

# THE CITY AVENUE JOURNAL.

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**Dow: -4.42%, S&P 500: -3.83%, NASDAQ: -1.53%, Russell 2000: -4.27%**

Note: Returns are calculated on month to date (MTD) time frame.

## IN THIS MONTH'S ISSUE:

- Chipotle Mexican Grill's New CEO
- A Look at AIG's New Acquisition

## FEATURED SERIES:

- An overview of Alpha
- A Student's Perspective from Internal Audit
  - Regulating Digital Assets
  - The Triple Bottom Line

## Let's Taco Bout Chipotle's New CEO

By Jennifer Sterner

Chipotle Mexican Grille (CMG) shares continue to surge as March 5<sup>th</sup> approaches, the scheduled first day for the Mexican grille's newly hired CEO, Brian Niccol. In fact, since the hiring announcement on February 13<sup>th</sup>, its stock price has rebounded a staggering 27% to date. Niccol's impressive resume includes brand management at Procter and Gamble, as well as several leadership positions at Yum! Brands. There, he built a solid reputation in the revival of fast food brands, most significantly one of CMG's largest competitors: Taco Bell.



*Continued in "Keeping up with Current Events"*



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DISCLAIMER: All articles are written strictly for educational purposes, not for investment decisions. All forward-looking statements are simply opinion and not investment advice made by the author.

# WORD FROM THE BOARD

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Dear Reader,

Thank you for choosing the City Avenue Journal! We, the Capital Markets Board of Directors, wanted to bring you a premier, student led business journal of Saint Joseph's University that would not only be informative, but also riveting and simply enjoyable to read.

We have packed The Journal with a ton of valuable articles, written by students for students (and professors too). When you read the articles, if you come across any questions, jot them down. We encourage you to send us Tweets @CityAve\_journal.

If you any additional questions, or are interested in joining, send us an email at [cityavejournal@gmail.com](mailto:cityavejournal@gmail.com).

Now, we invite you to sit back, relax, and enjoy an assortment of fascinating student-produced publications.

Sincerely,

The SJU Capital Markets Club Board of Directors



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# MARKET SUMMARY

## Sector Performance

Sector	Ticker	Price as of 02/01/18	Price as of 02/28/18	\$ Change	% Change
Consumer Discretionary	XLY	106.61	104.07	(\$2.54)	-2.38%
Consumer Staples	XLP	57.57	53.41	(\$4.16)	-7.23%
Energy	XLE	75.62	66.74	(\$8.88)	-11.74%
Financials	XLF	30.02	28.87	(\$1.15)	-3.83%
Health Care	XLV	88.13	84.14	(\$3.99)	-4.53%
Industrials	XLI	79.59	76.65	(\$2.94)	-3.69%
Materials	XLB	62.09	59.63	(\$2.46)	-3.96%
Real Estate	XLRE	31.72	30.11	(\$1.61)	-5.08%
Technology	XLK	68.51	68.17	(\$0.34)	-0.50%
Utilities	XLU	50.24	49.06	(\$1.18)	-2.35%
Vanguard 500	VOO	258.73	249.34	(\$9.39)	-3.63%

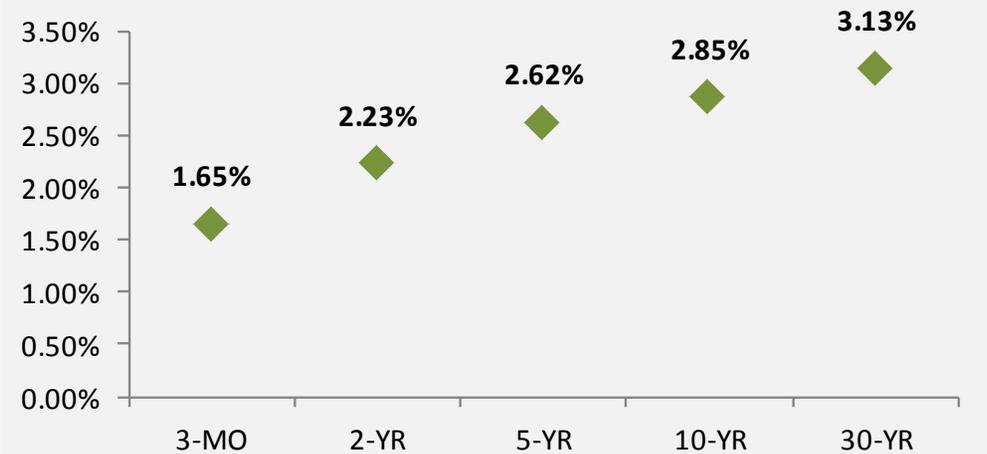
## Equity Markets

Benchmark	Symbol	Price as of 02/01/18	Price as of 02/28/18	Change	% Change
S&P 500	SPX	2822.0	2713.8	-108.15	-3.83%
Nasdaq	COMP	7385.9	7273.0	-112.855	-1.53%
DOW	DJIAC	26186.7	25029.2	-1157.51	-4.42%
Russell 2000	R.2000	3926.4	3758.8	-167.56	-4.27%
FTSE 100	180555	7490.4	7231.9	-258.48	-3.45%
NIKKEI 225	180461	23486.1	22068.2	-1417.87	-6.04%
Volatility Index	VIX	13.5	19.9	6.38	47.36%

## Exchange Rates per USD

Currency	Symbol	Rate as of 02/01/18	Rate as of 02/28/18	Change	% Change
Euro	USDEUR	0.802	0.820	0.0180	2.25%
Yen	USDJPY	109.385	106.705	-2.6800	-2.45%
Pound	USDGBP	0.702	0.726	0.0233	3.32%
Franc	USDCHF	0.928	0.945	0.0169	1.82%
Yuan	USDCNY	6.296	6.332	0.0362	0.57%

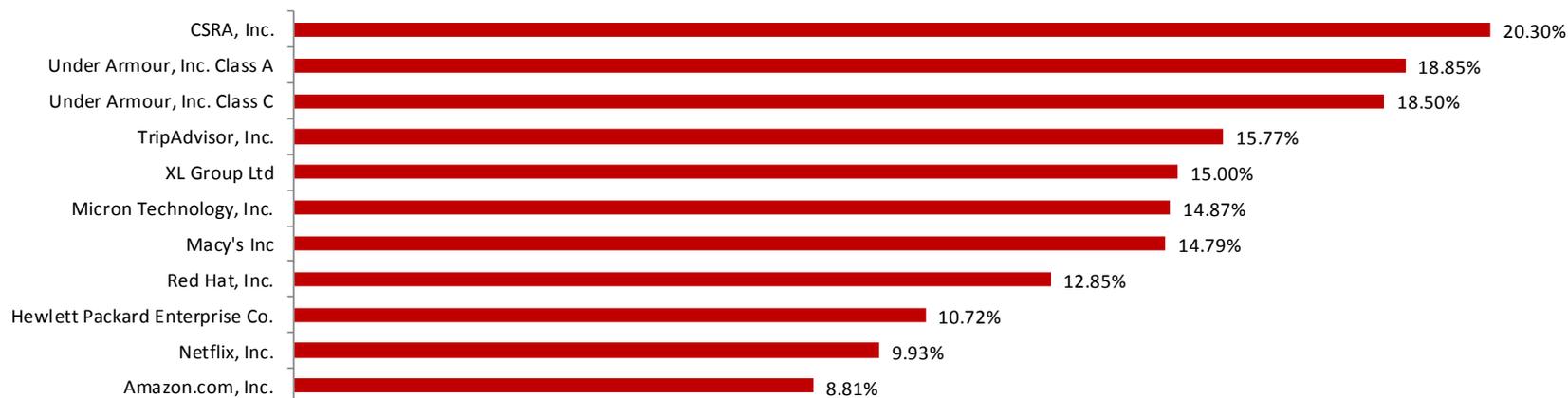
## US Yields %



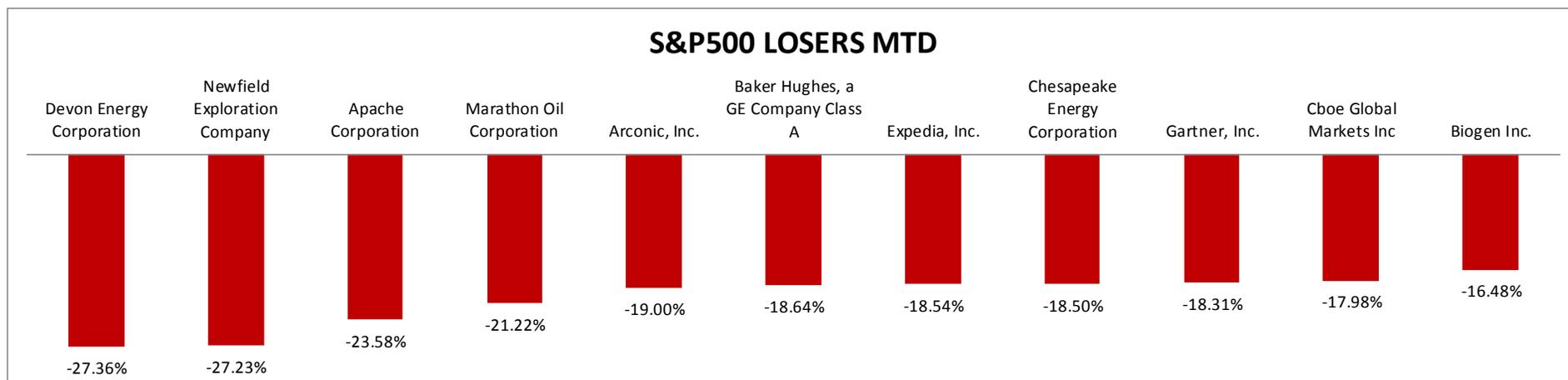
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# MARKET SUMMARY (CONTINUED)

## S&P500 GAINERS MTD



## S&P500 LOSERS MTD



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# KEEPING UP WITH CURRENT EVENTS

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## Let's Taco Bout Chipotle's New CEO By Jennifer Sterner

*Continued from the front page*

The need for change within Chipotle's management has never been stronger, as its stock suffered a 49.6% loss from its 52-week high during the trailing twelve-month period, significantly underperforming the S&P 500 during its stellar year. Most of this decline seems to stem from Chipotle's damaged reputation amidst scandals regarding food borne illness. Outbreaks of norovirus and e-coli repelled many customers and scarred the company's image of quality ingredients. Chipotle's preached mission of sustainability seemed to lose its magic when health and safety issues resulted within their supply chain.

Even with these set-backs, the company has reached a scale and demand that requires an executive with the innovation and experience to handle it. Former CEO, Steve Ells, founded the company in 1993 when he opened the taco shop in Denver, made possible only by loans from family and friends. Ells' original intention for the shop was to raise the funds to finance a fine dining restaurant, fulfilling his culinary aspirations. Although Ells' passion for food carried Chipotle to over 2,408 quick service restaurants worldwide, he decided to step down from CEO and maintain a strategic position on their board. This move in November of 2017 suggested CMG finally required direction from a sea-

soned professional. Niccol plans to not only improve the customer experience with enhanced digital communication, but also alter the menu, leading many analysts to believe 2018 may be a promising year for the brand after all.

# KEEPING UP WITH CURRENT EVENTS (continued)

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## AIG Acquires Validus By Dominic Santanasto

On January 22, 2018, insurance company AIG bought reinsurer Validus for \$5.56 billion.<sup>1</sup> The per share price was a reported 45.5 percent premium.<sup>1</sup> The move represents the first big deal by new AIG CEO and Saint Joseph's graduate Brian Duperreault.<sup>1</sup>

Located in Bermuda, Validus operates as a reinsurer. Prior to the deal, AIG hardly operated in the reinsurance space.<sup>2</sup> Since Validus primarily provides catastrophe reinsurance, the addition should help to improve AIG's results. Over the past three years, AIG's general insurance segment has reported a combined ratio, the ratio of insurance-related expenses to net earned premiums, greater than 100 percent.<sup>2</sup> This represents an underwriting

loss in each of the past 3 years. While Validus reported a combined ratio over 120 percent in 2017, in each of the preceding four years the company reported a combined ratio under 85 percent.<sup>3</sup> The high ratio in 2017 was due to the high amount of catastrophe loss during the year.<sup>3</sup> As the prior four years indicate, years which do not include high catastrophe losses are very profitable ones for Validus.

Brian Duperreault is no stranger to making big moves. While at ACE, Duperreault acquired Cigna's property and casualty business in a deal that many believe led to ACE becoming a major player in the insurance industry.<sup>4</sup> Shortly after he was hired to run AIG, he said that he would end a cycle of divestiture

and look to acquire companies that can help AIG grow.<sup>5</sup> Time will tell whether or not AIG is able to make more deals in an effort to complete this vision.

Full disclosure: Dominic Santanasto is currently employed by Chubb Limited, which was formed as a result of the merger between ACE and Chubb. The opinions in this article are his and not those of the company.

# STUDENT LECTURE SERIES

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## What is Alpha?

By Daniel Knerr

You may be familiar with beta, the implied volatility or riskiness of a stock in relation to the stock market as a whole, but alpha?

What is that? Alpha in its simplest sense can be defined as investment return over a period of time that exceeds or falls short of a certain benchmark's return.<sup>1</sup>

The most common benchmark that money managers compare themselves with is the S&P 500, the largest 500 US stocks by market capitalization.<sup>2</sup> To calculate alpha, consider a portfolio that generated a return of 12% over the course of a year. If the S&P 500 returned 10% over that same period, then the alpha of that portfolio would be 2%.

This is a statistic that portfolio managers are always striving to increase, as it gives a clear picture of how well their investments actually perform that isn't simply due to overall economic trends. In other words, say a money manager's yearly returns are 13%. That may seem impressive at first glance, but if the market as a whole went up 15% over that same time period, then this performance is significantly

less impressive. Alpha is a way to capture this relationship. If a manager generates alpha, they are said to have provided value, since they outperformed what casual investors could get if they simply invested in the entire S&P 500 index.

There are also more complex ways to calculate alpha that hone in on how an investment performs relative to its own specific expected return, rather than relative to the stock market as a whole. This expected return that we are using to compare is calculated by the Capital Asset Pricing Model, or CAPM. CAPM takes into account a stock's beta, the risk-free borrowing rate, and the expected market return to come up with a percentage return investors should expect to receive at the very least in a given year.

Jensen's Alpha is a particular calculation of alpha that compares an individual investment's return to a realistic expectation of how that investment should have performed over the past year, using CAPM. We won't get into how to calculate this measure now, but it is

important to note that this form of alpha can be a bit more relevant than the simpler calculation, since it is tailored to the specific investment being examined rather than the entire market altogether. Although this is a more accurate and relevant way to find an investment's alpha, the simpler calculation of alpha discussed earlier still gives a sufficient and clear depiction of relative performance of an investment.

Alpha is a telling statistic that can give investors a realistic and unbiased indicator of how successful a particular investment has performed, or how successful a money manager truly is. This statistic can help investors cut to the chase and clarify how successful an investment has actually performed when deciding how to allocate their money.

# STUDENT LECTURE SERIES (continued)

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## Internship Experience

By Kyle Johnson

As a freshman last year I sat in the Internal Audit (IA) Director's office of Aqua America, a water-utility company that operates in 8 states and has approximately 3 million consumers, preparing to start my first professional interview. I was nervous not just for the interview, but if I even got the internship if it was something I could enjoy. There are many negative superstitions of accountants and the profession. I'm happy to say that the following months proved otherwise. As part of the internship I was responsible with completing direct assistance with a PwC engagement team and tested the compliance of nearly two dozen Sarbanes-Oxley (SOX) controls, often referred to as "SOX Testing." With direct assistance I tested revenue, inventory transfers, and CWIP. There were multiple selections to be tested for the various states Aqua America operates in. Though the procedure for the test was the same, not all tests concluded the same, mean-

ing, there were times unique elements to the selection the IA team had to reconcile through research. These are the parts of IA that I enjoyed -- not only learning more about the integral parts of the business, but how the same processes may vary, then providing explanation to management and the PwC engagement team. Part of the research in direct assistance involved me, an intern nonetheless, calling people like state controllers for different information and clarification. In SOX testing I sat in on "walkthroughs," a special meeting held with the management of certain departments to go over processes, control matrixes, and to answer questions IA and the PwC engagement teams had. These walkthroughs provided me with a greater understanding of how the different departments at Aqua work. Often people ask me how to summarize my internship experience in IA and I often say, "IA allowed me to see how Aqua America works from laying the

pipe in the street to the executive suite. I audited inventory transfers of pipe from vendors to the job site all the way to the CEO and CFO signing off on quarterly reports." I'm looking forward to interning again this summer with Aqua America's IA team. I look forward to the opportunity this summer to go into the field, tour a water-treatment plant, travel to another state to audit one of the offices, continue projects I worked on the previous summer, and continue the enhancement of my professional experience and skills.

# STUDENT LECTURE SERIES (continued)

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## Regulating Digital Assets

By Gage Bowser

There has been a lot of talk in the past year about blockchain, cryptocurrency, and things like Bitcoin and Ethereum. Up until recently, the media attention received by crypto tended to focus on its more nefarious uses, such as money laundering, illegal purchases on the dark-web, and the various scams and hacks that have taken place. However, 2018 seems determined to be the year that crypto goes mainstream. Interest in the space has reached levels thought to be unprecedented just six months ago, and it seems each week brings bullish news of crypto adoption and integration into existing industries.

As speculators and investors are drawn in one major question has been the role, if any, that regulators play in all this. The responsibility would seem to fall into the hands of either the S.E.C or the C.F.T.C. However, both have struggled thus far to come up with a decisive regulatory approach to the space. Digital assets present very unique challenges. Because of their existence solely on the internet, they can move across borders and be exchanged between anybody who has a signal, at any time. This

makes it impossible to say *who* can invest in *what*. They have struggled at times even to define *what* it is that they're attempting to regulate. The differences in characteristics between public blockchains, cryptocurrencies, utility tokens, and ICOS make classifying crypto using existing categories pointless. Are they commodities? Assets? Securities? Collectibles? Some propose that they are something completely new.

Regulatory uncertainty will likely continue to be a major topic in the space for years to come. Governments around the globe have taken notice of the high interest in crypto, and have responded with a wide variety of strategies. China, for example, has opted to ban ICOs altogether, despite some of the world's highest volume exchanges being headquartered in Beijing. On the other hand Switzerland, seeing the opportunity in crypto, has crafted a *laissez-faire* approach. To entice innovation, they are minimizing regulations and even creating "sandboxes" where startups can experiment with technology and crowdfund with little oversight.

It will certainly prove complicated for existing agencies to effectively regulate the incipient token economy. However, this exciting new space has attracted many types of charlatans, scammers, and manipulators. As much as a heavy-handed regulatory approach may stifle innovation, having millions of people scammed out of their money would stifle enthusiasm. Recently, at the urging of C.F.T.C Commissioner Brian Quintenz, there has been discussion of various methods for self-regulation in crypto. Token-curated-registries, self-certification, and internal audits are likely to be hot topics this year as crypto companies struggle to find a solution amidst looming regulatory uncertainty. Fraudsters shouldn't hold their breath though. Theft and fraud are illegal, whether it takes place in person or across borders over the internet. As digital assets and the cyber-economy continue to grow, perhaps some sort of supranational regulations will be necessary to protect investors in our truly global and interdependent future.

# STUDENT LECTURE SERIES (continued)

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## The Triple Bottom Line: TBH about the TBL

By Robert Jankiewicz

In our November volume, we had the pleasure of sitting down with Dr. Carolin Schellhorn, Assistant Professor of Finance. Mentioned in our discussion, Schellhorn highlighted the importance of finance being sustainable. Thus, for this edition, let's take a look at an important topic in Sustainable Finance; The Triple Bottom Line.

Whether through our own observations or through the lessons taught in our business schools, we know that business models worldwide have evolved astoundingly. Companies are constantly trying to figure out ways to increase sales and cut down on expenses in order to add an extra digit to that one number on the bottom of the income statement. It's true, the bottom line can sometimes be a strong determinant of a company's performance but let's face it, there is more to a company's profitability than simply the digits in front of the dollar sign.

In the mid-1990s, John Elkington, the founder of *SustainAbility*, created the idea of "the triple bottom line," or *TBL* for short.<sup>2</sup> The TBL is an accounting framework that shifts the concept of profitability to include social and environmental

impacts, which can be summarized using what is known as the "three Ps": Profit, People, and Planet.<sup>3</sup> Each of these three pillars should be considered as separate "accounts" which can be used to measure profitability.<sup>3</sup> Essentially, companies should be concerned with the monetary profit they earn, but they should also take into account the impact that their business has on the environment and any stakeholders that can be affected by the actions of the company.<sup>3</sup>

So what is the big deal about the triple bottom line anyway? Why should companies be concerned with it? First, one of the main reasons organizations should embrace the TBL is due to corporate social responsibility.<sup>3</sup> Other than raising shareholder value, businesses have a commitment to acting in a manner which can positively impact the quality of life in communities where they operate.<sup>1</sup> Additionally, following the TBL framework offers companies competitive advantages and bona fide reputations.<sup>3</sup> The benefits that arise from the TBL can impact companies from both internal and external standpoints. For example, an external benefit could be

the creation of new markets or the expansion of new ones, especially since the positive characteristics of the triple bottom line can be highly attractive to a diversified group of consumers.<sup>3</sup> More importantly, from an internal perspective, when companies follow the "people" pillar, they will be able to reap the benefits of employee retention and engagement, leading to improved productivity.<sup>3</sup>

Overall, it is obvious that the triple bottom line can have very important effects on businesses, but sometimes difficulty arises in trying to measure the positive outcomes of the three pillars in terms of cash.<sup>2</sup> Despite this slight impediment, there are still many rewards that come from the triple bottom line. Therefore, the act of simply understanding and trying to improve the impacts that organizations have on society and the environment, truly places companies in a position for sustainable profitability.

# MEET THE BOARD

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A five-student board leads the Saint Joseph's University Capital Markets Club. The board serves as the acting body that represents the Capital Markets Club and works to ensure success of the City Avenue Journal.

## Patrick Fennell

**Majors:** Finance & Accounting

**Internships:**

MassMutual

JP Morgan Chase

**Interests:**

I enjoy fishing and cooking. I am also a volunteer coach on my high school's wrestling team.

## Dominic Santanasto

*Co-Chairman*

**Majors:** Finance &  
Risk Management/Insurance

**Internships:**

Chubb

**Short Term Goals:**

Win the stock market game.

**Interests:**

Sports and running

## Robert Jankiewicz

*Co-Chairman*

**Majors:** Finance & Economics

**Minor:** Spanish

**Internships:**

Johnson & Johnson

Independence Blue Cross

NASDAQ

**Interests:**

I play hockey for the SJU club roller hockey team.

## Chad Grimley

**Major:** Finance & Accounting

**Internships:**

Merrill Lynch, Catholic Charities, Getting More Inc, and Grimley Financial Corporation

**Short Term Goals:**

Begin working for my father's company, Grimley Financial, a 32-year old financial services company. Concurrent with working, I plan on working toward my master's degree in business intelligence.

**Interests:**

In the summer, I am the general manager and play for a semi-pro baseball team. Also enjoy playing golf and going down the shore.

## Patrick Michael

**Major:** Finance & Economics

**Internships:**

Bryn Mawr Trust, Buy-Side Equity Research Analyst

Nest Multi-facility Management, Data Analyst

# GET INVOLVED

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## Join the Spring 2018 Stock Market Competition!

Sign up at <http://www.howthemarketworks.com/register/109397>

The Wall Street Trading Room will be sponsoring “The Hawk Portfolio Competition.” This competition gives participants an opportunity to learn about investing in a fun, risk-free way. Students will be able to take full advantage of the many resources at the university including the Wall Street Trading Room. Only students at Saint Joseph’s University are eligible to play.

*In determining the winners, the cut-off date is April 13, 2018.*

Prize: A T-shirt for students with the best 10 portfolios

How to Sign Up for the Competition

For complete information, visit the [Spring information](#) sheet

Use an ID so that we can identify you in determining the top 10 winners.

If you are a new user, follow the link for a free account.

Best of Luck!

## Want to contribute?

*Do you want to contribute to the City Avenue Journal or the Portfolio Analyst Team, the premier, student led business magazine of the Haub School of Business?*

Please reach out to [cityavejournal@gmail.com](mailto:cityavejournal@gmail.com)

Email us your name, class (freshman, sophomore, etc), major, and what you’d be interested in contributing.

We encourage submissions from all students including topics such as:

- Recent business news
- Prior internship/Co-op experience
- HSB events

Remember, not only will you get to show off your writing skills, but you will also get to put this on your resume! Trust us, employers will love it!

### ***Interested in portfolio management, equity analysis, or investing?***

We invite you participate as a stock/sector analyst for the Saint Joseph’s University Hawk Portfolio. The portfolio consists of about 50 stocks spread across 9 sectors, and currently has a value of approximately \$250M. As an analyst, you will be conducting research on your assigned stock/sector. A consolidated report of all research and performance will be published on a monthly basis.

*Note: Students who take FIN 401 make final investment decisions at the end of each semester.*

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# CITATIONS

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## Let's Taco Bout Chipotle's New CEO

1. McGrath, Maggie. "Chipotle Taps Taco Bell Chief Brian Niccol As Its Next CEO." *Forbes*, Forbes Magazine, 13 Feb. 2018, [www.forbes.com/sites/maggiemcgrath/2018/02/13/chipotle-taps-taco-bell-chief-brian-niccol-as-its-next-ceo/#623d6858693f](http://www.forbes.com/sites/maggiemcgrath/2018/02/13/chipotle-taps-taco-bell-chief-brian-niccol-as-its-next-ceo/#623d6858693f).
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## AIG Acquires Validus

1. "AIG to buy reinsurer Validus Holdings for \$5.56 billion." *CNBC*, 22 Jan. 2018, [www.cnbc.com/2018/01/22/aig-to-buy-validus-for-5-point-56-billion-in-an-all-cash-deal.html](http://www.cnbc.com/2018/01/22/aig-to-buy-validus-for-5-point-56-billion-in-an-all-cash-deal.html).
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4. Lohse, D. "Ace's Purchase of Cigna Unit Moves Firm to the Forefront." *The Wall Street Journal*, 13 Jan. 1999, <https://www.wsj.com/articles/SB916149406111719000>.
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## What is Alpha?

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## The Triple Bottom Line: TBH about the TBL

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2. Hindle, Tim. "Triple Bottom Line." *The Economist*. The Economist Newspaper, 17 Nov. 2009. Web. 29 Nov. 2015.
3. Scott, Ryan. "The Bottom Line of Corporate Good." *Forbes*. Forbes Magazine, 14 Sept. 2012. Web. 29 Nov. 2015.

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