Morningstar Investment Conference

Legendary Jean-Marie Eveillard Bids a New *Adieu*

By Ryun Patterson

Jean-Marie Eveillard speaks with advisors after his conversation Thursday with Don Phillips.

"The value investor has to accept the idea of suffering—it's good for the soul."

Heading toward his second retirement after being pulled out of the first last year, value guru Jean-Marie Eveillard spent Thursday's conversation with Morningstar managing director Don Phillips expounding upon First-Eagle's future plans, his eclectic approach, and the realities of being a value investor.

First off were the plans for his exit from First Eagle. "A few weeks ago, we signed someone; that someone has a three-month non-compete, so we will make an announcement within three months identifying the individual," he said of his successor, adding that another hire may also be made in that timeframe. "I will help in the transition until March, but only help. Then, I will still have three years under contract as an advisor, in the sense that I will be available. I will not be in the office, but if somebody wants to talk to me they can call me."

With that in mind, Eveillard reflected on the themes of his career, chief among them his investment approach. "There was a time when we owned a great many stocks in Switzerland," he said. "It was not because we loved Switzerland; it was because we had found a number of specific businesses where we liked the business. We thought we understood it, and we like the price at which the securities were available."

He continued, "I think that over time conventional money management—money management that tries to keep up with peers and benchmarks from a short-term standpoint—will be squeezed between the very cheap Vanguard index funds on the one hand and the absolute return people like us and some hedge funds on the other hand."

In the end, Eveillard said that despite the large amount of his gold holdings, he's not a pessimist. "I have two points. One is that one should not confuse fluctuations in economic markets with the end of the world. Number two, somebody told me the other day, 'You're a pessimist.' I said, 'If I were a pessimist, I would be 50% in gold and 50% in Asian currency.' We are more than 70% in equities, so I'm not a pessimist."

Corporate Excess, Rights of Investors on Mind of Keynoter Brian Rogers

Shareholder upheaval at Microsoft, Yahoo concerns T. Rowe Price CIO.

By Mamata Reddy

▸ See **Brian Rogers,** Keynote Address; 8:00–9:00a, Friday; Skyline Ballroom.

Brian Rogers thinks it's high time we talk about corporate governance and protecting the rights of investors. That's what this 26-year T. Rowe Price veteran plans to focus on Friday in his keynote address at the Morningstar Investment Conference.

"Given the season, as well as all the attention and scrutiny out there about it, it would be prudent to discuss the fallout of corporate scandal and excess in corporate governance over the last seven to eight years," says Rogers. The chief investment officer and board member at T. Rowe Price is also the manager of T. Rowe Price Equity Income PRFDX, and he is veritably concerned about protecting the rights of investors.

"Microsoft MSFT, Yahoo YHOO, and even AIG AIG have all experienced shareholder upheaval recently," Rogers says. "Where the rights of investors have been impeded, how we invest clients' money, the dialog process with management, and how we look at proxy votes—these are the issues of corporate governance and engagement from an investor's perspective."

As an investor, Rogers is a sharp shooter when it comes to uncovering companies that are currently out of favor but will someday return to favor. He uses a value-investment approach, looking for companies of good quality but with bad psychology.

"What we've seen over the past 20 years is less tolerance for struggling," Rogers says. "Companies feel pressure to improve performance quickly. No one wants to be in the doghouse for long."

Such outcasts will often sell underperforming divisions, mastermind mergers, and commit to other ways to improve performance, and that's what makes them good picks for value shoppers like Rogers.

Morningstar mutual fund analyst Christopher Davis, who covers T. Rowe Price Equity Income, sees Rogers as a cautious strategist. "He looks for stocks at the low end of the valuation ranges but which have above-average dividends," says Davis. "If you're going to have an all-stock portfolio, this one is as close to 'widows and orphans' as you can get these days."

Because the fund has a dividend orientation, Davis says that investors should keep a close eye on how that's playing out in a year like this one.

"Generally speaking, value stocks tend to have below-average price/earnings ratio and higher dividend yields," Rogers says. "The things you rely on most of the time now require a change in your *modus operandi*. You have to call them into question."

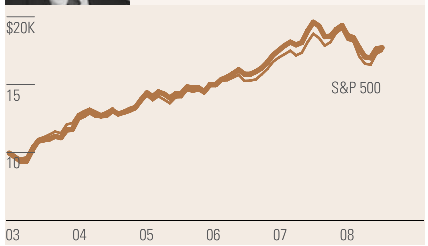
Rogers says that in periods of economic distress, a lot of steady-state variables present themselves that require checking and rechecking. The most direct way today's tumultuous market is affecting Rogers's strategies is in the area of financial services, including banking and consumer finance.

"The turmoil right now has made it difficult for investors who are looking for turnarounds," he says. "When you're young, you assume things will get better next week. When you're older, you see that they don't turn on a dime."

Data as of May 31, 2008

T. Rowe Price Equity Income PRFDX

Brian Rogers



Category Large Value	**Expense Ratio (%)** 0.67
Morningstar Rating ★★★★	**5-Yr Anl Total Rtn (%)** 10.38
Minimum Investment $2,500	**5-Yr Total Rtn % Rank Cat** 41

Rogers thinks that the worst of the housing downturn is happening now and that the climate should change in 2009, including a slow recovery in the housing sector. With that in mind, however, he does believe investors should proceed in this market with caution.

"You want to look for companies with valuations that are selling at attractive levels," Rogers says. "It's also wise to spend an equal amount of time looking at a company's balance sheet. Good-quality companies like General Electric GE are going to get through this downturn."

Harkening back to Rogers' topic of interest for his keynote address, he believes investors also should not fear investing in the face of controversy. "The best banks will live to fight again," he says. "In markets like this, when periods are weak, that weakness creates a lot of strength."

Rogers compares this concept with what happened in the early 1990s, with all the market turmoil, coupled with periods of inflation. "Probabilistically speaking, the world doesn't end that often," he says, "And we came out of that period just fine."

Because Rogers is a risk-averse investor, he takes care in finding the right times to buy. "You always want to be sensitive to risk, no matter what your personal investment profile is," he says. "Invest where there's good potential to make money and know what you can afford to lose."

He believes that the good times to buy are when there is actually widespread concern. Periods like two years ago, when the market was more stable, was not a buying period. "Now sentiment is more subdued, and so it's a better time to take risk," he says. "It's counterintuitive, in many ways."

T. Rowe's strong analyst team is the backbone of Rogers' strategy. "When prices are really volatile, all you can really fall back on is your research," he says. "Our analysts are really strong, and as a manager, that gives you some fortitude in the marketplace. The price of a company's stock changes more often than the ongoing value of that company. A company's stock may be down, but the ongoing value of that company is not necessarily down."

Rogers believes that having a reliable analytical group helps him get through tough markets like today's. "On a day-to-day basis, I find that being able to successfully identify good investments that work out better than you expect is the most enjoyable part of the job," he says.

Additionally, Rogers credits T. Rowe's division of labor at the top. With the assistance of CEO Jim Kennedy and Ed Bernard, vice president of investment services, Rogers has been able to deftly manage his roles as CIO, board member, and manager of the Equity Income fund.

"We run the company as investors—not necessarily as builders of business," he says. "We take an old-fashioned investment counsel approach, as opposed to being growers of assets, and we base this on the need to do a good job for our clients first. And more often than not, investor perception changes much more frequently than does real life."

2008 Morningstar Investment Conference Daily

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What's Geography Got to Do With It?

These three managers go anywhere to find the best values.

By Joel P. Bruckenstein

▸ See **Ian Lapey, Dennis Stattman,** and **David Winters,** Closing General Session; 11:45-12:45p, Friday; Skyline Ballroom. Moderated by Bridget Hughes.

Some fund managers seem to fit neatly into a style box, but not these three. On the contrary, these managers are defined by their flexibility. Ian Lapey, Dennis Stattman, and David Winters span the globe looking for investment opportunities. While each is primarily focused on the equities market, they are not afraid to seize upon other investment opportunities where they identify them.

Ian Lapey, Third Avenue Management

Although he is a senior analyst who manages more than $3.5 billion in a subadvisory capacity at Third Avenue Management, Ian Lapey is not exactly a household name, but that could change soon. Lapey has been named as the successor to legendary Marty Whitman as manager of the firm's flagship mutual fund, Third Avenue Value TAVFX.

While Lapey and the Third Avenue team are not international managers, they are more than willing to invest internationally when their nose for value leads them overseas. "We look for value wherever we can find it," Lapey says. "We look for out-of-favor stocks, so we can buy them when they are cheap."

One longtime holding, which the fund added to recently when the price dropped, is Toyota Industries. This diversified manufacturing firm in Japan owns a huge portfolio of securities. According to Lapey, net of debt, the firm sells for the just the price of the securities portfolio, which means investors are essentially getting the operating company for free. "We can't find opportunities like this in the U.S.," he says.

Sapporo Holdings, which is held by Third Avenue Small Cap Value TASCX but not by the firm's main value fund, illustrates Third Avenue's outside-the-box approach to investing. Sapporo is known primarily as a brewer, but the beer business is struggling. Third Avenue purchased the firm for its extensive real estate holdings. "Sapporo recently entered into an agreement with Morgan Stanley," Lapey says. "We believe this agreement will help Sapporo realize the value of their real estate holdings."

Dennis Stattman, BlackRock

Dennis Stattman has managed BlackRock Global Allocation MDLOX since its inception in 1989. When asked about his long tenure at the fund, Stattman replies, "That's because things have largely worked out." He might be understating his case.

A self-described "dull guy," Stattman sounds anything but dull when he discusses his investment approach. Like many financial advisors, Stattman and his team allocate the portfolio among stocks, bonds, and cash equivalents. A neutral allocation for the fund is 60% equities/40% fixed income, with 60% of the equity portfolio allocated domestically and 40% allocated internationally. The portfolio can deviate considerably from these benchmarks depending on the team's outlook and their ability to find suitable investments, however.

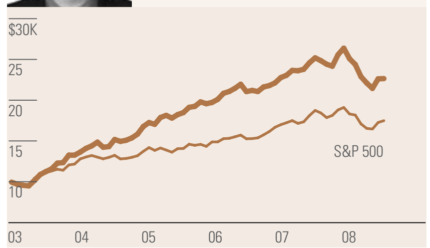
The investment team combines a top-down approach to asset allocation with a bottom-up approach to security selection. The goal is to produce equitylike returns to investors, with less risk, and that goal has been met. The Vanguard 500 Stock VFINX has had a 10-year annualized return of 4.13% with a standard deviation of 14.74%. Over the same period, the Blackrock Global Allocation Fund's load-waived A shares MDLOX.lw have returned 11.15% with a standard deviation of 10.74%.

With its broad asset allocation and diversification, BlackRock Global Allocation sounds like it could serve as a complete investment portfolio for some individual investors. Stattman agrees. "We could serve that purpose for many investors; however, very aggressive or very conservative investors would not use us that way," he says. "We do believe that this fund can serve as a core holding for all investors."

Data as of May 31, 2008

Third Avenue Value TAVFX

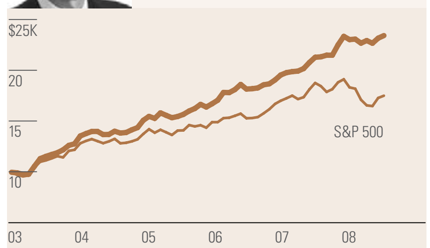
Ian Lapey



Category World Stock	**Expense Ratio (%)** 1.08
Morningstar Rating ★★★★	**5-Yr Anl Total Rtn (%)** 15.81
Minimum Investment $10,000	**5-Yr Total Rtn % Rank Cat** 45

BlackRock Global Allocation MDLOX

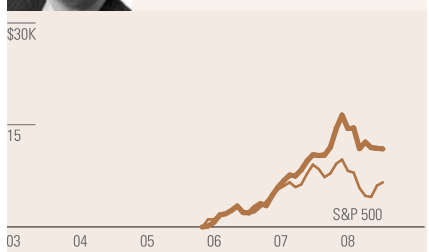
Dennis Stattman



Category World Allocation	**Expense Ratio (%)** 1.03
Morningstar Rating ★★★★	**5-Yr Anl Total Rtn (%)** 15.72
Minimum Investment $1,000	**5-Yr Total Rtn % Rank Cat** 18

Wintergreen Fund WGRNX

David Winters



Category World Stock	**Expense Ratio (%)** 1.85
Morningstar Rating —	**1-Yr Anl Total Rtn (%)** 2.12
Minimum Investment $10,000	**1-Yr Total Rtn % Rank Cat** 27

David Winters, Wintergreen Fund

Much has changed since I spoke with David Winters two years ago when he last attended the conference. At that time, Wintergreen WGRNX was less than one year old and it had attracted assets of $364 million. Today, the fund has assets of $1.8 billion.

While there has been a transformation at the firm, little has changed when it comes to the portfolio or Winters' investment philosophy. Many of the stocks in the portfolio a couple of years ago, including the fund's largest position, Japan Tobacco, and an interest in Berkshire Hathaway BRK.B, have remained unchanged. This is in alignment with Winters' investment philosophy.

"If you look at who really gets rich in the world, it is usually people who purchase the right businesses and hold those businesses for many years," he says. "They are long-term owners. That's what we want to be."

Although Winters can invest anywhere, he continues to believe that the best investment opportunities are outside the United States. One foreign firm he likes is Schindler Holding AG. He says that Schindler's elevator-construction and -maintenance businesses should both do well. He expects equipment upgrades in Europe and new construction in Asia to fuel growth. The firm's cash position and its stock buybacks add to the allure.

Winters draws parallels between the current investment environment and that of 1999-2000. "In that period, investors bid up technology, the net, and telecom," he says. "Everything else was going down in price. Today, all investors want is agriculture, steel, and energy. Everything else is on sale. This creates opportunities for global investors such as ourselves."

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It's Okay to Be Afraid

Journalist Jason Zweig analyzes why investors' emotions often trump their rational thinking.

By Ryun Patterson

Many keynote speakers discussing the role of the amygdala in the human brain's flight response would do so with slides and polysyllabic words, but Jason Zweig decided instead to throw a snake at Don Phillips.

Zweig, a longtime financial journalist and writer of *Your Money and Your Brain: How the New Science of Neuroeconomics Can Help Make You Rich* (Simon & Schuster, 2007), gave the keynote presentation Thursday that delved deep into neuroscience, psychology, and investing. "What investing is really about is emotion," Zweig said. "And despite what we all say and perhaps some of us may even believe, emotions are not generated in the heart; they're generated in the brain."

Zweig talked about the difference between the emotional, "reflexive" parts of the brain and the rational, "reflective" areas of the brain. We'd prefer to use the reflective areas of the brain when making decisions, but it doesn't always work that way. "It's very important to realize that the reflexive brain is really the default system. It's the go-to brain," Zweig said. "It's the part of the system that will generate answers unless there's something in the environment that gives you a cue that something might be wrong. Otherwise, you will never use the rational or analytical part of your brain to get the answer."

"Analysis is like a light switch," Zweig said. "You have to turn it on. Your clients may often be feeling when they believe they're thinking."

Zweig illustrated the power of expectation with scientific evidence, including scans of his own brain, to show the addictive effect of positive expectations. "Expectation is really intensely positive, and experience is less positive," he said.

Jason Zweig

Next up was the amygdala, the part of your brain that deals with fear. "When clients are panicking," Zweig said, "when they have the TV on and they see markets crashing, or the value of their stock has plummeted, or they're concerned about subprime and they're afraid, that happens instantaneously; it happens before they're consciously aware of it, and it's very important that they know it's okay to be afraid, because we're all afraid when something scary happens."

The amygdala's response was illustrated when Zweig reached in his bag and threw a rubber snake at Phillips, Morningstar's managing director, whose first reaction, understandably, was to dodge the projectile.

Zweig wrapped up his presentation with points about unconscious bias (with compelling statistics, including the fact that people named Hubert or Bertha are likely to get lower academic scores than differently named people) and risk tolerance, including the fact that the source of a person's money has a hand in the investor's risk tolerance.

"Money is not just money," Zweig said. "The source of the money comes trailing along behind it. If you win money in the lottery, you're highly likely to splurge with it; with the same amount of money, if you get it when Aunt Matilda dies, you're very unlikely to splurge."

Question of the Day

Last year, it was the subprime debacle. What will be this year's big economic story?

Interviews conducted by Pat Lynch

Tom Castle
ING Financial Partners
Newark, DE

Continued fallout from credit crisis. We have not yet reached the bottom. It's not subprime anymore but other types of loans such as home equity. They, too, could cause pressure on the system.

Victor Chigas
Access Financial Group
Chicago, IL

The effect of high oil prices is rippling through the economy. Clients are telling me that it is hitting their pocketbooks, while their kids have a real concern for the future of the planet.

Chris Cousins
FAI Advisors
Farmington Hills, MI

I don't think things are as bad today as people think. I read recently that the Consumer Sentiment Index is at its lowest since 1982, but back then, inflation was at 14% and unemployment was at 7%. We're much better off today.

Tim Duncan
M&I Trust
Kansas City, MO

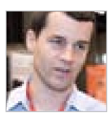
Continued problems with banks and financials. Wall Street and the media are trying to minimize things, but the crisis is not over yet.

Henry Hill
Military Officers Association
Alexandria, VA

How to protect downside risk. We've been investing overseas and in emerging markets. I wonder if our clients should be more defensive and start moving into other areas—maybe fixed income.

Ralph Illges
Silver Spring Capital
Springfield, TN

A geo-political event in the Middle East? Terrorism? Something has got to give in the oil markets. I'm a contrarian. Oil prices will go up in the short term, but long term, they will be lower than they are today.



Michael Willman
Blue Sky Investments
Evanston, IL

Price of oil. Even my high-net-worth clients are talking about buying hybrid cars, taking public transportation, and going "green."

Louise Short
SWS Financial Services
Tulsa, OK

Oil prices. I'm from Oklahoma, and oil and natural gas are a big part of the economy. Housing prices are going up. My clients are doing well.

Beverley Smith
Northwestern Mutual
Tampa, FL

Inflation and energy. After listening to panelists, I'm wondering if we should reduce our clients' energy exposure. Why not put them in tech? Some cash-rich firms may choose to reinvest in their technologies.

‘Ultimate Stock-Pickers’ Find Success in Different Places

But all three skippers value companies run by managers who think like owners.

By Ryun Patterson

Moderator Justin Fuller and managers Charles Pohl and Peter Langerman listen to Bob Torray.

The “Ultimate Stock-Pickers” panel kicked of Thursday’s sessions, and Charles Pohl, manager of Dodge & Cox Stock DODGX, Peter Langerman, manager of Mutual Series TESIX, and Bob Torray, of Torray Fund TORYX, convened to enlighten investors.

All three are value managers, but they have different perspectives on what the key to their success is.

“The most important thing we have is staying power and the willingness, when we’ve made a decision based on our fundamental research, to ignore short-term fluctuations and short-term issues and focus on the long term,” Pohl said.

Langerman said his firm’s approach is similar, with a twist. “We combine some disciplines that are rather unusual,” he said. “Our undervalued stock portfolio is the primary component of what we do, but we complement that with looking at merger arbitrage and distressed securities—some places that normally the mutual fund industry doesn’t get involved in—and we combine that with a contrarian view, staying power, and looking to be on the other side of conventional wisdom.”

When Torray got his turn, it was evident that he wanted to hold court, and he made the most of it. “I’ve been in business 47 years, and the older I get, the further ahead I look,” Torray said. “Anything less than five years, from our perspective, is really not relevant.”

Torray said that his team invests in businesses in which they have a high degree of confidence that the firm will be a long-term winner. “They’re not complicated; they’re run by good people who act like owners,” he said. “We’re relying on the performance of the business to produce the result in the stock instead of the other way around.”

Torray was equally outspoken when it came to current market conditions. “What’s going on in this decade so far is nothing more than a reaction to the irrational boom of the late 1990s,” he said. “Valuations toward the end of the 1990s were so extreme you’d have to have been in prison for the last 20 years not to know that something bad was going to happen.

Torray compared the 1990s to two other boom eras: the 1920s and 1950s. “Both of those earlier booms were followed by 20 years of single-digit returns, and it appears that we might be headed in that direction,” he said.

Torray said that the U.S. financial system holds some of the blame, too. “The financial industry is grossly overpopulated,” he said. “There are too may people running around telling other people what to do, including me. We’re all getting paid, and it takes an inexorable toll when you combine it with the human mind’s wiring, which makes people buy things that are going up and sell them when they’re going down.” Torray continued, “The public needs to take a radically different view of what it’s doing and return to a fundamental long-term approach to investing. Unfortunately, the financial system and the media to a great extent have just turned the U.S. financial markets into a gambling emporium, and it’s having a very serious deleterious effect on the average American.”

All the panelists agreed that they preferred to invest in companies where managers think like owners, and Pohl and Langerman offered their favorites in this realm.

“At Dodge & Cox, we all are very interested in trying to find owner/operator kinds of companies,” Pohl said. “Over time, many of those will do much better for you because they’re interests are aligned with your interests.” He cited Comcast CCS, News Corp. NWS, EchoStar SATS, and Wal-Mart WMT as examples of this kind of ownership, among others. “All of these companies are really focused on creating shareholder value for the long-term shareholder, and they’re very good stewards of capital—they’re very conscious of return on capital, only spending capital in activities that they think are going to generate value in the long term.”

Langerman cited White Mountains Insurance WTM as an example. “They view the capital as their capital, and they very much [make decisions by asking] ‘What is right for the shareholders? What is right for the investors?’” Langerman said. “The point is to build shareholder value, not create an empire.”

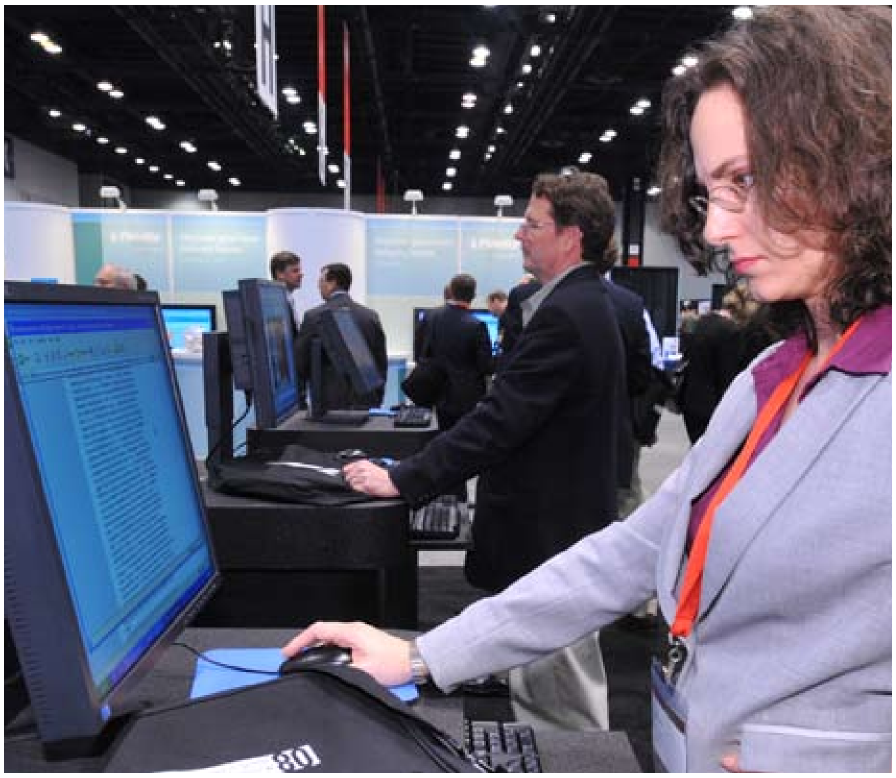
Langerman noted, however, that good management doesn’t mean that his team wouldn’t sell if the right opportunity came along. “We’re not of the belief that we’re going to own something forever just because it’s well managed,” he said.

“There’s a price that’s also attractive to us, so there’s another element of the analysis.”

Torray finished the main discussion by making a case for big financials like American Express AXP, Bank of America BAC, Citicorp C, and AIG AIG. “My experience has been that big, important franchises not going to disappear. I believe that package of companies, the big ones, have the potential to double in five years,” he said. “I can’t think of one other part of the market where I would have any confidence that I could make 15% to 20% a year in something big, solid, and important to the world economy.”

Cocktails & Conversation

Exhibitors and attendees mingle in the Exhibit Hall on Wednesday evening.



In Wake of Subprime, Morningstar Analysts Find Opportunities

In most-damaged sectors, there are deals to be had, but investors need to sort out the good names from the bad.

By Elizabeth Bushman

Fund Roundtable: Exciting Time for Value

Discussions of the aftereffects of the subprime mortgage crisis and questions surrounding whether a rebound is imminent were the focus of the Fund Research Roundtable on Wednesday afternoon. The panel of Morningstar fund researchers was moderated by Consuelo Mack, anchor and managing editor of the public television investment program "Consuelo Mack WealthTrack."

Kicking off the discussion, Mack asked the panelists what has surprised them about the recent subprime crisis. Don Phillips, managing director of Morningstar, said that he was pleasantly surprised that the mutual fund industry was not at the heart of the crisis and that the average investor did not bear the brunt of the fallout. Instead, a more sophisticated pool of investors was damaged by the subprime crisis. Christine Benz, Morningstar's director of personal finance, said that she did not expect that so many value-oriented managers would be unable to time the bottom, evidenced by the ongoing pain experienced by some traditionally strong funds. Russel Kinnel, Morningstar's director of fund research, asserted that he was "shocked at the degree of failure" of ultra-short funds, many of which have sustained losses of 10% to 20%.

The Morningstar panelists agreed, however, that recent losses are no reason to abandon the funds of strong managers. Phillips said that there is too much of a short-term focus on manager performance and that this is an exciting time to be a value manager. Phillips said that value is where he is looking to put his own money. Benz agreed and said she recently purchased Longleaf Partners LLPFX herself. She said that the managers she has been speaking with say that they are finding compelling values in today's market, a marked contrast with a conversation she had last year with fund manager Mason Hawkins, who was not seeing much value anywhere at that time.

Scott Berry, Morningstar's associate director of fund analysis, said that he sees opportunities opening up on the bond side, particularly with Dan Fuss of Loomis Sayles Bond LSBRX. Berry credited the fund's flexible mandate for its success. On the whole, Berry praised PIMCO and T. Rowe Price, who were both early with warnings about risks of high-yield municipal bonds. As for whether he would bet on high-yield right now, Berry was hesitant. He said that while the 4% to 5% added yield that investors are getting with high-yield right now may sound appealing, those levels were similar in 2002 but had the added benefits of defaults decreasing and the economy rising. Berry said that high yield is more promising now than it was a year ago, but he said that he doesn't see any screaming opportunities.

On the equity side, Karen Dolan, Morningstar's director of fund research, said that managers who are betting on energy have the right idea. She cited managers Bruce Berkowitz of Fairholme FAIRX and Susan Byrne of GAMCO Westwood Equity WESWX as those who have found success by riding the energy wave longer than other managers, and not walking away when valuations rose. She said she is also enthusiastic about some of the new types of investment products on the market, especially target-date retirement and managed-payout funds, both of which are great asset-allocation solutions, she said. "The trend is a recognition that there are a lot of different ways to build a portfolio."

Moderator Consuelo Mack, far left, and members of the Fund Research Roundtable—from left, Don Phillips, Christine Benz, Scott Berry, Russel Kinnel, and Karen Dolan—discuss the investing landscape.

Pat Dorsey, left, and Paul Larson discuss commodities during the Stock Research Roundtable.

Phillips mentioned Ken Heebner as another manager who is succeeding where so many others are stumbling. Phillips believes that sticking with managers who go their own way is a great way to diversify a portfolio. "You don't want all your fund managers to zig at the same time," Phillips said.

Touching on inflation concerns, Benz acknowledged that investors need to be on high alert in protecting their portfolios from inflation. She says that vehicles traditionally used to hedge inflation, such as TIPS and commodities, are currently inflated themselves. Therefore, she suggested that stocks, particularly those with wide moats (or competitive advantages), are a good place to be.

Mack asked each panelist which one fund he or she would recommend for a long-term diversified portfolio. Phillips named Vanguard Intermediate-Term Bond Index VBIMX, particularly for investors in high tax brackets. Benz went with newly reopened funds Longleaf Partners LLPFX or Sequoia SEQUX, while Kinnel was happy with anything Primecap where "growth managers really act like the best value managers," he said. When pressed, Kinnel chose Vanguard Primecap Core VPCCX as a favorite. Dolan named Schneider Small Cap Value SCMVX, a fund that suffered recently when manager Arnie Schneider made some mistakes in 2007. But, Dolan said, Schneider is a very experienced deep-value investor who is laying the groundwork for good returns. Berry chose Loomis Sayles Bond, citing its flexibility as one of its greatest assets.

Stock Roundtable: Individual Analysis Required in Today's Market

Next up was the Stock Research Roundtable, which was also moderated by Mack.

Josh Peters, Morningstar's equity-income strategist, said that he would not presume to call the bottom of the financial crisis, but that owning banks right now is still a good idea, as the economy can't function without a healthy bank sector. He stressed the importance of having a long-term focus when it comes to bank stocks and said that while stocks have experienced tremendous losses due to the subprime mortgage crisis, those losses have not been equally distributed. He said that it is important for investors to determine whether an individual bank is a good credit underwriter before diving in. "In a downturn, especially of this magnitude, you look at the individual banks, the individual financial institutions--there are names worth owning."

Peters named superregional giant BB&T BBT as a bank with good prospects--one that, while clobbered in the crisis, still managed to raise dividends recently for the 37th year in a row. BB&T is a stock to hold for the long run and is priced to succeed, Peters said.

Morningstar equities strategist Toan Tran, the self-proclaimed bear of the roundtable, was not as confident in banks' prospects, although he agreed that it was important to sort out the good stocks from the bad, and judge each on its own merits.

Switching gears to discuss commodity stocks, Pat Dorsey, Morningstar's director of equity research, said, "There has been a structural step-change in demand for commodities, especially oil, around the globe."

Equities strategist Paul Larson agreed with Dorsey, saying that national oil companies (Russia and Venezuela in particular) have much more bargaining power, and thus are becoming braver in their negotiations with private companies, causing the marginal cost of oil to skyrocket.

When Mack asked the panel what investors should be doing with their oil stocks in the midst of this environment, the analysts were reluctant to generalize. As with the financial sector, they encouraged investors to analyze each stock individually. Tran said that there was potential in limited partnerships, especially Legacy Reserves LGCY, which he said has a good management team and looks cheap r ight now.

Dorsey stressed the importance of sticking with a long-term asset allocation, because that forces a rebalancing out of sectors that are going up and into sectors that are depressed. "That tends to work better in the long term, instead of waiting for everyone to rush the exits," Dorsey said.

Alternative energy will compose the next bubble, predicted Tran, though he said that it won't be soon. "Maybe in five years." He cited the amount of venture capital and startups as what will fuel the bubble.

Each panelist had his own idea of what stock is undervalued right now. Dorsey named Vulcan Materials VMC, due to its consolidated industry. Larson said he likes the look of Cemex CX, which he said is dirt cheap. Tran named Monsanto MON, thanks to a growing demand for food, and Peters reiterated his enthusiasm for BB&T and mentioned Realty Income O as another attractive prospect.

Asia Outlook Uncertain as Inflation, High Valuations Take Their Toll

But economic problems plaguing West not yet found in Asian countries.

By Ryun Patterson

The first thing discussed at the "China, India, Asia: Possibilities and Pitfalls" discussion Thursday was simple: What's gone wrong?

"Clearly it's been a very tough year to date," said panelist Anthony Cragg of Wells Fargo Advantage Funds. "China is down over 40% year to date, India's down 30%--from fairly high valuations. So I think part of it is a natural correction in these markets. I think the good news at the moment is that some of the really serious endemic problems that we see in the West—indebtedness, property collapse, credit crunch, mortgage melt-down—we really do not see in Asia. What it does have, unfortunately in spades at the moment, is inflation. This really is the devil in Asian markets."

Sharat Shroff of Matthews International Capital Management, said that inflation in Asia, which is being driven by food and fuel, could eventually be a boon to investors, as it makes countries take stock of their situations. They can use this opportunity to iron out inefficiencies that have built up across the region in the last three or four years," particularly in the realm of subsidies, he said.

Justin Leverenz of OppenheimerFunds said that while irrational market pricing and inflation are big drivers of the recent down markets in Asia, there is another big problem afoot. "The underlying problem is the unwillingness to embrace meaningful currency appreciation," Leverenz said. "There's a political unwillingness, and I think there's also an industrial unwilling-ness to do what's necessary."

Though the outlook is uncertain, the panelists agreed that corporate gover-nance has improved across Asia, even if it has changed a bit over the years.

"For many, many years when we did a company-visit trip, we made our own schedule, went to the headquarters, and sat down with the CEO and CFO. It was a very immediate, intimate interview," Cragg said. "Now, there's a tendency to hold big conferences—the CEO has a prepared speech, you can't really probe them in the same way. Having said that, corporate governance has improved significantly; I think the presence of major U.S. and European investors drives and demands more transparency."

From left, Justin Leverenz, moderator Mike Breen, Sharat Shroff, and Anthony Cragg.

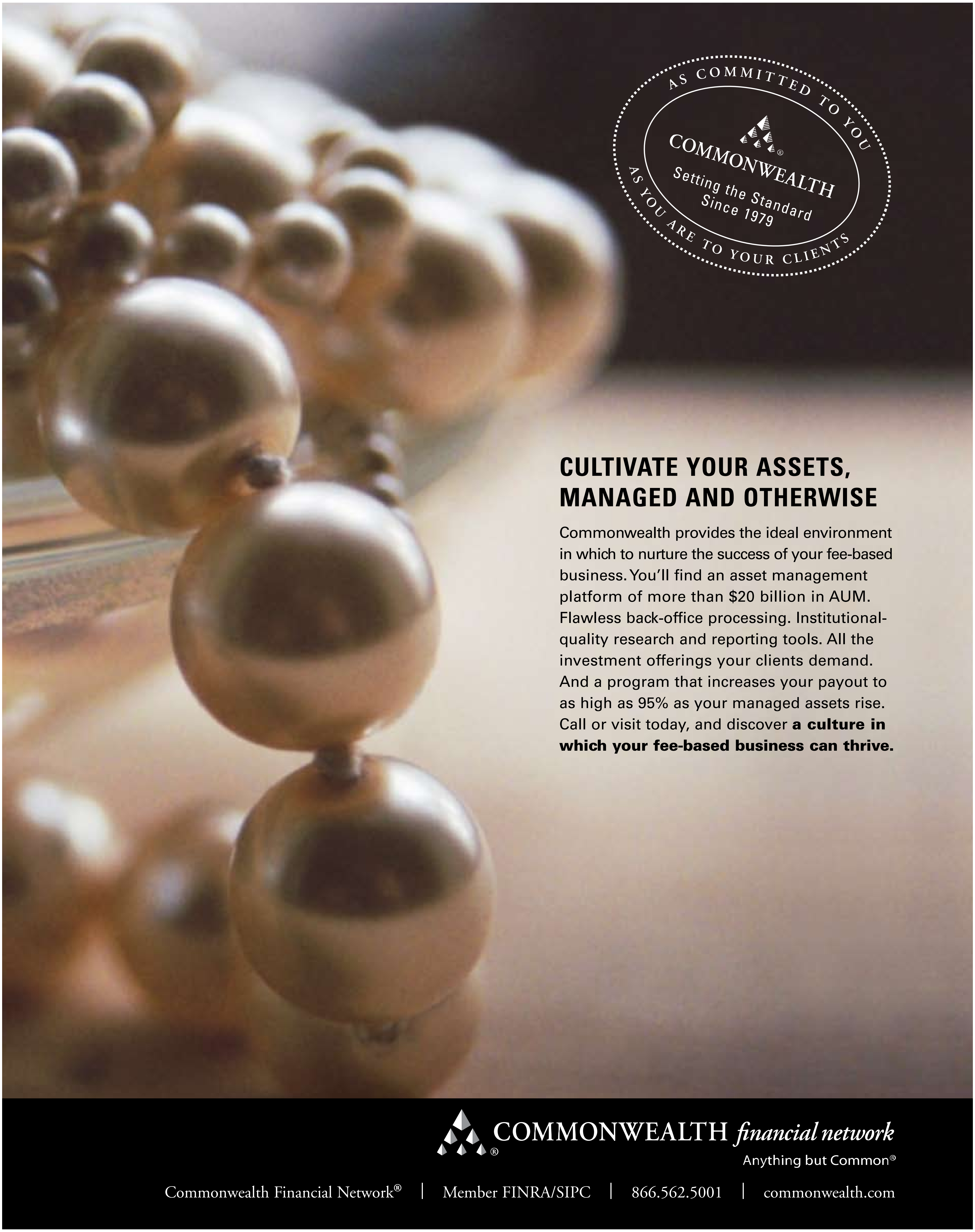
Leverenz agreed. "Generally, everything's improved tremendously in Asia," he said. "I'm a big believer that all over the world the kleptomaniacs get washed out."

Among the Asia plays cited by the panel, Shroff thinks the saving grace for the Indian IT industry could be the Japan market. He also likes Japanese baby-care firm Pigeon, which has successfully cracked China and is looking next to the India market. Leverenz called China Unicom "one of the most undervalued assets in the world." And Cragg brought up Singaporean oil-rig firm Keppel for its access to Brazil and Major Cineplexes in Thailand, which is turning cinemas into high-end entertainment destinations.

Conference Agenda

June 27 Friday

Skyline Ballroom	**Keynote Presentation** 8:00a–9:00a Brian Rogers
	Breakout Session 3A 9:10a–10:00a
W471	Redefining Growth
W474	Building an Ideal Target-Date Fund
W475	Making the Case for Real Estate
F1	**Break in Exhibit Hall** 10:00a–10:45a
	Breakout Session 3B 10:45a–11:35a See Breakout Session 3A
Skyline Ballroom	**Closing General Session** 11:45a–12:45p What's Geography Got to Do with It?
F1	**Informal Networking Lunch** 12:45p–1:30p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The Morningstar Advisor User Forum

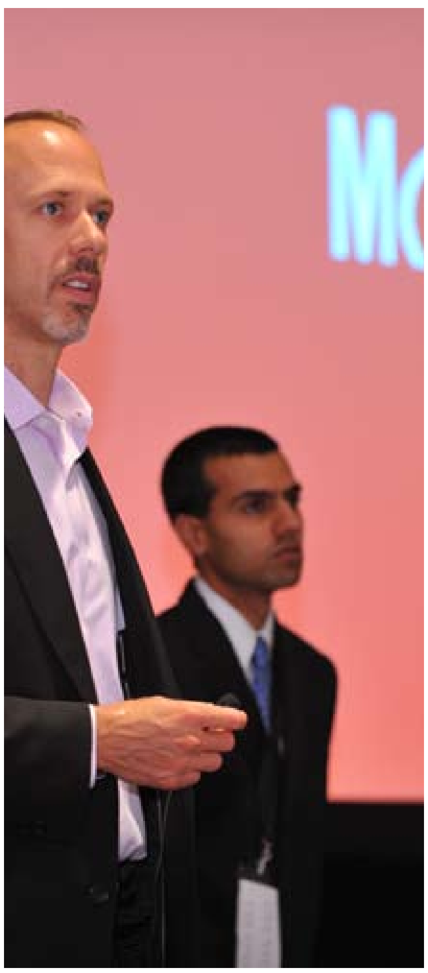
More than 200 Morningstar Principia and Advisor Workstation subscribers gathered Wednesday to attend workshops and individual training sessions presented by Morningstar's product developers and experts.

From left, Dick Plunkett; Deborah Fritsche; and Robert Geany.

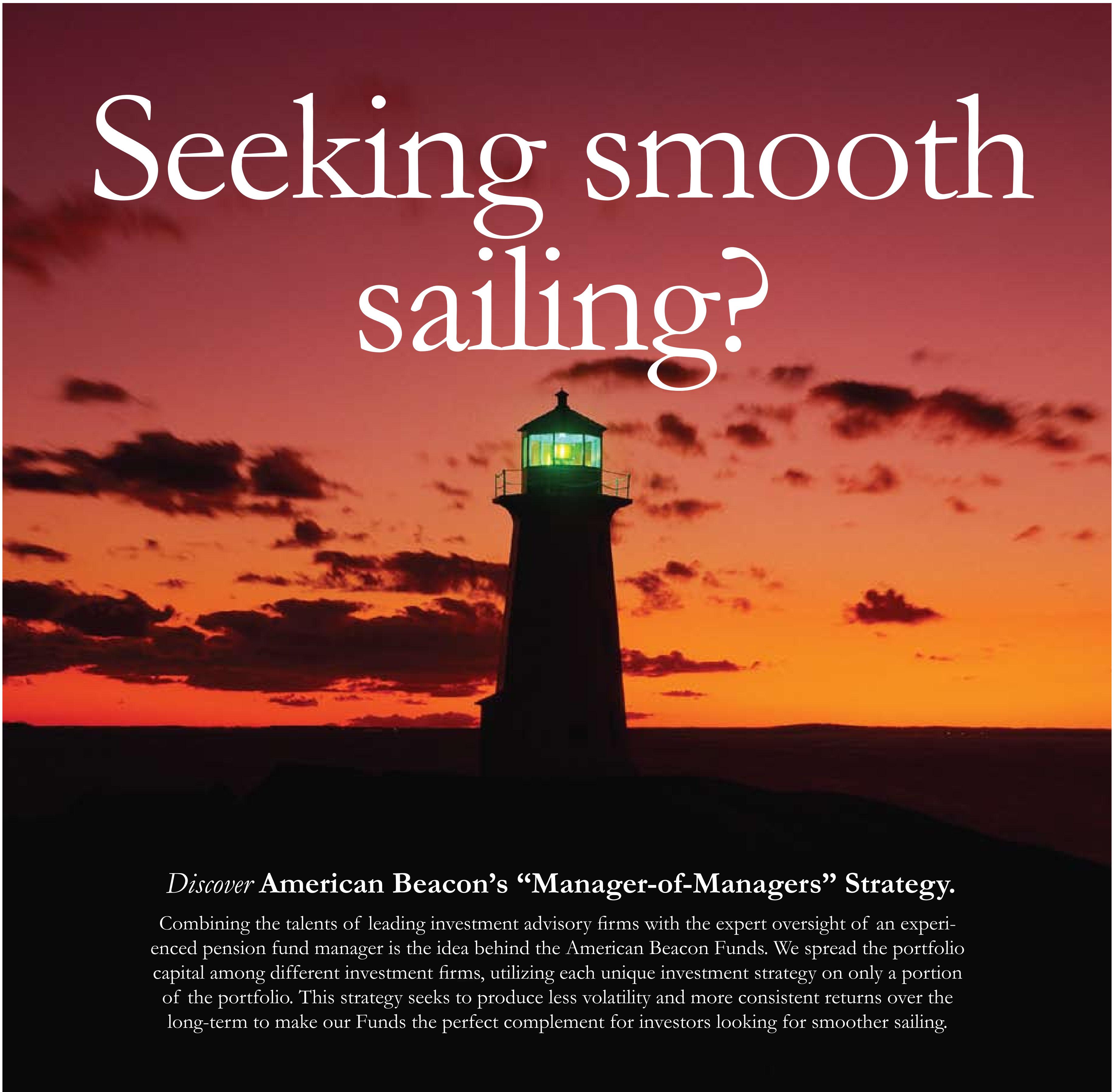
From left, Darian Chen and John Dunwoody.

Wes Barnes

Morningstar's Hailin Li.



Chris Boruff, president of Morningstar Advisor, introduces Kunal Kapoor, president and chief investment officer of Morningstar Investment Services, to attendees.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Staying in Town This Weekend?

The best things to do in the city, provided by *Time Out Chicago*. Go to www.timeoutchicago.com for more listings.

Friday 27

Architecture River Cruises
Meet at the southeast corner of Michigan Avenue Bridge at Wacker Dr (312-902-1500). 10, 11, 11:30am, noon, 1, 1:30, 2, 3, 3:30pm; also Sat¬–Sun. Weekends $30, weekdays $28. This quintessential Chicago tour takes you along the Chicago River to marvel at one of the city's greatest assets: its world-class architecture. The 90-minute cruise goes from River City north to Goose Island. Along the way, you can check on the progress of the new Trump Tower and take in modern and historical wonders such as the Merchandise Mart, the Riverbend condos, Tribune Tower and the IBM Building, designed by architectural demigod Mies van der Rohe. Reservations are suggested. For a full list of CAF tours, visit architecture.org.

Jersey Boys
Bank of America Theatre, 18 W Monroe St between State and Dearborn Sts (312-902-1400). 8pm; also Sat 2, 8pm; Sun 2pm. $30–$95. Phobics of baby-boomer nostalgia orgies are officially warned: This "story" of the ascent of Frankie Valli and the Four Seasons into the pop pantheon is rife with the shameless manipulation commonplace among jukebox musicals intent on making us remember the way we never were. But what sets Jersey Boys apart is its careful re-creation of the Seasons' songbook and clarion sound. Most of this fine cast probably wasn't even born before the original band broke up, but its guiltless, writhing performances of another generation's music are like the Seasons' tumultuous personal lives. There's always something going on beneath the covers.

"Jeff Koons"
Museum of Contemporary Art, 220 E Chicago Ave at Mies van der Rohe Way (312-280-2660, mcachicago.org). 10am–5pm; also Sat–Sun. $10. Koons's transformations of Michael Jackson and Bubbles, inflatable toys and other pop and consumer culture detritus into high art get their first major museum survey in 15 years.

"Cloud Gate," Millennium Park

Wrigley Field Tours
1060 W Addison at Clark St (773-404-2827). $25. So you're no Alfonso Soriano and never will be. There may still be a way for you to get an inside look at Wrigley Field's dugout. Departing every half hour from 9:30am until 4:30pm, these 90-minute guided ballpark tours give you a rare peek at the Cubs' clubhouse, press box, visitors' clubhouse, bleachers, dugouts, on-deck circle, mezzanine suites and security HQ. Reservations are required. All proceeds benefit Cubs Care, a fund of the McCormick Tribune Foundation.

Tatsu Aoki's
Miyumi Project Velvet Lounge, 67 E Cermak Rd between Michigan and Wabash Aves (312- 791-9050). 9pm, $10. The Miyumi Project (named for bassist Tatsu Aoki's daughter) features several premier Asian-American jazz players as well as longtime AACM (and African-American) members such as Mwata Bowden. Aoki, the curator of the Asian American Jazz Festival, originally conceived Miyumi as a way to tell the story of his parents' immigration to the States, but it has since taken on an cross-cultural life of its own.

Saturday 28

Bobby's Lakefront Neighborhoods Tour
Bobby's Bike Hike, 465 N McClurg Ct at Illinois St (312-933-2980). 1:30pm; also Fri, Sun. $35. Cruise the city, see the sights and learn a bit about Chicago history on this leisurely paced bike tour that takes you through the Gold Coast, Old Town, Lincoln Park Zoo and North Avenue Beach. Tour prices include bikes, helmets and child seats, upon request.

Grant Park Music Festival
Millennium Park, Michigan Ave between Monroe and Randolph Sts.6:30pm; also Sat 7:30pm. General seating free, one-night-only passes $10. The classical music of Grant Park Symphony Orchestra, led by Carlos Kalmar and featuring esteemed solo guest artists, fills Millennium Park. Tonight's program, "20th Century Masters," features soprano Karina Gauvin. Sitting as the sun goes down with the crowd of 8,000 or so is as good of a Chicago experience as we could wish for.

Time Out Chicago

Michigan Avenue

Navy Pier Fireworks
Navy Pier, 600 E Grand Ave at Streeter Dr (312-595-7437). 10:15pm. Watch the Pier's bi-weekly pyrotechnics light up the sky.

John Primer
Buddy Guy's Legends, 754 S Wabash Ave at 8th St (312-427-0333). 9pm. $15. Primer was a top-flight sideman for years on end, but when he joined Willie Dixon's Chicago Blues All-Stars in the late '70s, it wasn't hard to predict that Primer would soon become a blues all-star in his own right. In more recent years, he's been better known for playing behind Magic Slim, but he's been doing an equally fine job of making his own name.

SummerDance
Grant Park, Spirit of Music Garden, 601 S Michigan Ave at Harrison St (312-742-4007). 6–9:30pm; also Fri; Sun 4–7pm. Even if you think you've got two left feet, dance instructors will guide hundreds through some simple moves on a gigantic dance floor in the sylvan Spirit of Music Garden. A live band follows, playing music for those new moves. Friday nights often feature top

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This Weekend

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world-music acts (the salsa orchestras are especially popular), and Sundays are given over to ballroom dancing. Tonight features polka (can you get any more Chicago) as interpreted by the Eddie Blazonczyk's Versatones. A picnic terrace adjoins a concession stand, where you can pick up a bite and beer or wine to refuel for that jitterbug.

Wicked
Ford Center for the Performing Arts, 24 W Randolph St between State and Dearborn Sts (312-902-1400). 2, 8pm; also Fri 8pm; Sun 2. $25–$90. It's hard to find fault with an estrogen-fueled story that brings grrrl power to 13-year-olds everywhere. In fact, as a result of their enthusiasm, this lime-green mega-hit about pre-Dorothy Oz has become such a global phenom that enthusiastic praise for it can't be taken seriously, and tough-minded criticism doesn't much matter. Still, we're baffled how, despite a committed local cast, this tale about the virtue of individuality got to be so expensively bland. It's undermined by Winnie Holzman's dull adaptation of an otherwise terrific story and Stephen Schwartz's SPAM-y power-ballad score.

Sunday 29

"Nature Unleashed"
The Field Museum, 1400 S Lake Shore Dr at McFetridge Dr (312-922-9410, fieldmuseum.org). 9am–5pm; also Fri, Sat. No entry after 4pm. $14 (additional tickets may be required for special exhibits such as this one). With the recent catastrophic earthquake in China and the cyclone in Myanmar, fear over the weather is running high. The Field gives a lesson on how natural disasters occur and what science is doing to prepare for future calamities. The best display: a five-paneled video of a real tornado that puts you in the eye of the storm.

Cirque Shanghai: Gold

Randolph Street Market Festival
Randolph St between Ada St and Ogden Ave. 9am–4pm; also Sat 10am–4pm. $10. The Chicago Antique Market returns this year with a new name and look. A few contemporary booths—selling global goods and vinyl—join more than 200 antique and vintage dealers. Also new this year is the Fancy Food Market, a culinary component teeming with local food purveyors selling gourmet treats such as infused olive oils, ice cream, pies, handmade caramels and more.

Cirque Shanghai: Gold
Navy Pier Skyline Stage, 600 E Grand Ave at Streeter Dr (312-902-1500). 2, 4pm; also Fri 2, 8pm; Sat 2, 6, 8pm. $12.50–$29.50. The amazing acrobats who stunned Chicago crowds with ancient Chinese circus arts such as hoop diving, plate spinning, aerial acrobatics and contortions are back and ready to make you feel more inadequate at your next yoga class.

Millennium Park
Michigan Ave between Monroe and Randolph Sts (312-742-1168, millenniumpark.org). This 24.5-acre park features Frank Gehry's Pritzker Pavilion and serpentine bridge as well as sculptor Anish Kapoor's 110-ton Cloud Gate (a.k.a. the Bean), which reflects the skyline and clouds in its seamless and highly polished stainless-steel plates. A more recent addition to the park is the Lurie Garden, a two-and-a-half-acre landscape designed by Gustafson Guthrie Nichols Ltd., Piet Oudolf and Robert Israel. Be sure to check out the picturesque footbridge, beds of perennials and dramatically lit, 15-foot-high "shoulder" hedge, which represents Carl Sandburg's reference to Chicago as the City of Big Shoulders. Sculptures by American artist Mark di Suvero inhabit the Boeing Gallery, the small exhibition space bordering the Bean. Standing near Kapoor and Gehry's work, di Suvero's brightly colored metal scraps might seem incongruous, but checking out work by one of the last remaining Abstract Expressionists is worth enduring clashing sculptural styles.

Taste of Chicago
Columbus Dr between Monroe and Balbo Drs; and Jackson and Congress Drs from Michigan Ave to Lake Shore Dr. 11am–9pm; also Fri, Sat. Scores of restaurants from around the city offer tastes of their top dishes. A strip of tickets costs $8 at the festival. Shell out three tickets for snack-size "Taste portions" or a few more for an entrée. The Taste also features some stellar music with headliners like Josh Kelly (Sunday) Stevie Wonder (Saturday) and Chaka Kahn (Friday).

To find out more about the best Chicago has to offer, pick up an issue at newsstands today or visit www.timeoutchicago.com.

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