Stetson team’s efforts pay off with 2 national wins

BY TOM KNOX, BUSINESS WRITER

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A team from Stetson University has won two national student-investing competitions.
And they did it with nearly $3 million in real money.
The student team’s most recent success gives it a 12-year streak of finishing in the top two of a national investing competition.
The team is part of the Roland George Investments Program at Stetson. The students said they are most proud of taking top honors in both the national competitions for investing in stocks and bonds.
“Stocks and bonds are totally different worlds,” said K.C. Ma, a Stetson finance professor who directs the DeLand university’s Roland George Investments Program.
“If you say I want to invest in real estate, it doesn’t mean you’d be good in investing stocks because they’re so different,” he said.

continued on page 6

R.I.S.E. Competitions (Began in 2001)
2001 National Champion Equity Blend
2002 National Champion Equity Value
2003 Second Place Equity Growth
2004 National Champion Fixed Income
2005 National Champion Fixed Income
2006 National Champion Equity Growth
2007 National Champion Fixed Income
2008 National Champion Fixed Income
2009 Second Place Fixed Income
2010 National Champion Fixed Income
2011 Second Place Fixed Income
2012 National Champion Fixed Income

G.A.M.E. Competitions (Began in 2011)
2011 National Champion Fixed Income
2012 National Champion Equity Stocks

Please send us your e-mail address to: lthomposo@stetson.edu for future electronic issues.

A nother Year has come and gone and the Roland George Investments Program continues to thrive. The students may change every year but the success never waivers. In this edition of The George Investments View, you will get a behind-the-scenes look at everything that went down in the 2011-2012 school year. We’ve got it all — starting with how the 2012 graduating class took over the reigns of last year’s portfolio and helped lead the program to two more national championships in both the Equity and Fixed Income portfolios, a first for the program in its illustrious history. To see how this feat was achieved both investment policy statements along with a brief synopsis of all the stocks and bonds the class recommended to move in and out of each portfolio have been provided.

For the more avid investor, there are also a couple of in-depth equity buy recommendations. Richard Butcher defends his position on why Companhia Siderurgica Nacional, one of Brazil’s largest steel producers, is poised to make a huge rally after falling nearly 50% over the past year. Steven Swofford presents his case for information technology conglomerate EMC Corporation and why their aggressive acquisition strategy is ready to start paying dividends for investors. I even give my own views on discount variety retailer Dollar Tree with the argument that DLTR is not only head and shoulders above its competitors but has proven to outperform them and the broader market in even the worst of macro conditions.

Don’t think we held out on the bond swap recommendations – we’ve got just what you need to satisfy your fixed income appetite. Marla Yuan forecasts her predictions for interest rate movements in the next coming year in her swap for Morgan Stanley over GE Capital. Looking to

continued on page 5
Every Fall as new Roland George students are taking the wheel of the Growth Fund in the Equity Fund Management course, students begin to familiarize themselves with the equity markets. It is the responsibility of the new class to create their own investment policy statement to follow while they are buying and selling securities.

This year the class decided to follow the objective to maximize total (realized) return within a 12–18 month work–out period. The class determined that the fund would have a large–cap bias, however small–caps were okay to recommend as well. The fund would be overweight in growth securities and would emphasize both industrials and technology. For FY2012 the fund would deemphasize financials as they were viewed to be too risky for the fund. The portfolio’s holdings would be around 20 securities and each would have a minimum position of $50,000.00.

After the class had formally established its investment policy statement, they could begin to make hold/sell decisions and buy recommendations for the fund. Over the course of the Fall, the class decided it was best to sell out of eight positions they were holding at the time. This freed up cash for buy recommendations and allowed the class to allocate securities that matched their investment policy statement.

In the same semester there were 15 new stock recommendations accepted into the portfolio. By the end of the semester 34% of the fund was invested in information technology and 17% was allocated in industrials. A total of 60% of the investments were in large–cap companies.

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2011 Growth Fund Performance

During FY2011 the Roland George Growth Fund was significantly depressed as a result of the gridlock in Washington as well as heightened and continued concerns over the Eurozone. After producing positive returns for the first seven months of the year, the portfolio value dropped –8.02% in August and another –10.66% in September. The Growth Fund finished the FY2011 year with a negative –12.28% return. Risk adjusted, the portfolio was down –2.48% for the same period.

2012 R.I.S.E. Forum

This year I was honored to have the opportunity of attending the R.I.S.E. XII Forum hosted by the University of Dayton in Ohio. Both Marla Yuan and I were at the conference representing the Roland George Investments Program. At the conference we met and spoke with many professionals in the investment field as well as a handful of students participating in investment programs at other schools.

This year during the conference’s portfolio competition, RGIP was named National Champion in the Fixed Income category. It marks the program’s sixth time winning in that particular category and ninth time altogether taking National Champion in the past twelve years.

Congratulations to everyone who took part in this year’s success!

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Buy Recommendations Growth Fund

AmBev (Cia De Bebidas) (NYSE:ABV) engages in the production, distribution, and sale of beverages in 14 countries in the Americas.

Atlas Pipeline Partners (NYSE:APL) is involved in the transportation and processing of natural gas and natural gas liquids, focusing its operations primarily in Kansas, Texas, and Oklahoma.

C&J Energy Services (NYSE:CJES) is one of the only publicly traded pure–play North American pressure pumping companies.

Companhia Siderurgica Nacional (NYSE:SID), founded in 1941, is one of the largest fully integrated steel producers in Brazil.

Dollar Tree (NASDAQ:DLTR) was recommended to diversify the portfolio with a defensive, consumer discretionary stock that would also provide a strong risk adjusted return.

EMC Corporation (NYSE:EMC) is an enterprise storage systems company specializing in storage, backup and recovery, and security of information and data.

Express Scripts, Inc. (NASDAQ:ESRX) is one of the largest pharmacy benefits managers operating in the United States.
Performance

States providing retail network pharmacy management among other services.

Flowserve Corporation (NYSE:FLS) is a world leading manufacturer and aftermarket service provider of flow control systems for equipment such as pumps, valves, and seals.

Freeport-McMoRan Copper & Gold (NYSE:FCX) has a leading international mining company, founded in 1987 in Phoenix, Arizona, and is the second largest copper producer in the world.

Halliburton (NYSE:HAL) is a leading provider in global oilfield services to the energy industry of products and services for the upstream exploration, production, and development of oil and natural gas worldwide.

John Deere & Company (NYSE:DE), founded in 1837 in Grand Detour, Illinois, is the world’s largest producer of agricultural and farm equipment, and a leading producer of construction equipment, forestry, and commercial and residential lawn care equipment.

Nuance Communications (NASDAQ:NUAN) is the leading provider of speech technologies with services made available for both businesses and consumers around the world.

Precision Castparts ((NYSE:PCP) is a worldwide manufacturer of complex metal components and products, a low-cost leader and one of the few providers of certain large-sized products, some used in aircraft jet engines and power turbines to maintain structural integrity under intense thermal conditions.

United Technologies (NYSE:UTX) is a leader in providing high technology products to customers in the aerospace and building industries.

Sell Recommendations Growth Fund

AerCap Holdings ((NYSE:AER) price has declined with no signs of improving. Shares have been liquidated.

Craft Brewers Alliance, Inc. (NASDAQ:HOOK), due to underperformance in the craft–brewing industry, shares have been liquidated.

Energy XXI ((NASDAQ:EXXI), with valuation models based on both cash flows and earnings giving support to this stock being overvalued, no longer meets our criteria.

Interactive Intelligence, Inc. (NASDAQ:ININ) was recently downgraded, leading to high trading volumes and investors’ rising uncertainty. Therefore, all shares were liquidated.

Jabil Circuit, Inc. (NYSE:JBL) is priced very close to its fair value and the portfolio would be better served investing in stocks with a higher growth potential.

RealD, Inc. (NYSE:LD) is not performing as expected and therefore shares have been liquidated.

Yongye International, Inc. (NASDAQ:YONG) was liquidated to eliminate the losses to the portfolio.

Zagg, Inc. (NASDAQ:ZAGG) shares were liquidated to make our portfolio more diversified.

Zebra Technologies (NASDAQ:ZBRA) is believed to be overvalued and no longer meeting our criteria.

Buy Recommendations Fixed Income Fund

Alcoa, Inc. (NYSE:AA) is the largest manufacturer in the global aluminum market and is felt to be poised to be very successful in the basic materials sector as the economy continues to improve.

ArcelorMittal (NYSE:MT), created in 2006 by Mittal Steel acquiring Arcelor, is the world’s leading steel and mining company with 98 million tons of steel being produced annually.

Computer Sciences Corporation (NYSE:CSC), based out of Nevada, is one of the world leaders in the information technology and professional services industry providing services to governments and commercial enterprises that rely on the use of information services to conduct their operations.

Genworth Financial (NYSE:GNW) is a leading Fortune 500 insurance holding company providing services both domestically and internationally.

Icahn Enterprises, LP (NASDAQ:IEP), founded in 1987, is a diversified holding company that offers a wide range of services in eight general business segments, both domestically and internationally.

MorganStanley (NYSE:MS), reducing its risk levels and returning profitability, provides a wide range of financial services divided into three business segments: institutional securities, global wealth management and asset management.

Owens Corning (NYSE:OC), founded in 1938, is a leader in homebuilding products and glass fiber technology.

PIMCO Investment Grade Corporate Bond Index ETF – The class voted to use a portion of the fixed income account cash balance to take up a position in ETF.

Telecom Italia (NYSE:TI) provides essential technological infrastructures and platforms in which voice and data are converted into advanced telecommunications services globally.

Sell Recommendations Fixed Income Fund

Aetna, Inc. (NYSE:AET) was liquidated to increase basis points for the portfolio.
Fixed Income Portfolio Manager Report
Spring 2012
by Shaun Tracey

It has been my honor to serve as the Spring 2012 Portfolio Manager for the Roland George Investments Program. During this semester, our class focused on investing in fixed income securities, while still maintaining our Equity Portfolio from Fall 2011. We started out the class in a similar fashion as the prior semester, voting on our student trustees and portfolio manager, and then moved on to our hold/sells for the Equity portfolio, where we sold out of our position in Yongye International (YONG), and bought shares of C&J Energy Services (CJES) later on in the semester. After our hold/sells, we then formulated our Spring 2012 Fixed Income Investment Policy Statement. The IPS served as our guide in choosing what types of fixed income investments we were to recommend over the course of the semester.

As a class, we voted to maximize total (realized) return of our portfolio within a 12–month workout period. We agreed to minimize our interest rate risk, considering the general consensus viewed interest rates rising by about 50 basis points during our workout period. Thus, we chose to lower the weighted duration of the portfolio from 5–6 years to 4–6 years. The class voted to place an emphasis on industrials and financial debt, keeping financials restricted to 30% of our portfolio. Only investment grade holding would be acceptable, and the portfolio would overweight in BBB securities, after careful analysis of the credit spread between Corporate BBB bonds and the U.S. 10–year Treasury. We also took a $100,000 cash position in each of our securities, thus rounding out our parameters set forth in our IPS for Spring 2012.

As Portfolio Manager, it was my duty to call up the brokers, in order to obtain lists of fixed income securities available for purchase, of which I forwarded to the class every 3 to 4 days, in order to make sure the selected bonds were still available for purchase by the student presentation date(s). Before each of our trustee meetings, it was my responsibility to prepare detailed packets for the class, listing each of our positions in our accounts, detailing return specifications and sector/weight allocations for the portfolios. After our trustee meetings, I executed all of the accepted proposed trades, utilizing Bloomberg and our Charles Schwab accounts to find the best bid/ask to trade our securities.

We started off the semester with a cash position of just over $65,000, a total account balance of just over $1.125 million, with nine securities in our fixed income account. Now, at the end of the semester, we have a cash position of almost $80,000, a total account balance of just over $1.160 million, with nine securities in our fixed income account. We also currently hold a $100,000 position in the PIMCO Investment Grade Corporate Bond Index Fund (CORP). Our 2011 annualized return for the fixed income portfolio was at 7.4%, and our current YTD performance for this semester 2012 is at 4.09%, beating the U.S. 10–year Treasury bond, currently at 1.88%, up 0.52% YTD.

Fixed Income Fund Investment Policy Statement

Objective:
Maximize Total Return within a 12–month work–out period

Constraints:
- The Income Fund will minimize interest rate risk
- The portfolio will have a weighted duration between 4–6
- There will be an emphasis on Industrials and Financial Debt, Financials will be restricted to 30% of the portfolio
- All holdings will be investment grade, and will be overweight in BBB securities

2012 G.A.M.E. Forum

Michael Taylor and I had the privilege of representing the Roland George Investments Program in New York City at the Quinnipiac G.A.M.E. II Forum from March 29–31, 2012. We were able to learn more about global asset management from attending seminars of key speakers from companies like Goldman Sachs and Deutsche Bank. Michael and I represented Stetson University and its prestigious investments program at this event, where we came into contact with many individuals who were eager to learn more of RGIP, as well as meeting some prospective students looking to enroll in Stetson. Our program ended up placing 1st in Value Equity, marking another consecutive win, and the first year RGIP has won 2 national competitions in a single year.

The knowledge I have gained, as well as the lessons learned from being this semester’s portfolio manager will surely benefit me as well as others in my future endeavors. Thank you, RGIP.
Performance

continued from page 3

Alcoa, Inc. (NYSE:AA), showing negative returns forecast, was sold to increase the basis point pickup of the portfolio.

Altria Group, Inc. (NYSE:MO) was sold in favor of lowering the portfolio’s risk to interest rate movement.

GE Capital (NYSE:GE) was sold based on interest rate forecasts to maximize portfolio returns.

Hospitality Properties Trust (NYSE:HPT) was sold in order to upgrade ratings and reduce credit risk.

KLA Tencor (NASDAQ:KLAC) was sold to decrease the holdings in the technology sector.

Reynolds American, Inc. (NYSE:RAI) was liquidated in order to increase revenues.

Sempra Energy (NYSE:SRE) was sold to reduce holdings in the utilities sector and increase basis points.

Morgan Stanley’s roots go back to the House of Morgan, the grandest name on Wall Street. It survived the 2008 credit crisis, while some other Wall Street big players failed miserably. During the financial crisis, Morgan Stanley required billions of dollars in emergency support from the federal government, as well as a big investment by the Japanese bank Mitsubishi UFJ Financial Group in order to survive. In 2009, the bank recorded the first annual loss in its 74–year history. However, quickly enough, in January 2010, Morgan Stanley reduced its risk levels and returned to profitability. Through its subsidiaries and affiliates, the company provides a wide range of financial services which are primarily divided into three business segments: institutional securities, global wealth management group, and asset management.

Interest rate forecast is the most important aspect of bond swap analysis. For my bond swap case, I chose the 10–year U.S. Treasury securities yield as the benchmark. In early 2012, key economic indicators such as GDP growth rate, unemployment rate, and retail sales have indicated improving economic growth. In addition, the brightening European debt situations contribute positively to U.S. domestic economy. Technically, as economic conditions improve, long–term interest rate tends to increase as well. Therefore, the 10–year U.S. Treasury securities yield is most likely to increase slightly within 25 basis points over the workout period which is 12 to 18 months.

Additionally, in order to understand which sources of return contributes most to the 209 bps total profit, I have conducted a return decomposition analysis. The result of the analysis shows that interest rate risk contributes –38.17 bps, sector risk contributes 10.17 bps, credit rating risk contributes 169.25 bps, and bond selection contributes 67.75 bps. The results of return decomposition analysis conducted under different interest rate movement scenarios are slightly different. Therefore, the explanation of the analysis is based on the average result. The analysis indicates that both credit rating and bond selection contribute positively to the total swap profit, while interest rate risk contributes negatively. Also, since both GE and MS belong to the financial sector, the analysis results in small contribution from sector risk.

Editor’s note
by Mitch Brennan
continued from page 1

rebuild our portfolio, Jillian Masucci elected to swap out of KLA Tencor and into homebuilding products manufacturer Owens Corning. In hopes of applying his own acquisition strategy of basis point, JR Weston displays his recommendation to swap into Icahn Enterprises over our Aetna position.

Our student representatives also recount their experiences at both the 2012 R.I.S.E. Forum and the 2012 G.A.M.E. Forum, both of which brought home championship accolades.

Another special feature in this edition is the personal story of one student athlete who elected to postpone a career in professional baseball last year in order to experience RGIP and obtain his college degree this year. The George Investments View wouldn’t be complete without a director’s update from Dr. K.C. Ma himself.

This year’s class also went viral via FaceBook and Twitter, and our “Roland George on: Facebook” segment provides you with some of the more interesting and stimulating discussions classmates and alumni partook in. The Roland George Investments Program hopes this publication finds you well and offers you an enjoyable insight into another exciting year at Stetson.
Stetson team’s efforts pay off with 2 national wins

Shaun Tracey, a senior at Stetson who is studying finance, management and management information systems, attended the New York City forum last week, where the Roland George Investment team’s stock portfolio won first place in the core Equity category.

Some of the competing schools were dealing with just $20,000 in their portfolio, Tracey said.

“With more money you get to have more investments, and you get to see a more substantial level of income. Some days we can make $30,000 in one day,” he said. “It’s pretty nice.”

Stephen Swofford, a senior finance major at Stetson, attended the forum in Dayton. The program won in the fixed income category for its bond portfolio. He said he enjoys making theory practical.

“Anything you learn from other finance classes goes into this course,” he said.

About 20 students enroll in the competitive investment program every semester. When a member of the investment program has a buy or sell recommendation, they present it to the board of directors, which has four students and three faculty members, including Ma.

The Ohio and New York City forums had multiple categories for school programs to enter their 2011 portfolio.

The program’s bond portfolio saw an annual return of 7.4 percent last year. The stock portfolio was down more than two percent, Ma said, battered by the Euro crisis. But it was still better than their peers.

Ma said former members have gone on to careers in Wall Street, including at Goldman Sachs, Morgan Stanley and Merrill Lynch.

Some of those companies had a hand in the financial crisis that began as these Stetson students were entering college. Four years later and with five weeks until graduation, the economy has gotten a little better. And the students hope their experience with the Roland George Investments Program translates into success outside.

Marla Yuan, a senior finance major at Stetson, said she and the students encountered unexpected problems doing research that they needed to solve by themselves.

“But that,” she said, “is how the real world works.”

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An Icahnic Bond: Icahn Enterprises

by JR Weston

Company Analysis: Icahn Enterprises LP (IEP) was founded in 1987 by Carl C. Icahn and considers itself to be a diversified holding company that operates domestically and internationally in eight general business segments, including investment management, automobiles, gaming, railcars, food packaging, metals, real estate, and home fashion. Most notably, the firm exhibits an active takeover and acquisition strategy by focusing on recognizing and obtaining a variety of undervalued assets and whole companies, adding value to them through diverse augmentations in terms of financial, managerial, and operational activities, or seeing them through legal distress, bankruptcy, and solvency issues. Key elements of this business strategy include capitalizing on growth opportunities in its existing business, creating an atmosphere of accountability in the management of the business, and seeking to acquire undervalued assets that hold growth potential.

Interest Rate Forecast: As recently as early 2010, the United States’ economy appeared to be heading towards a recovery. However, events over nearly the next two years,
So, if we’re going to be honest for a minute, when I got to Stetson in 2008 I had no idea what the Roland George Investments Program was. I’d never seen the trading room. I had certainly never heard of Dr. Ma. I showed up at Stetson as a snot-nosed 17 year–old kid thinking, “This is great, I get to play baseball and go to college at the same time,” the latter of which was certainly on the back burner at that point. But it was after my freshman year I had learned the importance of doing just as well in the classroom as I did on the baseball field; if I didn’t, both would be taken from me without hesitation. I had heard a senior on my team mention the Roland George Investments Program and just how lucky he felt to be a part of it. It was then that I decided to add one more thing to my list of goals while I was at Stetson: graduate, get drafted, and go through the Roland George Investments Program.

Over the course of my sophomore and junior years, my time was spent on the baseball field, in the Hollis center, and in the lower lobby of the LBC — studying. I knew I was behind on getting my grades where they needed to be in order to be accepted into the program, and I had a lot of work to do if I was going to make it happen. At the same time, as a walk–on player on the baseball team, I knew I had an equally long road to reach my goal of being drafted by the time I left Stetson. For starters, I needed to be good enough to get any playing time at all, let alone at the professional level.

As my studies and baseball continued, I began to draw a lot of similarities between the two paths, particularly during my junior year. I had progressed enough in baseball to gain attention from pro scouts regarding the upcoming draft that following June, which meant I started getting attention from my coaches, too. It was an exciting time and felt great. At the same time, I knew I had come a long way as a student as well and I wanted to see that work payoff, too. I went to meet Dr. Ma for the first time to introduce myself and let him know about the potential situation of being drafted and leaving school early to become a professional baseball player after the spring of 2011. Of course he seemed overwhelmingly busy and most of his responses consisted of “okay, okay, okay” and “yeah, yeah, yeah” (which I learned later was typical, and he wasn’t just rushing me out of his office). However, between the okays and the yeahs, he managed to tell me just how much he didn’t trust athletes. If I was able to have 3.0 GPA by the end of the spring semester, though, he would allow me to join the program.

When spring rolled around, our baseball team had one of the best seasons in years winning a conference championship and playing the defending national champions in the NCAA tournament in Columbia, South Carolina. Moreover, I was one of the most integral pitchers on the staff. By season’s end, I was elated with myself and my team for what we accomplished. However, I had come up just short of the requirement Dr. Ma had set for my GPA, finishing the spring with a 2.95 average. The MLB draft immediately followed our regional championship in South Carolina and by then I knew I had a significant chance of being drafted. I was not sure what to do about school.

On June 8th I received the phone call of a lifetime — from the Texas Rangers — my dream had happened; they had selected me. Minutes later, I e–mailed Dr. Ma informing him that the opportunity I had worked my entire life for was a possibility; yet, if he would allow me to enroll in the program, I would pass up the draft to finish school and be a part of his class. He had no idea who I was. I found out later Dr. Ma had asked my teammate (and his student) Sean Emory, to verify my story. Once Sean assured Dr. Ma I was indeed drafted and explained what I’d be passing up, Dr. Ma allowed me to enroll in his class. I told the Rangers that I was very sorry, but I would be returning to school in the fall to finish my degree and take part in one of the most prestigious investment programs in the country, I looked forward to starting my professional baseball career the following spring.

That was a year ago. I sit here now, a graduate with a Finance degree, having earned an A in both semesters of the program, was selected as a Roland George Investments Program Merit Scholar — with zero regret about the decision I made last spring. I hope to get drafted again this June.

Throughout this past year, Dr. Ma grew into quite the baseball fan, as two of my teammates were also in the class with me. After Dr. Ma saw the movie Moneyball, we had many discussions about the similarities with valuing players and equities, something that I had come to acknowledge my sophomore year after reading the book the movie was based on. Dr. Ma always said something to me after our discussions about the movie and my decision to return to school that I think will resonate with me for a long time: “You’ve gotten drafted, but now you need to put the money with the ball.” So I’d like to thank Dr. Ma and the entire RGIP family for allowing me to be a part of this program — and for helping me check off the hardest thing I had on my college bucket list.
A Unique Year

Director’s update
by K. C. Ma, Ph.D., CFA

This is truly a unique year in many ways. Dr. Larry Belcher, after serving 7 years of directorship, moved on to the Deanship at the Taylor University. As for the Roland George Investments Program –

- The RGIP class the 2011–2012 class has the highest incoming GPA of any Roland George class in history;
- They have been the class that has won the “best” awards for the last 32 years;
- This is the first time that Student Portfolio Managers can place the trades;
- The RGIP Facebook Group was first started with over 200 members;
- The class has the largest number of RGIP athletes that has performed well both in class and on the field;
- The class threw the first Sky Box party to support your mates, even if they were scolded by the President;
- We had the best George Banquet yet and the same President showed up for the first time; and
- We got to stay at the same hotel as Charles Shin “winning” in the NYC trip.

Consistency – This year is also characterized by the 12th consecutive year that the RGIP ranked top in the national competition of the portfolio performances. For the last 12 years’ completion history in both the R.I.S.E. and the newly formed G.A.M.E., the George Program has won 12 champions and 4 second places. It is obvious the odds that the performance has been a result of” luck” is extremely small.

Stock vs. Bond – But most importantly, this is the first time that any real-money portfolios can rank top at the equity and bond asset classes simultaneously. The fact that anyone can win two drastically different asset classes is unheard of. Even Warren Buffett is only famous for his equity performance. The long-term consistency of the RGIP performance across two asset classes leads us to believe that we have a proven effective business model in educating George students.

RGIP Athletics – This is also the first year that the George Program has had athletes perform tremendously well in both the classroom and on the field. Three baseball players’ recommendations were consistently accepted and have produced good returns. Tucker Donahue, who can pitch 94–97 miles an hour, has been drafted by the Toronto Blue Jays at the 4th round. We had 2 baseball players and 1 tennis player who were awarded as Academic All American. Their performance has changed our long-term bias against athletics due to the conflict in schedules. In the incoming class, out of 20 students, we will have 4 baseball players, 3 soccer players, and 1 golf guy.

Looking Forward to – We have great plans in the works. The George room is expected to have a complete face lift by installing a glass wall; all furniture will be replaced with modern style, and all incoming RGIP students will be provided with their own I–Pad used in the classroom. We are proposing a first student–run public mutual fund which will mirror the George portfolios. An academic refereed journal, sponsored by the Association of Student Managed Investments Program, is expected to focus on only student stock recommendations (mirror the CFA Global Competition). I am excited to report to you in the next issue of The George Investments View the results of all these projects.

An Icahnic Bond: Icahn Enterprises

continued from page 6

including the sovereign debt crisis in Europe, the United States debt–ceiling dilemma, and the Japanese tsunami significantly slowed the recovery’s progress. As evidence to this, the ten–year U.S. Treasury yield bottomed out at 1.87% near the end of 2011. However, data supports that the economic circumstances are now improving, which would lead one to believe that interest rates will begin to increase moderately within the workout period of 12 months. For this reason, ten–year U.S. Treasury yields are forecasted to increase by a range of 25 to 75 basis points.

Sources of Swap Profit: This breakdown shows the various risk and return tradeoffs being made for a swap out of the Aetna, Inc., bond in favor of Icahn Enterprises debt. The four sources of return are separated from one another for the most likely scenario, a yield increase of 50 basis points for AET and 25 basis points for IEP, resulting in a total incremental pickup of 385 basis points. The contributions of these four sources are as follows: Interest rate risk attributes 302 bps for shortening the duration of the position due to the forecasted increase in interest rates, reimbursement for taking on additional credit risk attributing 77 bps, no bps from sector risk as the bonds both classify within the financial sector, and bond selection/mispricing contributing 7 basis points. It can also be asserted that a superfluous risk premium is associated with IEP due to its relationship with Carl Icahn.
Companhia Siderurgica Nacional (National Steel Company or CSN) was founded in 1941 and is one of the largest fully integrated steel producers in Brazil. It is involved in steel production, mining, logistics, cement, and energy production. Their manufacturing facilities produce an extensive line of steel products, including slabs, hot- and cold-rolled, galvanized and tin mill products for the distribution, packaging, automotive, home appliance and construction industries within Brazilian and international markets. The mining operations primarily produce iron ore used in its steel operations and sale. In addition, its mining business owns limestone, dolomite, and tin mines comprising the Namisa property, Casa de Pedra mine, Arcos mine, and Santa Barbara mine. The logistics segment provides transportation for all of its products to major areas of economic activity and provides transportation services for other industries such as agriculture. It is composed of railways and port facilities. The cement segment is in its growth stage and is supported by its mining, logistics, and steel segments. Its energy segment provides power for its energy intensive operations and sells the excess on the open market. CSN produces thermal power at one location, and hydroelectric power at two locations. It exports its products to Europe, Latin America, Asia, and North America. Companhia Siderurgica Nacional is headquartered in Sao Paulo, Brazil.

CSN was privatized from 1993 to 1994 when the Brazilian government sold its 91% stake through a series of auctions. CSN’s primary business activities can be broken down into five areas: mining, steel, logistics, cement, and energy. Each of these business units complement the other and lend toward greater vertical integration in an industry where cost control is pivotal. In recent years, CSN’s mining and cement operations have become extremely important not only to operations but to the company’s growth strategy moving forward. CSN is desirable due to its growth positioning, dividend policy, and vertical integration.

Each of CSN’s business lines are meant to complement the other in an effort for full integration. CSN’s mining operations supply its steel and cement operations. CSN’s logistics operations provide transport from its mines and production facilities to major cities and ports. Their energy operations supply more than enough energy to operate its production facilities with all excess energy being sold on the open market. The cement division uses the slag produced by its blast furnaces and the limestone extracted from its mines. Each division complements the other, making CSN competitive and self-sufficient in a highly competitive market that can face increasing input costs, especially in times of economic contraction.

CSN’s ADR’s have fallen in price this year by –49.73%, with no fundamental change to their business. This poses a unique opportunity to buy into a strong company with significant upside and ample uncertainty already priced into their shares. Coverage, liquidity, and payout ratios are all unchanged from 10-year averages while the company is positioned in one of the world’s premier growth economies and has already proven extraordinary growth in EPS. It is the belief of this writer that CSN’s dividend alone offers a substantial premium for the uncertainty faced, and that with positive news, this ADR is poised to rise back to historical valuation, which is well above its current level.

Making a Home in Our Portfolio
by Jillian Masucci

Company Analysis: Founded in 1938, Owens Corning is a leading homebuilding products company. It is the inventor of glass fiber technology and continues to be the market leading innovator of this product. Owens Corning’s main products and services with this technology include insulating, roofing, acoustical work, and basement finishing. Roofing with glass fiber technology accounts for almost 2/3 of the company alone. The advantages of the glass fiber material in these products include increased energy efficiency, lower maintenance, better sound control, increased convenience, and additional beauty. Originally used for insulation, glass fiber materials have found their way into over 40,000 end-use products, including pipes, boats, appliances, computers, automobiles, telecommunications cables, aircraft, and snow skis. Owens Corning is the world’s top producer of glass fiber material used in these products. Owens Corning has been a Fortune 500 company for the last 57 years. It is a trusted brand name in homebuilding products. Recently, the company has put stronger emphasis on energy saving and recycling to satisfy the “go green” market trend that has been popular in recent years. As energy costs continue to rise and businesses become more environmentally conscious, the demand for Owens Corning products should rise. Also, as the economy picks up in the next 1–2 years, businesses will be more willing to spend money for investments that will benefit them in the long term. Many businesses have put off capital expenditures over the last few years resulting in a pent-up demand in the market.

Interest Rate Forecast: For my bond swap case, I proposed interest rate levels will rise approximately 50+ basis points over our portfolio’s workout period of the next 12–18 months because of a stronger economic recovery. Many economic indicators are pointing towards an improving economy: unemployment levels are down to 8.3%, consumer confidence is on the rise and is currently at 70.8 (up 9.3 points from January 2012), and retailers are reporting stronger...
EMC Corporation was established in 1979 as a manufacturer of computer memory boards. In the mid 1980’s the company moved from solely manufacturing memory boards into network storage platforms and other computer storage systems. Today EMC Corporation is a conglomerate in the Information Technology field with over 45,000 employees. As a result of the company’s product portfolio expanding dramatically over the past decade, its sales are obtained in three main categories: hardware, services, and software and maintenance. For FY2010 45% of product sales came from the software and maintenance segment, 40% of sales from the hardware segment, and the remaining 15% from services.

In the early 2000’s EMC was beat down by reduced IT budgets and the beginning of the switch to cloud technologies. As a result, EMC started on an aggressive acquisition strategy over the past decade purchasing numerous small and mid-sized software companies. Acquisitions for EMC have ranged from virtualization leader VMware (which EMC has an 80% stake in), to Isilon, a leader that scales out network attached storage systems. The company’s acquisitions have put it in a strong position to capitalize on the structural shifts in the enterprise computing industry. EMC positions itself strongly within the broad IT industry. With product offerings in every major IT sector, EMC has been experiencing incredible growth in a weak macroeconomic environment. EMC has continuously shown upside earnings surprise 11 out of the last 12 quarters, while still remaining undervalued for investors. EMC experienced growth in every one of its product categories as well as in all major geographic locations.

EMC refreshed its entire product line at the beginning of 2011. They introduced new low and mid–range products aimed at small and medium businesses, and expanded its distribution network for such products. On the high–end, as large companies continue to use more of EMC’s products, its tiering software should become an important competitive advantage against its competitors such as Oracle, IBM and HP. Given EMC’s current business model I would expect to see margins continue to widen as EMC’s high margin software becomes a greater portion of product sales and revenue. I believe that EMC’s recent results and outlook remain quite solid, despite being put on watch after continued issues resulting from storage shortages. EMC’s current financial condition is strong with evidence from the large number of positive fundamental factors. The common stock for EMC remains a good value compared with other stocks in its industry given its strong immediate term growth potential. Price momentum has shown to be strong and EMC continues to stay relatively in line with fellow S&P securities.

2012 Update – EMC Corp Since RGIP’s initial investment on November 7, 2011, EMC Corp has returned 16.62% as of May 2, 2012. 1Q2012 EPS: EMC reported slightly higher than expected earnings per share in the first quarter of $0.37, up 19% yoy and a surprise of 2.78% from street estimates. FY2012 Revenue Estimates: Revenue for FY2012 is estimated at $22.23 Billion, which would represent 11.13% yoy growth.

Sources of Swap Profit: Swapping our portfolio’s KLA Tencor bond for the Owens Corning bond would be a smart financial decision for the Fixed Income fund. Due to the rising level of interest rates with a narrowing spread predicted between the two bonds, a growing economy, and the financial stability and growth potential of Owens Corning, I believe interest rate risk, sector risk, and credit risk can be taken in order to maximize return. The swap would yield a 198 basis point pickup under my assigned scenario, attributed mostly to my interest rate predictions. This prediction is for KLAC yield to rise 75 bps and Owens Corning yield to rise 50 bps. The 198 bps return can be broken down into four sources: interest rate risk (-40), sector risk (+62), credit risk (+121), and bond selection (+55).
Who Says Money Doesn’t Grow on Trees?
By Mitch Brennan

As we set out to seek the best return in our equity fund, our policy statement urged us to invest in large-cap, growth oriented stocks while emphasizing Industrial and Technology sectors and deemphasizing Financials. I did manage to avoid the Financials sector with Dollar Tree, which is surprisingly a large-cap growth company. A discount variety store operating in the consumer defensive sector definitely bucked the trend of what we were looking for but offered the rare opportunity to hedge our portfolio without sacrificing return.

Dollar Tree is a Fortune 500 company and the leading operator of discount variety stores in the United States and Canada. The Company operates its stores under the names of Dollar Tree, Deal$, Dollar Tree Deal$, Dollar Giant, and Dollar Bills. These stores offer merchandise at the fixed price of $1.00. As of October 29, 2011, the Company operates 4,335 discount variety retail stores in the 48 contiguous states and 5 Canadian Provinces. The Company’s variety and quality of products sets them apart from competitors. Dollar Tree’s merchandise can be allocated into four different segments: 1) consumable merchandise such as candy, food, health and beauty care, 2) household consumables including paper, plastics, household chemicals and in select stores frozen and refrigerated foods, 3) variety merchandise which includes toys, durable housewares, gifts, party goods, greeting cards and softlines, and 4) seasonal goods such as Easter, Halloween, and Christmas merchandise.

What made Dollar Tree an attractive investment was its outstanding business model, profitable operations, strong financials and stable growth potential. The management team at DLTR has successfully adapted to changes in the economy and tailored their model around efficiency and convenience. They continue to grow the Company internally by expanding current store selling space and adding to their product mix with installations of coolers and freezers in more stores. Their continued growth in opening new stores and making those stores profitable is just another positive sign for the long-term success of the Company. Dollar Tree is not just able to withstand the ups and downs of the market, but has proven to excel in both circumstances. The ability to adapt, to assess current situations and take the initiative, whether it be what is happening in the macro environment or regarding the wants and needs of its customers, is a strong suit for the Company leaving it poised for a bright future.

Dollar Tree’s continual growth and profitability has been rewarded by the stock market (see chart below). Over the 52-week period Dec. 2, 2010 to Dec. 2, 2011, Dollar Tree’s stock appreciated by 43.28% while the S&P 500 only yielded 1.73%. In spite of poor market conditions, including the collapse of the financial markets in 2008 and the recent depression of the markets from the Euro debt crisis, Dollar Tree flourished yielding 313.85% over the past 5 years. In this same period the S&P 500 was down nearly 11%. The competitor with the next closest return to Dollar Tree is Family Dollar gaining 127.73%, less than half that of Dollar Tree. As far as the rest of Dollar Tree’s competitors, the 99 Cents Only stores yielded 104.02%, Dollar General 75.71%, and Wal–Mart 39.17%.

2012 Update – Since December 7, 2011 when RGIP initially invested in Dollar Tree, the stock has yielded 32.26% as of June 22, 2012. The company announced Q1 2012 results May 17, 2012 with $1.00 per diluted share, representing a 22% increase over the first quarter of 2011 earnings of $0.82 per share. Comparable store sales increased 5.6% in the quarter and total sales grew 11.5% to $1.72 billion. Operating income increased by $26.3 million, operating margin was 10.9%, an increase of 40 basis points compared with the 10.5% operating margin in the first quarter last year, and net income increased 15% to $116.1 million. The company also announced May 29, 2012 a 2 for 1 stock split to go along with its $1.5 billion share repurchase program.
In preparation for the 2011-2012 academic year, the Roland George Investment Program started a Facebook group for students, faculty, and alums, to talk investments, announce job openings, and keep in touch. RGIP alums are automatically accepted to the group, and anyone else who would like to join can contact Dr. Ma directly for approval (e-mail: kcma@stetson.edu).

Kwan-chen Ma
RGIP, I don't want you be a news reporter, but an analyst or a commentator.
Like · Comment · Follow Post · October 28, 2011 at 12:49pm

Justin Hunter and 4 others like this.

Micah Ivey
Would it be correct to value the income portion of a stock by using the income generated by the stock in the PVA equation? If historically, investors pay 12 times earnings for a stock, then for the PVA equation you would use 12 for the time periods, and then the corresponding current annuity rates for the interest rate. So for example, if a company generates AT LEAST $2.00 a share (trying to value the income portion of a stock, not growth), t=12, and r=3.85% (current annuity rates for ~10yr), then the value of the income would be about $19.16. Is this an accurate valuation for this part of a stock?

Micah Ivey
Income doesn't necessarily mean earnings...probably would use fcf/divs
October 3, 2011 at 10:51pm · Like

Micah Ivey
I guess the interest rate could better reflect the risk involved with receiving the promised payments, but I just want to know if the concept is correct.
October 5, 2011 at 7:10pm · Like

Kwan-chen Ma
Also look at the section of PVGO which measures the PV of future growth opportunity, and add to the nongrowth component (income). In the syllabus
October 6, 2011 at 12:39am · Like

Jason Dark
using this method, you would be ignoring the income after the 12 year period. If you were only trying to value the first 12 periods, then I think this method would be correct noting your comment above regarding interest rates. The PVA equation has a definite time period because annuities eventually come to an end, but I think this is an incorrect assumption for a company with an indefinite life span as the value of a company is the present value of all future cash flows.
October 6, 2011 at 1:31am · Like · 31

Marla Jinxixing Yuan
Possible solutions to Greek debt crisis:
- Make banks to take bigger loss to lighten Greek debt loans
- Boost bailout funds

However, behind the solutions are huge uncertainties. Greece has been relying on the 110 billion Euros package of rescue loans, since last May. The debt sustainability has been proved through the deterioration of economy. Even with the second bailout package of 109 billion Euros, the sustainable debt problems cannot be solved. Besides, according to the European officials, although private bondholders renounced on about 21 percent of the money they are owed, Greece's debts would spiral to above 180 percent of economic output next year.
Tucker Donahue
So after a lot of reading I’ve come across a few articles talking about companies that list high amounts of FCF which attract investors, but with a second glance you could see that some of the cash flows come from what are being called “questionable sources”. Does anyone have any insight or opinions as to what a questionable source may be and just how much of a company’s FCF should it make up before you begin to second guess what the company is reporting? Just some food for thought, I think it could benefit everyone in their recommendations.

J.R. Weston
Might want to look at the financials, especially the income statement, are there extraordinary items they are getting money from, instead of generating operating income. Sometimes looking at the difference between comprehensive and net income can be helpful: What cash flows are sustainable and which ones aren’t? Could also just be a risky firm capitalizing them. I don’t really know for sure, but I’d like to hear some others’ input because I really like the cash flow valuation models.

Charlie Cook
We were talking about NFLX a couple of weeks ago... After 3Q earnings were released NFLX said that they lost 800,000 subscribers, and think that they will continue to lose customers. In a letter to shareholders CEO Reed Hastings admitted “We’ve hurt our hard-earned reputation, and stalled our domestic growth.” In after hours trading NFLX is down 28% to 85.75. Will the bad news ever end for NFLX? probably not

Erich Holland likes this.

Patrick Browning
I don’t know. However, I believe NFLX still has a sturdy business plan and the capabilities to foster growth if mgmt takes steps to slow the bleeding. They still have something a bit special.

Justin Hunter
At what point does it become attractive? This is a company that raised prices, kept a large part of their customer base, but is selling for 75% less than what it was at in mid July. The company is obviously not a 0. Equally obvious, it was not a $300.

Scott Boyd
Netfli announced a few weeks ago they would not follow through with Wixter, but in order to stop hemorrhaging customers they need a big play that will garner some good will. Otherwise, it could be long and mediocre road for the company.
Stephen Swofford
What are everyones thoughts on holding cash right now instead of ishares (IVV) tracking S&P 500?
We could later consider an index that is more inline with our investment policy statement...

Stephen Swofford Or bad idea given S&P is already so depressed?? I just don't see a good week ahead...
November 26, 2011 at 3:32pm via mobile · Like · 51

Tucker Donahue The ability to short would have been nice these past 7 days
November 26, 2011 at 4:24pm via mobile · Like · 51

Thomas Angley Next week is a big week for euro zone debt issuance. On the Monday and Wednesday Italy is trying to sell 16 billion in new debt, the recently downgraded Belgium has a bond issuance too. On December 1st France and Spain are both having bond sales. All of this just after the failed German bond auction last week... so yeah, i agree, maybe we should move into cash for a little bit
November 26, 2011 at 4:58pm · Unlike · 53

Thomas Angley In case things don't go well and the market sells off
November 26, 2011 at 4:59pm · Unlike · 52

Tucker Donahue and there's our Europe debt specialist Thomas Angley with our update.
November 26, 2011 at 5:07pm · Unlike · 53

Will Dorsey
Something to think about for next semester maybe... A hedge fund manager on Bloomberg TV was just explaining that one of the areas in which they are focusing right now is less than investment-grade bonds. This is something we have talked about in Professor Del Pezzo's class as well. There is a large disconnect between BBB and BB rated bonds as fair as YTM. Many of these less than investment-grade rated companies are in very good shape still and have the capabilities to easily meet maturities on these bonds. Because of Dodd-Frank and the Volcker Rule, many banks and institutions have not been able to invest in these bonds, so there is a great opportunity there for returns in a market with so much uncertainty.

Kwan-chen Ma, Thomas Angley and Tucker Donahue like this.

Brian Tolin Good luck with trying that. I know Del Pezzo and I had a discussion about it last year and ask Dr. Ma about it. I hope in the near future they will change up the policies as far as allowed investments.
December 1, 2011 at 6:19pm · Like

Kwan-chen Ma Brian, remember, it was the your class to decide which grades you wanted to invest as you setting up the IPS. In fact, we do own a lot of BBB-BB bonds now as a result. 2011 was a tough year for credit risk as spread widen (a word) so our portfolio has 6-7% return and the T-bond has over 15% total return (flight to quality for Europe).
December 1, 2011 at 10:50pm · Like
Guys, as frustrating as this morning/yesterdays post market is for NUAN. after reviewing the CC from yesterday the fundamentals are still strong. Nuance reported Q1 EPS of $0.34c, compared with analysts consensus estimate of $0.30c. The company’s revenue also came in lower than expected. Nuance said that its relationship with mobile customers has “become more... complex, which has resulted in delayed revenues in some cases.” Conversely, the company noted that its revenue rose 20% and its operating cash flow jumped 41% during the quarter, as a result of what it called strong performances by its health care, mobile and consumer, and imaging businesses. I think it is reasonable to believe that the stock will make a strong comeback in the coming quarters.

Kwan-chen Ma likes this.

Kwan-chen Ma Tuck, can you use the Warter’s model to estimate the fair % price drop due to the miss of earnings? The stock rose 5% yesterday and down 15% today.
February 10 at 6:17pm · Like

Kwan-chen Ma Tuck, you should never be emotional with your stock, rather with your pitches.
February 11 at 8:57am · Like

Tucker Donahue Nuance with a nice rebound today, closed up over 4%.
February 14 at 7:21pm · Like

Stephen Swofford So far 3 of the equities added to RGIP’s growth portfolio last semester have hit their sell limit. CCJ, PCP, NUS. Lets keep up the good work
The George Investment View is intended to be an educational document. Investment views belong to the authors and not Stetson University.

The Roland George Investments Program was created in 1980 by Sarah George to provide a unique experience for future investment professionals. This bequest was intended to honor her husband, Roland, who, after completing his education, began to ply his trade and promptly lost money. Mr. George decided that serious flaws were evident in the traditional educational process for future investors since by over-coming his formal education he was able to master investing and in short, accumulate wealth.

From this start, Mr. George formed the ideas of creating an investment curriculum that combined academic theory with real world experience. This dream came true when Sarah George funded the Roland George Investments Program. This program provides support for the applied investments program at Stetson University where students manage a portfolio valued at over $2.8 million dollars. Insights are gained through contact with professionals such as Robert Stovall, CFA, of Wood Asset Management, Inc., Sarasota, FL.

For information on the Roland George Investments Program contact us at 386-822-7442.