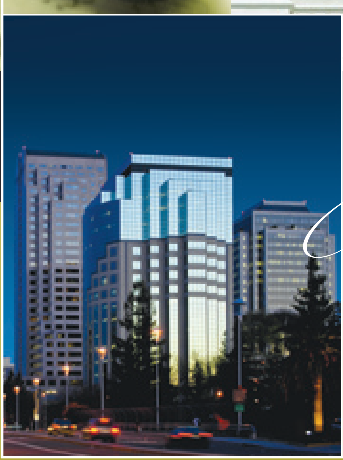
January 2012

sacramento BUSINESS REVIEW

Volume 4 Issue 1 | www.cba.csus.edu

Emerging Trends in Sacramento's Economy



Your Best Guide to Sacramento's Economy

2012 Economic Forecast

CFA Society of Sacramento

Sacramento State College of Business Administration

JANUARY 2012

sacramento BUSINESS REVIEW

www.sacbusinessreview.com

MISSION

To educate consumers on the economic and financial health of the Sacramento region.

CFA SOCIETY OF SACRAMENTO

Founded in 1991, the CFA Society of Sacramento operates as a member Society of CFA Institute. Our membership consists of over 180 regional investment professionals and academics and our mission is to utilize our collective investment knowledge, expertise and global network in order to function as a valuable resource to our members and to benefit our regional community.

SACRAMENTO STATE COLLEGE OF BUSINESS ADMINISTRATION

The College of Business Administration at California State University, Sacramento is the Capital region's educational institution of diversity that provides a strong foundation in business knowledge, skills, and values through collaboration among faculty, staff, and students in order to enrich their respective communities.

INSTITUTE FOR BUSINESS RESEARCH AND CONSULTING

The mission of the Institute for Business Research and Consulting (IBRC) in the College of Business Administration (CBA) at California State University, Sacramento is to satisfy research and business consulting needs of the greater Sacramento region. The IBRC provides sophisticated expertise and innovative business solutions to clients in areas such as business forecasting, economic impact studies, financial feasibility analysis, business process improvement, marketing, product development and pricing, entrepreneurship, strategic management, and business plan development.

DESIGNER

Carrie Dennis, Carrie Dennis Design

SACRAMENTO STATE COLLEGE OF BUSINESS ADMINISTRATION CONTACT INFORMATION

www.cba.csus.edu | (916) 278-6578

Message from the Dean

Dear Friends,

I am pleased to share the seventh edition of the *Sacramento Business Review* - the most comprehensive, precise, and intellectually sophisticated analysis of the regional economy. For over three years in a row, our team has accurately forecasted the economic and business climate and has provided thoughtful predictions. With ten of Sacramento's very best financial analysts and researchers combining their skills and talent, the *Sacramento Business Review* has become the most credible source of independent thinking, insights, and research not found elsewhere in the region.

I am delighted by your overwhelmingly positive response, as you have embraced the publication and have used it as your regional guide. Last year, we made countless presentations of our work in the community, and I received hundreds of emails and phone calls complimenting the great work. I want you to know that none of the analysts who produce the SBR forecast receive any monetary benefit or compensation, and do this work entirely as a public service to the region.

This past year, we predicted that the regional economy would stabilize, employment would improve, housing and real estate would continue to drift in search of a bottom, bank credit would remain tight, small businesses would remain concerned about the economic outlook, and that all of these factors together would set the stage for a slow recovery. We were right. Our new **SBR Financial Conditions Index** shows that the regional economy bottomed out in Q1 2011, shortly after the local recession officially ended in 2010.

For 2012, we expect the regional unemployment rate will drop to the 10-11.5% range with improving prospects for spending and job growth. The residential market will continue its record long downturn while other real estate sectors will find more stability. While many of the banks generated higher profits last year, they will find it more difficult to improve their bottom line. Our **Small Business Confidence Index** shows greater optimism since credit conditions have improved dramatically. Policy, not investment fundamentals, will determine the course of the markets in 2012. Overall, we are more optimistic about 2012.

We are committed to delivering the very best economic and financial research to the region. I invite your feedback. Please do not hesitate to let me know how we may improve future issues or if you wish to be a supporting sponsor. To download your free copy, please visit **www.sacbusinessreview.com**.

Warm regards,

Sanjay Varshney

Sanjay Varshney, Ph.D., CFA
Dean, College of Business Administration
(916) 278-6578 | ***cba@csus.edu*** | ***www.cba.csus.edu***

Sacramento Business Review is presented by

The Institute for Business Research and Consulting

CFA Society of Sacramento

Sacramento State College of Business Administration

Contents 2012 Economic Forecast

NEW!
SBR FINANCIAL CONDITIONS INDEX
page 25

Sacramento's Labor Market & Regional Economy: 2012 Outlook

Key Points

- For 2012, we expect the regional unemployment rate will drop to the 10-11.5% range.
- We have turned more optimistic about the prospects of spending and job growth for this coming year.
- In 2012, uncertainty will continue to have a depressing effect on spending and investment.
- Until the region can meaningfully work through the backlog of distressed properties, the recovery will continue to proceed at a gradual and sometimes unsteady pace.

Brian M. Leu, CFA, CAIA, Investment Officer, *CalPERS*
Yang Sun, Ph.D., Professor, *College of Business Administration, Sacramento State*

> *"...we expect the local economy to continue to struggle with the ongoing impact of the downturn..."*

By almost every measure, the Sacramento regional labor market is in better shape today than a year ago or even just six months ago. The Sacramento region had an unemployment rate of 10.9% as of November 2011, down from 12.3% six months ago (see Figure 1). This unemployment rate is in-line with the unadjusted rate of 10.9% for California and still above the 8.2% for the US, but well below the regional peak of 13.0% back in January 2010. The 12-month moving average of monthly job change, a key indicator in our mind, has finally moved into positive territory, suggesting the trend of positive job growth is likely to continue in 2012.

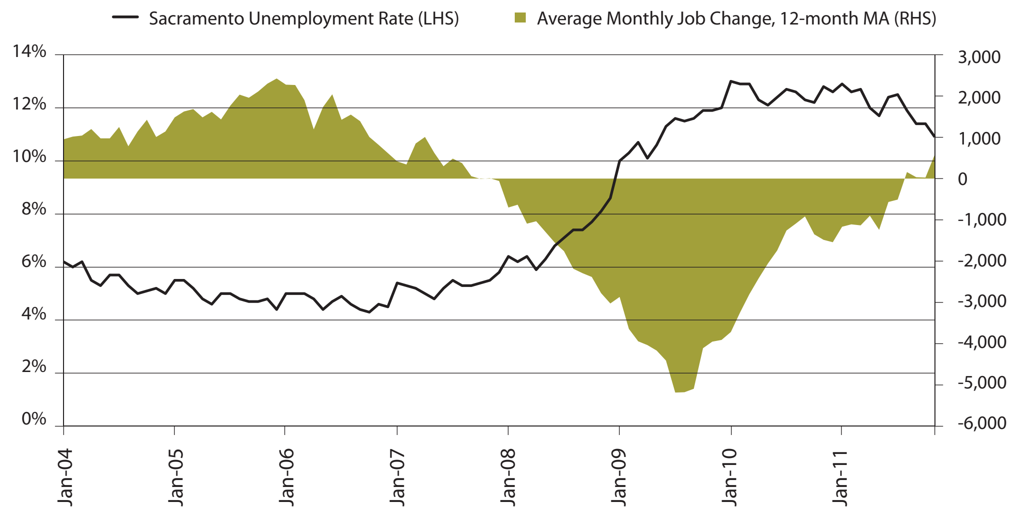
For 2012, we expect the regional unemployment rate will drop to the 10-11.5% range (this relatively large range reflects the volatility that results from seasonality and changes in the labor force participation rate). We estimate that the underemployment rate, which reflects labor underutilization, fell to about 18% in November 2011, down from 20% a year ago, and will continue to drop as job prospects improve and discouraged workers return to the workforce. We still contend that structural factors (including a general skills mismatch, skill erosion, geographic immobility and extended jobless benefits) will impede the unemployment rate from dropping to pre-recession levels anytime in the near-term - there are still about 4.2 unemployed workers per job opening in the US, according to the BLS. Nevertheless, we see enough slack and pent-up demand in the regional labor market for meaningful net job creation in the coming year.

Reasons to Believe This Hole Won't Get Much Deeper

As we predicted in our publication a year ago, the recession in Sacramento officially ended in 2010, about a year after the end of the national recession. In 2012, almost two years later, we expect the local economy to continue to struggle with the ongoing impact of the downturn – particularly in housing, unemployment, and credit. That said, we continue to see

Sacramento's Labor Market & Regional Economy: 2012 Outlook

Figure 1
Average monthly job change turns positive



Source: EDD

more positive factors now driving growth in the economy (see Table 1). While we agree with most economists that the first half of 2012 in the US will likely see a moderate slowdown as Europe falls into a recession and US corporate earnings come under pressure, as Table 1 highlights, we believe there are many reasons to be optimistic about economic growth through the year.

Table 1
Key Drivers of Economic Growth

Positive Drivers	Negative Drivers
■ Net positive job growth ■ Muted inflation expectations ■ Accommodative monetary policy ■ Corporate earnings growth ■ High labor productivity ■ Relatively low labor costs ■ US corporates flush with cash ■ Improving consumer confidence ■ Pent-up demand for consumer durables and household creation ■ Negative wealth effect waning	■ Still-high unemployment rate ■ Weak housing market ■ Fiscal tightening, esp. State and Local ■ Household deleveraging ■ Euro-area crisis spillover ■ Savings rate drawn down sharply ■ Uncertainty about direction of US policy

Consumer spending in the US, in particular, has proved more resilient than expected in 2011, and we expect this relative strength to continue in 2012. To be clear, we continue to see consumer fundamentals being hampered by weak income growth, contracting home prices and a lower savings rate, but we also believe consumer cash flow and balance sheets have improved and consumer confidence has risen steadily in recent months. The Fed's financial obligations ratio (interest related obligations as a percent of disposable personal income) has fallen sharply to 16.1%, a level not seen since the early 90's, suggesting US consumers continue to improve their cash flow position. The negative wealth effects from the sharp fall in asset prices during the recession are also beginning to wane, in our view, and eventually the pent-up demand for consumer durables and household formation should catch up and further stimulate the economy. Additionally, in an election year, we believe consumers are likely to grow more optimistic and more confident in spending in the second half of 2012, expecting pro-growth policies after the election and an increase in lifetime income and profits. So, overall we have turned much more optimistic about the prospects of spending and job growth for this coming year.

Uncertainty and The Housing Market Represent Biggest Risks to The Recovery

San Francisco Fed President John Williams recently argued that uncertainty is having a "depressing effect on spending and investment". We couldn't agree more. Firms worry about the economic outlook and direction of policy, households worry about employment and incomes, and the political uncertainties in Washington and Europe add to a sense of apprehension about spending. In fact, Williams cites research from the San Francisco Fed that finds uncertainty "has potentially added a full percentage point to the unemployment rate." With the presidential election in the US and ongoing financial stress in Europe, we do not expect 2012, particularly the first half of the year, will hold any less uncertainty for Sacramento decision makers.

Furthermore, the Sacramento region continues to have one of the most challenging housing markets in the country. The glut of foreclosures and massive shadow inventory continue to weigh on residential construction and home prices (down about 10% in 2011), with distressed home sales accounting for about 2 out of every 3 resale in Sacramento, according to the Sacramento Association of Realtors. We are still not convinced that housing will find a bottom in 2012, and until the region can meaningfully work through the backlog of distressed properties, the recovery in the Sacramento economy and job market will continue to proceed at a gradual and sometimes unsteady pace.

Table 2
Sector-by-sector 2012 growth outlook for Sacramento labor market

Key Sectors	% of Local Economy	Expected Average % Change Y/Y	Change vs. Last Forecast	Comments
Government	27.7%	-1% to flat	↑	Budget tightening (especially at the local level) will continue to impair job growth.
Ed & Healthcare	12.7%	+2% to +3%	↑	Full recovery mode supported by strong fundamentals due to aging population. Uncertainty around healthcare policy and individual mandate may temper some growth.
Business Services	12.6%	+1% to +2%	↑	Corporate spending may be muted given uncertain market outlook, but cyclical forces should provide support for spending on services.
Retail	11.0%	flat to +1%	↑	Expected growth hinges on consumer spending remaining resilient despite household challenges; consumer cash flow improving but confidence is fragile given uncertain outlook.
Leisure	9.6%	flat to +1%	–	After a mid-year surge, growth has slowed, but 2012 growth will be closely tied to somewhat fragile consumer sentiment.
Financials	5.9%	-1% to flat	↑	Showing signs of recovery, but tepid loan demand, relatively tight lending standards, and margin pressure will keep financial services firms from meaningful hiring in 2012.
Construction	4.9%	flat to +1%	↑	First year with job growth is a positive trend, but the pace is likely unsustainable; Residential construction may add jobs, but focused on multifamilies and renovations.
Manufacturing	3.9%	-2% to -4%	↓	Durable goods demand expected to pick up in 2012, but recent job loss reflects weakness in orders given market uncertainty; negative job growth may persist until uncertainty abates.

↑ = we expect **higher** employment growth in 2012 vs. our mid-year forecast
↓ = we expect **lower** employment growth in 2012 vs. our mid-year forecast

SOURCES: Sacramento Metropolitan Statistical Area monthly employment data published by the Employment Development Department of the State of California; BLS, Federal Reserve, Barclays Capital, Bank of America, Merrill Lynch, JP Morgan, Citigroup and Goldman Sachs. As of our publishing date, the most recent monthly unemployment rate reading for Sacramento was for Nov 2011. The Sacramento-Arden Arcade-Roseville Metropolitan Statistical Area (MSA) includes the counties of Sacramento, El Dorado, Yolo, and Placer. Since our analysis explicitly accounts for seasonality throughout the year, the employment figures in this paper are "unadjusted" figures.

Real Estate Trends in the Sacramento Region

Coming off another challenging year by most measures, the general sentiment in the regional real estate market is rife with pessimism and frustration. We are now entering our 7th year of the housing downturn, well beyond the market disarray of the early-to-mid 1990's and perhaps the longest residential slump experienced by most people alive today. The office sector is in an even higher state of emergency. Still, there are more bright spots than a year ago and just as some of the most successful businesses were born during recessions, many tenants and investors are astutely seizing opportunities in the current environment to position themselves for long-term success. A new, or in some instances, reinvented cast of tomorrow's success stories are being formed before our eyes.

> *"While revenues in other sectors are still 20%-30% below pre-downturn levels, rents in the apartment sector should return to peak levels this year."*

Key Points

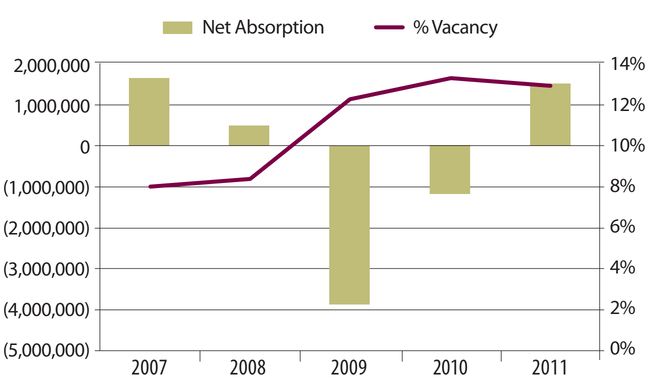
- **The Sacramento residential market will continue its record long downturn in 2012 and it may extend into 2013 if the pipeline of distressed properties is as deep as some are predicting.**
- **The retail and industrial sectors have stabilized but marked improvement in occupancies and rents is at least a few years away.**
- **The office sector is in the worst shape of all property types with a market vacancy twice the "natural" equilibrium rate.**
- **Investor attention continues to focus on real estate, with apartments most favored, due to a lack of attractive investment alternatives.**

Marc Ross, CFA, Real Estate Investment Broker, *CBRE, Inc.*
Sudhir K. Thakur, Ph.D., Associate Professor, *College of Business Administration, Sacramento State*

Industrial

- Coming off a two year span in which the market recorded 5 million square feet of negative net absorption (2008-2010), the worst since this statistic has been formally tracked by CBRE, in 2011 we saw nearly 1.5 million square feet of positive absorption, signaling the clear beginning of a recovery.
- Average vacancy dropped slightly during the year, from 13.0% to 12.7%, while lease rates have stabilized or even trended upward in some segments.
- Following a year in which no new construction of any kind occurred, Target, Altec, Mori Seki and Tremont Group began construction of over 635,000 square feet in various locations in 2011.
- Two significant land sales transacted to end users, both of which represent new expansion into our market. The buyers/users could break ground on their facilities in 2012, continuing the measured reemergence of new construction.
- The region continues to suffer from a lack of high-quality distribution space. In order for the Sacramento market to be competitive within the Western U.S. for prospects searching for Class A distribution space, we will need to see some speculative construction from the development community.

Figure 1 – Industrial
Vacancy vs. Net Absorption | Sacramento MSA



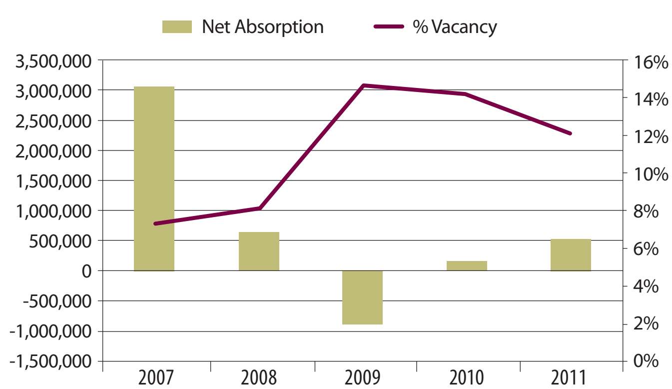
Source: CBRE, Inc.

Outlook: Rental fundamentals will continue to improve at a moderate pace. Tenants will continue to "move up" to better located/quality buildings and right size their space. New construction will increase slowly and be driven by occupiers looking for build-to-suit opportunities. Speculative construction is unlikely to return in 2012.

Retail

- The retail market experienced its second straight year of positive net absorption and a decrease in vacancy as the market continues its slow ascent from the bottom.
- National tenant activity increased significantly in 2011 - Hobby Lobby, Total Wine and More, Sunflower Market, Sprouts Farmers Market, and several others were active, with most moving into second generation spaces formerly occupied by high-profile casualties of the downturn (think Mervyn's, Shoe Pavilion, and Circuit City).
- The region saw more store closures in 2011 with Goore's, William Glen, Borders and several restaurants shutting their doors. However, the pace of closures was much slower than we experienced from 2008-2010.

Figure 2 – Retail
Vacancy Rate vs. Net Absorption | Sacramento MSA



** Net Absorption was not tracked by CBRE in 3rd & 4th Quarter 2009 as a new database was established in 3rd Quarter 2009. As a result we believe that the negative net absoprtion shown is understated.*

Source: CBRE, Inc.

- The grocery sector may be experiencing a bubble as many new grocers such as Sprouts Farmers Market, Sunflower Market, Fresh & Easy, and Wal-Mart's grocery only concept have all recently entered the marketplace en masse.
- The automotive sector has strengthened and consolidation of dealerships from outlying areas has benefited the four major sales hubs: Fulton Avenue, Roseville Auto Mall, Folsom Auto Mall, and the Elk Grove Auto Mall.

Outlook: More of the same – well located and anchored centers will continue to do well; owners of Class B centers will see a fair amount of leasing activity but will need to make some very aggressive deals; and unanchored strip centers will continue to plague the market with very little activity. National tenant activity will remain healthy as they have the resources to take advantage of "California on sale".

Office

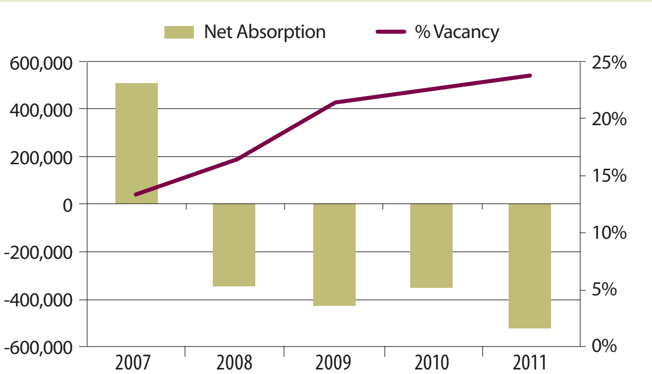
- With just over half a million square feet of negative net absorption in 2011, the office market has now shrunk for four consecutive years.
- Regional vacancy remains highly elevated at 23.6%, with a large disparity between downtown Sacramento (16.3%) and the suburban markets (25.6%). Average asking lease rates are back to 2005 levels.
- Leasing activity dropped by 25% in 2011 due in part to a relatively quiet public sector where activity was largely limited to lease renewals. Consolidation, downsizing, and upgrading space at discount pricing continue to be the main drivers of leasing activity.
- While public sector activity will generally continue to be sluggish, there are two potential build-to-suit projects on the horizon worth noting: the California Department of Corrections & Rehabilitation/Prison Health Care Services (265,000 square feet) in Elk Grove and the Administrative Office of the Courts (400,000 square feet) in Downtown. The highly publicized relocation of FEMA from Oakland to Sacramento could possibly take place in 2012.

Outlook: "Negative" activity – consolidation, downsizing, blend-and-extend renewals – will continue to dominate the landscape. Bank REO offerings will increase, causing lease rates to continue to reset lower as new investors with lower cost bases' are able to attract tenants with lower lease rates and be profitable. Private sector tenant activity will be measured as companies are behaving more conservatively in their approach to real estate while striving to become more efficient in the utilization of space.

Investments

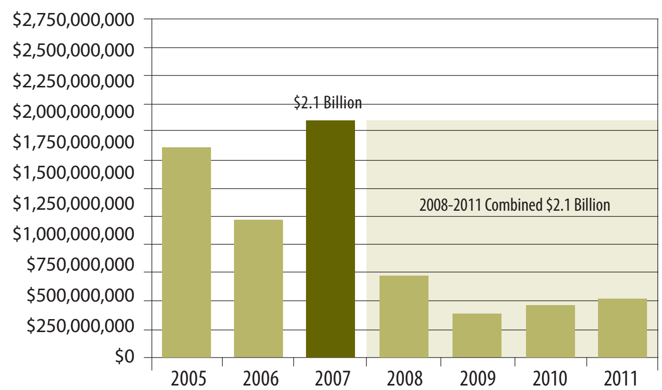
- Sales volume for commercial properties remained relatively flat year-over-year at roughly half the 10 year average level for the region. For perspective, the dollar volume of sales during the past four years combined (2008-2011) equals the volume sold in 2007.
- While distressed sales represented approximately 25% of all commercial investment sales nationally in 2011, we estimate nearly 60% of sales in the Sacramento region were distress driven. The balance of sales activity largely involved stabilized core product with longer-term leases. This investment profile is highly sought after by

Figure 3 – Office
Vacancy vs. Net Absorption | Sacramento MSA



Source: CBRE, Inc.

Figure 4 – Investments
Sacramento Commercial Sales 2005-2011



Source: Co-Star; sales priced $5 million and greater investors today as many look to avoid short and mid-term downside risk, reflecting the proverbial "flight to quality" that typically occurs in a downturn.

- As competition began to crowd out buyers in the Bay Area and Southern California, we started to see an "overflow" of buyer capital target Sacramento. Better yields, large discount to replacement cost metrics, emerging rent spikes (in multi-housing), and less buyer competition will continue to draw investors.
- Multi-housing is generally viewed as the most favorable property type by investors today. While revenues in other sectors are still 20-30% below pre-downturn levels, rents in the apartment sector should return to peak levels this year. Multi-housing is also benefiting from more abundant and less expensive debt and the widely considered belief that it has the brightest outlook over the next 5-7 years.

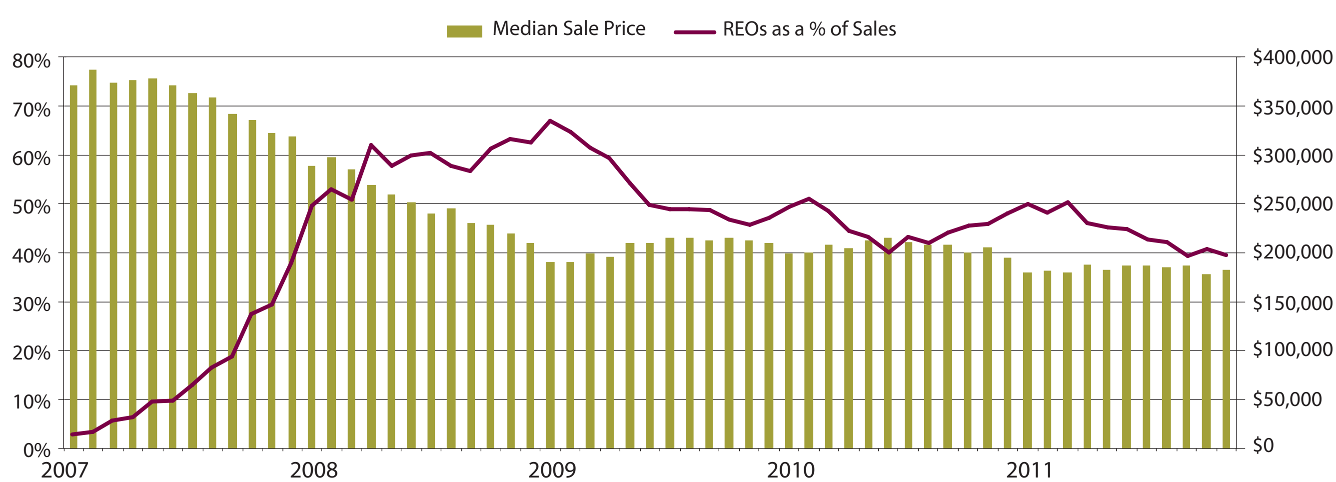
Outlook: Investment offerings will increase in 2012 with more distressed commercial properties coming to market. Buyer capital will be plentiful with a continued stream of new investors entering our market. SBA loans will continue to be a popular financing option for business owners looking to buy buildings for their operations as interest rates are expected to remain at historical lows.

Residential

- While total sales were up modestly (5%), the composition of sales changed significantly in 2011. The number of home sales under $200,000 shot up by 20% while the number of home sales in all pricing segments above $200,000 dropped by double-digits.
- Fair Oaks and Folsom saw the largest gain in home sales, 20% year-over-year, while sales in Sacramento, Elk Grove, Roseville, Rocklin, and Lincoln remained relatively flat.
- New home sales fell to their lowest point since the early 1990s, failing to reach 2,000 for the year. Roseville accounted for nearly 25% of the new homes that sold in the region, while, combined with Rocklin and Lincoln, Placer County overall accounted for approximately 40%. Other active new home markets included Elk Grove and Rancho Cordova.
- After stabilizing the past two years, the median home price for the Sacramento region fell again to its lowest point since 2002 – a function of both the composition of sales and another year of value erosion. The average price per square foot sold in the region fell 6.4% during 2011 while the median home price dropped by more than 10%.
- REOs as a percentage of sales remain elevated, representing roughly 45% of all sales that occurred in 2011. While quantifying the true pipeline of future REO, short-sale, or other distress driven transactions is difficult, we have and will continue to see a heightened level of delinquencies and foreclosures in the near-term that will add downward pressure on values.

Outlook: Given that the regional economy has now grown for more than a year and positive job growth is predicted to return in 2012, the best case scenario is that this coming year will ultimately be identified as the bottom of the housing market. However, a sizable foreclosure pipeline and the mind boggling slow pace at which distressed properties wash through the banking system will likely extend this timeframe. Expect another dismal year for new home sales in 2012 as homebuilders are largely taking the year off.

Figure 5 – Residential
Median Sale Price (all homes) vs. REOs as a % of Sales | Sacramento MSA



Source: MDA DataQuick

2012 Sacramento Banking Industry Forecast

The Song Remains the Same

"Unless loan demand picks up, it will be difficult for banks to grow their net interest income this year..."

Key Points

- **While many of the Sacramento region's banks generated higher profits last year (due mostly to lower loan loss provisions), it may be more difficult for them to increase the bottom line significantly in 2012.**
- **A lack of substantial loan demand from creditworthy borrowers, coupled with a flatter yield curve, will make it harder for local banks to increase their net interest income this year.**
- **Though down from 2010 levels, nonperforming assets for many banks remain elevated and will almost certainly lead to continued charge-offs throughout the upcoming year.**
- **Despite the fact that merger-and-acquisition (M&A) activity failed to materialize in late 2011, we still think M&A is inevitable given the banking industry's growth challenges.**

Jonathan E. Lederer, CFA, President, *Lederer Private Wealth Management, LLC*
Anna V. Vygodina, Ph.D., Associate Professor, *College of Business Administration, Sacramento State*

Heading into 2011, we were concerned that the Sacramento region's banks would have a tough time growing their top and bottom lines due to: i) a lack of loan demand from creditworthy borrowers, ii) costs associated with nonperforming assets, and iii) expensive new regulations coming down the pipe. As Table 1 shows, the Sacramento Region Banks[1] in aggregate were unable to increase their top line (as measured by net interest income) last year as we predicted. However, because these banks were able to reduce provisions for loan losses by more than 40%, aggregate net income nearly doubled and greatly exceeded our more modest forecast.

Entering 2012, we are likely to see a similar story play out in the Sacramento region – top-line growth challenges, but relatively lower loan loss provisions. That said, it will be harder for banks to generate such sizable net income growth since 2012 profit figures will be measured against a higher 2011 base.

Table 1
Income Statement for the Sacramento Region Banks (in Aggregate) | $s in 000s

	2010*	2011*	$ Change	% Change
Interest Income	$382,263	$365,681	($16,582)	-4.3%
Interest Expense	(58,430)	(41,974)	16,456	-28.2%
Net Interest Income	323,833	323,707	(126)	0.0%
Provisions for Loan Losses	(88,754)	(51,247)	37,507	-42.3%
Noninterest Income	59,994	72,344	12,350	20.6%
Noninterest Expense	(244,822)	(247,348)	(2,526)	1.0%
Pretax Income	50,251	97,456	47,205	93.9%
Net Income	**$34,374**	**$66,783**	**$32,409**	**94.3%**

** Periods presented are year-to-date through September 30.*

Local Loan Demand Still Weak

According to recent Federal Reserve Senior Loan Officer Survey data, demand for commercial real estate, mortgage, and consumer loans has been increasing on a national level. Unfortunately for the local banks, many lending officers have yet to witness loan demand picking up here in the region. Given Sacramento's exposure to the still-depressed real estate, construction, and state/local government sectors, we are not surprised that demand from creditworthy borrowers in this area remains tepid at best. Table 2 indicates how loan growth for the region's banks has lagged growth nationwide. We expect this trend to continue during 2012.

Table 2
Loan Growth*

	2010	2011
Sacramento Region Banks	-4.2%	-3.4%
All Banks Nationwide	-0.4%	-0.7%

** Figures represent the change in gross loan and lease balances versus the prior year period ending September 30.*

Data Source: FDIC

Unless loan demand picks up, it will be difficult for banks to grow their net interest income this year, especially since the differential between longer-term and shorter-term interest rates has compressed due to the Federal Reserve's Operation Twist program launched this past fall. Since banks lend money out at longer maturities and pay depositors short-term interest rates, this "spread" compression promises to adversely impact net interest margins[2].

2012 Sacramento Banking Industry Forecast
The Song Remains the Same

Nonperforming Assets Still Elevated

Figure 1 illustrates how nonperforming loans, restructured loans, and OREO (other real estate owned, which frequently consists of foreclosed properties) for the local banks have fallen in aggregate since the end of 2010. But, as one can observe, the overall figures remain high by historical standards.

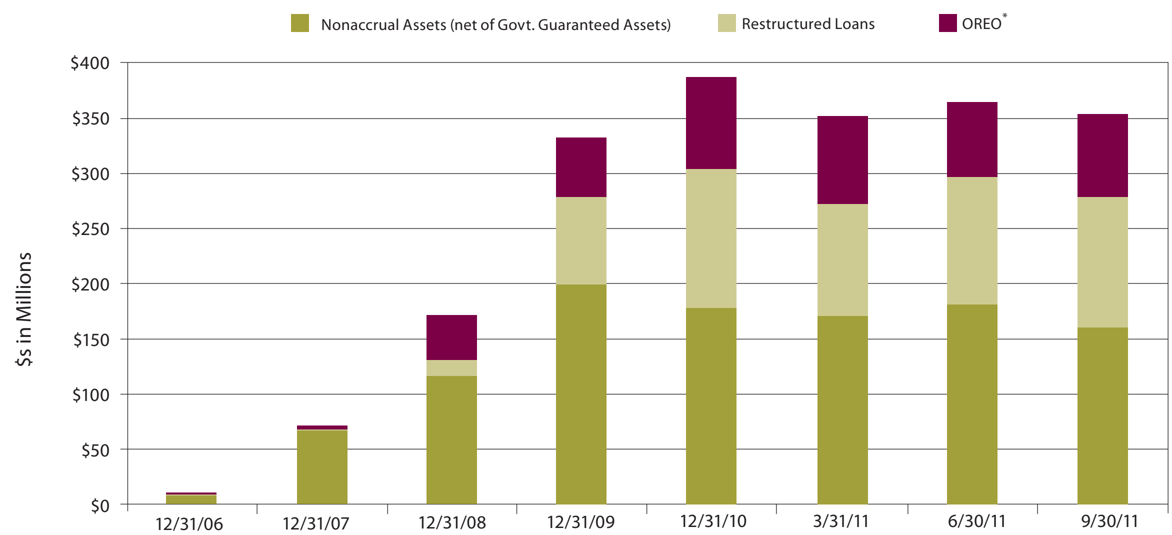
Barring a dramatic recovery in commercial and residential real estate prices during 2012, we expect ongoing problem-loan pressures throughout the year, especially since real estate prices remain well below their peaks. The good news is that most regionally based banks are in a better position to absorb the impending charge-offs. Table 3 shows how most of the region's banks have improved their capital positions during the past two years. Moreover, allowances for loan losses now exceed the level of nonperforming loans by a relatively wide margin (on average). Therefore, loan loss provisions should continue to decline when compared to those made during the prior two years.

"We still believe that local bank M&A is a matter of when, and not if, it will occur."

Sticking With Our M&A Call

Last year we predicted that, by the end of 2011, Sacramento would begin to see a pick-up in merger-and-acquisition (M&A) activity among local banks. Our prediction was based upon the culmination of several factors: 1) continued difficulty generating higher loan volumes due to weak credit demand, and 2) increasing compliance costs (which looked to have a greater impact on smaller banks) resulting

Figure 1
Nonperforming Assets and Restructured Loans | Sacramento Region Banks (in Aggregate)
December 31, 2006 – September 30, 2011



** OREO stands for Other Real Estate Owned (frequently as a result of foreclosures).*

Data Source: FDIC

Table 3
The Health of the Sacramento Region Banks | 2009 – 2011

	Total Assets	Tangible Common Equity Ratio[1]			Total Loans	Allowance for Loan Losses / NPLs[2]		
Bank	**($s in MMs)**	**9/30/09**	**9/30/10**	**9/30/11**	**($s in MMs)**	**9/30/09**	**9/30/10**	**9/30/11**
Tri Counties Bank	$2,487	8.7%	8.1%	7.6%	$1,586	0.75x	0.48x	0.58x
Farmers & Merchants Bank	1,881	9.3%	9.9%	10.1%	1,180	2.04x	4.29x	7.24x
El Dorado Savings Bank	1,688	9.1%	9.3%	9.7%	434	2.69x	5.44x	5.46x
River City Bank	1,082	9.0%	10.3%	10.5%	581	0.58x	12.08x	6.79x
Redding Bank of Commerce	909	7.5%	9.9%	9.3%	653	0.65x	0.59x	0.54x
North Valley Bank	906	5.8%	8.9%	9.8%	472	0.36x	0.51x	1.13x
First Northern Bank	767	8.5%	8.4%	7.6%	443	1.38x	0.97x	2.36x
American River Bank	580	8.6%	12.1%	12.8%	315	0.42x	0.30x	0.38x
Five Star Bank	443	9.7%	10.6%	10.9%	331	0.67x	1.78x	0.61x
Bank of Sacramento	413	7.6%	7.3%	9.4%	230	0.60x	2.32x	8.84x
Merchants Bank of Sacramento	180	10.0%	10.0%	10.3%	62	N/A[3]	N/A[3]	N/A[3]
Community 1st Bank	168	9.8%	8.8%	11.4%	70	0.62x	0.26x	0.22x
Community Business Bank	155	11.0%	9.8%	10.0%	107	0.81x	0.54x	1.09x
River Valley Community Bank	132	15.4%	13.4%	13.7%	42	1.19x	N/A[3]	7.88x
Gold Country Bank	128	9.4%	12.1%	8.1%	90	0.44x	0.20x	0.82x
Folsom Lake Bank	116	13.8%	10.6%	10.8%	77	N/A[3]	0.66x	0.66x
Sierra Vista Bank	83	8.8%	9.2%	9.9%	63	0.59x	0.89x	0.98x
Sutter Community Bank	65	10.8%	12.0%	11.7%	49	1.44x	4.87x	1.37x
	Weighted Average[4]:	8.7%	9.4%	9.5%	**Weighted Average[5]:**	1.05x	2.57x	3.06x
	Average:	9.6%	10.0%	10.2%	**Average:**	0.95x	2.26x	2.76x
	Median	9.2%	9.9%	10.1%	**Median**	0.66x	0.77x	1.09x

Data Source: FDIC

from the voluminous Dodd-Frank Act. However, by year's end no M&A transactions involving the local banks had taken place.

We still believe that local bank M&A activity is a matter of when, and not if, it will occur. As we have mentioned on several occasions, banks are likely to have trouble growing top-line interest income this year. In addition, 2012 may mark the year that banks really start to experience more regulatory cost pressures (since a number of Dodd-Frank initiatives were slow to get launched during 2011). We continue to think that the most-likely M&A candidates are the smaller banks and that these players may end up either merging with other banks of similar size or getting purchased by a mid-sized regional financial institution.

Publicly Traded Local Bank Stock Ratings

Within the six-county Sacramento region, 13 locally based banks are publicly traded on the OTC Bulletin Board. In Table 4, we present our recommendations for each. Readers should note that all of these stocks have very low liquidity, so investors should definitely consider market impact[3] when trading shares.

Table 4
Stock Ratings for Publicly Traded Sacramento Region Banks | December 31, 2011

Bank	Ticker	Stock Price	Market Cap ($s in millions)	2011 Total Return	Price / Tangible Book Value[1]	TCE Ratio[2]	NPAs[3] as a % of Total Assets	Return on Equity[4]	Bankrate.com Rating[5]
OUTPERFORM									
River City Bank	RCBC	$62.00	$77.5	30.0%	0.7x	10.5%	3.0%	9.08%	4
Bank of Sacramento	GSCB	$10.00	26.1	7.5%	0.7x	9.4%	0.9%	6.78%	4
MARKET PERFORM									
Farmers & Merchants Bank	FMCB	$360.00	$280.6	-10.4%	1.5x	10.1%	0.7%	12.02%	5
North Valley Bancorp	NOVB	$9.61	65.7	7.4%	0.7x	9.8%	3.8%	4.52%	4
American River Bank	AMRB	$4.55	45.0	-24.2%	0.6x	12.8%	6.0%	2.66%	4
First Northern Bank of Dixon	FNRN	$4.60	41.9	2.2%	0.7x	7.6%	2.0%	4.24%	4
River Valley Community Bank	RVVY	$12.30	21.1	-10.5%	1.2x	13.7%	0.9%	7.41%	5
Community Business Bank	CBBC	$4.35	9.3	-20.9%	0.6x	10.0%	2.6%	5.09%	4
Sutter Community Bank	SUTB	$5.90	5.6	81.5%	0.7x	11.7%	6.4%	8.71%	3
Sierra Vista Bank	SVBA	$1.65	3.3	-34.0%	0.4x	9.9%	4.2%	1.59%	2
UNDERPERFORM									
Tri Counties Bank	TCBK	$14.22	$227.2	-9.7%	1.2x	7.6%	5.2%	7.02%	3
Folsom Lake Bank	FOLB	$7.50	11.9	17.2%	1.0x	10.8%	6.5%	2.63%	3
Community 1st Bank	CFBN	$2.00	10.9	-47.2%	0.6x	11.4%	5.5%	-10.38%	2
				Peer Group Average:	**0.8x**				

1) Price to Tangible Book Value (TBV) ratios use market prices as of 12/31/11 and TBVs as of 9/30/11. TBV is determined by substracting Preferred Stock and Intangible Assets from Total Equity Capital.

2) The Tangible Common Equity Ratio (TCE Ratio) is calculated by taking Total Equity Capital, net of Preferred Stock and Intangible Assets, as a percentage of Tangible Assets.

3) Nonperforming Assets (NPAs) used in this calculation include noncurrent loans, restructured loans, and other real estate owned.

4) Return on Equity figures are for the first 9 months of 2011 and are annualized.

5) Bankrate.com ratings are as follows: 5 = Superior, 4 = Sound, 3 = Performing, 2 = Below Peer Group, 1 = Lowest Rated

Data Source: FDIC

The authors do not own shares of any of the banks listed in Table 4. The Sacramento Business Review cannot guarantee any of the forecasts made in this paper.

2011 Local Bank Stock Performance Review

The SBR Bank Index[1] performed in line with the benchmark KBW Regional Bank Index in 2011. However, those basing their trading strategies on the SBR bank stock ratings last year would have fared reasonably well.

The two banks that we rated as Outperform in January 2011, Sutter Community Bank and River City Bank, went on to generate 2011 gains of 81% and 30%, respectively. Moreover, three stocks that received Underperform Ratings, Community Business Bank, Sierra Vista Bank, and Community 1st Bank, declined 21%, 34%, and 47%, respectively.

We would be remiss if we neglected to mention some of our erroneous calls, which included Folsom Lake Bank and North Valley Bank (up 17% and 7%, respectively, as members of the Underperform list) and American River Bank (down 24% while rated Market Perform).

1) The SBR Bank Index tracks the performance of all publicly traded Sacramento Region Banks on a capitalization-weighted basis (i.e., a weighted average of returns by market capitalization).

Bank	2011 Total Return	January 2011 Rating
Sutter Community Bank	81.5%	Outperform
River City Bank	30.0%	Outperform
Folsom Lake Bank	17.2%	Underperform
Bank of Sacramento	7.5%	Market Perform
North Valley Bancorp	7.4%	Underperform
First Northern Bank of Dixon	2.2%	Market Perform
Tri Counties Bank	-9.7%	Not Rated
Farmers & Merchants Bank	-10.4%	Not Rated
River Valley Community Bank	-10.5%	Market Perform
Community Business Bank	-20.9%	Underperform
American River Bank	-24.2%	Market Perform
Sierra Vista Bank	-34.0%	Underperform
Community 1st Bank	-47.2%	Underperform
SBR Bank Index	**-6.0%**	
KBW Regional Bank Index	**-6.1%**	

ENDNOTES

1 The Sacramento Region Banks include American River Bank, Bank of Sacramento, Community 1st Bank, Community Business Bank, El Dorado Savings Bank, Farmers & Merchants Bank, First Northern Bank, Five Star Bank, Folsom Lake Bank, Gold Country Bank, Merchants Bank of Sacramento, North Valley Bank, Redding Bank of Commerce, River City Bank, River Valley Community Bank, Sierra Vista Bank, Sutter Community Bank, and Tri Counties Bank.

2 The net interest margin is the difference between a bank's interest income and interest expense, measured as a percentage of its average earning assets.

3 Market impact is the extent to which buying or selling a stock moves the price. Market impact is greater when stocks are more illiquid.

The Small Business *Economy*

Small Business Confidence Index Shows Optimism for 2012

Key Points

- Small Business Confidence Index shows greater optimism compared to levels from last year.
- While capital markets for small businesses remain risk averse, credit conditions have improved dramatically.
- Local SME expectations of economic outlook and local supportiveness remain largely unchanged.
- SMEs remain optimistic regarding prospects for future business revenues and new hires.
- The manufacturing sector does not perceive the region to be supportive or friendly, and in general manufacturing activity has declined in the region.
- 2012 will bring more stability and continued improvement in access to credit.

Seung Bach, Ph.D., Professor, *College of Business Administration, Sacramento State*
Sanjay Varshney, Ph.D., CFA, Dean, *College of Business Administration, Sacramento State*

"The Small and Medium Enterprises (SMEs) experienced higher growth of 22% and 51% in number of establishments/employees and payroll respectively."

The Sacramento MSA population has grown but remains a service sector economy

While the population grew 19% over the last decade, and real GRP increased 18%, the per capita GRP remained mostly unchanged, and taxable sales increased only 7%. The population surges and growth have resulted from periods of relatively less expensive real estate. The Small and Medium Enterprises (SMEs) experienced higher growth of 22% and 51% in number of establishments/employees and payroll respectively (Table 1, Figure 1).

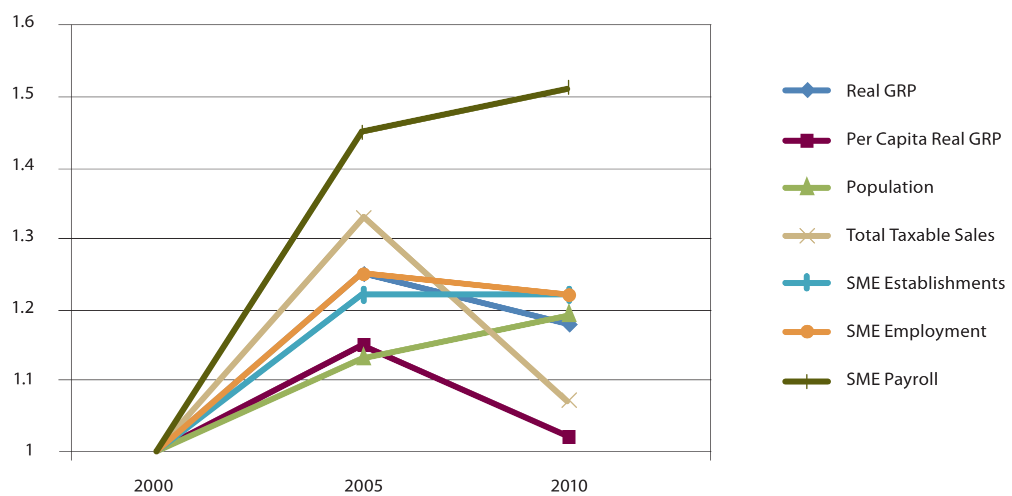
SMEs create half the number of jobs and the economic output

Approximately 96% of the total employer firms in the region are SMEs and only 4% of the total establishments are large firms. Moreover, 83% of all firms employ fewer than 20 employees. SMEs employ 48% of the total labor force, provide 44% of the employment dollars in labor income, and produce roughly 50% of the GRP.

Table 1
Changes in Key Economic Indicators for Sacramento MSA

Parameters	Baseline (2000)	5 Year change (2005)	10 Year Change (2010)
Real GRP	70.8 B	+25%	+18%
Per Capital Real GRP	37.9 T	+15%	+2%
Population	1.80 M	+13%	+19%
Total Taxable Sales	25.1 B	+33%	+7%
SME Establishments	30.0 T	+22%	+22%
SME Employment	281.7 T	+25%	+22%
SME Payroll	8.0 B	+45%	+51%

Figure 1
Changes in Indicators for Sacramento MSA | Year 2000 = 1.00



Data (Table1, Figure1): Bureau of Economic Analysis & Small Business Administration

Small Business Confidence Index (SBCI) Shows Improvements

In January 2011, we introduced our proprietary Small Business Confidence Index (SBCI) that directly measures the regional economic outlook and degree of optimism (pessimism) of SMEs. Our current analysis uses the Relative Values of the January 2011 survey as the baseline values to calculate changes, and presents current trends relative to both January and July of 2011. SMEs appear more optimistic today relative to a year ago. We expect 2012 will bring more stability and continued improvement in access to credit.

Economic Outlook Remains Weak

Local SME expectations of economic outlook and local supportiveness have remained largely unchanged from a year ago. The external environment in California remains challenged with both regulatory and political uncertainty, with the regional recovery trailing that of the state. Both California and the Sacramento region continue to be perceived as business unfriendly, with major departures of businesses such as Waste Connections as evidence of this.

"The total dollar amount of SBA loans in the Sacramento MSA has significantly increased during the recent year and has almost doubled."

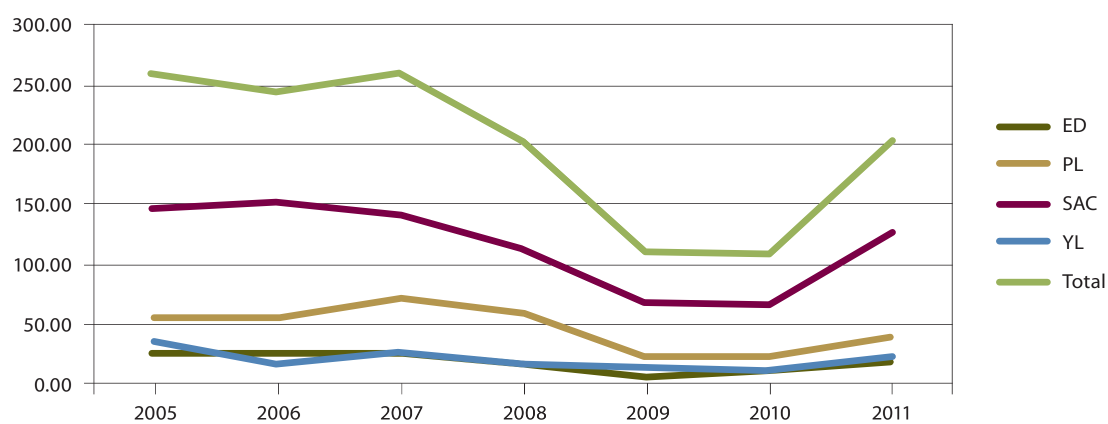
SMEs Become Optimistic on Access to Bank Credit

The total dollar amount of SBA loans approved in the Sacramento MSA has significantly increased during the recent year and has almost doubled (Figure 2). Local SMEs have become more optimistic regarding the overall accessibility to bank credit or business loans with relative values increasing 50%. The capital markets for small businesses remain conservative, but credit conditions have improved since last year.

SMEs Cling to Hope for Better Revenues and Jobs Ahead

Despite the sustained pessimism regarding future economic outlook, SMEs remain optimistic regarding prospects for future business revenues and new hires.

Figure 2
Total Dollar Value of Small Business Loans Approved in Sacramento MSA (in Millions)



Data Source: U.S. Small Business Administration

This is likely due to: 1) improving credit conditions and business loan activity, 2) wishful and optimistic business culture in the region despite a business unfriendly environment, 3) a leading indicator for better times ahead.

Manufacturing Sector Not Optimistic

In contrast to the January 2011 and, particularly, July 2011 surveys, both the manufacturing and service sectors became more pessimistic regarding their future economic outlook. The manufacturing sector does not perceive the region to be supportive or friendly, and in general manufacturing activity has declined in the region. The '*Others*' sector (Agriculture, Healthcare, Waste Management and Recycling) shows sustained high expectations regarding future revenues and new hires – a bright spot for SMEs.

Table 2
Small Business Confidence Index | Sacramento MSA | January 2011 (baseline), July 2011, and January 2012

	Positive			Neutral			Negative			Relative Value		
	Jan 2011	Jul 2011	Jan 2012	Jan 2011	Jul 2011	Jan 2012	Jan 2011	Jul 2011	Jan 2012	Jan 2011	Jul 2011	Jan 2012
Q1: Economic outlook	14.4%	19.3%	13.7%	50.5%	41.5%	52.2%	35.1%	39.2%	34.1%	0.29	0.33	↔ 0.29
Q2: Local supportiveness	15.3%	19.7%	14.9%	48.3%	45.5%	51.9%	36.4%	34.7%	33.1%	0.30	0.36	↔ 0.31
Q3: Credit accessibility	17.9%	17.2%	23.0%	33.8%	35.8%	42.6%	48.3%	47.0%	34.4%	0.27	0.27	↑ 0.40
Q4: Future revenue	49.3%	50.9%	52.5%	38.2%	36.3%	36.6%	12.6%	12.7%	10.9%	0.80	0.80	↑ 0.83
Q5: Likelihood of new hires	39.9%	35.4%	42.3%	27.4%	33.0%	34.6%	32.7%	31.6%	23.1%	0.55	0.53	↑ 0.65

Figure 3
Small Business Confidence Index Trend

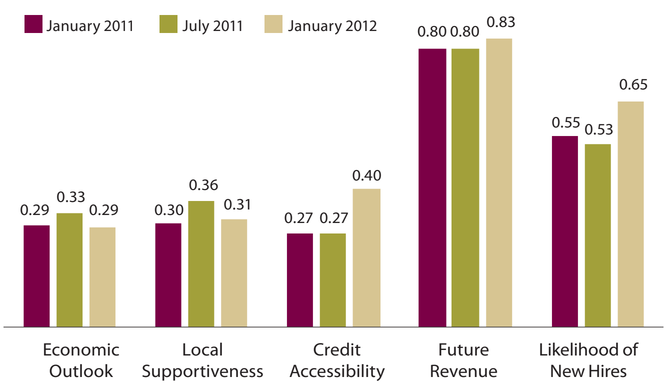


Figure 5
SBCI Trend in the Service Sector

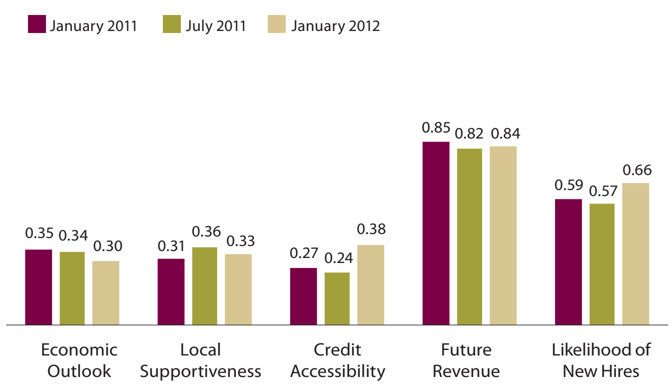


Figure 4
SBCI Trend in the Manufacturing Sector

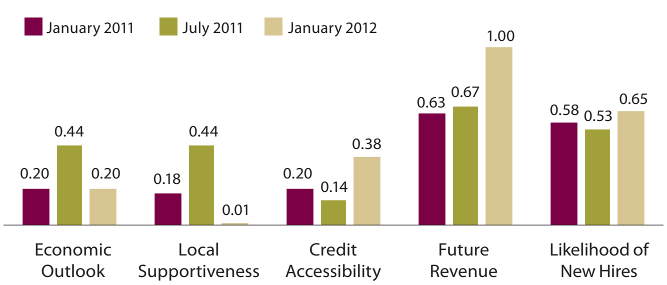
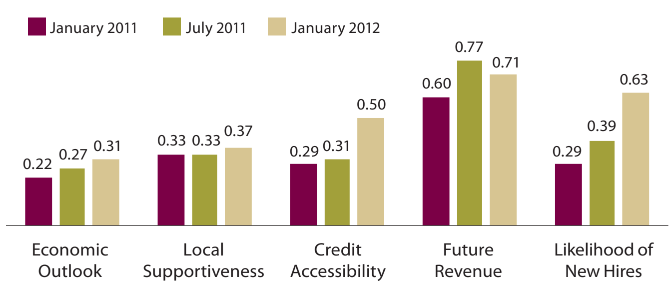


Figure 6
SBCI Trend in the "Others" Sector



2012 Capital Markets Outlook

Key Points

- Policy, not investment fundamentals, will determine the course of the markets in 2012.
- Global growth will be sub-par, Euro zone will sink into recession.
- Mildly bullish on equities, expect 1H correction.
- Central banks and risk aversion will keep bond yields low.
- SBR Financial Conditions Index shows local economy bottomed in Q1 2011 and is showing early signs of stabilization.

Jason Bell, CFA, Senior Vice President and Senior Investment Manager, *Wells Fargo Private Bank*
Hao Lin, Ph.D., CFA, Professor, *College of Business Administration, Sacramento State*

"Fears of a breakup of the Euro are premature, but not out of the realm of possibility."

The New Year will not be able to escape 2011's hangover easily. Last years' headlines were dominated by Japan's tragic tsunami, revolution in the Middle East as well as dysfunctional politics on both sides of the Atlantic. Presuming the Mayan prediction of the global Armageddon proves inaccurate, the dominant themes affecting the capital markets in 2012 will be *political risk* and the continuation of the *deleveraging cycle*. We present our summary Outlook below:

Market	Trend	Comment
Economy		
Growth	Sluggish, but positive	US, Emerging growth below trend, Eurozone recession
Inflation	Weak	Persistent unemployment and deleveraging remain intact
Stocks	Mildly bullish	Decent fundamentals, weak technicals, volatility dominates
Regions	US, Emerging Markets	Eurozone cheap, but lack of clarity/ resolution keeps us away
Sectors	Energy, Technology	Cautious stance in 1H 2012, more aggressive in 2H
Bonds	Flat, but headwinds	Monetary reflation policies, risk aversion keep yields low
Regions	US, UK	Safe havens will benefit from political dithering
Sectors	Corporates, Munis	Credit risk abating, relatively attractive yields
Commodities	Weak, but stabilizing	Declining Euro and tepid global growth keep lid on prices
Sectors	Oil, Gold	Tight oil supply, easy monetary policy helps precious metal

Macro Themes

Developed economies continue to struggle with the ghosts of past fiscal excesses since the systemic issues that triggered 2008's implosion still have yet to be resolved. Sovereign downgrades and market riots have now forced the hands of political leaders on a global scale and as a result, *policy*, not investment fundamentals will determine the course of the major markets in 2012. US leaders will be challenged to work together to make critical decisions about fiscal stimulus, tax and budget reforms, all within the context of a Presidential election year. Our hopes for smooth, collaborative outcomes are not high, given the political debacle surrounding 2011's debt-ceiling discussions.

Fears of a breakup of the Euro are premature, but not out of the realm of possibility. In late 2011, the ECB was successful in relieving some pressure from their banking system; however Euro-area leaders will continue their pattern of only taking the minimum action necessary to keep their Union intact in the coming year. Hopefully a focus on growth, rather than one based purely on austerity, will emerge to keep the financial crisis from escalating. The near future is highly uncertain and as a result, we remain cautious.

The world continues to work its way through a multiyear deleveraging cycle which has broad implications on global growth as well as currency levels, interest rates and market volatility. Though the business sector has largely completed this process, the consumer and government sectors are either in the midst of or have just started their own phases of deleveraging.

Consumers continue to discharge debt as well as rebuild their savings, and we expect this trend to persist for a number of years. Stubbornly high unemployment will continue to exacerbate the issue and hamper consumption growth.

2012 Capital Markets Outlook

The government sector has now been thrust into the deleveraging cycle. Leaders are grappling with this issue and face the considerably difficult challenge of cutting spending and services while attempting to maintain living standards and the fragile economic recovery. Regardless of how they choose to address the problem, the solutions are not easy and we expect a highly-charged environment in 2012.

Economic Backdrop

Once again, global central banks are moving in a coordinated fashion. The Fed has committed to keeping rates low until mid-2013 and upon taking office, the new ECB President, Mario Draghi, immediately started lowering short term rates. China has started to lower reserve requirements and unlike the central banks in developed countries, has plenty of options left to keep money supply loose. Monetary policy looks to remain highly accommodative for the foreseeable future.

Despite the flood of liquidity, odds are that 2012 growth will remain sub-par due to the macro themes we highlighted above. Corporate earnings have been boosted by productivity enhancements and cost cutting in the last few years, and we believe this trend can continue a while longer, albeit at a slowing rate. However, final demand and sales growth will need to pick up at some point in order to sustain a significant recovery in risky asset prices.

We expect economic growth to decouple further in the coming year with Emerging Markets leading the way. The US will likely deliver weak growth as housing and unemployment issues continue to slow the domestic recovery. The Eurozone is all but committed to a path of recession, how severe will be based on how EU leaders navigate the current climate.

Equity Markets

We are mildly bullish on equities for the coming year. Valuations are generally attractive, balance sheets are healthy, profits are growing and likely to continue in 2012. That being said, volatility in the equity markets will remain exceedingly high given the macroeconomic issues at hand. Expect correlations to also remain very elevated as the risk-on/risk-off dynamic remains well entrenched.

If our investment thesis plays out to expectations, we believe the US and Emerging equity markets will perform better than the Eurozone. We choose to avoid Europe until a more substantial and sustainable resolution becomes apparent. Canada, Australia, Taiwan and South Korea are attractive based on their strong fiscal positions.

Energy and Technology are our favorite sectors for the coming year as oil prices have remained firm and corporations will need to keep spending to keep pace with evolving technologies. Given the immediate nature of the Eurozone financial crisis, we believe a more cautious sector stance is warranted in the 1H 2012 and would augment our positioning with less volatile sectors such as Staples and Utilities. As we move through the year, we would expect to reduce our defensive positions and lean into a more aggressive sector stance.

Credit Markets

Government bonds remain significantly overvalued as their prices are clearly being artificially supported by central bank intervention. However, given the backdrop of tepid credit growth, continued deleveraging and general risk aversion, we expect bond prices to remain generally firm, with decent odds for some erosion as we move through the year. Yields would likely drop further in the event of some exogenous shock or disappointment stemming from any European policy blunders.

US Treasuries and UK Gilts will remain the beneficiaries of their safe haven status, even if their real yields are in negative territory. Emerging markets bonds present some attractive opportunities, particularly in Asia where currency values are still reasonable. Decent values can be found in the corporate sector as yields are attractive and cash reserves have enhanced issuers' ability to service their debt. Once again, municipal debt is attractive as it is yielding more than comparable government debt and provides the benefit of tax-free income.

Commodity Markets

Commodity performance was dismal in 2011 as a slowdown in Chinese demand, risk aversion and a stronger dollar all contributed to stiff correction in commodity prices. Of the complex, only Gold, Oil and Gasoline provided gains above 1%. Our view is that the price correction is nearly complete, and commodity demand should resume now that China has moved towards more simulative policies and Chinese food price inflation has retreated to more reasonable levels. US Dollar strength will continue to be a headwind for the complex, but prices are so washed out that any positive global economic news could provide a good amount of lift.

Within the commodity complex, we favor energy as oil prices are forecasted to hold steady in the coming year as demand should continue to grow at a moderate pace. We also favor precious metals given the reflationary central bank policies and generally challenging macro conditions.

SOURCES:

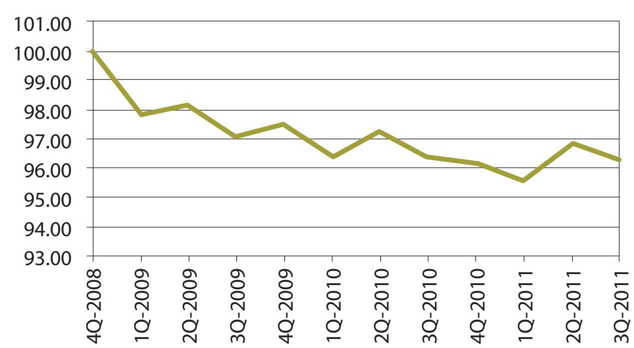
1 BCA Research, *Outlook 2012*, December 21, 2011
2 Ned Davis Research, *2012 Outlook*, December 2011
3 Wells Fargo Private Bank, *Focus 2012 Special Report*, December 2011
4 International Strategy and Investment, *Weekly Economic Report*, January 3, 2012

New! Sacramento Business Review Financial Conditions Index

We are pleased to re-introduce our updated SBR Index which now incorporates portions from each of the areas of our research. The updated index combines local employment, real estate, banking, and capital market performance to illustrate the general economic conditions that influence the Sacramento region. Below is a brief description of each component:

- **Employment** – the change in total private and government sector employment levels
- **Real Estate** – quarterly median home sale prices and quarterly total home sales
- **Banking** – gross credit extension from the local banks[1] in the surrounding six counties[2]
- **Capital Markets** – share price levels of the ten largest local publicly-traded employers[3]

Our latest quarterly reading shows that we are still well below 2008 levels, but recent data is somewhat encouraging. Though still struggling, the local economy bottomed in early 2011 and is showing preliminary signs of stabilization in private sector employment, residential real estate and gross credit extension. We are watchful of government sector employment levels, which are still declining and of critical importance to the region.



DATA SOURCES:

Employment Development Department
MDA DataQuick
Federal Deposit Insurance Corporation
Sacramento Business Journal Book of Lists
Dow Jones

NOTES:

1 American River Bank, Bank of Sacramento, Community 1st Bank, Community Business Bank, El Dorado Savings Bank, First Northern Bank of Dixon, Five Star Bank, Folsom Lake Bank, Gold Country Bank, Merchants Bank of Sacramento, River City Bank, River Valley Community Bank, Sierra Vista Bank, and Sutter Community Bank.

2 El Dorado, Placer, Sacramento, Sutter, Yolo, and Yuba.

3 Intel Corp., AT&T California, Hewlett-Packard, Target, Wells Fargo & Co, Safeway, Pacific Gas & Electric, Union Pacific Railroad, Franklin Templeton, and DST Output.

Sacramento Business Review Authors

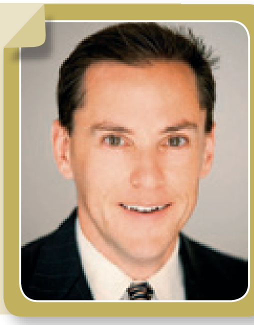
Seung Bach, Ph.D.

Seung Bach is an Associate Professor of Entrepreneurship and Strategic Management in the College of Business Administration at California State University, Sacramento. He earned his Ph.D. in Business Administration at the University of Tennessee, Knoxville and his MBA at the George Washington University, Washington D.C. His expertise is in the areas of new venture creation, small business management, entrepreneurial transitions, innovation and corporate entrepreneurship, and global management and strategy.

Jason Bell, CFA

Jason Bell is a Senior Vice President and Senior Investment Manager for Wells Fargo Private Bank, where he manages funds for selected clients and leads the firm's Domestic Equity Sector Strategy team. He is a Chartered Financial Analyst and holds a business degree from the University of the Pacific, as well as an MBA from the University of California at Davis. He currently serves as a senior volunteer leader at CFA Institute, representing approximately 10,000 members in the Western United States.

Jonathan E. Lederer, CFA



Jonathan Lederer is the founder and president of Lederer Private Wealth Management, a Sacramento-based registered investment advisory firm. Jonathan graduated with his MBA from the University of Michigan's Ross School of Business and received his BA from the University of California, Berkeley. Jonathan has been a CFA charter holder since 2003 and is currently the CFA Society of Sacramento Vice President.

Brian M. Leu, CFA, CAIA

Brian Leu is an Investment Officer at CalPERS and a member of the team responsible for trading the global internal equity and futures portfolio. Prior to joining CalPERS, he worked at Roseville-based DCA Partners supporting the firm's investment banking business and private equity investments. Previously, Mr. Leu was a member of the Equity Research team at Deutsche Bank Securities and an investment analyst at a long-short hedge fund in NYC. Mr. Leu earned his MBA from the NYU Stern School of Business and an Economics degree from Duke University and also holds the CFA and CAIA designations.

Hao Lin, Ph.D., CFA

Hao Lin is an Assistant Professor of Finance in the College of Business Administration at California State University, Sacramento. He has a Ph.D. in Finance and MS in Financial Mathematics, both from the University of Warwick in England. His expertise is in the areas of financial markets and market microstructure. Hao holds the Chartered Financial Analyst (CFA) designation and serves on the Board of Directors of the CFA Society of Sacramento.

Sacramento Business Review Authors

Marc Ross, CFA

Marc Ross is a real estate investment broker at CBRE, Inc., specializing in the sale of multi-housing properties in Northern California and Northern Nevada. Marc graduated with his MBA in Real Estate and Finance from the University at California, Davis in 2001 and has been a CFA charter holder since 2001. He received his BA in economics and business administration from Rhodes College in Memphis, Tennessee.

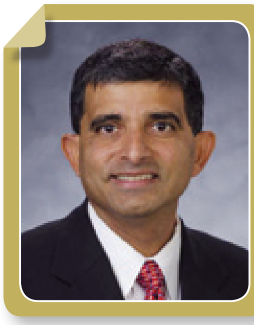
Yang Sun, Ph.D.

Yang Sun is an Assistant Professor in the College of Business Administration at Sacramento State. In addition to his Ph.D. in Industrial Engineering from Arizona State University, he has a Six-Sigma Black Belt. He also received an engineering degree from Tsinghua University. He has research interests in the areas of Supply Chain Management, Global Operations Strategy, Lean and Six-Sigma, Technology Management, Managerial Economics, Operations Research and Applied Statistics, and is a recipient of the Dean's Research Award and the University's Outstanding Scholarly and Creative Activities Award.

Sudhir Thakur, Ph.D.

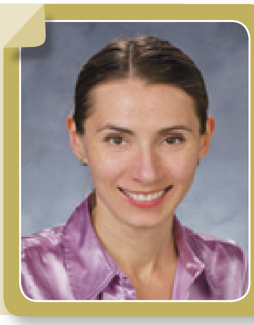
Sudhir Thakur received his MA in economics and urban planning from Punjab University (1996) and University of Akron (1998), and doctorate degree in economic geography from The Ohio State University (2004). He is currently an Associate Professor in the College of Business Administration at California State University, Sacramento. His research interests are in the areas of: economic geography, development economics, technological change and regional development, and geospatial analysis and modeling.

Sanjay Varshney, Ph.D., CFA



Sanjay Varshney is Professor of Finance and Dean of the College of Business Administration at California State University, Sacramento. At age 31 he became one of the youngest deans in the country to lead a business school. His prior experience includes working at University of San Francisco, Citigroup, Arthur Anderson, and as a portfolio manager. He earned an undergraduate degree in Accounting and Financial Management from Bombay University, a Master's degree in Economics from the University of Cincinnati, and a Ph.D. in Finance from Louisiana State University in Baton Rouge. He also holds the Chartered Financial Analyst (CFA) designation. Dr. Varshney serves as the Chief Economist for the *Sacramento Business Review*.

Anna Vygodina, Ph.D.



Anna Vygodina is an Associate Professor of Finance in the College of Business Administration at California State University, Sacramento. She holds Ph.D. degree in Finance from University of Nebraska, Lincoln and MBA with Economics minor from University of Nebraska at Omaha. Anna's research interests are in exchange rates, speculative tensions and heterogeneous expectations in the capital markets.

Sacramento Business Review Supporting Sponsors

CFA Society of Sacramento

Sacramento State College of Business Administration

CBRE

SMUD™

Wells Fargo The Private Bank

The Institute for Business Research and Consulting

Sacramento State College of Business Administration

Providing creative solutions to Sacramento's business problems.

Consult with us for your research and consulting needs:

- Business Valuation, Incorporation, Financing
- Financial Planning and Forecasting
- Economic Impact Studies
- Business Process Improvement
- Strategic Planning
- Market Planning, Survey, and Research
- Business and Product Development
- Market Analysis and Pricing
- Competitive and Feasibility Analyses
- Tax and Estate Planning
- Leadership Training and Development
- Succession Planning
- Improving Employee Productivity
- Enhancing Return on Investment (ROI)

For more information about the IBRC and its consulting services, please call **(916) 278-6578**, e-mail **IBRC@csus.edu** or visit **www.cba.csus.edu**.

The Institute for Business Research and Consulting

Delivering success, growth, and profits to Sacramento business and government – one client at a time.

CFA Society of Sacramento

Global Network • Local Presence

Founded in 1991, the CFA Society of Sacramento operates as a member society of CFA Institute. Our membership consists of more than 180 regional investment professionals and academics who work in both the private and public sectors in a broad range of capacities. More information may be found at ***www.cfass.org***.

CFA Charter is The Gold Standard

First awarded in 1963, the Chartered Financial Analyst (CFA) charter has become known as the gold standard of professional credentials within the global investment community. Investors recognize the CFA designation as the definitive standard for measuring competence and integrity in the fields of portfolio management and investment analysis.

About CFA Institute

With more than 96,000 members in 133 countries and territories, CFA Institute is the global association for investment professionals. It administers the CFA curriculum and exam programs worldwide; publishes research; conducts professional development programs; and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry.

CFA Institute is a respected advocate worldwide for full and fair disclosure of financial information by public issuers to investors; ethical conduct by investment professionals that protects the clients' best interests; investment performance standards; and the highest level of investment knowledge and competence. More information may be found at ***www.cfainstitute.org***.

A Member Society of

CFA INSTITUTE


SMUD™
Powering forward.
Together.
Let's power business.
As your community-owned electric service,
we make it our business to keep yours running.
Your business can thrive with SMUD as your partner. Our dual roles as an alternative energy innovator and local business supporter come together in our many economic development and incentive programs. Contact our team and we will connect you to valuable SMUD sponsored resources.
Visit smud.org/econdev or
call 1-916-732-5477 to learn more.
GAF 1551a-11 10/11 8.5x11