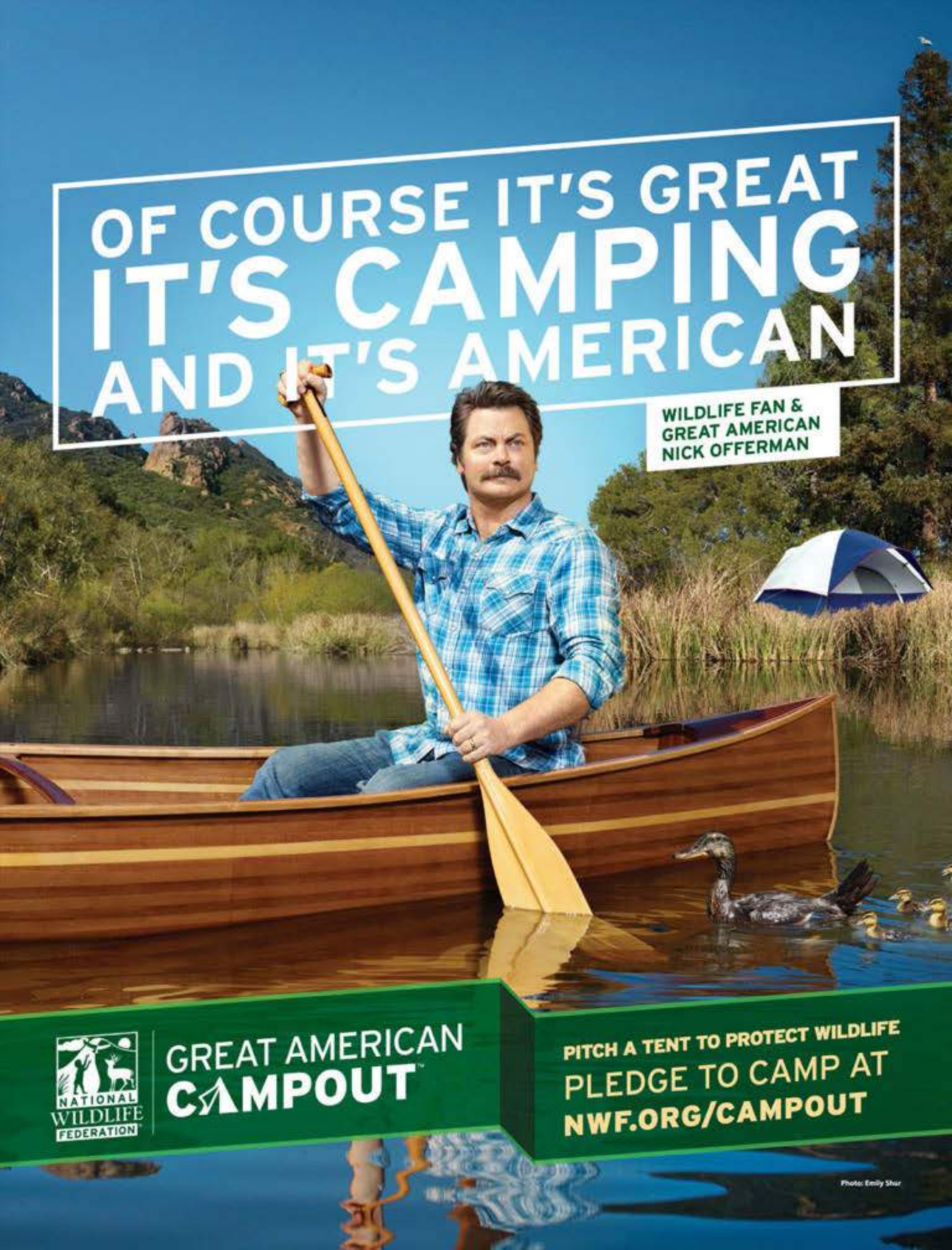
DOUGLAS B. JONES FOR FORBES

3. Index futures

Did you know that little people can borrow at institutional rates in the derivatives market?

This is a roundabout scheme, which starts with a sale, as in Method 1. But it leaves you fully invested.

Let's say you have an index fund like SPDR S&P 500 in your brokerage account. Sell $105,000 of it, then buy one E-mini S&P 500 future on the Chicago Merc. The contract gives you the price return on $105,000 worth of the index. So


OF COURSE IT'S GREAT
IT'S CAMPING
AND IT'S AMERICAN
WILDLIFE FAN &
GREAT AMERICAN
NICK OFFERMAN
NATIONAL WILDLIFE FEDERATION
GREAT AMERICAN CAMPOUT™
PITCH A TENT TO PROTECT WILDLIFE
PLEDGE TO CAMP AT
NWF.ORG/CAMPOUT
Photo: Emily Shur

THE NEW MONEY MASTERS

Ben Inker 44

HOMETOWN: Wellesley, Mass.

ALMA MATER: Yale University, B.A.

SPECIALTY: Asset allocation

DAY JOB: Cohead of asset allocation at Boston-based asset manager GMO

CRED: Oversees $51 billion in multi-asset-class strategies, nearly half of the firm's $118 billion assets under management.

WORST INVESTMENT: GMO missed big gains after the market bottomed in 2009. Its flagship, Benchmark-Free Allocation Fund, was up only 20.7%, trailing its benchmark. "Our job is to be scared when our clients are greedy, and greedy when they're scared," says Inker. "We didn't do a good enough job of the latter."

PAY-IT-FORWARD WISDOM: Though he counts Yale professors James Tobin, Robert Shiller and David Swensen among his mentors, Inker says the best investing advice he ever got comes from GMO cofounder Jeremy Grantham: "There are no great assets; there are only assets trading at great prices."

BIGGEST WORRY: Secular stagnation and low rates are permanent.

BEST IDEA: Petrobras (PBR). The Brazilian oil producer has been battered by a massive corruption scandal and government meddling, but Inker thinks the worst is baked in. "The government is less likely to treat it as a piggy bank over the next few decades," he says, and the stock trades below ten times earnings. —*Steve Schaefer*

you now have the same equity exposure you had before.

You are required to put up $5,000 as collateral. That leaves you with $100,000 to cover your yacht docking bill or whatever.

As a buyer of the derivative, rather than stock, you'll get the benefit of a discount called backwardation. That means the future price of something is less than the spot price. If the index is now at 2,100, then the price of a future maturing in three months will be 2,093 or so. (Backwardation varies from day to day.)

The derivative buyer, though, misses out on dividends. These, too, vary, but $10 a quarter per index unit is a rough estimate.

The derivatives buyer (a) owns stocks with mostly borrowed money; (b) gets the benefit of the backwardation; and (c) loses dividends. Add it all up and the E-mini buyer is effectively borrowing money at a low interest cost. That implicit interest cost comes to around 0.5% annually, according to a study by the Merc's parent, CME Group.

How, you may wonder, is this bargain possible? Isn't all of Wall Street geared to gouging the little guy? It is—witness the rates on margin loans—but there are evasive maneuvers, and the futures trade is a very effective evasion.

The E-minis trade in huge volumes. Big players will buy or sell $100 million at a crack just for amusement. Their activity keeps bid/ask spreads tight on near-term futures, those due in five months or less. Add the cost of those spreads to commissions and the small investor can maintain a long position in one E-mini (rolling it over every three months) at a cost of $64 a year. That kicks up the borrowing cost from 0.5% to a bit less than 0.6%.

Taxes? The holder of an E-mini owes tax immediately on profits, but 60% of the profit qualifies for the favorable rate on long-term gains. **Cost: A+. Taxes: B–.**

4. Home equity loan

If you have a lot of equity in your home, a home equity line of credit is a handy tool for raising cash. Interest on the first $100,000 borrowed is deductible irrespective of whether you have any investment income to write off.

Terms vary greatly. TD Bank has a deal with very low closing costs but a fairly stiff 4.5% floating-rate interest. **Cost: D. Taxes: B.**

5. New mortgage

A first mortgage, as opposed to a home equity line, has a low borrowing cost. You can either get a floating rate at well below 4% or else pay something close to 4% and have the tactical benefit of a fixed rate. A first mortgage also has a tax advantage, at least if you take it out when you buy the house: Interest on up to $1.1 million of principal is deductible.

Let's say you have a home worth $1 million and no mortgage. If you take out a $400,000 mortgage now, interest on only $100,000 is deductible.

There's an evasive maneuver. Sell the house and put the proceeds in the bank. Then buy a house across the street, paying with $600,000 down and $400,000 borrowed. Now the entire $400,000 counts as "acquisition indebtedness," and all the interest is deductible. The tax dance could make sense if you were planning on downsizing or moving out of state anyway. **Cost: B+. Taxes: A.**

CHRIS LYONS FOR FORBES

High Yield On Main Street

AS BANKS RETREAT FROM SMALL BUSINESS LENDING, INCOME-HUNGRY INVESTORS CAN EARN 12%. JUST ASK BRENDAN ROSS.

BY LAURA SHIN

Dialing for dollars: Brendan Ross Googled online lenders and called 100 to find the best suppliers.

ETHAN PINES FOR FORBES

After graduating from Brown in 1995, Brendan Ross became a management consultant and then a turnaround specialist. By 2010 he was looking for a new profession that didn't involve firing people, when his father-in-law showed him LendingClub.com, where the older man had started making small loans directly to people paying off credit cards or refinancing other high-cost debt.

"To me it was amazing," recalls Ross. "I thought, This is the rebirth of private credit." Then a registered investment advisor, Ross began shoveling his own and clients' money into peer-to-peer loans, becoming the first RIA to invest in LC Advisors, a Lending Club subsidiary that pools loans into funds.

But he wanted to diversify beyond consumer loans and figured he'd find the best returns where bank lending had been cut most severely. After nixing subprime auto (he didn't fancy himself running tow trucks), elective medical (too similar to consumer loans) and real estate (the online market was too young then), he settled on small business.

Ross was on to something. Karen Gordon Mills, a Harvard Business School Senior Fellow and former Small Business Administration head, concluded in a paper last year that bank lending to small business is in a secular decline that started well before the Great Recession. Loans below $1 million now

account for just 25% of banks' commercial lending, down from 40% in 2005 and 52% in 1995. Mills predicted online small business lenders, with their lower costs, speedier decisions and new algorithms for judging credit risk, would transform banking in the same way "Amazon.com changed retail and Square has changed the small business payments business."

To be sure, according to Morgan Stanley, small business loans from online lenders totaled only $5 billion in 2014, a speck on the $4.4 trillion in small business debt outstanding. But the bank projects new online loans will grow 50% a year through 2020.

Ross wanted not to make loans but to buy them. So he created a spreadsheet of the first 100 Google search results for "small business loans" and called every company. Many turned out to be brokers who did no underwriting themselves. His 85th call, to the CEO of IOU Financial, led to his first deal. After flying, in April 2012, to Atlanta to meet IOU's underwriting team and assess its technology, Ross set up his own firm, Direct Lending Investments (DLI), based in Los Angeles. DLI bought $500,000 worth of IOU loans in November and $600,000 worth the next month.

At the start Ross and his relatives were the main investors in DLI. Then, in May 2013, Peter Renton, who blogs about peer-to-peer lending at LendAcademy.com and cofounded the big LendIt conferences on the P2P business, wrote a post explaining why he personally had invested $100,000 with DLI. Suddenly, other investors came knocking.

Ross' Direct Lending Income Fund now has $220 million in assets and has been paying 11% to 13% annual returns—the highest Renton reports in his quarterly update of his peer-to-peer portfolio. The fund is open only to "accredited" investors—those with at least $1 million in investable assets or income of $200,000 a year for a single person or $300,000 for a couple. The minimum investment is $100,000.

DLI now owns 3,000 loans from eight alternative small business lenders, including DealStruck, Biz2Credit and QuarterSpot. In May it bought $44 million in loans, using repayments and new investment money. Over its lifetime DLI has purchased $388 million in small business loans, all originated on the Web. Ross and Renton both say that as far as they know, DLI was the first institutional buyer in this market and is currently the largest.

Borrowers are primarily Main Street businesses—retailers, doctors, dentists, restaurants, hotels. They've been in business an average of 12 years and have between $500,000 and $20 million in annual revenue. Loans range from $10,000 to $500,000 (with an average of $60,000) and last 3 to 36 months, with repayments made daily or weekly via automatic withdrawals from the businesses' accounts. The owners, who must personally guarantee the loans, have an average FICO credit score of about 680. That score is a bit lower and the loans smaller than what banks typically find worthy.

This money doesn't come cheap. Borrowers pay 15% to 40% interest annually, but there are a lot of costs before that

CHRIS LYONS FOR FORBES

THE NEW MONEY MASTERS

Jonathan Gray 45

HOMETOWN: Highland Park, Ill.

ALMA MATER: Wharton, B.S.; University of Pennsylvania, B.A.

SPECIALTY: Real estate

DAY JOB: Global head of real estate, Blackstone Group

CRED: Largely under Gray's leadership Blackstone has become one of the largest and most profitable landlords on the planet, with $93 billion in assets and an annualized net return of 18% over the last 23 years.

WORST INVESTMENT: Northern California real estate in the late 1990s, including a one-story warehouse for research and development at a very high price per square foot. "I was excited because the tenant was paying a huge rent," says Gray. "What I hadn't focused on was the name of the tenant: Gobosh.com. Get big or stay home dot-com. I should have stayed home." Blackstone lost about $10 million. "It's like getting your hand burnt on the stove."

PAY-IT-FORWARD WISDOM: "Buy hard assets below replacement costs." That was the simple credo of John Schreiber, the Blackstone partner who helped launch the real estate business. "People do very complex things in finance," Gray says. "I don't think what we do is so complicated." If it costs $500 per square foot to construct a new office building, buying one for $350 per square foot makes sense.

BIGGEST WORRY: Interest rates. "I've been wrong about this, but at some point here this trade feels like it's run its course," says Gray of the lengthy bull market in bonds. In the real estate world that means assets with long-term leases could be in trouble if rates rise, making their rental income streams less attractive. To counteract that, Gray looks to hotels.

BEST IDEA: Housing. Blackstone has gobbled up almost 50,000 single-family homes since 2012, but Gray isn't selling yet. "New supply is still down about half where it was long-term, and I think single-family housing will outperform most people's expectations." Gray says it's an excellent time to buy a house, both here and in parts of Europe. *—Steve Schaefer*

THE NEW MONEY MASTERS

Amir Sufi 38

HOMETOWN: Topeka, Kans.

ALMA MATER: Georgetown, B.S.; MIT, Ph.D.

SPECIALTY: Household debt

DAY JOB: Finance professor at the University of Chicago Booth School of Business

CRED: Coauthored landmark book *House of Debt: How They (and You) Caused the Great Recession, and How We Can Prevent It From Happening Again,* which argues that a boom in household debt, not Lehman Brothers, caused the recession.

PAY-IT-FORWARD WISDOM: Let your data speak. He learned that from Nobel laureate Gene Fama, with whom he lunches daily. "Gene always says you can learn something from any data set. It's more about learning what's in the data rather than trying to impose your own theory," says Sufi.

BIGGEST WORRY: Too much consumer debt.

POLICY PRESCRIPTION: Give lenders equity kickers. Link home mortgages to the local house price index. If home prices collapse, you'll see an automatic decline in monthly payments (interest and principal). If they rise, there's an upside for the lender. Ditto for student loans, linked to the unemployment rate.

BEST IDEA: Don't buy too much house. Remember: You are taking a very concentrated risk in one piece of property and your equity disappears first in a market reversal. *—Lauren Gensler*

income gets to DLI investors. Loan originators keep 17.5% to 20% of the interest. Ross himself takes a hefty management fee equal to 1% of assets and 20% of return. And there's a 5% default rate.

Small business loans hit a number of sweet spots for Ross, who describes himself as "mostly a conservative investor" who prefers debt to equity. The loans' short duration means investors' money can be recycled into new, even higher rate loans when interest rates rise. And the wide spread provides a good buffer should defaults spike. Ross estimates the portfolio's current default rate of 5% would have to quadruple for the fund's return to drop to 0%. During the last recession, he estimates, small business defaults peaked at around 10%.

Moreover, with a growing army of small business Web lenders to choose from, Ross says he'll work only with those that use criteria that jibe with his own. He wants six months of bank data, doesn't like businesses that are dependent on a small number of big customers and shuns borrowers who bounce checks or have a high utilization rate for their personal credit. (The last criterion better predicts who is likely to default on loans than the actual FICO score, he says.)

Ross' favorite prospective borrowers are those referred directly to an online lender by the bank that just denied them loans. "If you're a small business lender and you tell me you've been operating for a year and you make short duration loans and you've just signed a deal with a large bank that will send you all its declines, then we're very likely to be able to do business," he says.

The deals he strikes with lenders are designed to protect DLI. He buys the loan principal but doesn't pay in advance for the interest stream—meaning he doesn't lose money if the borrower prepays. The lenders get their cut of interest only when DLI does, so they have skin in the game. He also requires that software randomly assign which loans go to DLI—a protection against being sent the dregs.

Beyond defaults, there's another risk: Returns could be squeezed if competition and a more educated borrower reduce the fat premium small business borrowers now pay. While Renton doesn't expect returns to drop drastically, he says investors in the DLI fund shouldn't "go in thinking they're going to get double-digit returns no matter what."

Ross believes rates will remain high but isn't one to ignore risk. On his 42nd birthday in early June, while in New York City for an investor presentation, he spent the afternoon skateboarding at the Pier 62 skate park. An avid skateboarder, he stood out, he says, for more than his relatively advanced age. "The difference between me and everyone else in the skate park is I'm covered in pads from head to toe. I own every single kind of pad you can put on your body." F

CHRIS LYONS FOR FORBES

YOUR PLAY

- Small investors can participate in peer-to-peer consumer loans online at Lending Club and Prosper. You can buy fractions of loans (so-called Notes) in $25 increments, spreading your money over lots of borrowers. Loans are for two, three or five years, and carry rates of 5.3% to 31.9%. (Lending Club also makes loans to small businesses and allows accredited investors willing to plunk down $250,000 to invest in them.)
- Funding Circle USA allows accredited investors to view and purchase fractions of individual small business loans or use preset criteria to invest automatically, with a minimum $50,000 investment, and $1,000 per individual loan, required. It also offers a limited partnership of diversified loans with a $250,000 minimum.
- On StreetShares, a DLI supplier, accredited investors can bid as little as $25 on individual loans or can set criteria to auto-invest; there's no minimum overall investment required.

Under New Management

REZO KANOVICH TOOK OVER A GROWTH FUND THAT SOARED IN UP MARKETS AND CRASHED IN DOWN ONES. HIS STRATEGY COULD TEMPER THAT VOLATILITY.

BY WILLIAM BALDWIN

Lonza Group, an obscure Swiss manufacturer of antibodies, is the largest holding in the Oppenheimer International Small Company Fund. What's special about it? Rezo Kanovich, the fund's manager, mentions a few things.

One is that making ingredients for biotech drugs is technologically difficult and heavily regulated, so competition is limited. Another is that, a few years ago, Lonza made some mistakes, overinvesting in capital equipment and underinvesting in marketing. He also thinks the new chief executive will fix those mistakes.

Therein lies a formula for growth-stock investing. Find a company with unrealized potential. Then find an impetus, such as a management change, that may cause the potential to be realized.

Says Kanovich: "We look for long-term tailwinds for a company," by which he means a line of business likely to see outsize growth over the next decade. "And then adversity, or perceived adversity, creates a value opportunity."

Panalpina Welttransport Holding, a Swiss freight forwarder, has the tailwind of rising global trade. It stumbled, Kanovich thinks, overexpanding geographically and underinvesting in technology. It got a new boss in 2013. Last year Kanovich added it to his portfolio.

Rezo Kanovich: the new broom cleaning up at an Oppenheimer international fund.

JONATHAN KOZOWYK FOR FORBES

The fund has bought into a lot of other companies with new chief execs. Among them is Nice Systems, an Israeli firm with software that detects trouble (money laundering at banks or patterns of anger in the voices of callers to customer service centers). Others: Tecan (which sells robots and lab supplies), Britvic (a British soda bottler), Xing (a German version of LinkedIn).

You're taking a chance when you make a bet on a new manager. You're taking a similar chance on Kanovich, 40, who took over as portfolio manager in 2012. So far, so good: Over the past three years his fund has averaged a 24% annual return, a stunning ten points ahead of its foreign-stock benchmark. (The return is net of a 1.2% expense ratio.)

Kanovich's predecessor, Rohit Sah, was quite the gunslinger. He favored

CHRIS LYON FOR FORBES

THE NEW MONEY MASTERS

Amanda Steinberg 37

HOMETOWN: Philadelphia, Pa.

ALMA MATER: Columbia University, B.A.

SPECIALTY: Personal finance

DAY JOB: Founder and CEO, DailyWorth

CRED: Launched in 2009, female-focused finance site DailyWorth has more than 1 million subscribers.

WORST INVESTMENT: In 2007, in her late 20s, Steinberg bought too much house—a six-bedroom, 4,000-square-foot manse. A few years later an unexpected tax bill and scant savings put her $90,000 in debt. She has since cut her expenses 50% and lives in a 1,500-square-foot house.

PAY-IT-FORWARD WISDOM: Net worth matters. "My mother used to say the only things I need to give you are roots and wings," says Steinberg. "Your investments, your net worth is your root. It's the thing that grounds you in a storm. Your income is your wings. It is the thing that lets you travel and do all the things you want to do."

BIGGEST WORRY: Our cultural propensity to spend. With two young children Steinberg spends many weekends at birthday parties, which means frequent toy store visits. She once suggested skipping presents, but her kids became incensed.

BEST IDEA: Automate everything. Use apps like Digit to monitor your cash flow and auto-siphon small amounts into savings. Steinberg sees technology developing that will help you decide how to distribute an extra $1,000 across debt, savings and investments to optimize the growth of your wealth. "All you'll have to do is focus on spending less and saving more," she says. *—Samantha Sharf*

THE NEW MONEY MASTERS

Hardeep Walia 42

HOMETOWN: Kuwait City, Kuwait

ALMA MATER: Wharton, M.B.A.; Yale, B.S.

SPECIALTY: Thematic investing

DAY JOB: Founder and CEO, Motif Investing

CRED: Motif, a fast-growing alternative discount broker/do-it-yourself ETF firm, has raised $126 million from Goldman Sachs, JPMorgan Chase and China's Renren, and has opened 160,000 retail accounts.

WORST INVESTMENT: Online yellow-pages-provider Infospace, bought with student loan funds during dot-com bubble. Heard Infospace founder Naveen Jain speak and bought the sales pitch.

PAY-IT-FORWARD WISDOM: Know thyself. Echoing advice from Yale endowment-investment chief Dave Swensen, his thesis advisor: "Knowing what you are trying to achieve, who you are and what type of investor is critical."

BIGGEST WORRY: All the "safe" money at risk is in bonds. Investors tend to flood into fixed income when equity markets get choppy, but in a rising rate environment not all bonds will offer smooth sailing.

BEST IDEA: Rising interest rates. With Yellen & Co. teeing up a rate hike, Walia is bullish on a portfolio of companies that could benefit from market volatility, including Interactive Brokers Group (IBKR), Charles Schwab (SCHW), U.S. Bancorp (USB), PNC Financial (PNC) and M&T Bank (MTB). —*Samantha Sharf*

emerging markets, made macro bets on sectors and countries and loaded up on commodity producers. In bull markets Oppenheimer International Small Company streaked ahead. In bear markets it fell apart. Over the past 15 years, representing two market cycles, the fund scores a FORBES A+ rating for up markets and an F for down.

After Sah left four years ago to run a similarly aggressive fund elsewhere, Oppenheimer installed first a one-year transition team and then Kanovich. These new brooms swept clean. The $4 billion portfolio has undergone a complete overhaul, with near 80% of the money now invested in either Europe or Japan (not counting cash).

Kanovich, a Tbilisi, Georgia native who speaks four languages and spends a fourth of his time traveling far from Oppenheimer's Lower Manhattan office, says he harbors no country-by-country preferences and no aversion to emerging markets. It just happens to be in the Old World, with the perceived adversity of stagnant economies, where he's finding cheap growth stocks. Anyway, says Kanovich, "we don't have to own Russian stocks to be exposed to the dynamics of the Russian affluent consumer." Example: Inchcape, a British distributor of autos (BMW, Audi and others) with 22 outlets in Moscow and St. Petersburg. Maybe it will go places. It got a new chief executive this year.

The fund owns a piece of the Zurich airport. The barrier to entry for a rival airport is apparent. The growth angle relates to some real estate development. The perceived adversity is an expensive environmental battle over noise. Salvation may come from that new boss who took over in January.

If Kanovich's growth-with-adversity strategy keeps working, he will continue most of the bull-market performance that the old regime delivered while avoiding some of its losses during corrections. The portfolio is riskier than the market as a whole, but not by a lot. Its stocks are, per Morningstar, trading at an average 22 times prospective earnings, versus 17 times for an MSCI World Index that excludes U.S. stocks.

The case for an actively managed overseas fund like Oppenheimer's is twofold. First is that U.S. investors are overinvested at home, with two-thirds of their equity positions there, even though U.S. companies account for one-third of the world's $72 trillion in market capitalization. Investors are beginning to correct their home bias but have a long way to go.

The other is that active management has the best shot at beating cheap index investing in that great sea of smaller foreign companies. Of the world's 68,900 different stocks, 56,300 are overseas. Most of them, in Kanovich's view, are not worth the time of day: "The majority of the stocks in an index don't have a shot at earning excess returns."

Buy the index and you plod upward at the slow pace of economic growth. With the Vanguard Total International Stock Index Fund you have 0.03% of your money in Lonza and the rest in 5,887 other stocks.

At Kanovich's fund you get a 2.8% dose of Lonza. It fits in with the health care theme that accounts for a fourth of the fund's assets. (That emphasis is no great surprise, given that Kanovich's Wharton M.B.A. included a concentration in health systems, but it makes sense for any growth stock picker.) Lonza also fits a Kanovich strategy of sometimes buying, in lieu of giants like Roche Holding, the smaller outfits that draft off them by selling technology and raw materials. A cancer treatment priced at $50,000 might have $500 of Lonza's monoclonal antibodies, says Kanovich, so "it doesn't make sense for [the big pharma outfit] to try to get it for $493." That's why he expects the coming gains in fermentation yields to wind up in the pockets of Lonza's shareholders.

Kanovich is too new to the job, and the track record he inherited too uneven, for his fund to qualify for the Honor Roll found on page 66. In time he has a good chance of overcoming both of these adversities. F

CHRIS LYONS FOR FORBES

Mutual Fund Honor Roll

VERY FEW FUNDS BEAT THEIR PEERS IN BOTH UP AND DOWN MARKETS.

BY WILLIAM BALDWIN

Who are the best performers? Score funds over the past five years and you'll get a warped view. Since we've been in a bull market since 2009, the winners in this naive analysis will be mostly high-risk portfolios. A lot of them are the ones that do the worst damage when the market goes down.

There's a better way. Look back across full market cycles, and grade funds separately for bull-market and bear-market results. That's the way FORBES has been rating funds since the 1960s.

A precious few funds have managed to do well in both market environments. They are featured in our Honor Roll of consistent performers.

Using return numbers from Morningstar, the Chicago repository of investment information, we graded funds on a curve over two up-and-down market cycles that go back to 2000. We scaled the raw numbers in a way to penalize performance that came in a spurt.

UP	DOWN	FUND / TICKER	ASSETS ($BIL)	EXPENSE RATIO	TURNOVER	ANNUAL RETURN[1]	MANAGERS
		U.S. STOCK FUNDS					
A	A+	AMERICAN BEACON SMALL CAP VALUE / AVPAX	$6.0	1.16%	73%	11.8%	ADRIANA R. POSADA[2]
A	A+	BOSTON PARTNERS SMALL CAP VALUE II / BPSCX	0.3	1.46	16	12.2	DAVID M. DABORA[2]
A	A+	CGM FOCUS / CGMFX	1.2	1.10	266	14.1	G. KENNETH HEEBNER
A	A+	DELAFIELD / DEFIX	0.9	1.21	34	11.4	J. DENNIS DELAFIELD[2]
A	A+	FIDELITY LOW-PRICED STOCK / FLPSX	45.9	0.82	12	12.3	JOEL C. TILLINGHAST[2]
A+	A	HENNESSY FOCUS / HFCSX	1.8	1.41	18	13.6	BRIAN E. MACAULEY[2]
A	A+	HOMESTEAD SMALL COMPANY STOCK / HSCSX	1.2	0.89	3	12.5	MARK ASHTON[2]
A	A+	TOCQUEVILLE SELECT / TSELX	0.1	1.32	32	13.1	VINCENT SELLECCHIA[2]
		BALANCED AND CONVERTIBLE FUNDS					
A	A	AMERICAN FUNDS CAPITAL INCOME BUILDER / CAIBX	98.5	0.62	55	7.9	JAMES B. LOVELACE[2]
A+	A	BRUCE / BRUFX	0.5	0.70	11	15.6	R. JEFFREY BRUCE[2]
A+	A	FIRST EAGLE GLOBAL / SGENX	50.2	1.11	15	11.5	MATTHEW B. MCLENNAN[2]
A	A	VY T. ROWE PRICE CAPITAL APPRECIATION / ITRAX	5.7	1.24	72	10.4	DAVID R. GIROUX
A	A	WADDELL & REED ASSET STRATEGY / UNASX	3.3	1.10	83	8.8	MIKE L. AVERY[2]
		GLOBAL STOCK FUNDS					
A+	A	BRANDES INTERNATIONAL SMALL CAP EQUITY / BISAX	0.9	1.39	24	9.9	RALPH BIRCHMEIER[2]
A+	A+	DFA INTERNATIONAL SMALL CAP VALUE / DISVX	13.0	0.68	8	11.6	KAREN E. UMLAND[2]
A	A	DFA INTERNATIONAL SMALL COMPANY / DFISX	9.4	0.53	0	9.6	KAREN E. UMLAND[2]
A	A	FEDERATED INTERNATIONAL LEADERS / FGFAX	2.1	1.22	4	9.0	MARC HALPERIN[2]
A	A	MFS INTERNATIONAL NEW DISCOVERY / MIDAX	5.2	1.34	14	9.2	DAVID A. ANTONELLI[2]
A	A	POLARIS GLOBAL VALUE / PGVFX	0.3	0.99	3	9.3	BERNARD R. HORN JR.[2]

[1]OVER TWO MARKET CYCLES: AUG. 31, 2000–MAY 31, 2015 FOR DOMESTIC STOCK AND BALANCED FUNDS; APR. 30, 2000–MAY 31, 2015 FOR GLOBAL STOCK FUNDS. [2]AND OTHERS.
SOURCES: MORNINGSTAR (PERFORMANCE AND OTHER RAW DATA); FORBES (UP- AND DOWN-MARKET GRADES).

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Tonga: The Beginning of Excellence

In the Kingdom of Tonga, where the International Date Line starts, time seems to advance at a different pace.

The "Friendly Islands," as they have been known since Captain Cook arrived in the 1770s to a warm welcome, are home to a cultural heritage that has stood the test of time even as the Internet and international travel have brought the country into much closer contact with the rest of the world.

Located just east of the International Date Line in the South Pacific, the Polynesian archipelago at present is made up of 177 islands—a volcanic eruption this January created a new, but most likely temporary one due to its weak composition—covering 290 square miles of land in more than 270,000 square miles of ocean. Just 52 of these islands are inhabited, although seven in ten Tongans reside on the main island of Tongatapu.

On the outer islands, many still live in rural areas, wear woven waist mats—called *ta'ovala*—and sip *kava*, the ceremonial drink made from the root of the eponymous shrub. Traditional values such as mutual respect, cooperation, humility, generosity and loyalty continue to form the bedrock of Tongan society, while nationwide everything comes to a halt on Sunday with the toll of church bells, as over 90% of locals are committed Christians.

Tonga is the only Pacific country never to have been colonized. Monarchs have ruled it for more than a millennium. The present king, Tupou VI, who assumed the throne in 2012 and will be crowned on July 4, has continued the democratic reforms his predecessor and elder brother, George Tupou V, commenced. In 2010, the nation was free to elect its first prime minister from all candidates, instead of exclusively from the aristocracy. Last December, Parliament's longest-serving member and a pro-democracy stalwart, Samuela 'Akilisi Pohiva, took over as prime minister.

"The simplicity of our society makes Tonga attractive," Prime Minister Pohiva says. "The trend now is to move from complex cities to a safe place, close to nature, where people can experience real things. These are things we cannot lose. We are in a transitional stage and our children's future will be different, but I hope they live within the bounds of what is available. I want to see Tonga satisfied with what it has and be self-sufficient."

For now, Tonga has a modest-sized economy that relies on agriculture and fisheries for most of its exports, but it still imports much of its food from neighbors such as New Zealand. Overseas aid and remittances from the Tongan diaspora make up the trade shortfall. Developing complementary sectors such as tourism—which grew 19.1% year-on-year in the first quarter of 2014, according to the Asian Development Bank (ADB)—will be key.

According to Minister for Commerce, Tourism and Labour Dr. Pohiva Tu'ionetoa, "Tourism is one of the most important paths to growth. It is the only economic driver that

will create large-scale employment and raise the standard of living in village communities. The strategic focus is on enhancing the contribution of the industry through an improved enabling environment, development of tourism destinations, marketing, and institutional support to increase investment inflows and add value."

Meanwhile, maximizing the potential of Tonga's richest resource—its people—is another pillar of the Pohiva administration's sustainable development approach. Its policy of public sector spending on education aims to equip locals with the knowledge to study and work overseas, acquire international experience and expertise, and, in time, return to start private-sector ventures and make investments of their own.

According to Minister of Finance and National Planning 'Aisake Valu Eke, who held the same post in the previous administration, "Prime Minister Pohiva is keen to substantially improve quality of life, which is linked to the growth of the economy, business confidence, good governance, and human development strategies for education and capacity building. Tonga can be a platform for big dreams and for doing big things." ■

Why Tonga?

With an economy worth $503 million in 2014, according to the International Monetary Fund's World Economic Outlook forecast from last October, Tonga's GDP is estimated by the ADB to expand 2.5% this year, fueled by rising tourist numbers and tourism sector investment, strong agricultural production and ongoing reconstruction efforts.

But some of the most compelling reasons why the Friendly Islands are such a good place to invest— and to live—go beyond the macroeconomic data. The country provides quality healthcare free of charge for all its citizens, offers free and compulsory education through high school, and guarantees freedom of speech and of the press under the constitution.

Tongan society has maintained a healthy balance between tradition and modernity, in which respect for family, community and religion remains central to everyday life. Many Tongans continue to observe age-old cultural customs, while connecting to the Internet via high-speed fiber-optic cable and cellular networks.

www.tongaportal.gov.to

Q&A With Tonga's Honorable Prime Minister Samuela 'Akilisi Pohiva

Born on Ha'ano Island, Samuela 'Akilisi Pohiva studied at the University of the South Pacific in Fiji and worked as a teacher at the university's Tongan campus. Involved in politics since the late 1970s as a pro-democracy advocate, he became a member of Parliament in 1987 and has served for 28 years in de facto opposition roles. He set up the Democratic Party of the Friendly Islands in 2010 to contest the elections and was elected prime minister last December for what he says will be his last term in public service. In a recent interview, Prime Minister Pohiva talked about his ambitions, aims and agenda for Tonga over the next four years.

What can be expected in terms of economic development?

The key to economic development is good governance. We are in the process of establishing an anticorruption commission, one of the key strategies we have to put in place. We want to strengthen the operation of the judiciary and protect law and order, which are central to developing our economic framework.

What are your guiding principles as prime minister?

I'm 73 and grew up on a very small island, and I have made it clear that simplicity is very important. We don't want to live a complex life. The West has a different environment from a small society like Tonga. We accept a lifestyle that is very different. But when we question the purpose of life, leaders should consider their culture and system of education. Life must be meaningful for our people.

How do you see Tongan society evolving?

It is not easy to strike a balance between right and wrong. Many people share the same vision, but how to achieve it is where we have differences. It is as simple as doing the right thing and having the courage to redirect your actions. It is important to deviate from what has been accepted as standard. People must have a vision and schools must provide an environment where students can see the future and think for themselves.

> "Translating our mission into projects, proposals and programs is the first priority, followed by the enforcement of rules... The time has come to move forward and make progress."

How would you like to see your country when you leave office?

I'd like to see Tonga retain its unique qualities. It is difficult, as the country has been relying on remittances for so long and we have lost our sense of self-reliance. We have enough resources and have to learn to live with them. I want to see Tonga remain satisfied with what it is.

Taxpayers in donor countries have a legitimate interest in insisting the people of Tonga develop. International financial institutions have done economic analyses and published recommendations, but the weakness has always been in implementation. Translating our mission into projects, proposals and programs is the first priority, followed by the enforcement of rules. We have to be prepared, accountable and transparent. We have to work together and put in place law and order. The time has come to move forward and make progress.

THE NEW MONEY MASTERS

Joshua Kushner 30

HOMETOWN: Livingston, N.J.

ALMA MATER: Harvard, M.B.A., A.B.

SPECIALTY: Venture capital

DAY JOB: Managing partner, Thrive Capital

CRED: Manages just under $1 billion; doubled his money when Facebook bought Instagram for $1 billion three days after he invested in the mobile photo app.

FAMILY VALUES: Dad Charles Kushner was a very successful New Jersey real estate developer who had a run-in with the law in 2004; pled guilty to tax fraud and election violations. Older brother Jared owns the *New York Observer* and is married to Ivanka Trump.

PAY-IT-FORWARD WISDOM: "Pushing myself to build and invest at the same time is the best investment I have made. Entrepreneurship is romanticized, and, in reality, building a company is incredibly difficult," says Kushner, who cofounded Oscar with a computer scientist and a former customer relations management director at Microsoft. Oscar, an ObamaCare startup focusing on health insurance, was recently valued at $1.5 billion. "Building has made me a better investor, and investing has made me a better builder."

BEST IDEA: Disruptive tech is in its infancy. "The potential impact of software on some of the world's most significant industries remains largely unrealized today. New technology has the power to transform industries by reducing the cost economics in various stages of the supply chain," says Kushner. "While many industries will continue to be created from the proliferation of technology, many more will be destroyed—at least in the form that they have existed in the last century." Examples: financial services, government services and education. Kushner has targeted finance by investing $30 million in one-click mobile-payment platform Stripe. Kushner's investments are private, but consider companies like Zendesk (ZEN), which is using a software-based approach to customer service. *—Nathan Vardi*

An A+ grade went to the top 5% of funds and an A to the next 20%. Bs, Cs, Ds and Fs went to 25%, 25%, 20% and 5%, respectively.

To land a double-A grade qualifying it for honors, a fund had to come out in the top quartile in both bull and bear markets. That's tough to do. The high-flying stocks that make a manager look brilliant in up markets are likely to be disasters in bear markets. Legg Mason Opportunity owns stocks like American Airlines and Pulte. We rate it A+ for bull markets and F for bear. It wouldn't be a bad fund to own if you have steel nerves and a long-term view, but if you panic during downturns you shouldn't touch it.

Conservative stocks and large cash cushions will put a fund at the top of the class in a correction but are likely to make it a laggard in bull markets. Royce Special Equity is one of those. It gets an F/A+ rating.

Honor Roll funds had to clear a few other hurdles besides the A/A grade cutoff. They had to deliver a compound annual return over the last two market cycles of at least 9% and have a portfolio team with an average tenure of at least five years. We excluded sector and single-country funds, those not taking new investors and those with minimums above $50,000. F

THE BIGGEST STOCK FUNDS

HERE ARE OUR UP-MARKET AND DOWN-MARKET PERFORMANCE GRADES FOR THE LARGEST FUNDS BUYING U.S. STOCKS.

UP	DOWN	FUND	ASSETS ($BIL)	ANNUAL RETURN[1]
B	C	VANGUARD TOTAL STOCK MKT INDEX	$411	4.8%
C	C	VANGUARD 500 INDEX	213	4.1
C	C	AMERICAN FUNDS GROWTH FUND OF AMER	148	5.0
B	B	FIDELITY CONTRAFUND	113	7.3
C	C	FIDELITY SPARTAN 500 INDEX	91	4.2
D	A	AMERICAN FUNDS WASHINGTON MUTUAL	78	6.9
D	B	AMERICAN FUNDS INVMT CO OF AMER	76	5.9
B	B	AMERICAN FUNDS FUNDAMENTAL INVS	74	6.6
B	A	DODGE & COX STOCK	71	8.9
A	B	VANGUARD MID CAP INDEX	66	8.6
A	B	VANGUARD SMALL CAP INDEX	56	8.3
C	B	VANGUARD WINDSOR II	51	7.1
C	D	VANGUARD GROWTH INDEX	49	3.2
C	B	AMERICAN FUNDS AMCAP	48	6.4
A	C	VANGUARD PRIMECAP	48	6.3
B	C	T. ROWE PRICE GROWTH STOCK	46	5.5
A	A+	FIDELITY LOW-PRICED STOCK	46	12.3
A	C	VANGUARD EXTENDED MARKET INDEX	45	6.4
A+	D	FIDELITY GROWTH COMPANY	43	4.6
B	C	VANGUARD VALUE INDEX	39	5.5
D	A	AMERICAN FUNDS AMERICAN MUTUAL	37	7.6
C	A	MFS VALUE	35	7.4

[1]OVER TWO MARKET CYCLES (AUG. 31, 2000 - MAY 31, 2015). *SOURCES: MORNINGSTAR; FORBES.*

CHRIS LYONS FOR FORBES

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Catch It While You Can

AS EMPLOYER STOCK DISAPPEARS FROM THE NATION'S 401(K)s, SO, TOO, DOES A VALUABLE TAX BREAK.

BY ASHLEA EBELING

Do you have employer stock sitting in your current 401(k)? Have you left behind an old 401(k) that holds your ex-employer's stock? Pay attention. The window could be closing on a chance to save a lot of taxes on the appreciation of those shares.

Whereas most withdrawals from a pretax 401(k) are taxed as ordinary income, at a current top rate of 39.6%, appreciation on employer stock can be taxed as capital gain, at a top rate of just 20%. Financial advisors call this the "net unrealized appreciation," or NUA break. To use it, you move the stock out of the 401(k) into a regular taxable brokerage account, at which point you pay taxes at the ordinary rate on only the stock's initial value when it was put into the 401(k). You can then hold the shares as long as you like, paying capital gains taxes on appreciation only when you sell.

Why the rush to grab NUA now? The percentage of employers offering company stock in their 401(k) plans has been gradually declining since the implosion of Enron in 2001. But the trend accelerated after the Supreme Court last year rejected the presumption that it's prudent for an employer to offer its own stock, raising the legal risk to those companies that continue to do so. A March survey by Towers Watson found a quarter of employers that still offered stock were planning to eliminate it or considering doing so. Even cable giant Comcast, whose founder, Ralph Roberts, was a true believer in employee stock ownership, just notified workers it is banishing company stock from its 401(k) effective Jan. 1, 2017.

Typically, if 401(k) participants don't get rid of their company shares by such a deadline, their holdings are liquidated for them, with the money put in the plan's default investment option—usually a "target date" mutual fund where the asset allocation is based on your age.

If you've left a 401(k) with company stock at a former employer—and some workers purposely leave these behind to preserve the NUA break—now might be the time to act. At the least, watch closely for notices from the plan. (Any additional appreciation after you move the shares out of the retirement plan is subject to the 3.8% Net Investment Income Tax, which hits couples with more than $250,000 in income and singles above $200,000. Appreciation before you move isn't subject to that tax, so there is some advantage in not rolling the shares until you have to.)

If your plan has good records, you can even cherry-pick, moving only the most highly appreciated shares into a nonretirement account, says Chris Zander, a partner with Evercore Wealth Management in New York. You'll owe ordinary income taxes—and, if you're not yet 55, a 10% early withdrawal penalty—on the initial value of those shares. But if the stock has gained enough, the cost can be worth paying.

Minneapolis financial planner Benjamin Wheeler recently helped a 44-year-old woman laid off from General Mills pull out stock worth $100,000, with an initial value of just $12,000, from her 401(k) plan. At the same time she rolled over $570,000 to an IRA, including $40,000 of higher-cost-basis company stock. "The 10% penalty was a drop in the bucket compared to the savings on the NUA," Wheeler says.

What if your current employer is dropping the company stock option? If you're older than 59½, you may be in luck, says Diane Morgenthaler, an employee benefits lawyer with McDermott Will & Emery. While they may not advertise it, 92% of large employers (according to an Aon Hewitt survey) allow older workers to take "in-service nonhardship" lump-sum distributions—you move your employer stock to a brokerage account and the rest of your 401(k) holdings to an IRA. Don't worry—after the move you can still make new contributions to your 401(k) and get employer-match dollars. F

RICHARD MIA FOR FORBES

CHRIS LYON FOR FORBES

THE NEW MONEY MASTERS

Peter Clare 50

HOMETOWN: Manhasset, N.Y.

ALMA MATER: Wharton, M.B.A.; Georgetown, B.S.

SPECIALTY: Buyouts, mergers and acquisitions

DAY JOB: Deputy Chief Investment Officer, Carlyle Group

CRED: Earned a 38% gross internal rate of return on his deals from 1992–2010. Currently co-runs Carlyle's $13 billion U.S. buyout fund.

WORST INVESTMENT: Korean telecom equipment manufacturer Mercury Corp., wiped out during dot-com bubble. Lesson: Mercury had no moat to protect itself—it lacked competitive differentiation and proprietary tech systems.

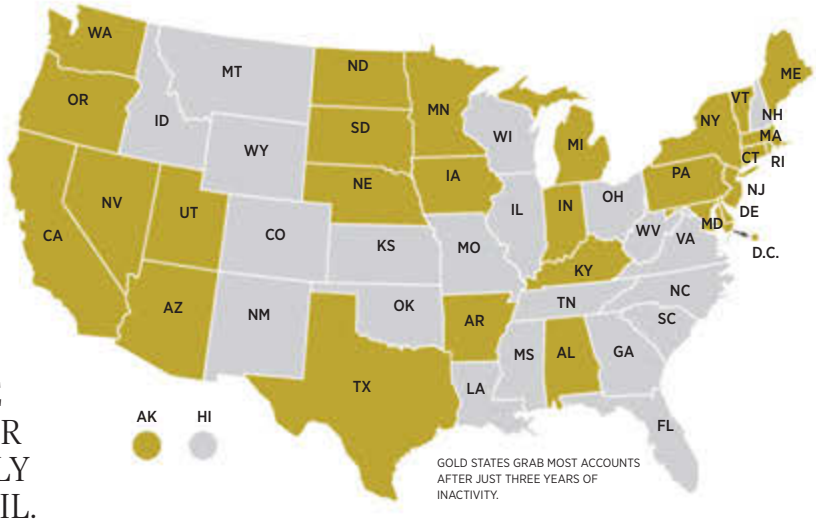
PAY-IT-FORWARD WISDOM: "Listen." Company man Clare gleaned this simple but critical skill from Carlyle cofounder Bill Conway. "He's a tremendous listener," says Clare. "He hears what people are really saying."

BIGGEST WORRY: The strong dollar. "It causes big companies to think about moving production to lower-currency countries. That will become a real headwind for job creation," says Clare, also citing the impact on U.S. exports.

BEST IDEA: Health care. Affluent aging boomers in mature economies are the driver. "Find businesses that make the health care system more efficient and take cost out. You have the wind at your back in terms of demand," says Clare, pointing to Carlyle's $4 billion purchase of Johnson & Johnson's diagnostic-equipment business last year. It is also buying health care assets in developing countries, where incomes and demand are both rising. For retail investors a good option is the Health Care Select Sector SPDR ETF (XLV). —*Nathan Vardi*

Stop! Thief!

REVENUE-HUNGRY STATES ARE GRABBING CDs, IRAs AND OTHER ACCOUNTS THAT AREN'T REALLY ABANDONED. WATCH YOUR MAIL.



GOLD STATES GRAB MOST ACCOUNTS AFTER JUST THREE YEARS OF INACTIVITY.

BY KELLY PHILLIPS ERB

Last year, after her husband's death, an 82-year-old Pennsylvania widow started tracking down the jointly owned certificates of deposit he had set up at half a dozen banks in his quest for higher interest rates. Two were at Stonebridge Bank, a local institution with only two locations and an emphasis on online and telephone services. The bank told her the CDs were about to be transferred to the state because she had failed to take sufficient steps to show she was alive and interested in the account.

Huh? Part of the appeal of a CD is that you don't have to do anything. You can let interest compound until the CD matures, and even then you can ignore it and allow it to be renewed. Yet the bank insisted that she had to contact it at least once every three years to keep her CDs from being deemed abandoned and "escheated" to Pennsylvania.

Escheat laws have been around in their current form since the 1950s. Supposedly they protect consumers. The idea is that it's safer for heirs if abandoned property is held by the state. Bank and brokerage accounts, unclaimed life insurance policies, uncashed paychecks and traveler's checks, gift cards and even the contents of long-neglected safe-deposit boxes can be escheated.

Originally accounts were typically considered abandoned only if they went untouched for decades. But revenue-hungry states have been dramatically shortening that "dormancy" period to get their hands on this booty. Twenty-seven states and the District of Columbia *(see map)* now hijack some accounts after just three years. Pennsylvania was the most recent to join this dishonor roll, reducing its dormancy period from five years to three for most assets (not traveler's checks or money orders) last July. The change helped plug a budget hole. The Keystone State has booked $655 million from escheat so far this fiscal year, $390 million more than in the year before the change, reports Christopher Craig, the executive deputy state treasurer.

Yes, you can get your money back by filing a claim—in most states you have forever to do it. But states immediately liquidate some assets such as stock, with potentially expensive tax consequences for you. Plus, it's likely they won't pay you interest while making use of your money.

Get this: Some states even subject individual retirement accounts to escheat once the IRA owner turns 70½ and must take required minimum distributions. And when an IRA is sent to the state, it may be taken out of its tax-deferred wrapper, making the whole balance immediately taxable.

In January an 89-year-old Philadelphia woman received a letter from Wells Fargo warning her that her IRA would be escheated if she didn't contact the bank. When she called, a bank rep informed her that merely cashing her annual RMD check—which she had been doing every year—was not considered proof by Pennsylvania that she was still alive, since someone else could have cashed those checks. Craig insists under Pennsylvania law a cashed RMD check counts as activity. A Wells Fargo spokesman, after some investigation, agreed, saying the notice shouldn't have been sent.

So what can you do to protect your assets from sticky-fingered states and bank mistakes? Consolidate your accounts. Every few years contact the bank to say "hi" to your CD or IRA. Check your balance online—a growing number of states, including Pennsylvania, consider this evidence your account is active. Cash checks as soon as possible.

And do open your mail, even what looks like generic notices, since financial institutions must generally inform you in writing before escheating your account. If despite these efforts your property escheats, you may have to file a notarized claim with the state to get it back.

Meanwhile, search for already escheated assets in your name at www.naupa.org, a website maintained by the National Association for Unclaimed Property Administrators. Who knows? You might actually have forgotten an account.

CHRIS LYON FOR FORBES

THE NEW MONEY MASTERS

Pierre Andurand 38

HOMETOWN: Aix-en-Provence, France

ALMA MATER: HEC School of Management, M.Sc.; National Institute of Applied Sciences, M.Sc.

SPECIALTY: Oil

DAY JOB: Chief Investment Officer, Andurand Capital

CRED: Since 2008 has posted annualized net returns of 36% across his BlueGold and Andurand hedge funds; predicted last year's drop in oil.

PAY-IT-FORWARD WISDOM: Live to fight another day. Citing hedge fund giants George Soros and Stanley Druckenmiller, Andurand says the key to trading, particularly in fast-moving commodities, is to size trades correctly. "To make as much as possible when we are right and lose as little as possible when we are wrong—because we are always going to be wrong sometimes," he says.

MISBEGOTTEN BELIEF: "Too many people are focused on the rig-count drop in the U.S., assuming it will lead to lower production and is a sign to go long oil," says Andurand. "They are ignoring the change in Saudi policy, which is not only to protect market share but to gain market share." Andurand claims that a lot of the stronger oil demand in the last four months has come from stockpiling oil, not from real consumption. "So a lot of that demand was borrowing from the future." He adds: "Oil is not simple to understand. ... Generally it's many variables moving together."

BEST IDEA: Don't bet on a quick comeback for oil prices. "It will take a few years before we have another bull rally, unless there is a large supply disruption in the Middle East," says Andurand, who thinks oil will trade in the $40–$75 range for the next two years. —*Nathan Vardi*

Out of the horse barn: Stable 12 partners Tyler Fontaine, Richard Wolf and Chris Carbutt.

JONATHAN KOZOWYK FOR FORBES

Trouble Brewing

AS CROWDFUNDING HAS EXPLODED, THE IRS HAS REMAINED MUM ON ITS TAX CONSEQUENCES, LEAVING ENTREPRENEURS TO GUESS AND WORRY.

BY KELLY PHILLIPS ERB

After college, high school buddies Richard Wolf, Tyler Fontaine and Chris Carbutt started playing with a $75 home-brewing kit in the vacant barn on the Wolf family's horse farm in Skippack, Pa. After two years of experimentation with fermentation and a lot of taste-testing by friends, they decided their craft brews had commercial potential. So in 2012 the three incorporated Stable 12 Brewing Co. and went looking for a business loan. Nine banks weren't swayed by Wolf's Penn State degree in hotel management, Carbutt's in engineering or the craft brewing boom. The lenders wanted three years of financials, which Stable 12 obviously didn't have.

What next? They decided to try a Kickstarter crowdfunding campaign, posting a bid for $20,000 on Mar. 13, 2013, the same day screenwriter Rob Thomas launched a $2 million ask to make a movie based on his canceled TV series *Veronica Mars*, starring Kristen Bell as a teenage detective. Thomas booked more than $2 million in a day and $5.7 million in a month, offering such rewards as copies of the script ($10) and an appearance as a background extra ($2,500).

The Stable 12 guys took two months to hit their goal. (On Kickstarter you get the money only if you reach the goal.) They offered their backers two pint-size glasses with the brand's horse-head logo ($10), a beer growler ($50) and a day at their brewery when it opened ($1,000). Wolf says the partners considered these premiums "a way to say thank you, really," and were careful not to offer anything that would cost them much cash up front or be hard to produce. Still, Wolf says, they ran into an unexpected snag when it came time to have Stable 12's 2013 tax return done: Their H&R Block preparer hadn't a clue how to report their Kickstarter take.

That's not surprising. While $1.8 billion has been raised

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on Kickstarter since 2009, the IRS has remained largely and unhelpfully mum on the tax consequences of crowdfunded projects, leaving entrepreneurs, donors and even tax lawyers groping for answers. "It would be nice if the IRS would address the issue," says Jack Bogdanski, a tax prof at Lewis & Clark Law School in Portland, Ore.

Note that this uncertainty doesn't relate to crowdfunding in which investors get equity or make loans to a business. The tax rules on treatment of equity and debt, while sometimes complicated, are well established and are no different simply because money is raised from a lot of people on the Web.

But backers of a Kickstarter campaign aren't investors or lenders in the legal or tax sense—they don't get an equity interest or hold a note. On its site Kickstarter states: "In general, in the U.S., funds raised on Kickstarter are considered income." That's certainly true in some cases. Example: In February and March Pebble Technology Corp. raised $20.3 million on Kickstarter to produce its Pebble Time smartwatch; all 78,471 backers preordered and prepaid for watches—at a discount. The money raised is revenue to Pebble. Of course, all expenses related to the production of the watches and the costs of the campaign can be deducted against those revenues. (For smaller businesses operating on a cash accounting basis this can present a problem if revenue is booked in one year and expenses aren't incurred until the next year—so run your campaigns early in the year.)

But income is only part of the story. When a backer contributes more than the market value of the reward he receives, the excess is arguably a gift and not subject to income tax at all. Remember that day at the Stable 12 brewery for $1,000? Tellingly, the purchaser was Wolf's dad, who can spend time with him whenever he likes. If Wolf's dad had simply given Stable 12 $1,000 outside of Kickstarter and with no reward, it would have clearly been a gift, with no income tax consequences for Stable 12 or the dad.

Gift taxes? They're paid by the donor. But no gift tax would be owed, since any donor can give as many individuals as he likes $14,000 each a year without it being taxed or even counted against the donor's lifetime exemption from tax on gifts totaling $5.43 million. (The IRS considers a gift to a company as a gift for the benefit of a particular person or limited class of people—in this case, the three company owners.)

In tax law the motivation of the giver also comes into play when determining whether something is a gift. Gifts, the courts have ruled, are transfers made out of "detached and disinterested generosity" or "out of affection, respect, admiration, charity or like impulses." That's not always easy to determine. "It might be quite difficult to prove the motivations of crowdfunding contributors," says Bogdanski, "in which case the burden of proof might play an important role." Who has that burden? Ordinarily the taxpayer, not the IRS.

Another complication is determining the fair market value of a premium. The market value of two Stable 12 pint glasses is $10—which is what they're normally sold for. The value of a day with three Millennial wannabe craft brewers? Not $0 (lunch was included) but nowhere near $1,000.

So what did the flummoxed tax preparer for Stable 12 do? She asked her supervisor, who said to treat all the Kickstarter take as a gift. According to H&R Block's internal instructions, absent IRS guidance "there are no hard and fast rules."

Using the Kickstarter cash and family loans, the guys have moved $90,000 worth of brewing equipment into the commercial district of Phoenixville, Pa. They offer four brews on tap there and distribute to three bars, with more lined up for when they ramp up production. They're aiming to be in stores, too, by year-end. Fontaine works at the brewery full-time, while the other two have kept their day jobs—Wolf as a food safety auditor and Carbutt as an engineer. They're treating this as a serious business, hiring a lawyer and accountant to make sure it's all done by the book. Whatever that is. F

CHRIS LYONS FOR FORBES

THE NEW MONEY MASTERS

Michael Kitces 37

HOMETOWN: Reston, Va.

ALMA MATER: American College, M.S.; University of Tulsa, M.S.; Bates College, B.S.

SPECIALTY: Financial planning

DAY JOB: Director of research and financial planning, Pinnacle Advisory Group

CRED: Cofounded XY Planning Network, a fast-growing group of fee-only planners who serve young clients over the Web and focus on big issues like career, saving, home buying, college, insurance and taxes. His Nerd's Eye View blog is widely followed.

BEST INVESTMENT: "In myself." Kitces has earned an alphabet soup's worth of professional degrees and designations, including a master's in taxation and a master's in financial services.

BIGGEST WORRY: The Fed has pushed many retirees into stocks, but he thinks stocks could take a bigger hit than bonds when interest rates rise. "If you look historically, a horrible year in the bond market was you might have lost 5%. A horrible year in the stock market is like 2008—you lose 40%."

BEST IDEA: When you're young, don't obsess over investment returns. Worry about career and saving instead, and buy a few low-cost index funds, including Vanguard Total Stock Market (VTSMX). Ten years before retirement, get serious about asset allocation. "The amount of return you get then actually starts to matter a lot, but the risk you're taking matters a whole lot more, too." —*Janet Novack*

THE EXECUTIVE LEADERSHIP COUNCIL
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BY JUDITH L. TURNOCK

Illustration by Dave Cutler

> "We mark this moment as the time we merge the insights drawn from our experience and proprietary research on multicultural leadership in the 21st century, to demonstrate a new model of powerful, impactful and influential global leadership."
>
> —CARLA HARRIS **Board Chair, The Executive Leadership Council; Vice Chairman, Managing Director, Morgan Stanley**

The Executive Leadership Council (ELC) has answered this call to action with vision, energy and deliberate strategy. The ELC members, senior black executives at the largest global corporations who are also thought leaders on the value of diversity and inclusion, are using their collective power and prestige to act confidently on the global stage.

Global Business Leadership

What new demands does business on a global stage signal for corporate leadership? "The traditional way to evaluate a leader is through the lens of what worked in the past rather than does the person have the capacity to learn new behaviors for new situations," reasons Michael C. Hyter, past Executive Leadership Foundation (ELF) chair and senior partner, Korn/Ferry International. "But business is no longer linear, and challenges are not predictable."

"Leaders need the agility to identify differences and appreciate immediately the opportunities they represent," states Ronald C. Parker, ELC president and CEO, executive vice president (ret.), PepsiCo. "IQ—intellectual and technical skill—has been dominant, but now EQ—emotional skill—must play the larger role. ELC members' lives have prepared them for these challenges." Hyter confirms, "Women and people of color tend to score higher in agility, reacting and redefining in the moment."

On the other side of the leadership coin, black executives never succeeded through what ELC's Parker labels the "command and control leadership style." They had to rely on a more collaborative style of "ensuring alignment." Now, globally, according to Parker, "collaboration is the word of the day."

This new landscape is where ELC members excel. "They have already demonstrated very refined and subtle political skills," explains Price Cobbs, MD, ELC member, executive coach and co-author of *Cracking the Corporate Code* (AMACOM: New York, 2003). "It's those skills that allowed them to fit in and gain credibility in their corporations."

ELC Board members at the U.S.-Africa Leaders Summit

A Presence Around the World

The ELC first expanded membership criteria to reach beyond black American executives last year, adding its largest class of new members—including business executives based in Singapore, the United Kingdom and Russia—and expects to continue to do so every year for the next few years. "We are uncovering, discovering and connecting with all the leading minds in business," declares Brickson Diamond, ELC chief operating officer.

At the same time, Diamond explains, "The speed of change and innovation is increasing, so corporate careers are moving more quickly, and we are gradually becoming a more multigenerational organization."

"From these diverse members," adds Parker, "we are learning a different set of expectations about success. They rank personal quality of life right along with material and professional accomplishment."

Last summer The ELC officially began laying the foundation for engaging the African diaspora. At the White House U.S.-Africa Leaders Summit, co-sponsored by the Corporate Council for Africa and the Chamber of Commerce, black business leaders, African heads of state

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> **ELC President and CEO, Executive Vice President (ret.), PepsiCo.**

> **"ELC members are in a position to facilitate their companies' investments in Africa, the new emerging market."**
>
> —BARRY M. GRANGER
> ELC Member and Vice President, DuPont Government Affairs

and business leaders met for three days to explore potential partnerships. The African Growth and Opportunity Act (AGOA) was the impetus, but AGOA merely opens the door to a more realistic understanding of investment opportunities on the African continent in both business and civil society. "ELC members are in a position to facilitate their companies' investments in Africa, the new emerging market," predicts Barry M. Granger, ELC member and vice president, DuPont Government Affairs.

This summer The ELC partnered with Sigma Pi Phi Fraternity/Boulé, now in its 111th year, to host a series of events in London to showcase international black business leadership. The ELC's Parker and Boulé Grand Sire Archon James O. Cole, general counsel (ret.), AutoNation, Inc., and ELC member, led the joint delegation to the gathering of executives from the African diaspora. Events included meetings with the Institute of Corporate Directors, the British equivalent of the National Association of Corporate Directors, and a palace reception with a member of the royal family. "European companies' boards already reflect 30% women, and we're going to impress upon them that it's important to reflect racial diversity as well," says Parker.

To further mark its global footprint, The ELC has begun holding regular membership meetings outside the United States; the first was in Toronto. Such meetings promise deeper global engagement for all members.

The ELC in the C-Suite and the Boardroom

As ELC's membership growth proves, more and more corporations are learning that diversity at the top is a competitive advantage. The pool of black American executives continues to grow and now includes global black business leaders.

In March, The ELC, in collaboration with Deloitte, created the CEO Academy, where a small group of members on the short list for CEO enjoyed what the director of the ELF Institute for Leadership Development & Research, Dr. Steven Williams, called "an authentic conversation" with several executives, including Xerox CEO Ursula Burns, also a longtime ELC member, covering the many dimensions of being a CEO of the future.

The ELC Corporate Board Initiative sponsored and co-sponsored multiple receptions and development sessions hosted by Heidrick & Struggles, AT&T, McKesson, Mondelēz and the GM Foundation last year. As a result, the number of ELC members being elected to boards continues to increase, as have inquiries about ELC members as potential corporate directors. "ELC members have expertise that deserves this recognition," confirms U.S. Representative G. K. Butterfield (NC-01), Chairman of the

ELC Members Guide Corporate Culture

AT&T

AT&T is committed to diversity and integrity in every aspect of its global business. That's the full-time job of two ELC members, David Huntley and Cynthia Marshall.

Cynthia Marshall
Chief Diversity Officer

David Huntley
Chief Compliance Officer

They say that commitment is critical today as AT&T builds on its role as a premier wireless company to become a leading information and entertainment provider. And, the company is expanding into Latin America.

Huntley, a top attorney at the company, was recently named Chief Compliance Officer. He leads the charge for compliance and ethics, and reports to the chairman. His new role follows leadership positions in legal, ecommerce, marketing, sales and customer care. Marshall, an HR expert, was recently named Chief Diversity Officer. Her new role follows leadership positions in network engineering, regulatory and legislative affairs and operations.

Both will ensure that AT&T continues to raise the standard for diversity and ethical business practices.

Huntley, a 20-year AT&T executive, holds a JD degree from the Benjamin Cardozo School of Law in New York. He applies lessons he learned from his father—a chauffeur in Texas. "I have an opportunity to pay forward what he taught me," he says. "He said, 'Whatever you are to be, be the best—while living principles of integrity, commitment, respect and equality.' That's what I tell my children, students and employees. This personal mentoring is a great way to help people and business transform."

Marshall, raised in the Bay Area inner city, leveraged a full academic scholarship to UC Berkeley into a remarkable career at Pacific Bell (now AT&T). A 30-year AT&T executive, she relishes this new opportunity. "It's humbling to be a role model to tens of thousands of employees," she says. "Especially young African Americans. I take that responsibility seriously. And as CDO, I'm in a position to help build the model workforce of the future."

Congressional Black Caucus (CBC); but the challenge is ongoing. The percentage of seats held by black Americans is still in the mid-single digits and even falling slightly, despite the substantial increase in the number of qualified candidates.

Readying New Generations of Black Leadership

The ELC has always recognized that sustaining global leadership requires a robust pipeline of continuing generations of business leaders. For more than 20 years, the ELF has been nurturing that pipeline with programs that constantly deepen and broaden their reach. "We have learned the value of continuous dialogue with CEOs, so our programs can deliver what our companies need," reports Rhonda R. Mims, chair, ELF; and managing director, Corporate Social Responsibility, Paul Hastings.

Today ELF, through its Institute for Leadership Development & Research, presents branded programs and partners with other organizations to leverage their expertise. The programs span mid-level corporate executives to those executives who are on track for CEO and board positions. "Participants learn leadership skills and relationship building as well as the reality of global roles—opportunities they must embrace," reports Dr. Williams, Institute director. "Global experience is crucial for success, and we are embedding that lesson in every Institute program."

Leadership Development Week, this year in Miami the week of August 10, provides a safe space for learning, surrounded by those who have already succeeded. It offers a stair-step series of four contemporaneous seminars ranging from three to five days for those at different stages of their corporate careers:

Strengthening the Pipeline: Critical Factors for Successful Leadership, the flagship program, is for those with six to 15 years of experience and focuses on advanced concepts of leadership, including understanding how your organization operates, enhancing your self-awareness and creating a career development plan.

Bright Futures: Principles of Leadership for New High-Potential Talent, for those with two to five years of experience, guides participants to understand core concepts in leadership and management needed to achieve short-term and long-term career goals, including managing and leading others and managing their own individual development.

> **"Global experience is crucial for success, and we are embedding that lesson in every Institute program."**
>
> —**DR. STEVEN WILLIAMS**
> **Director, ELF Institute for Leadership Development & Research**

The target participants for **Strategic Pathways: Directing Your Momentum** are black women with six to 15 years of experience who are focused on increasing their leadership capacity. Their successful leadership qualities are not always concentric with those of black men.

New this year is **Navigating the Corporate Landscape: The Art of "Selling" Yourself to Others.** It guides those in mid-career (five to 12 years of experience) to identify their leadership strengths and challenges, develop

Passionate About Our Mission

MassMutual

John Brown
Portfolio Manager
External Investments

"I believe a core component of motivation is having a mission, something that's larger than ourselves, and folks here are passionate about the mission," declares John Brown, Portfolio Manager - External Investments.

Diversity is a key part of that mission. "Even in the dusty world of finance, we realize the unquestionable benefit of diversity through avoiding concentration to any one source of return or strategy. Clearly the benefits of diversification within investments has parallels to diversity in the broader social context," explains Brown, who is charged with pursuing a wide range of investment opportunities.

One of the most exciting of these is the Springfield Venture Fund, which supports the revitalization of Springfield, Massachusetts, which is MassMutual's headquarters, through job creation. MassMutual provided the capital, and Brown co-leads the Fund. "We focus on high-growth start-ups with strong management, and we collaborate both internally and externally to cultivate these high-potential businesses."

MassMutual's commitment to customers' diverse needs has led to a number of future-oriented initiatives, such as the Future Smart Challenge, in conjunction with the NBA, to provide middle school students with financial education and leadership training; and the Life Bridge Program, which effectively gives away life insurance to needy families.

DiversityInc ranked MassMutual in its annual Top 50 Companies list this year, after five years on its 25 Noteworthy Companies list. MassMutual proudly counts diversity as a key innovation driver, in investments, products, customers—and employees. In fact, its employee resource groups—in which participation grew 20% last year alone—are valuable components of the company's internal leadership and innovation strategies. "Our CEO, Roger Crandall, has aligned us around a unifying vision, so it's very easy to build a collegial environment," states Brown. "I'm proud to work for a company that values diversity."

a personal brand, and discern how power—the ability to be effective and to influence others—is accomplished in each participant's business landscape.

This year in Los Angeles, on July 21, the **Women's Leadership Forum** will feature panel discussions and networking opportunities for 200 senior-level black women executives and their protégées. Through this year's theme, "Transformational Leadership: Mastering Disruption," the forum will explore the power, resiliency and evolution of black women executives as they work through life's unexpected disruptions and offer key strategies for mastering change.

The Business Case Competition, sponsored by ExxonMobil, awards scholarships between $15,000 and $35,000, as well as corporate internships to three winning MBA student teams' case study submissions. This year's winner was a team from Emory University. "With this competition, we introduce skilled young talent to real corporate challenges and to real corporations," states Parker.

The two-day **Mid-Level Managers Symposium (MLMS)**, co-sponsored by the PepsiCo Foundation and Target and now in its 21st year, annually prepares 800 to 900 young managers with executive potential for breakthrough career growth.

The ELF, through its **Community Impact Initiative**, grants scholarship funds of $50,000 to $250,000 to organizations such as INROADS, LEAD, A Better Chance, North Carolina Central University's Summer Youth Business & Entrepreneurship program, Management Leadership for Tomorrow, and the National Society of Black Engineers. For the past five years, the ELF has awarded over $2 million in scholarships and grants to support the next generation of leaders.

Finally, as of this year, the Institute has introduced its digital global learning platform, through which members and participants in Institute programs can access video leadership training sessions, explore career solutions and build

MLMS participants are inspired by ELC member speakers.

The Emory Goizueta winning team from the 2015 Business Case Competition with ELC and ExxonMobil executives

DIVERSITY MATTERS

The NBA and its teams celebrate the contributions made by our diverse workforce.

Corporate CEOs join ELC members at the CEO Summit.

> "We have to use our power for good, to let people who feel forgotten know that we have not forgotten them."
>
> —RHONDA R. MIMS, Chair, ELF; Managing Director, Paul Hastings

relationships. A directory for peer networking will also be available soon.

"It's now possible to leverage training experiences from anywhere at any time," states Institute Director Williams.

ELC's Parker sums up the value of all the Institute's efforts: "They're all about the journey of self-discovery, and personal development necessarily adds value to corporate America."

Adds ELF Chair Mims, "As long as we bring smart business ideas, we will continue to have corporate support."

External Advocacy: Leveraging The ELC's Business Credentials

The ELC's thought leadership potential need not stop in the C-suite and the boardroom. "Social issues are intertwined with business, economic growth and global competitiveness, and it's time black business executives speak out," declares Parker, explaining that ELC's External Advocacy initiative explores where ELC can "create additional value." ELF Chair Mims goes further: "We have to use our power for good, to let people who feel forgotten know that we have not forgotten them."

The immediate focus is on historically black colleges and universities (HBCUs), because they still perform a valuable service by preparing tens of thousands of ambitious young black Americans, and they are struggling financially. "Absent intervention," predicts ELC member and External Advocacy Co-Chair Barry Granger, "they will only continue to deteriorate. We can transfer a lot of the knowledge they need." Specifically, ELC members have been asked to:

- Commit to serve as board members and advisors;

Diversity Drives Innovation
at Reynolds American

When setting out to transform not just a company, but an entire industry, you need creative thinking. Reynolds American Inc. (RAI) and its subsidiaries view diversity as crucial to their ability to achieve transformation through innovation.

Susan Cameron
President and CEO
Reynolds American Inc.

Lisa J. Caldwell
Executive Vice President and Chief Human Resources Officer
Reynolds American Inc. and RAI Services Company

"RAI's goal is to achieve market leadership by transforming the tobacco industry, and that means we have to drive innovation across our companies. This transformation vision is shaped by the diversity of backgrounds, thoughts and experiences in our employee population. Our employees have the opportunity to drive significant change within an industry. People come here because they can make a difference," says Lisa Caldwell, RAI's executive vice president and chief human resources officer. "To succeed in today's business environment, having a talented workforce and a strong commitment to employee development is absolutely essential," Caldwell adds.

"We encourage employees to take ownership of their career development, and we want to give them the resources they need to succeed. We provide tools that support four key aspects of employee well-being: career, physical, financial and social. We offer competitive compensation and comprehensive benefits, but we take a more holistic approach to be sure employees work in an environment designed to fuel innovation and collaboration," she says.

Susan Cameron, RAI's president and chief executive officer, agrees that diversity is key to achieving the companies' vision. "We are on an exciting journey to transform the tobacco industry. And we're doing that through innovation, talent, creativity, individual contribution and diversity. These elements are essential to achieving this transformation," says Cameron.

The ELC Supports NAACP Legal Defense Fund Call for Police Reform

"The reality of racial bias in policing threatens confidence in our criminal justice system and the rule of law itself, to the detriment of American society as a whole. Social issues cannot be separated from business, economic growth and global competitiveness. Every time we lose someone to the criminal justice system, we lose a consumer and therefore an opportunity. It's time black business executives speak out."

—**Ronald C. Parker, ELC President and CEO**

- Engage their companies in providing internships to students and jobs to graduates; and
- Share best practices.

Where HBCUs shine is in producing engineers. "One in three African-American engineers comes from an HBCU," reports Butterfield, "and with more resources they could do an even better job." This year's Essay Competition joined the effort, asking college student applicants to create strategies to increase HBCU alumni giving and other funding sources.

"We continue to pivot the discussion from oversight, which speaks to limitations, to insight, which is about possibilities."

—**RONALD C. PARKER, ELC President and CEO**

The ELC has begun to engage at the policy level as well. Repaying student loans has a particularly harsh impact on students of color, so legislation regarding loans, as well as the proposal for free tuition at community colleges, is on the radar. Recently The ELC endorsed the NAACP Legal Defense Fund's call for national reforms to combat police misconduct and strengthen accountability.

Organizational excellence is an ever-changing concept that is always reaching for the next level. The same is true of diversity and inclusion. The ELC is therefore constantly reaching higher, bringing new insights and new value to global leadership. "We continue to pivot the discussion from oversight, which speaks to limitations, to insight, which is about possibilities," states Parker.

"It's this different mind-set that allows innovation and the creation of holistic value—for employees, shareholders, strategic partners, customers—for a global community," concludes Parker. ELC members already live this mind-set. ■

Many Faces, One Mission

USAA

Robert Braggs
Assistant Vice President of Process Excellence
USAA

Member-focused USAA has been serving military families since 1922. While USAA started as a self-insurance pool of military officers to provide automobile coverage, it is now a full-service financial solutions organization, providing insurance, banking and investments to 10.7 million members with 2014 revenues topping $24 billion. With a laser focus on its members, USAA regularly ranks among the top companies to work for, the most admired companies and the most vet-friendly employers.

Believing a diverse workforce is just as important as a diverse investment portfolio, USAA's diversity and inclusion philosophy of "Many Faces, One Mission" is critical to continued business growth, improved performance and maintaining competitive advantage.

"A diverse and inclusive workplace is not only a strategic business imperative but a part of who we are," says Mark Reid, chief human resources officer at USAA. "We all have a life story and it's powerful; everyone and their experiences are valued and included. We want all of our teammates to be who they are and live their story, every day. We deliver our best to our members when we draw on everyone's diverse backgrounds, skills and perspectives."

Robert Braggs, assistant vice president of process excellence at USAA and a 15-year Army veteran, is one who lives the diversity credo. "I grew up on military bases, graduated from West Point, and served five years active in the Army and 10 years in the Army Reserve, so diversity is my environment," Braggs says. "Coming to USAA was like coming home."

Braggs is also part of USAA's diversity and inclusion working group. Diversity and inclusion is not merely an aspirational goal but a part of USAA's culture and standard of behavior expected of all employees.

Strip Mall Spa

MASSAGE ENVY CREATED A FRANCHISE NICHE—NOW IT'S FENDING OFF COMPETITORS.

BY CAROL TICE

For years Rick Davis was a tech executive who helped raise millions of dollars in venture capital. Then he decided to try a different kind of investment. In 2004 he considered buying a fast-food franchise before choosing an alternative: the massage-and-facial franchise chain Massage Envy. In fast food, Davis reasoned, you never know how many customers will walk in the door, but Massage Envy sells one-year memberships for $59.99 to $79.99 a month, which means recurring revenue.

Rapid growth: Dave Crisalli sees "a ton of opportunity."

Today Davis owns five Massage Envy clinics in the Seattle area and says 70% of his revenue comes from those membership fees. "I've raised big money in Silicon Valley," says Davis, 59, who went to high school with Steve Jobs and was employee No. 10 at Apple spinoff Claris, "but this is the most successful and fun business venture I've ever been in."

Over the past 13 years Massage Envy's affordable-membership model has propelled the chain and its eye-catching purple-logoed storefront spas to more than 1,000 locations in 49 states. It's the nation's largest employer of massage therapists—more than 22,000—and has topped $1.2 billion in annual systemwide sales, averaging out to $1.2 million in annual revenue for each spa. The chain has a nearly 50% share of the franchised day-spa market, according to a December study by research firm IBISWorld, and it is adding 100 more locations this year. Its largest competitor, Hand and Stone, has 215 locations altogether.

In some ways Massage Envy's biggest challenges now involve overcoming its own success: For one, it has gotten a lot harder to find qualified massage therapists—its growth has coincided with a decline in massage-school enrollments. More important, the chain is besieged by a slew of fresh competitors.

The company's cofounders, massage therapist Shawn Haycock and entrepreneur John Leonesio, and its current president, Dave Crisalli, met back in the '90s through a national fitness chain. After the chain was sold in 1999, Leonesio and Haycock decided to try bringing the fitness industry's membership model to massage. Back then most massages took place at pricey spas, in a medical office or in a therapist's spare bedroom. The founders' vision was to offer affordable massage at convenient mini-spas that would stay open nights and weekends. The name was inspired by a business Haycock admired called Hair NV.

Finding a first location wasn't easy, given the reputation of massage parlors as sleazy places that traded in sexual favors. In fact, many commercial leases prohibited the operation of massage businesses, so the duo sneaked their first unit into a strip mall on a sublease. Finding therapists to staff the store, however, was easy. "We'd put out one small want ad and get 25 résumés," says Haycock.

Interest from would-be franchise owners was immediate, Haycock says, and within a year they were signing up regional developers to recruit franchise owners to open and operate clinics in their territories. In 2008 Massage Envy was sold to a conglomerate based in India, which in turn sold to a New York City-based private equity firm, Sentinel Capital Partners, in late 2009. Leonesio, a serial entrepreneur, says he was happy to move on to his next ventures, including a growing chiropractic franchise, The Joint, where he was CEO. Haycock is a business consultant who still owns two Massage Envy locations in Utah.

KING LAWRENCE FOR FORBES

CHRIS LYONS FOR FORBES

THE NEW MONEY MASTERS

Jeffrey Smith 43

HOMETOWN: Great Neck, N.Y.

ALMA MATER: Wharton, B.S.

SPECIALTY: Hedge fund activism

DAY JOB: CEO and CIO, Starboard Value

CRED: Starboard's assets have grown by nearly $4 billion since 2011. Average annual return: 16.2%, with 84% of Starboard's activist campaigns profitable. In 2014 Smith ousted the CEO of restaurant operator Darden's (Olive Garden, LongHorn Steakhouse) and its entire board of directors.

PAY-IT-FORWARD WISDOM: Do your homework. "If you're easily shaken out of an investment, you don't know it well enough," says Smith. He adds, "If it doesn't bother you when an investment goes against you, then there's also a problem."

BIGGEST WORRY: Terrorism, geopolitical unrest. "If it starts to affect consumer behavior and harms business fundamentals, then things get difficult," says turnaround guru Smith. He has one of the biggest hedges against a stock market index of any major activist investor: a put contract equal to 10 million shares against the iShares Russell 2000 Index ETF with a notional value of $1.26 billion.

BEST IDEA: Yahoo (YHOO). If you assume the spinoff of its 15% stake in Alibaba, Yahoo stock is valued at less than zero. "Yahoo's worth more than nothing," he says. *—Antoine Gara*

Why did the chain connect? Its model hits the sweet spot for clients, massage therapists and franchise owners. Clients get lower-cost massages at convenient locations with soothing environments. The pricing allows 58-year-old speech pathologist Mary McCracken of Silverdale, Wash., who has scoliosis, to get a weekly massage, where previously she could afford only one a month. "Massage Envy," she says, "keeps me vertical."

For therapists Massage Envy employment offers an opportunity to gain experience without the risks of business ownership. Entry-level pay starts low—and varies widely by region—but therapists have schedule flexibility and many opportunities to earn raises, says Silverdale Massage Envy manager Jessica Guzikowski. Some locations even help pay therapists' health care premiums.

From the franchise owner's point of view, Massage Envy's key selling point is the recurring revenue, which makes the initial investment—between $414,000 and $961,000, depending on leasing costs—feel less risky. Once open, franchise owners pay a 6% royalty on sales to Massage Envy, plus a 2% fee for national advertising.

The brand's franchisees have faced some challenges. A 2011 consumer class action centers on a policy that stipulates that customers who cancel their membership forfeit unused massages. Customers claimed the contract was misleading, and a proposed settlement would require franchisees to make good on some massages due ex-members. (Massage Envy said it could not comment on the suit.)

More alarming, sexual-molestation allegations have been leveled against some Massage Envy therapists. Last fall Atlanta station WSB-TV reported that there have been more than 50 different civil and criminal complaints around the country. Some civil lawsuits have been settled, but several criminal cases resulted in convictions of therapists. The litigation has focused on individual therapists and franchise owners, and Massage Envy says it has a zero-tolerance policy for franchisees who don't create a safe environment.

So far, the legal problems don't seem to have affected growth or retention. Only nine Massage Envy locations have closed in the chain's entire history—an impressive 99% continuity rate. "We're very careful about background-checking who we hire, and we haven't been affected," says Jim Gunderson, a franchisee who co-owns two clinics. "When a chain has given 90 million massages, statistically problems will happen."

Meanwhile, Massage Envy's success has encouraged competitors. Top challenger Hand and Stone offers month-to-month memberships and does 25% of its business in skin treatments (Massage Envy does 6%). Hand and Stone was purchased in April for an undisclosed sum by management and Levine Leichtman Capital Partners, and according to Todd Leff, Hand and Stone's CEO, it plans 45 more openings this year. Perhaps the most ambitious up-and-comer is the lower-priced Massage Green Spa, which has just 75 locations open but more than 800 units in development, according to CEO Allie Mallad.

Other chains are going upscale, such as Texas-based Woodhouse Spas, which has more than 40 full-service day spas and charges up to $280 for an 80-minute massage. In addition, some tanning salon chains, such as Planet Beach, are adding massage services, says Scott Lehr, senior vice president of the International Franchise Association. Two other competitors, Massage Heights and Elements Massage, are expanding into Canada.

For now, Massage Envy president Crisalli says the chain is focused on filling in U.S. markets, but he, too,

sees potential outside the U.S. In 2012 Sentinel sold Massage Envy to Roark Capital, a private equity firm that Crisalli says won out over 100 other interested buyers. Roark, which declined to comment for this story, owns nearly 30 franchise brands, including Anytime Fitness, Il Fornaio and Carl's Jr. The parent firm's expertise will be helpful, Crisalli said, if Massage Envy enters foreign markets. "Roark is in 50 countries," Crisalli says. "There's a ton of opportunity."

Meanwhile, franchisee Davis says he's not worried about the competition. For one thing, the chain is the only national brand that commercial real estate agents know, which helps Massage Envy snap up the best locations. And the chain has customer data that competitors can't match. "Those insights give us a sustainable, unfair advantage," he says. F

The Top-Ranked Franchises in America

	RANK	BRAND	5-YEAR GROWTH RATE	5-YEAR FRANCHISEE CONTINUITY	TOTAL UNITS	
ENTRY COST: UP TO $150,000	1	BRIGHTWAY INSURANCE	22%	89%	109	Sells auto, home, business and personal policies.
	2	MAIDPRO	10	92	167	Provides housecleaning services with detailed 49-point checklist.
	3	RIGHT AT HOME	14	89	338	Offers in-home care (nursing to companionship) for seniors, disabled.
	4	DISCOVERY MAP	10	91	132	Curates quirky tourist maps and travel guides.
	5	JUST BETWEEN FRIENDS	14	90	141	Hosts consignment events for children's and maternity clothes.
ENTRY COST: $150,001–$500,000	1	JIMMY JOHN'S	17	99	1,802	Serves and delivers sandwiches; preparing an IPO.
	2	JET'S PIZZA	15	98	321	Fires up deep-dish pizza in a square pan.
	3	MARCO'S PIZZA	21	94	433	Sells "authentic Italian" pizza; has doubled in size since 2011.
	4	PLATO'S CLOSET	10	98	384	Buys and sells name-brand young adult clothing, shoes, accessories.
	5	DUTCH BROS.	9	96	214	Sells coffee from drive-thru shops; founded by dairy-farming brothers.
ENTRY COST: $500,001 AND UP	1	SOLA SALON STUDIOS	38	100	139	Lets hairstylists run their own one-person business from salons.
	2	MASSAGE ENVY SPA	12	99	941	Offers affordable massages from more than 1,000 convenient locations.
	3	FIREHOUSE SUBS	16	94	722	Serves hot sub sandwiches; founded by former firefighters.
	4	THE LEARNING EXPERIENCE	25	94	126	Provides before- and after-school child care.
	5	PRIMROSE SCHOOLS	6	97	271	Offers child care plus learning at accredited private preschools.


MAIDPRO


RIGHT AT HOME

MARCO'S PIZZA

FIREHOUSE SUBS


PRIMROSE SCHOOLS

FORBES commissioned FRANdata to develop a methodology that ranks franchise brands based on historical performance. While potential franchisees might weigh a number of factors when considering a franchise brand, in the interest of a viable approach FORBES approved three basic criteria to frame the study: One, the likelihood that a franchisee's investment in a franchised unit will succeed over time. Two, the quality of the franchise system and the level of sufficient transparency of unit level performance. Three, a franchisor's long-term commitment and ability to support its franchisees. For an expanded chart of Best and Worst Franchises and for a more detailed look at methodology, go to Forbes.com/franchises.

DUTCH BROS: FRANCIS DEAN / DEANPICTURES / NEWSCOM

MIRANDA COSGROVE WANTS TO KEEP DOLPHINS SINGING

DOLPHINS USE SOUND TO FIND FOOD, TO COMMUNICATE AND LIVE.

But dolphins and their song could be blown away by seismic blasts a hundred thousand times louder than a jet engine. It could hurt and kill tens of thousands of dolphins. Join Miranda and help save the dolphins.

oceana.org/dolphinsong

OCEANA | Protecting the World's Oceans

Miranda Cosgrove swims with Atlantic spotted dolphins off Bimini, Bahamas.

© Tim Calver

Is Quiznos Toast?

THE SANDWICH CHAIN IS ATTEMPTING YET ANOTHER TURNAROUND, BUT IT MAY BE TOO LATE.

BY KARSTEN STRAUSS

Last year, when Joe Lopez decided to buy a few Quiznos restaurants in Michigan, he had one reason for investing in the formerly booming toasted sandwich chain's locations: They were cheap. Lopez bought three in a distress sale for $60,000. "No one is going to sell me a Marriott," Lopez says. "No one is going to sell me a McDonald's. Quiznos was pretty much at the bottom of the totem pole."

Quiznos has been there for a while. Founded in 1981, the privately held company grew to more than 5,000 locations by 2007 but has been flailing ever since. It has waged a constant battle with its franchisees, many of whom accused the chain of selling rights to too many locations and demanding that franchisees buy supplies from the company at prices that made it impossible for them to succeed. Last year Quiznos, based in Denver, closed 439 restaurants in the U.S. and filed for Chapter 11. It is down to 1,500 stores worldwide, with 900 in the U.S.

After emerging from bankruptcy last June, Quiznos underwent a round of layoffs and resignations, brought in a new CEO, began introducing a new menu and retooling its IT, and overhauled its supply chain. "The goal is to plot a new direction and get things turned around," says CEO Doug Pendergast, who took the helm in January and was previously CEO of the Atlanta-based Krystal burger chain. Some franchisees say Pendergast is making the right moves, but in the face of stiff competition from sandwich upstarts Jimmy John's and Firehouse Subs, not to mention industry behemoth Subway, the change of tack may have come too late.

Quiznos was the brainchild of Jimmy Lambatos, a chef, and restaurateur Todd Disner. Lambatos created a popular product: a sub sandwich that ran through a conveyor belt toaster to add a crunch that customers seemed to love. They grew the enterprise to 18 locations by 1991 before selling out to one of the franchisees, Rick Schaden, who along with his father expanded the company spectacularly, selling franchise rights by the thousands.

It was Schaden who required franchisees to purchase all of their supplies—from cold cuts to background-music CDs—from the company at prices they considered inflated. "We've always estimated that Quiznos marked up everything about 30%," says Jehad Majed, who has operated a location in Dearborn Heights, Mich. for a decade.

Things came to a head in 2006, when about 10,000 of the chain's franchisees filed a class action accusing the company of overselling its markets and making its franchisees "captive customers." The combination of crowded markets and high costs, says Justin M. Klein, the lawyer who represented the franchisees, meant that "it was only a matter of time until the franchisees would fail."

Quiznos settled the suit in 2010, paying the plaintiffs $206 million. Nonetheless, Rick Schaden denies overselling franchises. As for supply costs, he says, "There was no markup. We simply produced food at market prices." Current chairman of the Quiznos board, Doug Benham, sees things differently: "All we know is we had years and years of class action lawsuits, which the company settled for millions of dollars, that was directly on point to that subject."

The settlement came too late for at least one franchise owner, Bhupinder Baber, who had attempted to start an association of California franchisees. In November 2006 Baber took his own life in a Quiznos bathroom. "Someone must do something about what Quiznos is doing to the trapped franchisees," he wrote in the note he left. "Everything they do is in their own self-interest, with utter disregard for the interests of the franchisees, to who they sold the 'dream' and put into business, only to screw them systematically from day one." Of Baber's death, a Quiznos spokesperson says, "We were saddened."

In 2012 creditors led by private equity firm Avenue

JAMIE KRIPKE FOR FORBES

Quiznos' new postbankruptcy CEO, Doug Pendergast, is trying to win the trust of franchisees wary after years of turmoil.

Capital and hedge fund Fortress Investment Group demanded a restructuring that gave the firms control of the company. (Today the chain's other owners include Oaktree Capital, Michael Dell's MSD Capital and Caspian Capital.) Fortress and Avenue went on to sue the Schadens and other Quiznos managers, accusing them of misrepresenting the company's financial health before the deal. Rick Schaden denies the allegation.

This year, under its new owners, Quiznos finally dismantled its supply arm. Franchisees are now buying from an independent food distributor, Sysco, and prices have fallen significantly. A case of bread, once $30, now goes for $18, and the chain says franchisees, on average, have seen their supply costs fall 3.5% as a percentage of gross sales. The company says it also plans to eliminate unpopular menu items and ingredients. According to CEO Pendergast, a cloud-based point-of-sale system is being implemented to track commerce at North American locations. That network will eventually include a mobile app that customers can use to snag coupons and freebies, as well as to place online orders.

Quiznos has also cut 29% of its full-time staff. Benham, the board chairman, says the layoffs were inevitable given the company's reduced number of locations. "Every position in the company was reviewed and in some cases we consolidated positions," he says. "In other cases we decided that what a person was doing were things we just weren't going to do anymore."

Of the 1,500 Quiznos restaurants still open, the company owns only 6 itself. Each franchisee pays 7% of sales to the home office every week, on top of 4% in marketing fees. Pendergast won't disclose systemwide sales (franchise industry research firm FRANdata estimates it at $285 million for 2014, down from $400 million in 2013, compared to Subway's $13 billion in 2014), though he says the company is profitable. He also won't discuss how many

franchisees are in the black, except to say, "Not as many as we would like."

One franchisee not in the black is Jehad Majed, who estimates sales this year at the location he's run for a decade at $340,000. He says he is four months behind on his Michigan state taxes, has $16,000 in credit card debt and owes Quiznos $30,000 in royalties and fees. Majed says he has amassed personal debt of $100,000, and although he's sunk $230,000 into his location, he'd take $50,000 for it—if only he could find a buyer. "It's hard to sell a Quiznos these days."

While he thinks the new ownership and new executive team are taking the right steps, he worries "it might be too little too late." If he can't turn things around in the next year, he says, he'll auction off his equipment and convert the location, which he owns, into something else: "Maybe a pizza place."

Things are looking considerably brighter for Joe Lopez, the franchisee who bought three locations in Grand Rapids and Lansing, Mich. last year for just $60,000. He says he expects them to yield $850,000 in combined sales this year and even turn a profit. But he, too, is watching Quiznos' moves carefully. "If the changes don't work," he says, "we'll all be out of business." F

The Bottom-Ranked Franchises in America

	RANK	BRAND	5-YEAR GROWTH RATE	5-YEAR FRANCHISEE CONTINUITY	TOTAL UNITS	
ENTRY COST: UP TO $150,000	1	AMERICAN EXPRESS TRAVEL SERVICE	-13%	57%	117	Supplies travel services.
	2	GUARDSMAN FURNITUREPRO	-11%	47%	72	Offers furniture protection plans and damage, stain repair.
	3	ERA / ELECTRONIC REALTY ASSOCIATES	-10%	48%	549	Brokers real estate.
	4	ALL TUNE AND LUBE	-15%	31%	77	Provides tire, engine, transmission and general car maintenance.
	5	UNITED COUNTRY	-7%	52%	456	Brokers real estate in small cities, towns and rural areas.
ENTRY COST: $150,001–$500,000	1	IT'S A GRIND COFFEE HOUSE	-20%	26%	36	Operates coffee shops that also feature tea and smoothies.
	2	ECONO LUBE N' TUNE & BRAKES	-22%	25%	33	Offers quick oil changes, engine maintenance and brake repair.
	3	MR. PAYROLL	-8%	52%	88	Handles check cashing, money orders, bill pay and money transfers.
	4	COTTMAN TRANSMISSIONS	-11%	54%	67	Repairs autos.
	5	CHOCK FULL O'NUTS CAFE	-25%	20%	31	Operates Iconic coffee shops dating back to 1926 New York nuts store.
ENTRY COST: $500,001 AND UP	1	SBARRO	-4%	68%	572	Sells pizza/Italian fast food; emerged from Chapter 11 in 2014.
	2	DESERT SUN TANNING SALONS	-8%	46%	52	Sells lotions, moisturizers to customers seeking sunbed and spray tans.
	3	COUNTRY KITCHEN INTERNATIONAL	-14%	55%	46	Serves breakfast all day, plus comfort food like grilled steaks and apple pie.
	4	DIRECTBUY CLUB	-8%	47%	92	Lets members buy direct from manufacturers after paying entrance fees.
	5	BRUSTER'S REAL ICE CREAM	-5%	67%	187	Serves ice cream, frozen yogurt, Italian ice, sorbet and sherbet.

UNITED COUNTRY

CHOCK FULL O'NUTS

BRUSTER'S REAL ICE CREAM

FROM TOP: SPENCER PLATT / GETTY IMAGES; PHILLIP SPEARS / GETTY IMAGES; ORANGE COUNTY REGISTER / ZUMAPRESS.COM / NEWSCOM; MARIELA LOMBARD / ZUMAPRESS.COM / NEWSCOM; TASS / ZUMAPRESS.COM / NEWSCOM; WENN / NEWSCOM

Utah Business Elevated

BY SUSAN H. BURNELL

Salt Lake City © Andrew Gillman

Utah keeps racking up accolades, and there's good reason for it: It's always business season in the Beehive State.

Ranked by Forbes as the #1 State for Business in 2014, Utah also gained the top spot on Pollina Corporate Real Estate's Ten Pro-Business States list. Since 2006, corporate recruitment incentives have attracted more than 12,000 high-paying jobs to the state.

"We have an unwavering focus on economic development," says Governor Gary R. Herbert. "That includes attracting businesses and investment to the state while helping homegrown businesses thrive."

Stability Helps State Soar

Attracted by a 5% flat corporate tax rate—unchanged in nearly 20 years—businesses have set their sights on Utah. Utah's annual job growth increased 5.1% in 2014, and Utah companies raised more than $200 million in venture capital in the first quarter of 2015.

Practical matters rule here. Utah has a history of conservative fiscal policies. Its budget is balanced and its rainy-day fund substantial.

"Utah's business-friendly climate and fiscal responsibility lead to stability in the economy," says Vista Outdoor Inc. Chairman and CEO Mark W. DeYoung. "More than any other state we considered for our global headquarters, Utah wanted our business. Its infrastructure, four seasons and public lands make it a natural fit for a company like ours."

"It's our goal to have Utah lead the nation as the best-performing economy, and be recognized as the premier global business environment and tourist destination," says Val Hale, executive director of the Governor's Office of Economic Development (GOED).

> **"It's our goal to have Utah lead the nation as the best-performing economy, and be recognized as the premier global business environment and tourist destination."**
>
> **—VAL HALE**
> **EXECUTIVE DIRECTOR OF THE GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT**

Poised for Growth

With peaks as high as 13,528 feet, Utah soars above other states in geography. It also has climbed to high-profile status for its information technology and software infrastructure, talent base and opportunities. The state is no newcomer to the tech scene: the fifth node of the original Internet was located at the University of Utah. The home of strong IT and software companies for a quarter century, Utah is poised for continued growth.

A fast-growing cluster more than 4,300 companies strong, the tech industry is driving office market demand in Salt Lake City, the state's most populous city. CBRE, the world's largest commercial real estate services and investment firm (in terms of 2014 revenue), ranks the Salt Lake market in the top five U.S. small markets and #25 on its overall list.

CBRE's Utah office houses 33 sales

professionals and 107 employees in total. In 2014, its professionals advised clients on $858.1 million dollars in commercial real estate activity.

"Business leaders from across the state work closely in partnership," says Mark Bouchard, senior managing director for CBRE's Salt Lake City office. "There's good planning, with emphasis on education and a well-diversified workforce. Leaders don't just rely upon the government or economic development groups—they're involved in public-private partnerships to strategize on how we will move forward. Our office has certainly benefited from—and made an effort to contribute to—that strategic thinking.

"It might surprise business decision makers that our cost of living is slightly higher than the U.S. average," says Bouchard. "But the reason Forbes and others view us so favorably is that the cost of doing business in Utah is 16% below the national average. That statistic alone fosters great interest, especially from businesses."

Tech Momentum Accelerates

The business climate for IT and software companies has attracted such companies as Adobe Systems, which recently acquired Utah-based Omniture, a leading web analytics company, for $1.8 billion. Last year, Provo-based insight technology provider Qualtrics landed $150 million of new investment. Other fast-growing companies in the state include Pluralsight, Domo, InsideSales.com and Health Catalyst.

© Sophia DiCaro

Utah State Capitol

"We have an unwavering focus on economic development. That includes attracting businesses and investment to the state while helping homegrown businesses thrive."

—UTAH GOVERNOR GARY R. HERBERT

Vista Outdoor, a new publicly traded outdoor sports and recreation company, chooses Utah for its global headquarters! A strong business climate, great quality of life and a thriving outdoor recreation industry make the state a great partner in our mission: BRINGING THE WORLD OUTSIDE™.

ALLIANT POWDER Technically Superior by Design · BY STINGER · BLACKHAWK! · bollé · Bushnell · BUTLER CREEK

CCI · CHAMPION · EAGLE · FEDERAL PREMIUM AMMUNITION · GOLD TIP · GUNSLICK PRO

HOPPE'S 9 · NIGHT OPTICS · Outers · PRIMOS HUNTING · RCBS · Savage Arms

SERENGETI PHOTOCHROMIC LENSES · SIMMONS · speer · Sport · tasco · UNCLE MIKE'S · WEAVER

Together, Utah companies raised more than $800 million in venture capital in 2014, the largest sum in the Rocky Mountain region. That figure tops the capital raised in Colorado, Nevada and Idaho combined. In terms of average deal size in the first nine months of 2014, the Provo-Orem metro was #1 in the nation, and twice the average size of #2, San Francisco.

Utah is a candidate for continued tech company growth, with its highly educated workforce and the nation's seventh-highest concentration of millennials. "Our opportunity now is how to capitalize on that young, educated workforce," says Bouchard.

To create further momentum around Utah's thriving technology community, Omniture cofounder and current Domo founder and CEO Josh James developed the Silicon Slopes initiative. More than a branding effort, SiliconSlopes.com provides a hub for technology and life sciences companies, job seekers and investors to connect.

"Utah's booming IT sector has gained national attention and continues to be an integral part of our economy," said Governor Herbert. His comments accompanied the May 2015 announcement by the GOED board that EMC Corporation will expand its operations in Draper.

The expansion will create 700 jobs in addition to the 750 people EMC already employs in the state. It's a capital investment of about $62 million for the information technology firm.

"We have a very vibrant and diverse IT industry cluster here," says Vance Checketts, vice president and general manager of EMC's Utah operations. "Utah offers IT professionals a great career and a life to match."

EMC provides cloud computing, big data analytics and security technology. It operates one of its eight global "Centers of Excellence" in Draper. The company's Utah facility, selected both for its location and access to a skilled workforce, provides a variety of IT and client services, and serves both U.S. federal agencies and global customers.

Granite School District student interns work with an engineering intern instructor at BioInnovations Gateway (2015).

Well-Qualified Talent Base

L-3 Communication Systems-West (L-3 CS-West) is one of the companies helping to build Utah's economy. The company is the largest division within L-3 Communication Systems Group, which is one of L-3's four business segments.

L-3 CS-West is part of an aerospace and defense cluster that employs more than 20,000 people. It provides networked communication solutions for high-performance intelligence collection, imagery processing and satellite communications for the Department

L-3 – A Major Contributor to Utah's World-Class Engineering and Business Environment

For nearly 60 years, L-3 Communication Systems-West (L-3 CS-West) has enjoyed the benefits of Utah's outdoor beauty as well as its business-friendly environment and well-educated workforce. We provide high-capacity, networked wireless communication solutions that deliver secure, on-demand, high-bandwidth information to our customers.

With 3,300 employees, we are renowned for our innovative spirit, which draws top talent from Utah's highly ranked universities and leading institutions nationwide. Our agile and responsive engineering expertise, coupled with our world-class manufacturing capability, facilitates a collaborative approach with our customers to deliver the cutting-edge solutions that make us an industry leader.

L-3 CS-West helps educate innovators by serving on Utah's university advisory boards and technology councils, as well as supporting many STEM initiatives. We also partner with high schools, trade schools and community colleges to prepare tomorrow's skilled workforce. Together, we are working to ensure Utah's bright future as a premier center of business and technology.

L-3's Network Visualization Laboratory in Salt Lake City provides control and visual depiction of the status of communication networks.

BRILLIANT WORK.
BREATHTAKING SCENERY.

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Communication Systems-West — An Innovative Utah Business

L-3 Communication Systems-West combines proven systems with the people, expertise and innovation to enable information dominance for superior mission-critical decision-making. Our network control software and wideband radios bring the power of the network to the customer, effectively reducing the decision cycle. L-3 CS-West's integrated communication systems provide cost-effective solutions that enable real-time, secure, wideband data transfer whenever and wherever you need it.

For more information, please visit L-3com.com/csw or www.L-3jobs.com.

Communication Systems-West

L-3com.com

© David Pulsipher, 2011

The Wasatch Mountains are just a short drive from downtown Salt Lake City, providing unparalleled access to both an urban lifestyle and the great outdoors.

of Defense and other government agencies. L-3 CS-West has 3,000 employees in Salt Lake City and another 500 supporting customers in other locations around the world.

"Beyond producing products, we do a lot of business with suppliers here in Utah," says Bruce Carmichael, executive director of ethics and program security. "The flow-down of the work we do has a relatively large footprint."

Salt Lake City's greatest advantage for attracting high-tech talent is its quality of life, says Andy Ivers, president of L-3's Broadband Communications Sector and president of Communication Systems-West. "It's a smaller city with a Midwest-friendly feel. It lacks the traffic and congestion of cities on the West and East Coasts. You can be in the mountains in 30 minutes, and get to one of the state's five major national parks very quickly. From the doorsteps of our plant in Salt Lake City, it's about a 40-minute drive to world-class ski resorts."

The state's well-renowned universities help L-3 maintain a talented technical workforce, Ivers says. "We are able to recruit recent graduates, our staff can pursue advanced degrees, and we partner with Salt Lake Community College to train technicians—all great advantages."

Of L-3's employees, 14% are serving or have served in the military. The company recently earned a Bronze Minuteman Award from the Utah National Guard. The award recognizes L-3's support for its employees' military service, along with its active recruiting and community outreach to veterans.

Responsible, Sustainable Energy

Ninety-five percent of Utahns who have access to natural gas are customers of Questar Gas Company, the natural gas distribution subsidiary of Questar Corporation. The corporation and its affiliated companies serve or operate assets in Utah, Wyoming, Idaho and Colorado. Recognized for its excellence as the top gas utility in the West by J.D. Power, Questar Gas continues to earn high marks from its customers. In addition, *Public Utilities Fortnightly* named Questar Corporation the nation's top energy company in 2014.

Utah's diverse landscapes offer unlimited recreational opportunities.

"We believe we're demonstrating that Questar, headquartered in Utah, is one of the nation's best companies, and serves one of the best places to do business," says Ronald W. Jibson, Questar Corporation's chairman, president and CEO. "Utah provides a solid base for a company like Questar. There's no other place in the nation I'd rather have our company headquartered."

One of the main reasons Utah continues to be named as the number one state for business is because of its low energy costs, Jibson says. "Our natural gas rates are historically among the nation's very lowest—often 25% to 30% below the national average. That is a big driver for economic growth. The state also has vast space for development, and with natural gas available throughout the state, new companies can keep their costs low."

Questar is highly engaged in efforts to produce cleaner, more-efficient energy. Those efforts are consistent with Governor Herbert's commitment to provide access to affordable, reliable and sustainable energy. The governor's goal is to have the state produce 25% more electrical energy than it consumes by 2020. Responsible energy resource development, improved air quality, and innovation in energy efficiency and development go hand-in-hand with that goal.

Jibson notes that available clean and low-cost energy were factors in Proctor & Gamble's decision to open its first new U.S. plant in 40 years. The company's Box Elder Family Care plant, north of Salt Lake City, opened in 2011 and will be expanding next year.

Utah's year-round recreation is a further draw for recreation-based companies, Jibson adds. "We are doing our part by being

BiG Strides for STEM Success

"I want in!" is one of the first things life science start-ups say about BioInnovations Gateway (BiG). "This is the only program we know of in the nation that integrates high school education and training with life science start-up incubation," says Scott Marland, Ph.D., executive director.

BiG offers experiential learning opportunities, internships and potential employment for students, and resources for biotech start-up companies. About 3,000 students per semester participate in BiG training, and about 15 start-up firms participate at any given time.

Housed in Granite Technical Institute, BiG is set up as a magnet school, with equipment, 3-D printers, a clean room and a multimillion-dollar lab. "We offer a bridge between coursework and what companies need," says Marland. "They let us know what skill sets, software or equipment training they want students to have, and we tailor programs for them. We work with teachers and start-up companies, so that when students complete their training, they can go in and be useful right away."

The facility offers partner companies such resources as accountants, patent attorneys and product development assistance. Marland calls it "a magical culture of people working together."

BiG tackles the issue of resources for life science companies. "Start-up companies need a trained workforce, talented management, and expensive equipment and facilities," says Michael O'Malley, marketing director for the Utah Governor's Office of Economic Development (GOED). "BiG enables its tenant companies to utilize laboratory and office space and appropriate equipment without the initial capital outlay, well below market rates. Students participating in the BiG model within the biomanufacturing/biotechnology programs are better prepared and highly marketable to our Utah industry."

© BioInnovations Gateway, 2010

BioInnovations Gateway is an educational institution and workforce training facility that provides access to laboratories, machines, office space and resources for high school students and entrepreneurs.

environmentally conscious, which in turn helps the state attract those companies."

The Great Outdoors Lures Companies, Workers

When Vista Outdoor spun off from Alliant Techsystems Inc. (ATK) earlier this year, it found Utah to be a great match for its mission to "bring the world outside." Vista Outdoor joins more than 190 companies in the state that specialize in outdoor products and recreation. Vista's brand heritage includes 30 well-recognized brands, including Federal Premium, founded in 1922, and Bushnell, founded in 1948. It has grown its portfolio through a series of acquisitions under the leadership of Mark DeYoung.

"The state takes advantage of its four-season environment," says DeYoung. "It has great infrastructure, including facilities built for the 2002 Winter Olympics. There are public indoor and outdoor shooting ranges, which align with our portfolio of equipment for shooting sports. Utah focuses on outdoor recreation as a market segment, so it has welcomed us as a producer of equipment for hunting, skiing, golf and other outdoor activities."

A leading global designer, manufacturer and marketer of consumer products in the growing outdoor sports and recreation markets, Vista Outdoor employs nearly 5,800 skilled workers worldwide. Its customers are outdoor enthusiasts, hunters and recreational shooters and professional athletes, as well as law enforcement and military professionals.

© Michael O'Malley

Deer Valley Resort

© Adam Baker, 2010

A hiker takes in the view of Salt Lake City.

Vista Outdoor has facilities in Minnesota, Kansas and Mississippi, but for its headquarters it selected Clearfield, Utah, where ATK also had offices. The company is creating 90 high-paying, high-skilled jobs in Clearfield, and it received a package of incentives from GOED. According to DeYoung, an economic development incremental finance incentive worth about $1.35 million was part of the package. The credit will reduce the company's taxes by about 20% over seven years. Other factors that swayed the company's decision were the state's fiscal responsibility and stable real estate market.

The choice was personal, too, DeYoung adds. "I was born and raised here, but I've lived in Virginia, Maryland and Minnesota. That has made me appreciate Utah all the more. There are outdoor activities in all four seasons. There are places to ski, water-ski, hike, backpack or ride ATVs, all within 15 minutes of my house."

"When companies are recruiting, they like to feature Park City when they promote the wealth of opportunities Utah has. We call it America's most accessible mountain destination."

—BILL MALONE
PRESIDENT AND CEO, PARK CITY CHAMBER OF COMMERCE | CONVENTION & VISITORS BUREAU

A World-Class Destination

Park City in Summit County, within 35 minutes of Salt Lake City, is a world-renowned destination that factors prominently when companies are recruiting top executives or choosing a company meeting spot.

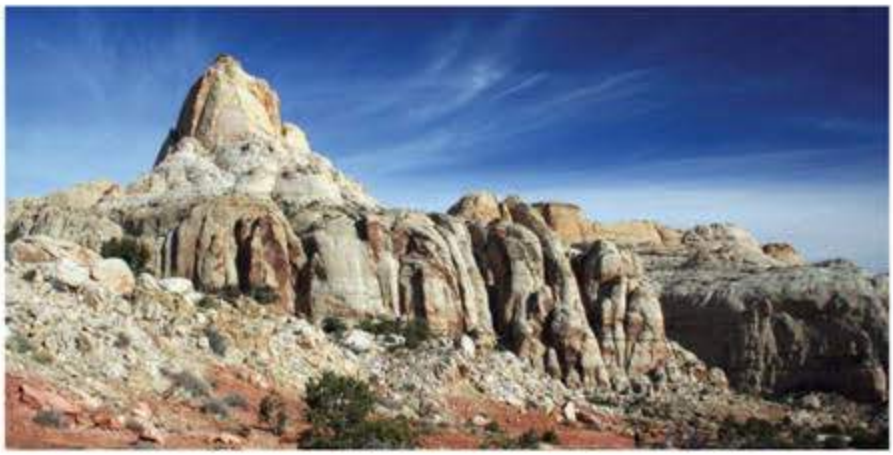
"It's rather interesting to have this kind of mountain resort community so close to the state capital," says Bill Malone, president and CEO of the Park City Chamber of Commerce | Convention & Visitors Bureau. "When companies are recruiting, they like to feature Park City when they promote the wealth of opportunities Utah has. We call it America's most accessible mountain destination. It's easy for people to live here and commute to work in Salt Lake City. We have great ski areas, a trail system, culinary experiences, shopping and other activities that attract people from all over the world."

As Utah is home to the "Greatest Snow on Earth®," Summit County is now home to ski product innovator Armada Skis, Inc. Late last year, Armada Skis announced it would

© Adam Baker, 2010

relocate its global headquarters to Summit County from Southern California. The company joins a wealth of other outdoor sports equipment firms in an area that includes two world-class ski resorts.

Park City is also home to the annual Sundance Film Festival. This past January, the ten-day event generated an overall economic impact of $83.4 million for the State of Utah. "Hosting Sundance adds a lot of vitality to the community, in terms of cachet and star power," says Malone. "Media from all over the world talk about film against the great backdrop of our ski resorts. The value to us is much greater than the spending, because it lets people who have never come here see what everyone is talking about, and gives them a chance to fall in love with the place as well."



© Michael O'Malley

Capitol Reef National Park

A Prime Place to Set Up Base

There's nothing like Utah's outdoor recreation opportunities and ease of access, according to Darin Mellott, a senior research analyst for CBRE's Southwest Region. "I live ten minutes from a lake and a ski resort, and 15 minutes from a train station. The commuter rail runs at 80 miles per hour, making traffic and weather no concern. I like being in places with energy, and there is good energy here."

"I can fly to Paris faster than Darin can drive to Los Angeles," notes Bouchard. "There are very few places that offer that kind of access. Utah is a great place for companies to come and set up base. They get a great return on their investment, because all the pieces here work so closely together in their favor." ■

For more information, visit business.utah.gov

Boutique Bull

THE RUN-UP IN HOSPITALITY REITS HAS STALLED, BUT PEBBLEBROOK HOTELS IS PROVING THAT CATERING TO THE TRENDY SET IS ALWAYS A GREAT BUSINESS.

BY ERIN CARLYLE

Destination man: Pebblebrook Hotels CEO Jon Bortz.

Jon Bortz rides an orange bicycle through the kelly green lobby of Washington, D.C.'s Hotel Monaco. Dressed in a conservative suit and sensible black shoes, the curly-gray-haired 58-year-old looks a tad silly. But the bright cruiser captures the flavor of Pebblebrook, the hotel company he founded six years ago. "Gotta have fun," Bortz says, as he swings a leg over to dismount.

And that's precisely the point: Every detail of this hotel has been designed to create an enjoyable experience. Unlike most real estate investment trust chief executives, who spend more time reviewing spreadsheets and meeting shareholders, Bortz is deeply involved in ensuring that properties have the right vibe—he signs off on every piece of fabric, every chair, every fixture that will grace his hotels. Bortz gestures toward a colorful piece of art in the lobby, which, yes, he personally approved. He heads down the staircase to the hotel's lower level, pointing out the custom wallpaper depicting the heads of presidents (this is D.C., after all).

When Pebblebrook bought this property in 2010 from Kimpton Hotels for $74 million, the stairwell was bare and the ceilings were covered in the kind of flat, gridded panels found in a midmarket office space. Guests staying here frequently squawked about being on the ground floor, slightly below street level, which felt like a basement. So Bortz dressed it up, put in antique tin ceilings painted gold and added tasteful drapes and graceful consoles that give the corridor the feel of a grand hallway. It paid off: The number of complaints dropped dramatically, and these days overnight room rates average $265, compared with $152 citywide, according to STR Analytics, with an enviable occupancy rate of 85% (67% is typical for D.C.).

That attention to detail explains in part how over the past six years Pebblebrook, which started as nothing more than a bright idea—Bortz founded the company in 2009, raising $400 million on his track record as one of lodging's top-performing CEOs—has quickly blossomed into a $3 billion (market cap) leader among lodging REITs in America. Like other REITs its returns have been impressive: 144% for the past five years, versus 115% for the S&P 500, with hefty dividend increases of 33% for 2013 and 44% in 2014.

STEPHEN VOSS FOR FORBES

CHRIS LYON FOR FORBES

THE NEW MONEY MASTERS

Chuck Myers 39

HOMETOWN: Parma, Ohio

ALMA MATER: Wharton, B.S., M.B.A.

SPECIALTY: Small caps

DAY JOB: Portfolio manager, Fidelity Small Cap Discovery Fund

CRED: His $6 billion fund has trounced the Russell 2000 over the last ten years, averaging a 12% annual return versus 8.4% for the index.

WORST INVESTMENT: American Body Armor. As a teenager Myers bought shares in the maker of bulletproof vests because it traded at a cheap multiple. Little did he know that DuPont was about to introduce a lighter, stronger Kevlar and torpedo the company's growth prospects, prompting a bankruptcy filing. "Any time you lose 100% of your money, it's forged in your memory forever."

PAY-IT-FORWARD WISDOM: "Avoid what you don't understand." Legendary stock picker Joel Tillinghast was assigned as Myers' mentor his first day at Fidelity, and, like fellow value guru Warren Buffett, he stressed staying within a "circle of competence." For Myers that means small-cap stocks largely overlooked by Wall Street.

BIGGEST WORRY: Biotech. "It's an example like the tech bubble, where people were investing sort of blindly at infinite earnings multiples."

BEST IDEA: Meritage Homes (MTH). Nothing is cheap in the market, according to Myers, but housing hasn't returned to long-term averages, let alone its precrisis peak. Just to get back to the 30-year average of 1 million single-family starts per year would require 40% growth, leaving plenty of room to run for builders like Arizona's Meritage and other housing-related companies. —*Steve Schaefer*

HOTEL POINTS

INN, RLJ AND PEB GET THE MOST BUY/OVERWEIGHT VOTES FROM ANALYSTS.

COMPANY NAME / TICKER	DIVIDEND YIELD	2014 PRICE CHANGE	2015 PRICE CHANGE YTD	PRICE/ FFO
ASHFORD HOSPITALITY TRUST / AHT	5.71%	34.01%	–19.85%	8.60
CHESAPEAKE LODGING TRUST / CHSP	4.52	47.13	–16.50	15.04
DIAMONDROCK HOSPITALITY COMPANY / DRH	3.88	28.74	–13.18	13.79
HERSHA HOSPITALITY TRUST CLASS A / HT	4.35	26.21	–7.54	12.38
LASALLE HOTEL PROPERTIES / LHO	5.00	31.14	–10.82	13.32
PEBBLEBROOK HOTEL TRUST / PEB	2.92	48.34	–6.97	19.30
RLJ LODGING TRUST / RLJ	4.40	37.87	–10.29	12.71
SUMMIT HOTEL PROPERTIES / INN	3.60	38.22	4.18	12.43

[1]PRICES AS OF JUNE 11, 2015. *SOURCE: FACTSET.*

"Bortz is like a rock star. He walks on water in people's eyes," says Jeff Donnelly, a managing director at Wells Fargo Securities. Pebblebrook projects its cash flow (Ebitda) could jump by 22% to $327 million in 2015.

But despite its success, the big question facing all hotel REITs is whether there is any juice left in the run-up. During 2013 and 2014 the Baird/STR Hotel REIT subindex, which tracks the price performance of 11 lodging companies, rose a whopping 54%. Through the second week of June the subindex is down 10.7%. RevPAR (revenue per available room, a key lodging REIT metric) has decelerated for seven straight months. And in past downturns lodging REITs have cratered. "These are stocks that work best very early in the cycle," says C. Patrick Scholes, an analyst at SunTrust Robinson Humphrey. Other analysts mention the potential for competition from lower-end chains like Hampton Inn and Courtyard by Marriott.

Bortz shrugs off the gloomy scenario because he thinks demand for his boutique hotel properties is driven by increasingly affluent Gen Xers and emerging Millennials, who would rather collect experiences than things.

Bortz first gained an appreciation for the value of a singular experience back in the 1980s, when he was a vice president at LaSalle Partners overseeing the redevelopment of Washington, D.C.'s Union Station. The government had reopened the 1907 Beaux-Arts station as a national visitor center for the Bicentennial in 1976, but the project failed miserably. By the time Bortz took over, the station had been closed again and suffered from a leaky roof, with toadstools growing on the floor.

Bortz oversaw the $180 million redevelopment for LaSalle, adding 210,000 square feet of retail space. "It really was my introduction into the need to create something that was a unique destination and a unique sense of place," Bortz says.

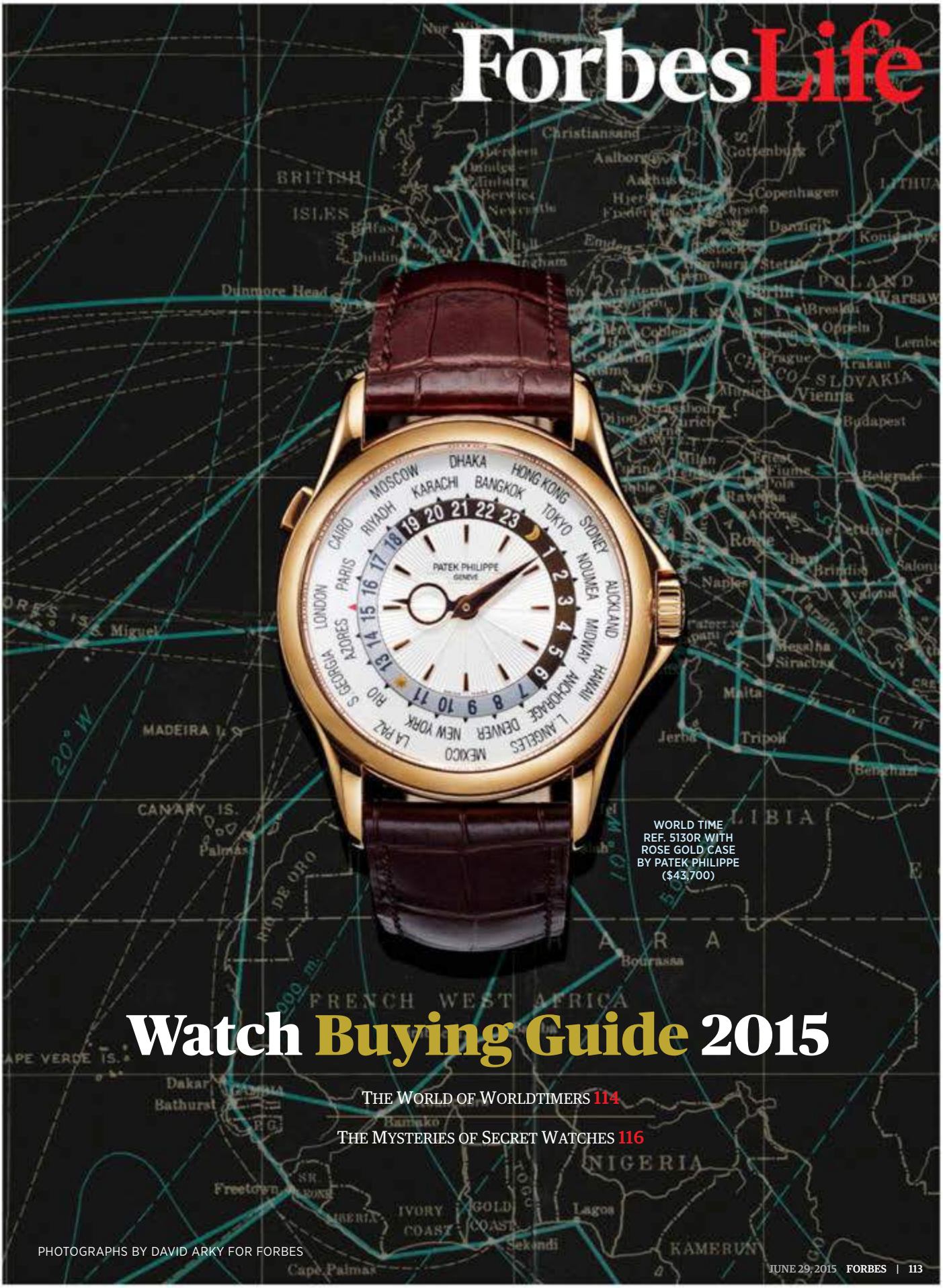
Next Bortz managed the transformation of New York City's Grand Central train station for LaSalle in the late 1990s. Under Bortz's watch Grand Central morphed into a thriving hub for the hundreds of thousands who come each day not just for trains but also for gourmet meals or to buy Vince Camuto shoes and Swatch watches. Bortz eventually took the company public in 1998 and was CEO until 2009.

His experience at LaSalle rejuvenating run-down properties like Grand Central formed the foundation of Pebblebrook's strategy of polishing diamonds in the rough into gleaming boutique hotels and packaging them together for investors. Today Pebblebrook's portfolio of 36 properties (30 wholly owned, 6 in joint ventures) consists primarily of chic hotels flying under an array of brands like Kimpton, W and Sofitel—all unique properties in gateway cities forecast to be big with travelers for decades to come.

Bortz's concept is simple: Buy underperforming properties on the cheap in cities where it is hard to build, and renovate them to create a locally flavored experience special enough to command premium pricing. "I think people are looking for things that are more authentic, from an experience perspective," he says. "So if I go to Portland, as part of my overall experience of Portland I want to stay in a hotel that speaks to Portland, that makes me feel like I'm in Portland, and not in the same room I could be in in Des Moines or New York or Baltimore or anywhere else in the country," he says. So D.C. has the presidential wallpaper, and Hotel Zetta in San Francisco, a city of tech-obsessed adult children, has a giant Plinko board in the lobby.

Quirky amenities and a flair for creative decor help bring in young travelers, but Bortz is even better at slashing operating costs. His hotels got rid of tiny individual toiletries bottles (a huge waste of plastic), replacing them with large pump bottles. Annual cost savings: $40,000 per hotel, or about $1.4 million companywide. Another big savings comes from strategic housekeeping: steps like not changing the sheets every night for guests on multiday stays (and convincing them it's primarily for environmental reasons), which cuts maid visits from 30 to 15 minutes per room, thus saving $60,000 per hotel, nearly $2.2 million per year. It all adds up to operating margins of 39% for Pebblebrook versus 37% for the industry.

So far this year Pebblebrook's shares are down 7%. Other lodging REITs are down as much as 20%. The question hanging in the air is whether this is a sign of what's to come or simply a hiccup. Contrarian investors, who would rather ride strong demographic demand than bicycles in hotel lobbies, should take note. With dividend yields ranging from 3% to 6%, the sleep-well-at-night reassurance of owning these stocks (at least for as long as this lodging upswing lasts) could be even more comforting than an extended stay in one of Bortz's sumptuous hotels. F



WORLD TIME REF. 5130R WITH ROSE GOLD CASE BY PATEK PHILIPPE ($43,700)

Watch Buying Guide 2015

PHOTOGRAPHS BY DAVID ARKY FOR FORBES

SAN FRANCISCO *(GMT –7:00):* OCTA UTC WITH PLATINUM CASE BY F.P. JOURNE ($56,100)

The World Of Worldtimers

HOW ON EARTH CAN YOU KNOW THE HOUR IN NEW YORK, LONDON, HONG KONG AND SYDNEY ALL AT ONCE? JUST LOOK AT YOUR WRIST.

LONDON *(GMT +1:00):* ALT1-WT WORLD TIMER WITH STAINLESS STEEL CASE BY BREMONT ($6,595)

NEW YORK *(GMT –4:00):* GMT BLACK WITH ADLC-COATED TITANIUM CASE BY GREUBEL FORSEY ($565,000)

MOSCOW ***(GMT +3:00):*** MASTER GEOGRAPHIC WITH STAINLESS STEEL CASE BY JAEGER-LECOULTRE ($11,700)

IN THE EARLY 1930S, NEARLY 50 years after Greenwich, England was established as the prime meridian of the world's 24 main time zones, Swiss watchmaker Louis Cottier created a mechanism to display them all on a single watch dial. By the end of the decade Vacheron Constantin had produced the first worldtimer pocket watch, and Patek Philippe is credited with creating the first Cottier-inspired World Time wristwatch. (Time has also been good to their value: In 2002 a 1939 platinum Patek Philippe World Time watch set a then record at auction, selling for more than $4 million.) By the 1950s Rolex tried to further simplify the complication by creating a watch, the GMT-Master, set to Greenwich Mean Time and a home location, a function especially useful for pilots.

Today, of course, worldtimer watches are invaluable to every corporate Magellan who does business across multiple time zones. Patek still makes a World Time watch that looks remarkably similar to its early models, while Greubel Forsey has elevated the GMT with a rotating globe on the dial and a world time disc with 24 cities on the back of the movement. And every time you look at your wrist, you are reminded just how small a world it is after all.

TOKYO ***(GMT +9:00):*** CAPELAND 10106 WITH STAINLESS STEEL CASE BY BAUME & MERCIER ($7,900)

HONG KONG ***(GMT +8:00):*** TRAVELLER WW.TC WITH PINK GOLD CASE BY GIRARD-PERREGAUX ($34,750)

Hide and Chic

THE MYSTERIES OF THE SECRET WATCH REVEALED.

IF TIME IS A GREAT MYSTERY, why not add a little intrigue to your wrist—or perhaps a finger—with a secret watch? Popular in the 1930s and '40s, secret watches have come back into vogue (particularly now that the hour blinks from every smartphone), a reminder that some things are better left hidden. With tiny dials obscured behind cameos and bejeweled lids, and even inside, say, a serpent's mouth, a secret watch is the ultimate collaboration between jeweler and watchmaker. In their hands, a watch is transformed into a bracelet, a brooch, a ring. And time, however briefly, disappears.

SECRET DE LA REINE WATCH IN 18K ROSE GOLD WITH 432 BRILLIANT-CUT DIAMONDS, A HAND-CARVED CAMÉO AND A DIAL WITH 48 BRILLIANT-CUT DIAMONDS BY BREGUET ($108,600)

CLOCKWISE FROM TOP LEFT: KALLA HAUTE COUTURE À SECRET WATCH IN 18K WHITE GOLD WITH DIAMONDS BY VACHERON CONSTANTIN ($891,000); SOLEIL WATCH IN 18K WHITE GOLD WITH WHITE AND YELLOW DIAMONDS BY CHANEL ($237,000); 18K WHITE GOLD AND DIAMOND WATCH BY CARTIER (PRICE AVAILABLE UPON REQUEST); CADENAS SERTIE GOLD BRACELET WATCH IN 18K WHITE GOLD WITH SNOW-SET DIAMONDS AND MOTHER-OF-PEARL DIAL BY VAN CLEEF & ARPELS ($43,000); HALO SECRET WATCH IN 18K WHITE GOLD WITH DIAMONDS BY GRAFF (PRICE AVAILABLE UPON REQUEST).

SERPENTI SECRET WATCH IN 18K PINK GOLD WITH TURQUOISE AND BRILLIANT-CUT DIAMONDS BY BULGARI ($310,000)

CREDIT: NAME

CHRIS LYON FOR FORBES

THE NEW MONEY MASTERS

Jon Stein 35

HOMETOWN: Dallas

ALMA MATER: Columbia, M.B.A.; Harvard, A.B.

SPECIALTY: Indexing

DAY JOB: Founder and CEO, Betterment

CRED: Robo-advisor Betterment manages more than $2 billion in 93,000 accounts using index funds and an automated allocation system, based on an investor's risk tolerance and time horizon.

WORST INVESTMENT: Bought Enron on the way down, catching a falling knife.

PAY-IT-FORWARD WISDOM: Curb your enthusiasm for stock picking. "Trading on my own I learned the hard way that I wasn't any better than anyone else. No one in the long term beats the market," says Stein. "The best things you can do is invest in a diversified portfolio that is optimized to get you the best possible expected return, net of risk, net of behavior, net of taxes."

BIGGEST WORRY: Not enough savings. The issue, he says, gets "neglected in favor of things that are more shiny."

BEST IDEA: Don't think too much about investing and rebalancing; let software do it. That said, Betterment's biggest holdings across age cohorts ranging from 25 to 55 are three ETFs: Vanguard FTSE Developed Markets (VEA), Vanguard Total Stock Market (VTI) and Vanguard Value (VTV). —*Samantha Sharf*

The Guru And the Felons

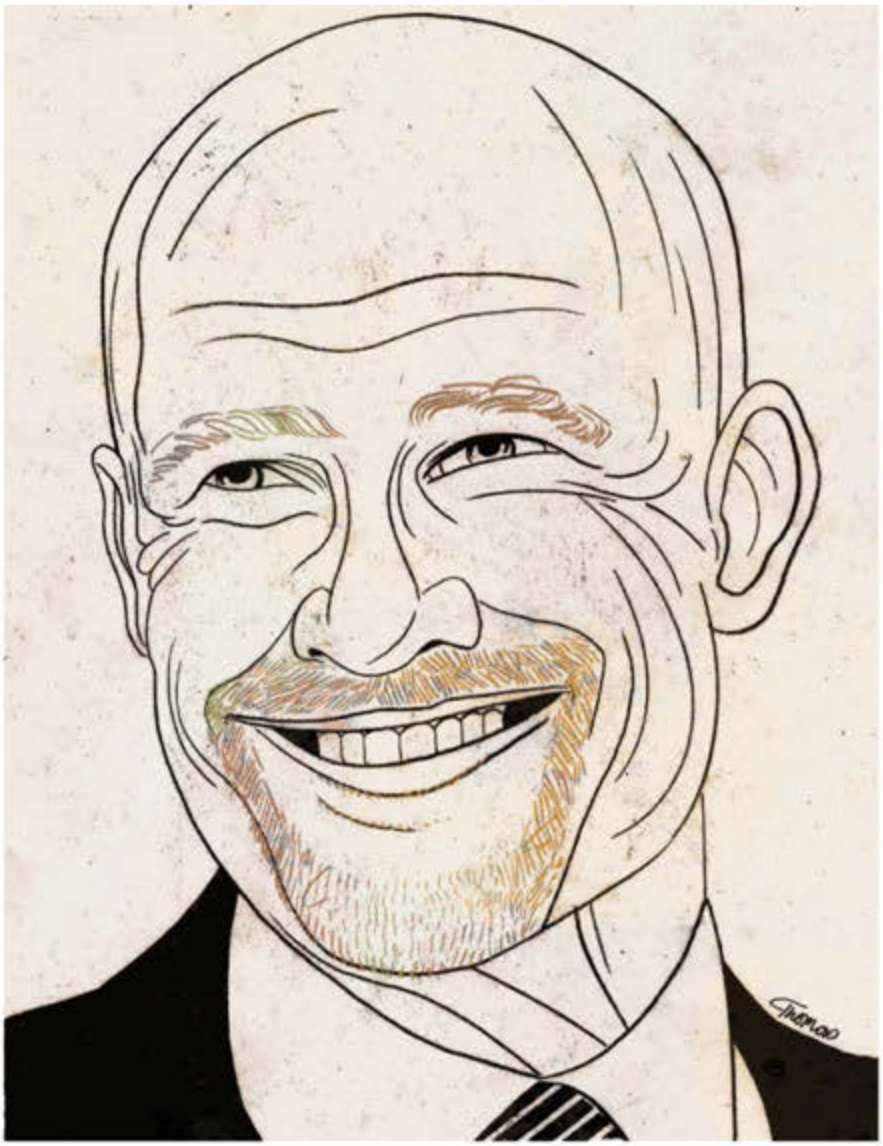
WHEN ONE OF THE MOST PROMINENT LIFE COACHES IN AMERICA, LEE BROWER, RAISED $60 MILLION TO PLAY THE INVESTMENT GAME, IT DEVOLVED INTO A FIASCO—AND A CAUTIONARY TALE.

BY NATHAN VARDI

When Rhonda Byrne wrote *The Secret*, a self-help book that espoused the benefits of positive thinking, it made her a small fortune—since 2006 more than 20 million copies have been printed. And it proved similarly beneficial for one of the 24 life coaches she featured, former insurance agent Lee Brower, who talked about carrying a "gratitude rock" in his pocket to remind him of things to be grateful for when life doesn't go his way.

Brower now sells engraved Gratitude Rocks (three for $34.99), with the profits going to charity—a small gesture, given the cottage industry he's built around himself. Under the shingle of his Salt Lake City-based firm Empowered Wealth, he advises clients on how to transfer "core assets like family values" as well as money through their estate plans. He has self-published a book, *The Brower Quadrant*, and gives speeches on his belief that "we can affect every aspect of society by strengthening families." Certified financial planners pay $2,495 to attend Brower's workshops and gain the right to be called an Empowered Wealth "ambassador."

"He has impacted my life because it's a systematic way to apply true wealth—your experiences, your core values—as well as money," gushes



JACOB THOMAS FOR FORBES

Staatsolie

Leading Sustainable Development

Staatsolie refinery

While economic diversification remains at the top of Suriname's priority list, its extractive industries continue to make a huge and inestimable contribution to the country's economy. The national oil company, Staatsolie Maatschappij Suriname NV, alone accounts for 20% of government revenues, thanks to its annual tax bills and the dividends it pays into the public purse from operating profits.

Since its establishment in 1980, Staatsolie has played an important role in the development of the country, which became independent in 1975. The company is celebrating its 35th anniversary this December and currently executing its 2014–17 investment program in order to diversify, rather than remain entirely reliant on the production of fossil fuels. For example, Staatsolie is doubling refinery capacity to 15,000 barrels per day (bpd); generating electricity from its 62 MW thermal power plant, which it is currently expanding to 96 MW; and participating at a 25% level in the Merian Gold Project in partnership with the U.S.'s Newmont Mining Corporation.

Although oil was first discovered in Suriname in 1929, it was only in the 1960s that the country—at that time still a Dutch colony—started to attract international oil companies looking for petroleum. A series of onshore finds in the '60s, followed by offshore drilling by Shell in the '70s, led to the creation of Staatsolie in 1980. Soon after, Staatsolie signed a contract with the U.S.'s Gulf Oil to ramp up exploration efforts on land and in its territorial waters. By the end of 1982, commercial production—of just 200 bpd onshore—had begun.

Since then, Staatsolie has evolved into an integrated oil company that is active in exploration, production, refining, marketing, and distribution of crude oil and derivatives, as well as bunkering and retail, and serves markets in Suriname and the Caribbean. Today, its crude production of 17,000 bpd is about equal to the domestic demand in terms of volume.

Until recently, however, limited refinery capacity meant the country exported most of that production as fuel oil without capturing the intrinsic value of Suriname's low-sulfur, low-metals crude. But this is set to change in July, when the Staatsolie Refinery Expansion Project comes onstream. It will produce enough ultra-low-sulfur diesel and gasoline to satisfy almost all of Suriname's needs, plus an additional 4,000 bpd for export.

"This is a billion-dollar project in an extremely small economy," says Rudolf Elias, Staatsolie's new chief executive officer as of May 1. Elias has been with the company since 2009, first as business development deputy director, then as the head of the refinery expansion project. "The refinery is designed specifically for our own crude, with the objective to serve domestic demand. This will significantly improve the country's balance of payments."

Staatsolie aims not just to maximize its commercial operations, but also to create as much value as possible from partnerships with private-sector players. In its role as agent of the state, it is responsible for the development of the nation's hydrocarbon potential. This involves promoting onshore, near-shore and offshore acreage, signing petroleum contracts with international oil companies, and monitoring these contracts on behalf of the government.

Much of the potential remains untapped. "After the 2000 U.S. Geological Survey, which identified the potential for 15 billion barrels of offshore oil in the Guyana-Suriname Basin, we became more active in attracting and contracting international companies," says Agnes Moensi-Sokowikromo, the company's chief financial officer. "In 15 years' time, we have succeeded in contracting 40% of the offshore acreage under eight offshore blocks. Currently we have production-sharing contracts with Kosmos Energy, Tullow Oil, Apache, Petronas, Teikoku Oil, Statoil, Chevron, CEPSA and RWE. All of these companies know we are a reliable business partner. In the next decade and a half, another 61,750 square miles will be put up for bidding. Normally, we have a bidding round once or twice a year," she adds. "With two exploration wells drilled in 2015 and another two coming up in 2016, we are getting close to hitting an offshore oil find.

Stena DrillMAX, Block 53, Popokai-1 well

"We have a $1.7 billion investment program planned for 2013–20—$100 million to be financed through our own cash flow and the remainder through a loan from international banks and a local bond issue, which has just been successfully closed. Anticipating the oil finds in the near- and offshore, our dream is to eventually undertake an IPO to raise expansion capital and to become a publicly traded world-class company," says Moensi-Sokowikromo. ■

Chris Doughty, a certified financial planner affiliated with Raymond James in suburban Milwaukee, whom Brower's team offers up for a testimonial.

Conspicuously not offered up: the 150 or so individuals who invested a total of $60 million with Brower through a vehicle he created, the Secured Lending Fund, to make real estate bridge loans. To a large extent that money is gone.

"How could I have fallen for this?" laments Ralph Dorsten, a 70-year-old retired IBM account manager who invested a significant portion of his IRA in the Secured Lending Fund and is now one of 33 people suing Brower for fraud. "It's embarrassing."

For his part, Brower denies any wrongdoing. "I can say categorically that I never engaged in anything fraudulent," Brower tells FORBES. He says a bad economy led the loans he oversaw to default and that his actions since the loans went bad show his commitment to cleaning up the mess. He now lives modestly, he says, and drives a 2004 Ford F-150 pickup. "We have been working for a number of years without taking a dime out trying to salvage it," he says.

"The easiest thing for anybody to do is just walk away, but I chose not to do that," adds Brower, displaying the earnest, compelling style that has driven his popularity. "I am grateful to say many people are grateful; they have a different response from what you are seeing."

"HOW COULD I HAVE FALLEN FOR THIS?" LAMENTS AN IBM RETIREE WHO LOST MUCH OF HIS IRA.

The courts will ultimately determine Brower's culpability, if any. But in the meantime, the 67-year-old is still teaching—his Secured Lending Fund saga, which involves no fewer than three convicted felons, offers a nifty lesson on the perils of trusting self-appointed gurus to fix your financial ills.

OVER THE LAST TWO DECADES life-success coaching has become a fixture of American life and a multibillion-dollar industry. There are no particular qualifications required to be a coach: The most popular ones typically write a book and then hit the motivational speaking circuit.

In recent years some successful coaches have started to shift away from their traditional focus on personal development, work and entrepreneurialism—encouraging people to reach their full potential—into areas that look a lot more like personal finance. Anthony Robbins, arguably the nation's most prominent life-success guru, recently published his first book in 20 years, *MONEY Master the Game: 7 Simple Steps to Financial Freedom*, based on interviews with billionaire money managers like Carl Icahn and Ray Dalio.

What qualifies Brower to coach others on family wealth transfer? He's not a lawyer, accountant or a certified financial planner. But after college he began working for a California estate and financial planning firm, becoming licensed as an insurance salesman and later a securities broker. (He still holds an insurance license.) His early work with family business owners, Brower says, and his observations of how hard it is to retain wealth across generations, have shaped his current coaching approach. "We have developed this system of sustainable prosperity," he says.

While he won't say how much money he's made from his Empowered Wealth consultancy, it's clearly created sustainable prosperity for him personally. But he insists that's not the point: "The global economy, technology and science is advancing at such an exponential rate, there is a real importance to strengthening families."

Somehow, this devotion to family strengthening led to real estate financing. As the last decade's credit market bubble began to swell, Brower and a partner, Robert Keys, set up the Secured Lending Fund in 2004. Based in Bountiful, Utah, near Brower's home, the company sold promissory notes that in turn would be used to finance highly collateralized bridge loans for investment in real estate at interest rates of 12% to 18%.

Keys is a colorful character. He ran Private Consulting Group, a now defunct Portland, Ore. broker-dealer that catered to high-net-worth individuals. Secured Lending Fund's original offering memorandum said Brower was a joint owner of Private Consulting, although it appears Brower may have been licensed as one of its brokers, without a formal equity stake.

No matter. This pool of rich people would serve as lucrative sources for their lending operation. They eventually raised $60 million, which Brower and Keys channeled through at least eight separate entities that then lent the cash to developers. It was a sure thing for them, with money made on both sides of the deal. The Keys and Brower brokerage organization charged investors 6% commissions on each deal, with half of that supposed to be held in a reserve account until the notes were paid off.

Their lending operation then charged fees of 2% to administer the loans. The investor lawsuit claims Secured Lending Fund could also charge fees or points and steep default charges that were not shared with or adequately disclosed to investors. "In the early years money flowed in, and we reserved a portion of it," says Brower, who would not comment on how much money he and Keys took in fees. "But we ran out of reserves a long time ago," he adds. Brower insists all the fees were disclosed and handled properly.

There were other expensive arrangements as well, investors claim. For example, one Secured Lending Fund entity advanced $14 million to a company trying to develop a marina in Pompano Beach, Fla. According to the investors' lawsuit, the company that was contracted to find prospec-

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tive properties like the marina and manage those deals was partly owned by Bo Brower—one of Lee Brower's sons. The deal didn't go well: The underlying property was not zoned to be a marina, making it next to impossible for the developer to get a construction loan and pay Secured Lending Fund back on time. ("When all the facts are out, my name is going to be fully cleared of wrongdoing," says Bo Brower, who is a defendant in the investors' lawsuits.)

Because Secured Lending Fund's loans were structured as 6-to-12-month bridges, they would have had, in theory, a more limited exposure to the credit crisis. Still, Brower blames the financial meltdown for the company's undoing. "It was a model that would have worked had the economy not turned upside down," he insists.

BY 2011 THE SECURED LENDING entities had grabbed title to most of the properties that served as collateral for its loans. Around the same time, Brower told the individual investors who had purchased notes that he wanted them to gain voting control of the various Secured Lending Fund entities. He claims a large majority of investors in the notes signed off on becoming members, too. The charismatic Brower even raised more money from some of the investors, issuing them property mortgages on the Florida marina, for example, to fund tax and other associated expenses.

Some investors now claim Brower was simply trying to off-load responsibility for the decision to sell the properties. Brower told investors in an e-mail that he had put together a deal to sell all the properties to a company called Workmen's Life Insurance. "This sale is in the best interest of the company and investors," he wrote. He gave them 24 hours to review the transaction before sending investors another e-mail asking for their vote on a deal that would see a unit of Workmen's Life's parent company buy the properties. In return investors would get a small cash payment, preferred interest in Workmen's Life's parent and an IOU for the remaining net equity of the properties.

Brower's e-mail had described Workmen's Life as a 40-year-old insurer managed by a guy named Thomas Taft. Within days the deal was signed. It would take months more for the properties' titles to be transferred. But investors never received the initial nominal payment promised to them. And in 2013 some investors learned Workmen's Life was being run not by the people they were told about but by Mervyn Phelan Sr., who had spent a year in a federal pen for a 2004 securities fraud conviction.

"I knew Mervyn was involved somehow, and he explained himself as being an advisor," Brower concedes. After investors raised concerns about Phelan, Brower argued that Workmen's "continues to work on ultimately creating value" and that Workmen's had assured him Phelan was merely an independent contractor. "They were already in it," Brower says of Phelan and his crew. "There were no choices for us at that time." But Workmen's Life was a sham. According to a plea agreement filed in Baltimore last year in which Phelan pled guilty to wire fraud conspiracy in connection with a $17 million mortgage fraud, Workmen's Life was a shell corporation run by him. His key partner in Workmen's Life, Gregory Grantham, who had negotiated with Brower on the Secured Lending properties, has also pled guilty in the mortgage fraud case.

Those aren't the only felons Brower worked with. Robert Keys, the man who originally marketed the Secured Lending Fund and controlled the company with Brower? He pled guilty to wire and bankruptcy fraud last year and was sentenced to almost six years in federal prison. One of his offenses: bilking $1.1 million from an elderly woman. Keys has assigned his ownership in Secured Lending Fund to Brower and is no longer involved with it. (Brower says he didn't know about Phelan's prior conviction at the start and points out the others were all convicted after he started working with them.)

"I FEEL FOR ALL OF THOSE PEOPLE. I AM SICK TO MY STOMACH," BROWER SAYS.

What happened to the properties? It gets even more absurd. The fraudsters, Phelan and Grantham, put them in separate companies and assigned ownership to yet another entity that had obligations to their sham firm. The trustee of this new entity: Kim Davis, who in the past has been identified as the girlfriend of Henry Nicholas, the billionaire cofounder of Broadcom, who had lent $3.7 million to Phelan in a separate real estate deal. Davis then pledged the real estate assets as collateral for Nicholas' loan to Phelan, even though these same assets were pledged to the Secured Lending Fund investors.

Nicholas' team subsequently sued Phelan, claiming he used Davis as a pawn. They have sued Brower, too, claiming he worked with Phelan as recently as the fall of 2014 to fraudulently transfer some of the properties to new entities. Brower says the accusation is "inaccurate, and they know it." The Florida marina has been sold for $6.3 million, leaving Secured Lending Fund investors to fight for the proceeds. Some other properties have been lost to unpaid taxes.

"I feel for all of those people," says Brower. "I am sick to my stomach."

Hey, it could be worse. Another life coach featured in *The Secret*, James Arthur Ray, was convicted in 2011 of felony negligent homicide after an exercise session he hosted in a sweat lodge killed three people. Bottom line: People who insist that they have all the answers financially rarely do. And if they did, they wouldn't be hustling so eagerly for people to "help." F

CHRIS LYON FOR FORBES

THE NEW MONEY MASTERS

Michael Hasenstab 41

HOMETOWN: Olympia, Wash.

ALMA MATER: Australian National University, Ph.D.; Carleton College, B.A.

SPECIALTY: Bonds

DAY JOB: Portfolio manager, Templeton Global Bond Fund

CRED: His $68 billion fund has logged an average return of 10.2% since he took over in 2002. Over the last decade it's the number one fund in its category, returning 7.9% to the benchmark's 3.0%.

LITTLE-KNOWN FACT: Hasenstab summited Mount Everest in 2013.

PAY-IT-FORWARD WISDOM: Study the journey, not just the outcome. Hasenstab credits Roy Grow, his international relations professor at Carleton, with helping him "look behind the scenes in countries like China and understand that political complexities drive certain outcomes."

BIGGEST WORRY: The bull market in U.S. bonds is finally over, but most investors have failed to adjust their long-bond exposure. Templeton Global Bond Fund holds 31% cash and has an average duration of two months.

BEST IDEA: Local currency Mexican government bonds. The peso is nearly as cheap as it's ever been, and investors are overlooking Mexico's close correlation to the U.S. when it comes to improving labor markets, housing and consumer spending. Consider Templeton Global Bond Fund (TPINX), which has 9% allocated to Mexican sovereigns, or SPDR Barclays Emerging Markets Local Bond ETF (ENBD), which has a 10% weight in Mexico. —*Steve Schaefer*

President Joseph Kabila greets the crowd at the launch of the Boma-Matadi road construction project.

The **Transformation** of a **Nation**

Gains and Growth in the Democratic Republic of Congo

BY PAUL TRUSTFULL

Supported by economic growth and fueled by an abundance of natural resources and human capital, the Democratic Republic of Congo (DRC) is emerging as a global competitor. President Joseph Kabila and Prime Minister Matata Ponyo Mapon are leading the transformation with a bold vision and determination to move the nation forward.

Today, the DRC stands as a beacon of persevering success—one that serves as a model for other Central African nations.

Economic, social and political reforms are taking hold in a nation that is now one of Africa's largest democracies. As one of the leading economies in sub-Saharan Africa, the nation has surprised the world through its resilient growth and work to improve the lives of Congolese citizens.

In 2013, the nation's GDP grew by 8.3%, according to government reports and the International Monetary Fund (IMF), and by 9.5% in 2014. Prudent monetary policies have not only encouraged this growth, but have kept inflation at 1%, the lowest rate exhibited since the nation gained independence over half a century ago.

According to Prime Minister Ponyo, "Our economic performance is the strongest since the 1960s. We have an inflation rate from January to the present of just 0.3%."

Building on Strengths

Throughout the massive nation, which is approximately the size of Western Europe, development is evident as the middle class continues to rise, infrastructure projects develop, and investors looking for sustainable returns are coming in droves for opportunities.

The DRC holds tremendous potential in the context of mineral wealth, the amount of human capital, manufacturing capabilities and agriculture. Endowed with over $24 trillion worth of mineral wealth, including copper, diamonds and coltan—the dull black mineral used in virtually every electronic device—the nation is vital to technology around the world and to the growth of the consumer electronics market.

Under Prime Minister Ponyo's tenure, the global community has recognized the nation's progress toward its ambitious economic goals, social reforms and infrastructure upgrades.

The DRC has been one of the leading economies of sub-Saharan Africa, and it is not showing any signs of slowing down. According to First Deputy Managing Director of the IMF David Lipton, "I was impressed by the progress made over the last five years in bringing about economic stability and robust growth, which resulted in the Democratic Republic of Congo recording the third-fastest growth rate in the world in 2014. I was also encouraged by the authorities' intention to build on this record and to transform the DRC into a more inclusive economy."

Underpinned by strong governance, a diversified economy and an ambitious modernization plan, the nation of 70 million is on the cusp of an unprecedented emergence as an African superpower. The rise of the DRC signals an evolution of Africa and offers a look at what the best of Africa can come to represent.

Applying Brainpower and Best Practices

As the nation seeks to become an emerging economy by 2030 and a high-income country by 2050, the government and private sector have combined forces to launch the Kinshasa International Economic Forum. The annual event, a collaborative effort with Harvard University, showcases the success of other countries in governance and economic growth. In early January 2015, the nation hosted a team of economists and professors from the U.S. and Europe to discuss the inclusive growth needed to drive the nation forward.

President Kabila surveys the Boma-Matadi road construction project.

President Kabila inaugurates the Boma-Matadi road construction project, one of the many infrastructure ventures he has instituted to improve transportation in the DRC.

With professors and academics from Harvard, Stanford, Princeton, the Sorbonne and local African universities in attendance, the meeting addressed avenues of sustainable growth, greater employment and an overhaul of the social infrastructure in the country.

To reach the 2030 and 2050 development goals, DRC leaders realize that they'll need to think innovatively. The economic forum discussions will continue to help shape policy and ideas for the nation's growth.

Streamlined Private Sector Rules

Formerly the nation's minister of finance, Prime Minister Ponyo has garnered accolades within his country and the international community.

As a firm believer in stability and the private sector as the key to growth, Prime Minister Ponyo has worked to encourage free enterprise throughout the DRC. During his tenure within the finance ministry, he helped change the investment climate of the nation. Essential to that change are measures to protect shareholders and boost capital flow to the country.

During his term as prime minister, Ponyo has focused his attention on key initiatives to help the nation prosper. He has seen success as a result of more investor-friendly regulations, lower corporate taxes and streamlined business start-up rules. By setting governance goals and achieving them, Prime Minister Ponyo has enhanced the potential of the DRC.

Seeking to create a business environment similar to that of developed nations, Prime Minister Ponyo understands that the future of the DRC rests not on the government, but on a public-private mandate to create opportunities and growth. He recognizes that can only occur when the rule of law and governance protects the rights of investors and citizens.

Forum Focuses on Agriculture Opportunities

In March, the nation's Minister of Agriculture, Fisheries and Livestock, Isidore Kabwe Mwehu Longo, hosted the AgriBusiness Forum 2015 in Kinshasa. The annual forum addresses best practices and issues surrounding the sustainable development of

Underpinned by strong governance, a diversified economy and an ambitious modernization plan, the nation of 70 million is on the cusp of an unprecedented emergence as an African superpower. The rise of the DRC signals an evolution of Africa and offers a look at what the best of Africa can come to represent.

Africa's agricultural and agro-industrial sectors, as well as the need to design, plan and discuss project planning and collaborations in African agribusiness.

A highlight of this year's forum was a special session on economic opportunities available throughout the DRC's agricultural sector.

With the theme "Toward an Inclusive Growth: A New Vision for Africa's Agricultural Transformation," the 2015 forum gathered more than 400 people from across Africa, Europe, the U.S. and elsewhere, including entrepreneurs, financiers, officials, NGOs, foundations and farmer organizations.

The AgriBusiness Forum is a trademark event hosted by the EMRC—the Brussels-based international nonprofit organization whose mission it is to promote sustainable economic development in Africa. The event aims to strengthen the private sector in Africa by encouraging partnerships and attracting investments. More than 1,200 business-to-business meetings took place over two days during the AgriBusiness Forum 2015.

Secretary General of the Ministry of Agriculture, Fisheries and Livestock Hubert Ali Ramazani called the forum "a great moment for Congo to highlight investment opportunities in the country's agricultural sector, a priority for the government's policy objectives."

Agriculture Part of More Diverse Economy

Diversifying the economy and developing human capital have been hallmarks of Prime Minister Ponyo's campaigns. "While the country is very wealthy in natural endowments regarding mineral resources, it is imperative to diversify beyond this wealth alone to propel the DRC to a state that can compete economically on a global scale," he explains.

Agriculture is a vital industry that the prime minister seeks to boost throughout the vast nation. His aim is to provide the Congolese ample opportunity to create an agricultural sector unrivaled in Africa.

By using its water, land and energy resources, the DRC can develop an industry of commercial farms offering fishing, livestock and vegetable production that's connected to a coherent network of production and food distribution.

"Agriculture must be one of the main sectors of focus used to spearhead the Congolese economy to unprecedented levels," Prime Minister Ponyo says.

One of the many ways the Congolese are shaping their future economy is through tremendous investment in developing a world-class agricultural sector by focusing on agricultural extension services, research, energy, science and technology. The nation's leaders are paying close attention, as this can potentially propel the economy by fortifying the export market and help fight hunger and malnutrition throughout the country.

To support agriculture and encourage private-sector participation, Prime Minister Ponyo developed and launched a nationwide program known as the National Agricultural Investment Plan (NIPA). NIPA's main objectives are ensuring food security and developing the agribusiness sector; its first project will be to develop 16 large agro-parks.

According to Councilor John Mususa, one of the leaders spearheading the project, "These parks will serve as an important part of the country's rehabilitation and construction process by providing access to agricultural inputs and by combining laboratories, training facilities, storage centers and health facilities."

"The agricultural sector is where we can have the most significant impact on the population," says Prime Minister Ponyo.

A New Level of Prosperity

The DRC is quickly beginning to challenge other emerging markets as a prime destination for foreign investment.

By creating opportunities for the Congolese people and developing an environment to help businesses thrive, Prime Minister Ponyo is fulfilling his pledge to bring a new level of prosperity to the DRC. From subtle changes—such as decreasing the size of government and bureaucracy—to the implementation of long-term energy frameworks, the prime minister is leading the charge to show Africa and the world the nation's true potential. The government and its partners have come a long way toward ensuring macroeconomic stability and developing a business-friendly climate.

Business Climate Gets Attention

In addition to impressive growth figures, other macroeconomic indicators show encouraging signs of progress. The nation's currency, the Congolese franc, has remained stable; the national wealth has doubled due to more-efficient tax collection; and, perhaps most importantly, public and private investment has increased significantly.

To promote sustainable economic growth, Prime Minister Ponyo and President Kabila have worked closely with members of the international community using evidence-based analysis to enact legislation to improve the country's business climate.

Some of the changes they have enacted include creating transparent processes, minimizing bureaucracy when starting businesses and creating anti-corruption programs. These changes, among many others that are still in progress, have been instrumental in creating an investor-friendly environment and opening up numerous sectors throughout the country to private investors.

President Kabila's efforts to tighten controls on granting mining licenses in order to prevent abuse and fight corruption offer the latest evidence that he wishes to create a more favorable business climate. Improper control mechanisms have led to underdevelopment that has cost the country in terms of tax revenue and the livelihood of citizens throughout the mineral-rich portions of the nation.

According to the IMF, in recognition of the need for better governance, many resource-rich countries in sub-Saharan Africa such as the DRC have made a great deal of progress in the quality of their institutions over the past years. In fact, over half of the natural resource providers have improved their World Bank Worldwide Governance Indicator ratings for the rule of law and corruption, and about 40% of these countries have improved their ratings for government effectiveness.

In July 2014, the DRC earned full membership in the Extractive Industries Transparency Initiative (EITI), the global organization promoting good management of oil, gas and mineral resources.

A fertilizer factory under construction. Agribusiness and ensuring food security are main objectives in President Kabila's vision for the DRC.

WORK TOWARD LONG-TERM GOALS CONTINUES

The DRC is among the largest democracies on the African continent. Elected in the nation's first democratic election in decades in 2006 and again in 2011, President Joseph Kabila began his leadership of the DRC following the assassination of his father, Laurent Désiré-Kabila, in 2001.

Seeing the need to make quick and long-reaching reforms to unite and inspire the country after a national tragedy and civil strife, President Kabila and his entrusted advisors have begun to repair the fabric of the nation by creating a framework to facilitate economic growth, improving welfare for the Congolese and developing a national identity that will help drive these changes forward.

Under this framework, entitled *Les Cinq Chantiers de la RDC* (the Five Pillars of Congo), President Kabila has developed a long-term plan to improve domestic welfare through modernization efforts, advance the country's trade policy with foreign governments, and boost domestic investments and capital flow to his country.

President Kabila continuously seeks to build the nation's infrastructure and develop businesses through public-private partnerships, which not only efficiently deploy capital, but also create demonstrable changes for the Congolese people.

Improving the nation's healthcare infrastructure continues to be one of President Kabila's top priorities. While South Africa and Dubai have been traditional healthcare destinations for Africans, the DRC is quickly making a name for itself by offering world-class facilities and physicians.

"Despite all the challenges facing the country, the Congolese people have been working together to bring transparency and accountability to the management of their natural resources," says Clare Short, chair of the EITI board.

Energy Strategy Centers Around Massive Dam Project

Paramount to the energy future of the DRC and the African continent is the Inga Dam Project, which is one of the largest infrastructure projects ever undertaken. The centerpiece of the Inga Dams, the Grand Inga Dam, will be the world's largest hydropower project—an instrumental part of Africa's future energy strategy.

The dam has the potential to generate 38,000 MW of energy at a cost of $80 billion. It will help power South Africa, Botswana and Angola, and will ultimately be able to export power to Europe. The first part of the project, Inga III, will top off at a nameplate capacity of 4,800 MW.

Earlier in 2013, impressed with the dam's potential and progress, the U.S. formally expressed interest in joining the project. Dr. Rajiv Shah, former head of the U.S. Agency

President Kabila visits a fertilizer factory construction project.

for International Development (USAID), recently visited the site of the future dam with Prime Minister Ponyo and pledged financial aid to help develop the project.

After visiting the Inga site, Dr. Shah remarked that in addition to seeing progress in the physical development of the country, he saw numerous positive signs of peace and the promotion of good governance as well.

"The reforms in the electricity sector are signals that reassured USAID and other partners to join this project," says Dr. Shah. He also encouraged the nation's leadership to stay on the path of reform and innovation to attract more external partners for large-scale projects.

While the amount of money to be earmarked from the U.S. to support the Inga Dam Project is in negotiation, officials note that the task will have support from both the public and private sectors.

The tenders for the Inga III project will be granted to a consortium of bidders, which have been narrowed down to the China Three Gorges Corporation and Sinohydro (Chinese consortium); Posco, SNC-Lavalin and Daewoo (South Korean and Canadian consortium); and Actividades y Servicios and Eurofinsa (Spanish consortium).

Prime Minister Ponyo's goal is to provide the Congolese ample opportunity to create an agricultural sector unrivaled in Africa.

According to Eric Mbala, the head of the Congolese National Electric Company (SNEL), the development work for the Inga III project will begin in October 2015.

Modernizing Healthcare Delivery

One example of healthcare progress is the Hôpital du Cinquantenaire in Kinshasa, which President Kabila and Minister of Public Health Felix Kabange Numbi inaugurated in March 2014. The Ministry of Public Health is currently working to create a healthcare pricing structure throughout the country that will allow affordable healthcare for Congolese citizens at this and other world-class hospitals that are currently under development.

Funded through a joint venture with Sinohydro, a large Chinese engineering firm, Jubilee is a 500-bed hospital that will bring world-class medicine back to the DRC. The Padiyath group, which manages hospitals throughout India and the Middle East, will operate the hospital.

In addition to building top-notch hospitals throughout the country, the DRC is looking for ways to make the management of the current health sector more effective by computerizing health records. It's currently working on a national plan that will enable it to achieve its objective of creating a system of electronic medical record keeping.

Secretary General of Health Pascal Mukengeshay Kupa, representing the Ministry of Public Health, attended the presentation

President Kabila and Prime Minister Ponyo greet each other at the Boma-Matadi road construction project inauguration.

In July 2014, the DRC earned full membership in the Extractive Industries Transparency Initiative (EITI), the global organization promoting good management of oil, gas and mineral resources.

ceremony of the National Plan for the Development of Health Informatics (PNDIS).

PNDIS consists of the first part of an e-health architecture that includes a set of information, data, officials and hardware necessary for design and operations.

Public-private partnerships such as the Hôpital du Cinquantenaire have proven to be vital to the success of these programs and the growth of the country. President Kabila has sought to build infrastructure and businesses through these types of partnerships, which not only efficiently deploy capital, but also create demonstrable changes for the Congolese people.

Specific efforts to modernize and improve infrastructure, education, electricity, higher employment and housing are the key components of the nation's long-term growth strategy.

Flight Paths to Progress: Airport Infrastructure

President Kabila's work to overhaul the nation's aviation infrastructure has resulted in discussions with Air France to partner with local airlines to create a pan-African network based in the DRC. Acknowledging the nation's commitment to aviation, Ethiopian Airlines, the second-largest air carrier in Africa, opened a hub in N'Djili, the DRC's main airport.

Ethiopian Airlines served as the official carrier for the AgriBusiness Forum 2015 in Kinshasa earlier this year, offering flight discounts of up to 12% for forum participants.

In March 2015, the World Bank agreed to grant the DRC $52 million to improve safety, security and operations at Goma Airport. Goma is the main aerial access point in the eastern DRC. The money will help

rehabilitate the airport, which was damaged during the Nyiragongo volcanic eruption in February 2002. In its announcement, the World Bank stated that part of the funding will go toward repairing the runway, terminal and electric system. The World Bank will use an equal part to build a new air control tower, while the rest will go toward airport operations and measures to prevent accidents in case of future volcanic eruptions.

Lengthening the Goma Airport runway will also bolster increased air transit to Goma. In March, the Embassy of the Kingdom of the Netherlands in Kinshasa reported that Germany handed over a tract extending the airport runway to Congolese authorities. The tract that Germany renovated is 500 meters long. With the addition of 160 meters of road upgraded by the Congolese state, the track now measures more than 2,660 meters. In the same report, the Congolese Minister of Transport announced that two foreign companies, Kenya Airways and Ethiopian Airways, are considering service to Goma in the near future.

Major Infrastructure Work Continues

By making the best use of internal and external resources, the DRC is improving and rehabilitating its ground transportation infrastructure as well.

In May, President Kabila launched the rehabilitation of the Boma-Matadi road. The work is designed to strengthen the development and attractiveness of the Bas-Congo province. It will also ensure the flow of traffic and reduce the delivery time of goods from the Port of Boma to the rest of the country through the capital of Kinshasa.

The United Nations Office for Project Services (UNOPS) recently reported work done to rebuild a key road that connects the towns of Boende and Monkoto. By turning footpaths into navigable roadways, the project's ultimate aim is to improve food security in the province of Équateur. The lack of a reliable transportation infrastructure has particularly affected the area, which has a population of more than 340,000 people, many of whom live on isolated farms.

In addition to carrying out road construction, UNOPS established 21 road maintenance committees, equipping local road authorities with the machinery and knowledge to maintain the roadways over the long term.

In March 2015, the World Bank agreed to grant the DRC $52 million to improve safety, security and operations at Goma Airport.

Prime Minister Ponyo and officials review new construction at N'Djili Airport in Kinshasa.

Newly constructed terminal at N'Djili Airport

INLAND NAVIGATION IMPROVEMENTS

The administration is committed to improving inland navigation. After two years of rehabilitation, the integrated tug and barge (ITB) *Kokolo* resumed operation in February on the Congo River in Kinshasa. Operated by the Congolese Transportation Co. and Port (SCTP) until April 1996, the renovated ship now transports passengers and cargo on the Congo River from Kinshasa to Kisangani via Mbandaka, Lisala, Bumba and Basoko.

Following renovation, the ITB *Gungu* will also transport passengers and cargo on the Congo River.

Prime Minister Ponyo discusses plans with Vincent Bribosia, Chairman of CHANIC SA, a conglomerate commissioned to overhaul the vessel at the CHANIC DRC shipyard in Kinshasa.

The re-opening of the road has reduced travel times and cut the price of local staples such as rice and ground nuts by half. The project also supported the creation of a federation of 1,000 farmers, including 400 women, bringing together 30 existing farm organizations.

A second stage of the project, in collaboration with local authorities, added 11 new bridges and rehabilitated one existing bridge along the 130-kilometer-long road.

Another infrastructure project beneficial to the Congolese will take shape with help from an $82.7 million grant from the African Development Bank. The grant will fund a 56-kilometer-long highway between Lovua and Tshikapa on the Batshamba-Tshikapa NR1 highway in the DRC. The work includes the construction of a new bridge over the Kasaï River in Tshikapa. The upgraded road also aims to improve the service of the transportation logistics chain on the Kinshasa-Tshikapa road and the living conditions of people in the area. The project is expected to help open up the Bandundu and West Kasaï provinces.

Reaching Toward the Nation's Full Potential

As the DRC undergoes a drastic transformation toward a stable and democratic nation amid tremendous economic reform and growth, President Kabila and Prime Minister Ponyo have much to be proud of. Marked by an increase in capital inflow and infrastructure projects throughout the vast nation, the trajectory of success is promising.

Investors and foreign partners alike see the nation's key natural resources—mining reserves worth over $24 trillion, enough oil and gas reserves to propel the nation's economy, hydroelectric generation capability to power the African continent and an overwhelming level of human capital—as one of the greatest sources of potential in all of Africa. Fostering partnerships, a key aspect of the country's growth, will be at the top of Prime Minister Ponyo's list as he continues to work with international partners and development organizations to bring prosperity to the nation.

From subtle changes—such as decreasing the size of government and bureaucracy—to the implementation of long-term energy frameworks, Prime Minister Ponyo is leading the charge to show Africa and the world the true potential of the DRC. By improving the business climate and developing the nation's social sectors, the leadership of the DRC has proven its ability to accomplish the necessary goals for progress. ■

DRC's Bold New Generation of Entrepreneurs

Bellissima's Josée Muamba Odia

Photo: Ashley Neuhof

Josée Muamba Odia in New York on a recent business trip

BY SANDRA CHEDI

As editor of *Bellissima* magazine, Josée Muamba Odia is a paragon of success for aspiring DRC entrepreneurs. Despite facing an environment that presents basic challenges to start-up companies and media organizations, Odia has persevered. Marshalling her many talents, she has launched and sustained a successful magazine.

Odia's French-language *Bellissima* is a bimonthly publication that combines intellectual, artistic and humorous content. Odia prepared for her business career by studying law at the Protestant University of Congo and financial management at the Higher Institute of Commerce. She then gained an inside perspective of communications and media by founding the advertising agency AMG.

The trendsetting *Bellissima* has received numerous awards, including the Mama Awards and Karibu Awards in 2013.

Odia plans to expand the circulation of the magazine to reach more women in the DRC and sub-Saharan Africa. She also envisions an English edition and a greater presence online.

The Charitable Stretch

IF YOU'VE GOT A FAT IRA AND WANT TO HELP BOTH YOUR KIDS AND CHARITY, HERE'S A STRATEGY TO CONSIDER.

BY ASHLEA EBELING

You're widowed and have a $1 million individual retirement account. Do you leave it to charity or your kids?

Maybe both. The once obscure technique of leaving an IRA to a charitable remainder unitrust (CRUT) is getting new buzz, what with some politicians (most notably, President Obama) wanting to limit IRAs left directly to nonspousal heirs to a five-year life. "If you don't trust Congress, this is a great answer to get you nearly all the benefits of the stretch locked in at a nominal cost for a good cause," says Michael Jones, an estate planner in Monterey, Calif. and author of *Inheriting an IRA*.

Currently, if you're the named beneficiary on an IRA left by a parent, grandparent, sibling or anyone other than a spouse, you rename it "John Doe (the decedent's name), inherited IRA" and can then stretch out required minimum distributions over your own life expectancy. Assuming it's a traditional pretax IRA (not a Roth), all distributions are taxed at high ordinary income tax rates, which top out at 39.6%. But by taking advantage of the stretch you get possibly decades of additional tax-deferred growth. (You can stretch a Roth IRA, too, and the distributions aren't taxable.)

Stretch IRAs are a good tax deal. But they're too often foiled by human nature. If beneficiaries don't retitle the IRA properly, it may have to be liquidated. Even more common, Jones says, heirs don't appreciate the tax value of the stretch (or simply want the cash) and empty the IRA immediately.

The CRUT solves that problem. You put a provision for a "testamentary" CRUT in your will (you'll need a lawyer, not a do-it-yourself document, for this) and then name that CRUT the beneficiary on your IRA form. (The form is crucial, since it governs where your IRA goes, no matter what your will says.)

The CRUT can make annual payments to an heir (or heirs) for a fixed number of years (say, 20) or for their lifetimes. Either way, the charity gets what's left at the end, and by law its share must be projected to be at least 10% of the starting value.

Here's a simple-as-we-could-make-it example. A widowed 90-year-old California dad dies this year, leaving his $1 million IRA to a CRUT that pays his now 64-year-old daughter a set percentage of the balance for life, with the remainder going to Stanford. She lives 21 years, collecting $100,000 the first year and 10% of the remaining CRUT balance each year thereafter. Jones calculates the net present aftertax value of the payments to the daughter as $696,000. If Dad left her the IRA directly and she cashed out immediately, she'd get only $550,000 (assuming she pays a combined federal and California rate of 45%). If she had to liquidate it over five years, the net present value would be $613,000.

True, if she inherited the IRA directly and stretched out payments over the next 21 years herself, the net present value to her would be a bit higher at $718,000 (assuming an annual return of 7% for funds held in the IRA and 4.7% outside the IRA).

But the idea here is to help both charity and an heir, while protecting that heir from changes in the law governing stretch IRAs and the temptation to cash out.

One selling point for a CRUT is that most big charities, if named as the beneficiary, will manage it for free. Harvard, for example, will take a CRUT with as little as $100,000 and manage both its investments and administration. Alasdair Halliday, director of principal gifts, reports that Harvard has seen more CRUTs set up recently to benefit deceased donors' less wealthy siblings and even their aged parents, as well as their kids. F

RICHARD MIA FOR FORBES

MY MOM DIDN'T HAVE MANY OPTIONS. TODAY'S LUNG CANCER PATIENTS DO.

Twenty years ago, my mother was diagnosed with lung cancer. She had very few places to turn, and lost a difficult struggle.

Today, we are on the brink of real breakthroughs in lung cancer research and there are significantly improved treatment options.

Tony Goldwyn
Stand Up To Cancer Ambassador

And yet, more than 30% of all lung cancer patients still don't know about the therapies, specialists, and clinical trials available to them.

Lung cancer is a formidable foe, but we are finding new ways to fight it. Please visit SU2C.org/LungCancer for questions to ask your health care professional and to learn about options that may be right for you.

Photo Credit: Kevin Lynch

Bristol-Myers Squibb

STAND UP TO CANCER®
SU2C.org/LungCancer

Stand Up To Cancer is a program of the Entertainment Industry Foundation (EIF), a 501(c)(3) charitable organization.

List of confirmed speakers as of June 3, 2015

Steve Forbes
Chairman & Editor-in-Chief, Forbes Media, USA

Cesar V. Purisima
Secretary of Finance, Republic of the Philippines

Liang Xinjun
Vice Chairman & CEO, Fosun International, China

Teresita Sy-Coson
Vice Chairperson, SM Investments Corporation, Chairperson, BDO Unibank, Philippines

Mario Moretti Polegato
Chairman, GEOX Group, Italy

Enrique K. Razon Jr.
Chairman & President, International Container Terminal Services, Inc., Philippines

Vincent Tan
Founder, Berjaya Corporation Group of Companies, Malaysia

Ramon S. Ang
President & COO, San Miguel Corporation, Philippines

Dr. Tahir
Chairman & CEO, Mayapada Group, Indonesia

David K.P. Li
Chairman & Chief Executive, The Bank of East Asia, Hong Kong

Lindsay Fox
Founder, Linfox, Australia

Manuel B. Villar, Jr.
Chairman, Vista Land & Lifescapes/Starmalls, Philippines

Shikha Sharma
MD & CEO, Axis Bank, India

William E. Heinecke
Group CEO & Chairman, Minor International, Thailand

Mike Perlis
President & CEO, Forbes Media, USA

John Riady
Executive Director, Lippo Group, Indonesia

Goh Peng Ooi
Group Executive Chairman, Silverlake Axis, Malaysia

James E. Thompson
Chairman, Crown Worldwide Group of Companies, Hong Kong

Wendy Yap
President & CEO, Nippon Indosari Corpinda, Indonesia

Ron Sim
CEO, OSIM International, Singapore

Douglas Hsu
Chairman & CEO, Far Eastern Group, Taiwan

Beth A. Brooke-Marciniak
Global Vice Chair, Public Policy, EY, USA

Serge Pun
Chairman, SPA Group, Myanmar

Binod K. Chaudhary
President, Cinnovation-Chaudhary Group, Nepal

Henry Nguyen
Managing General Partner, IDG Ventures Vietnam, Vietnam

Joseph E. Aoun
President, Northeastern University, USA

Romi Haan
President & CEO, HAAN Corporation, South Korea

Gerald Lawless
President & Group CEO, Jumeirah Group, UAE

HILLARY CLINTON STOCK MARKET BETS

THOMAS KUHLENBECK FOR FORBES

I'VE TURNED UP A 155-YEAR indicator that suggests Hillary Clinton will not be elected next year—and offers some interesting perspective as to the market direction in 2016 and 2017.

An old, little-known truth: Overwhelmingly, when Republicans are elected President, stocks soar during the year they are elected (this has held true every single election since World War II, except 2000, an election in which Al Gore won the popular vote). Average S&P 500 gain: 12%, presumably in anticipation of market-friendly policies. Then stocks flipped negative during most GOP inaugural years—presumably when investors realized the new guy was, yes, still just a politician.

By contrast, when Democrats won, election years typically lagged as investors feared an antibusiness, antimarket President. But their inaugural years all surged double-digit positive (except Jimmy Carter's 1977, off 7.4%), a whopping 21% overall. Presumably when investors realized the new guy was, yes, still just a politician.

Regardless of "why," them's the numbers! Playing purely historical odds, for a strong 2016, hope for a Republican; if you prefer a heady 2017, hope for Hillary.

And who will win? There's some unnoticed historical truth here, too:

Since the Civil War we've elected Democrats who were either (1) already President or (2) a fresh new face (Obama, Clinton, Carter, Kennedy, FDR, Woodrow Wilson, etc.). Democrats have never elected anyone who would have been considered a likely nominee during the previous election cycle (Walter Mondale, Hubert Humphrey, Al Smith, etc.). Debate about FDR if you will, but I'll win. He was an unlikely 1932 nominee as of 1928.

For the prototype let's go way back to Grover Cleveland. The Republicans dominated presidential politics after the Civil War, at least until Cleveland's election in 1884. He became New York governor only in 1883 and was Buffalo's mayor for 322 days before that. The rest of his résumé consisted of a two-year stint as a county sheriff. He was an unknown, blank canvas, and it worked (he squeaked by with 49% of the vote). Fresh new faces became a Democratic blueprint for national coalitions, from Woodrow Wilson (two years as governor of New Jersey, and a little-known college president before that) to Carter (he was on the popular quiz show *What's My Line?* in 1973, and contestants were flummoxed) to hope-and-change Obama.

Of course some fresh faces lost, too—often badly (examples: Alton Parker, George McGovern, Michael Dukakis). The nominees who were fresh faces first and old warhorses on later tickets, from Adlai Stevenson (two nominations) to William Jennings Bryan (three nominations), have never taken the prize and rarely came close.

That's Hillary's cross to bear. Why do the familiar Democrats fail? In history and markets "why" is tougher to know certainly than "what," though I'd posit that Democratic coalitions require emotional legs to get marginal voters out—and old dogs have fewer new tricks, and known negatives undermine hope.

So with history against Hillary, I'm looking toward a great 2016 market—and increased 2017 risk. As this marvelous bull market continues to run, look at great stocks like these:

Foster City, Calif. based bio-pharma leader **GILEAD SCIENCES (GILD, 118)** is up over 450% since I first recommended it on Aug. 22, 2011—a one-way ride that height-frights most investors. But it's still buyable as business fundamentals and earnings stunningly have grown even faster. It's only 10 times my 2015 earnings estimate and, by most any valuation metric, in line or relatively cheap versus peers.

Modest growth and improved profitability continue at **GOLDMAN SACHS (GS, 213)**. At 10 times my 2016 earnings estimate and a lower P/E than any material competitor, that is more than cheap enough for the world's best investment bank to shine throughout this bull market.

Germany's **BASF SE (BASFY, 92)** wiggled sideways these last two years. Don't get carried away with materials in the back half of any bull market—but there is a place for the world's biggest chemical firm when it hasn't moved. Before this bull's over it should—particularly at 12 times my 2015 earnings estimate with a 3.2% dividend yield.

As energy prices fell, so did France's **SCHNEIDER ELECTRIC (SBGSY, 14)**, the world's leader in energy management, mainly for commercial customers. Competitive pressures to squeeze more from less will keep this well-managed engineering giant of 170,000 employees in 100-plus countries in demand and growing moderately. It sells at 2 times revenue and 20 times my 2015 earnings estimate.

Japan's multidecade history is dismal, but you should own some; it's too big not to. And it's easy via Japan's biggest stock, **TOYOTA MOTOR (TM, 135)**, the world's largest and arguably best carmaker. You get modest quality growth at one times sales and 11 times my March 2016 earnings estimate, with a 0.9% dividend yield. F

MONEY MANAGER KEN FISHER'S LATEST BOOK IS *BEAT THE CROWD* (WILEY, 2015). VISIT HIS HOME PAGE AT WWW.FORBES.COM/FISHER.

GLOBAL QE: HOPES AND REALITY

IN JANUARY THE European Central Bank unveiled its long-awaited quantitative easing program, pledging to purchase a total of €1.1 trillion in securities through September 2016 at a pace of €60 billion per month. It could buy even more if inflation remains below 2%. These asset purchases will push the ECB's balance sheet a bit over the €3.1 trillion peak it hit in June 2012 at the end of its last round of easing, when it lent €1 trillion to 800 member banks, which used the money to buy their sovereign debt. Like all major central banks, the ECB wants 2% inflation as a cushion against deflation, which has plagued Japan for 20 years and virtually eliminated economic growth as consumers wait for still lower prices before buying.

To gauge the efficacy of European easing in spurring growth, look at the Fed's adventures with QE in the U.S. In reaction to the Great Recession and global financial crisis, the Fed and all other major central banks chopped reference interest rates essentially to zero, but closely regulated banks didn't want to lend and creditworthy borrowers didn't need more money. So after bailing out Wall Street, starting in the fall of 2008, the Fed moved on to QE, ultimately buying more than $3.5 trillion in government and mortgage-backed securities when the program ended last October.

THE FED'S QE DROVE U.S. STOCKS, BUT IT'S OVER. I'VE SHIFTED TO EUROPEAN AND JAPANESE STOCKS

Those who sold securities to the Fed used the proceeds largely to buy stocks, which has pushed the S&P 500 up 211% from its March 2009 bottom. That helped household net worth rebound 51%, but real GDP has averaged only 2.2% annualized growth since the recovery started in mid-2009, about half the rate you'd expect after the deepest recession since the 1930s. The problem is that stocks are predominantly owned by high-income folks, who don't spend much more as their assets rise. The central bank is no doubt frustrated by QE's lack of success, but monetary policy is a blunt instrument. The Fed can move interest rates and buy and sell securities. That's it. In contrast, fiscal policy can pinpoint aid to the jobless by raising unemployment benefits.

The questionable outcome of the Fed's experiment with QE suggests that the ECB's efforts may do little to boost growth for the 19 countries in the euro zone. Japan may also see little benefit from QE, by which Prime Minister Abe, elected in December 2012, hopes to stimulate the economy. The program will continue until the inflation rate reaches the Bank of Japan's 2% target. As with the Fed's QE, the results so far are disappointing. Real GDP rose at a 3.9% annual rate in the last quarter, and all but 1.9% of that was due to inventory accumulation, which may spawn offsetting production cuts in the future.

China has also embarked on indirect QE in response to slowing growth. Chinese officials are permitting banks to use local government bailout bonds as collateral for low-cost loans from the central bank, while local governments can sell new bonds with explicit government guarantees. Three interest rate cuts since November and two reductions in bank reserve requirements have not spurred credit demand. Meanwhile, Chinese companies and local governments remain heavily indebted as the real estate bubble deflates.

The Fed's QE drove U.S. stocks, but it's over. Corporate earnings in this recovery have been based not on solid revenue growth but on profit margin increases that have flagged as underlying cost-cutting and productivity gains atrophied. In the portfolios I manage, I have shifted to European and Japanese stocks, figuring that the bulk of QE money will end up in equities, as it did in the U.S. In the last 12 months the S&P 500 is up 9% versus 12% for Europe's Stoxx 600 and 38% for Japan's Nikkei. China's quasi-QE, plus the recent individual investor switch from real estate to stocks, has already hyped the Shanghai index, which is up 150% in the last 12 months. F

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THOMAS KUHLENBECK FOR FORBES

WEALTH MANAGEMENT 2015 AND BEYOND

THE RISE OF THE ROBO-ADVISOR

Bringing both challenge and opportunity for the advisory industry.

Robo-advisors—wealth management algorithms typically offered online at low costs and with little human interaction—are gaining steam. One prominent provider, Wealthfront, doubled its assets under management (AUM) to more than $2 billion in just nine months.[1] Although some media reports suggest that robo-advisors are poised to supplant traditional financial planners and wealth managers, many industry professionals take a more sanguine view. "If these services increase education and inspire savings among a younger generation, that will benefit the industry," says Elisabeth Andreason, executive director and wealth advisor of The Andreason Group at Morgan Stanley, a wealth management group based in Walnut Creek, Calif.

Value Over Cost

Low fees are one of the main selling points for robo-advisors. But the best advisors in the industry don't compete on fees alone. They generally use value-added services such as estate planning and insurance planning to differentiate themselves from the competition. "We're up-front about our fees and the added-value services we provide when we meet with prospective clients," says Jay Stueber, a financial advisor with J.W. Cole Financial in Milwaukee, Wisc. "Robo-advisors might be more of a problem for advisors who can't justify their fees."

Rick Rivera, partner at Corona, Calif.-based Safeguard Investment Advisory Group, agrees. "Our clients understand that investing is so much more than just fees and chasing returns," he says, adding that not all clients are so enlightened. "If clients never hear from their advisor, they might start to wonder, 'What are you doing for me that I can't get from a website?'"

Relationships Matter

Robo-advisors are gaining AUM, but advisors say the assets are coming from investors who don't fit their target client profile. Katharine Chaney-Jones, financial services executive with Glastonbury, Conn.-based Barnum Financial Group, an office of MetLife, notes that investors have put a premium on trust in the wake of the financial crisis. "Taking the time to meet face-to-face and listen to their hopes and concerns for their future is key to establishing trust between a client and an advisor," she says.

Another factor in advisors' favor: Robo-advisors can only be as good as the information investors enter. The online interface can't dig into the important details of a financial picture the way a flesh-

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and-blood advisor sitting across the table can. "Everything has its related set of questions," says Veronica Aaron, Brea, Calif.-based regional vice president at Householder Group Estate & Retirement Specialists. "A lot of what I do is dig deep and ask questions clients didn't realize they needed to answer."

Likewise, robo-advisors are limited in their ability to answer questions clients encounter as they enter their information. "These are not just financial decisions. There are qualitative aspects in relationships that can never be dealt with by robo-advisors," says Ken Mayer, senior vice president with New York City-based MayerGelwarg Group at Morgan Stanley. "It's the type of constructive dialogue that a computer is simply not going to understand or be able to direct."

A Net Benefit?

The technology that enables robo-advisor programs to manage client investments eventually could provide benefits to individual advisors. "Robo-advisors will have an impact on our industry—new technology always does," says Peter Gelwarg, also a senior vice president at the MayerGelwarg Group. "I believe advisors counselling their clients on financial matters and family dynamics will embrace this technology in its various forms to improve the ability of their clients to achieve their goals." Similar disruptions occurred in the tax-preparation industry with the advent of computers and, later, Internet filing.

In fact, robo-advisors may act as a gateway for the next generation of investors. "They're popular with younger investors, who use them as a way to start saving," points out Charles Zhang, managing partner of Portage, Mich.-based Zhang Financial. Robo-advi-

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The Andreason Group at Morgan Stanley

True Understanding Leads to Better Financial Future

Elisabeth Andreason, CFP®, CWS®, CAP®, speaks in a soft voice with the clarity of a former English teacher and the precision of a mathematician.

Elisabeth is the principal of The Andreason Group at Morgan Stanley. A Certified Financial Planner™ practitioner, Certified Wealth Strategist, Chartered Advisor of Philanthropy, Portfolio Management Director and Wealth Advisor, Elisabeth clarifies complicated issues to help clients make informed decisions in order to reach their goals.

Elisabeth's excellent support staff handles all administrative functions, freeing her to give clients her undivided attention during their regular two-hour meetings. "I realized my ability rested in focusing on the face-to-face meetings with clients, strategizing, helping solve problems people often didn't even know existed, and asking the questions they didn't know they were supposed to be asking.".

Questions about what? Everything! Most clients have some sort of retirement plan. But they may not be maximizing the advantages. Is it best to contribute to a traditional 401(k) or a Roth 401(k)? Are the allocations proper? If not, it could be costing them more than they think. How do they hold title on their assets? That can be more important than what they hold.

"I want to make sure people truly understand what they own before they make any changes," says Elisabeth. She takes as long as necessary to educate clients about how their products work, what features they offer and the best time to take advantage of them.

Trust reviews are also a key planning area. While they're often used for control in the event of incapacity, and to avoid estate taxes and probate, Elisabeth also shares trust strategies that incorporate philanthropy, to leave a larger legacy benefiting both the community and the family.

When a spouse passes away and clients invite a new companion into their lives, their trusts often go unchanged, and clients are surprised to learn what the trust instructs. To ensure their trust is appropriate as children age and families change, it is imperative to review and, if necessary, revise trusts.

While Elisabeth is not an attorney, she helps clients understand what a trust can do for them and their heirs.

She often accompanies clients to their attorneys' offices to collaborate in design meetings. She then reviews the drafts with her clients before final signing to be sure they understand and feel comfortable with their new documents.

"I believe I manage their investments well. I believe I am also providing solutions that go well beyond the scope of investment management," Elisabeth says.

This is full-service financial guidance.

"I realized my ability rested in focusing on the face-to-face meetings with clients, strategizing, helping solve problems people often didn't even know existed, and asking the questions they didn't know they were supposed to be asking."
–Elisabeth Andreason

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sors may serve as a stepping stone for investors who can set aside only $100 a month and have yet to accumulate much in the way of savings. Providing an entry point for these underserved investors would be a win-win for the industry as a whole.

Investors who start out with robo-advisors have the potential to grow their assets but also gain valuable market experience. As their needs change, they may shift away from the computerized model of wealth management. "When investors get to the point where their assets are more substantial and the questions they're facing are more complicated, they realize they need more individualized attention," says John Soukup, founder of Bloomington, Minn.-based Superior Wealth Management Group.

The influence robo-advisors have on the industry will become more clear with time. If robo-advisors' sole benefit is low costs, the impact may be minimal. "Low-cost products have been out there since the beginning of time," says Tim Hague, managing partner of The Spivak Financial Group in Scottsdale, Ariz. "But this is, and always will be, a high-touch, personalized and long-term relationship business." Mark Woodfield, a managing partner at the same firm, agrees: "One of the big jobs we have is the behavioral finance side of things, and the ability to communicate to our clients during a downturn the benefits of sticking to their financial objectives and plan."

As long as advisors focus on providing value, the impact of robo-advisors is likely to be limited to the industry's periphery. "Cost is only an issue in the absence of value," says Stuart J. Spivak, founder of The Spivak Financial Group. "The robo-advisor's pitch is that they can do it cheaper. That doesn't mean they can do it better."