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In Pursuit of Value

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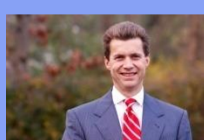
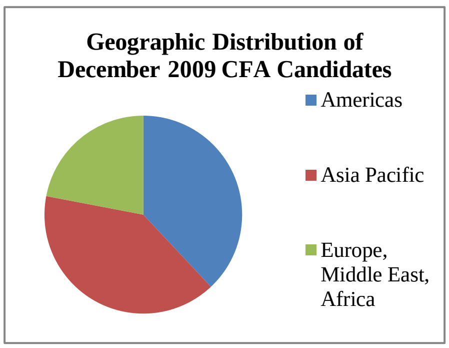
SL Advisors, LLC is a registered investment advisor offering separately managed accounts to individuals, family offices and institutions.



SL Advisors, LLC focuses on identifying securities that are trading at a discount to intrinsic value.

CFA®

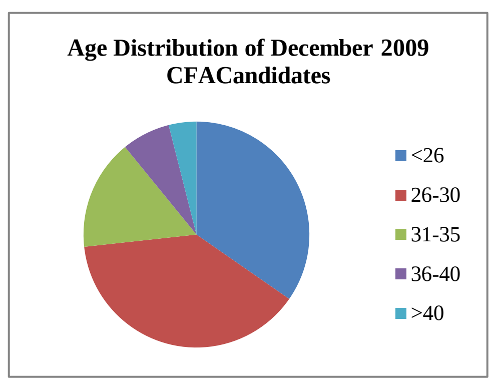
In a 2007 Wall Street Journal article Jonathan Burton described becoming a CFA charterholder as, "scaling the investment profession's equivalent of Mount Everest." While there are undoubtedly higher peaks, having just scaled this one I can forgive a little hyperbole on the topic. The CFA Institute is a global association of investment professionals that traces its lineage back to the establishment of the Financial Analysts Federation (FAF) in 1947 (from the CFA website). The CFA exam was first administered in 1963, having been proposed twenty years earlier by Benjamin Graham. It was felt that defining qualifications for investment analysts, including relevant work experience, high ethical standards and a rigorous exam would help define investing as a profession and not merely a job. The ICFA (which administered the exam) and the FAF eventually merged to form the Association for Investment Management and Research (AIMR), which changed its name to the CFA Institute in 2004.



There are currently almost 90,000 CFA charterholders in 137 countries. Although two thirds of the current members are in the Americas, 40% of the 2009 candidates were in Asia/Pacific, so the organization is clearly becoming more global. The CFA qualification is increasingly valued by investment banks – the top ten employers of CFA Institute members are all large U.S. or European banks, including my former employer JPMorgan.

As I contemplated life at a big American bank following the collapse of Lehman Brothers in September 2008, the certain prospect of increased regulation and government oversight, greater bureaucracy, public bitterness at the bailouts and higher taxes (to pay for all of these) begged a Plan B. The freedom to focus on personal investing, working close to home (though not at home – my wife deserves better than that) and taking deferred compensation before higher taxes kicked in seemed infinitely more attractive. At that time I also registered for the Level I CFA Exam in three months time.

From then until this June, studying for a CFA exam was never far from my mind or my schedule. It's a very long time since I was a student, and I put in all of the hours of study and more that the CFA Institute recommends (at least 250 for each of the three exams). Meanwhile, the CFA reports that only 4% of candidates are older than 40; having found myself learning and relearning certain facts multiple times so as to retain them, I can see why it's a young person's game. However, the material is broad, relevant, and clearly written by experts in each field. Subjects that were familiar given my background such as fixed income, derivatives and hedge funds still required careful attention, while many areas (some of the statistics, pension accounting, FX translation and others) were quite challenging.



Ethics plays an important part in all three exams, and the CFA Institute has extensive rules on how members describe their qualifications. So I can report that I passed all three exams at the first attempt (since I did), but cannot suggest this makes me a better person than somebody who took longer (so I won't). I can say that passing the exams makes me a better analyst (which it has), but not that my investment results will be better than a non-Charterholder (which would invite swift retribution from the Market Gods). And the historically low pass rate (44%, 39% and 46% for Exams I, II and III respectively) doesn't mean anything other than fewer people had the opportunity to prepare thoroughly (not surprising given the pressure most are under to keep their jobs). But it is done, and now at least I have the same credential as my young colleague Henry who, armed with youth and a high IQ breezed through the experience with substantially less effort.

Seeking Alpha

SL Advisors recently became a Seeking Alpha Certified contributor to their website. We post investment ideas that are currently in portfolios that we are managing. It's an interesting website, easy to navigate with lots of ideas (some of them quite good) from a wide range of authors. You can find us there on http://seekingalpha.com/author/sl-advisors.

What We Own

SL Advisors runs three separate strategies: Fixed Income, Deep Value and Discount Arbitrage. Contact us for more information, or go to our website: www.sl-advisors.com

The iShares Barclays 1-3 Year Credit Bond ETF (CSJ) invests in high grade corporate bonds. While long term bonds become a more expensive and less attractive investment every day, short term corporate bonds are providing a compelling risk/reward. CSJ is currently paying a monthly distribution of $0.2073, which compounds up to a 2.4% yield. While you're not going to retire on this, as an alternative to short dated treasuries or other very short dated paper it looks pretty attractive. Corporate profits are strong so the odds of an investment grade company defaulting over this time period seems quite low. And the Fed is likely to keep short term rates anchored close to 0% for at least another 12-18 months if not longer. JPMorgan recently revised their estimated date of a tightening in the Fed Funds rate to 2Q12, almost two years from now. By contrast, longer dated bonds appear increasingly risky. With a duration of around 8, ten year treasuries would only need to rise in yield by 33 bps for the drop in price to wipe out a year's income. Short term corporate bonds offer almost the same yield with less risk. CSJ is a holding in our Fixed Income Strategy.

The Wisdom Tree Dreyfus Brazilian Real Fund (BZF) invests in short dated Brazilian Real securities. As the fixed income markets continue to reflect increased fears of deflation, it's becoming harder to find interesting carry trades that exploit low short term rates with acceptable levels of risk. This ETF invests in short term US$ agency securities and combines them with FX forwards in Brazilian Real to create the equivalent of long positions in short dated Brazilian currency sovereign debt. Brazilian interest rates are high (the SELIC overnight rate is 10.75%) and given strong growth with 5%+ inflation they're likely to remain so. The Brazilian forward curve reflects rate expectations around 6% higher than the U.S. over the next year. By investing in BZF, you'll profit as long as the Brazilian Real depreciates against the U.S. $ by less than this 6% difference over the next year, although given the rate differential in our opinion the Real is likely to remain stable or even rise. It's an attractive way to achieve some yield without taking the duration risk associated with long term bonds. BZF is a holding in our Fixed Income Strategy.