George Inve$tment View

Fall, 1995 Volume II, Number 1

"The international markets have been exciting, and difficult... Inside we provide a brief review of one of those funds..."

Welcome to the Fall, 1995 edition of the *George Inve$tment View*, the second year of this landmark effort. We offer comments on an array of pertinent investment topics, such as a review of both the Bullish and Bearish positions on the stock markets, some hopefully "hot" stock picks and an intriguing international investment idea.

The students in the George Investments Program develop their own investment goals, objectives and criteria for the approximately $1.5 million managed by the program participants. While your individual investment goal is likely to be unique, our goal is to earn a return that funds the acquisition of special systems and software for the program. The investment style of the program is what would generally be referred to as a "bottoms up" approach, which focuses on annual sales, profitability and the potential for growth of individual companies.

Over the past semester our analysis concluded that the market would become more selective and/or there may be a correction in the near future. For this reason, we have emphasized the search to find undervalued stocks that should perform well without a raging Bull market. In this edition of the *George Inve$tment View* we have included selected stocks that we feel will weather the correction and provide a profitable return.

In order to diversify our portfolio and take advantage of economies that have the potential to grow at a faster rate than the U.S., we invest in closed–end country funds. The international markets have been exciting and difficult this semester. Inside we provide a brief review of one of those funds that might provide an interesting opportunity due to changes in the economy now taking place.

We hope you will find the *George Inve$tment View* both informative and insightful. With the dynamic investment environment in which we live, our analysts will strive to find rewarding investment opportunities regardless of the state of the economy or the political environment.

by Frank Leismer and Jamil Myers

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Review of Market Action

The U.S. economy is rebounding to a 2–3% annual growth rate even as inflation dangers recede. Robert T. Perry, the San Francisco Federal Reserve Bank president, expects a fairly quick return to the kind of moderate, sustainable growth that the economy needs. Consumer demand reflects his prediction as it is growing at 2.5%, a moderate pace. Few would guess that the U.S. is in the 17th quarter of an economic recovery. In these 17 quarters, GDP has only grown 13.1%. Despite the stagnant numbers during the recovery, inflation is under more control than in any other recovery period. The credit must go to Alan Greenspan and the Federal Reserve which have kept real interest rates above their historical average in order to hold inflation at bay.

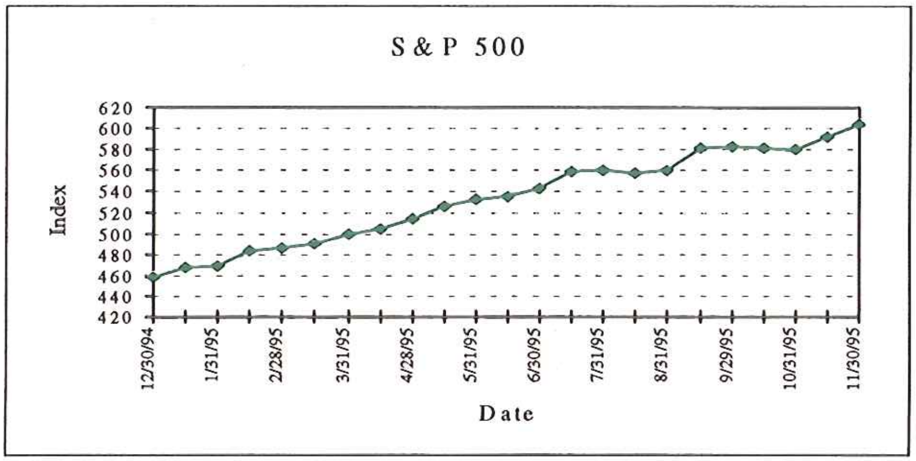
The Bond Market

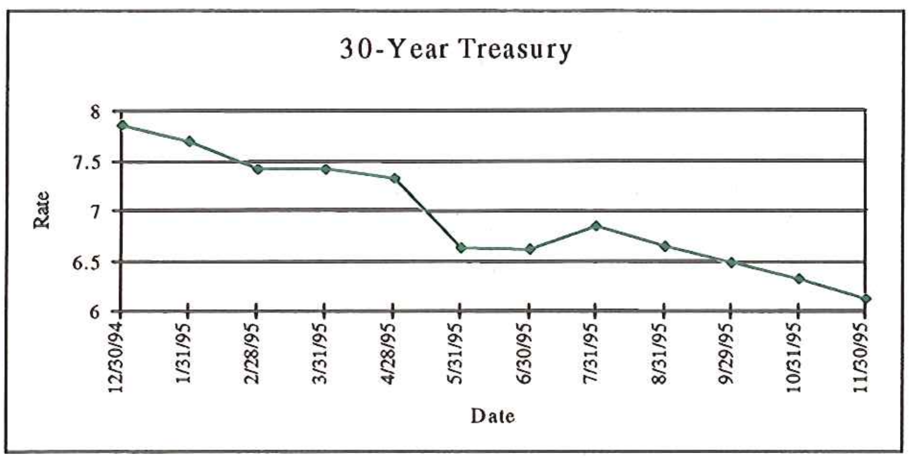
The benchmark thirty–year Treasury Bond has surprised most investors with the year–long rally sending the yield to near 6% and providing a near record total return. The major reason for the recent price surge was the movement in Washington toward a compromise deficit reduction package. Many investors are heartened by the fact that economic growth appears to remain moderate, while the inflation rate has not accelerated. A higher rate of inflation would erode returns from fixed income securities such as Treasury bonds.

The Stock Market

The Dow Jones Industrial Average has continued its strong growth trend by exceeding the 5100 mark. The S&P 500 stock index also topped its previous mark, and exceeds year ago levels by 35%. Meanwhile, the NASDAQ composite index, hampered by weakness in tech–nology shares and lingering weakness in some health care stocks, is off the all–time mark set earlier. Investors are moving away from economically sensitive issues and moving into areas such as soft–drink, food, oil and household products. This reflects a defensive strategy. With bonds yielding 6%, the stock market may present an alternative for investors.

by Robert Picard and Matt Helmling





Bullish on Stocks

Although the Dow Jones Industrial Average (DOW) soared to record levels that comfortably exceed the 5000 level, pessimism and concern over future performance of the stock market for the remainder of 1995 and 1996 continues to be popular among many analysts. Those who are pessimistic on the market say that the gains in the market we have seen in the previous months will soon be reversed. The DOW, ignoring these warnings, continued to rise above the 5000 mark. Some reaction to the recent highs is inevitable. All this pessimism sounds like "hog wash" to me!

We should continue an upward trend in the market for the remainder of 1995 and through most of 1996, making investments in the stock market promising for investors.

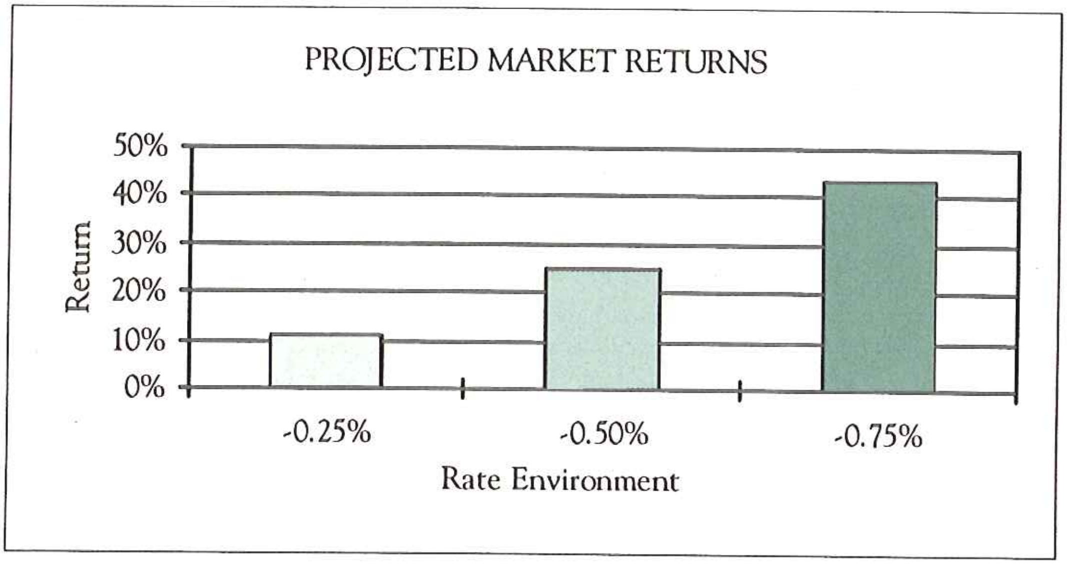
This year marks the fourth and final year of the Clinton administration. Since the election is rapidly approaching, the higher rate of gains that we have previously seen should continue. This will occur because during election years there is increased pressure on the Federal Reserve to lower interest rates.

As the graph below indicates, if the Federal Reserve lowers rates 50 basis points the return on the S&P will be 25% and if they lower rates 75 basis points the return will be slightly over 43%.

Since it seems inevitable that rates drop, how could you not love the market with the possibility of returns like these.

The main reason that the Federal Reserve will lower rates is that they do not want to upset any incumbents, so in a sense they will be "Bullied" into lower rates to insure peace within the government or perhaps to make the economy look better.

by Kim Devore and Kerry Durney



Bearish on Stocks

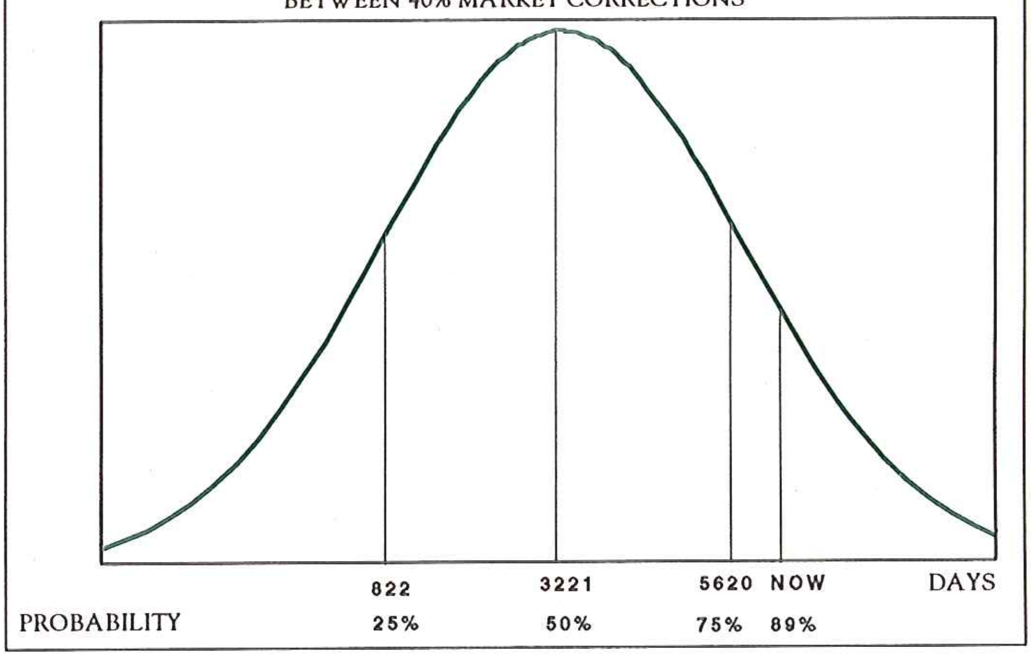
If you put your ear to the "Wall", you may hear the sounds of the not too distant Bear. Although the Bulls have had a strong showing with the Dow Jones Industrial Average (DJIA) growing over 30%, some analysts think that this "strength" is hiding the true health of the market. There are strong indications that the Bears are out there, and not going to leave before raiding the picnic basket.

Several indicators are raising doubt among market analysts as to the true strength in the "late stage" of this Bull run. For instance, P/E ratios are too high, if the above trend status of earnings is considered, leaving the market overpriced and overbought. Also, insider trading has caused much concern for investors. In 1995, more than 55% of the insider trades have been sells. More importantly perhaps, the breadth of the market has been extremely narrow. Declining issues have frequently outnumbered the advances, leaving most of this upward momentum in the hands of a few stocks. While no single indicator mandates a Bear market, the culmination gives clear symptoms of a weak market.

How much will the market correct? Most Bears feel comfortable predicting a minor correction in the DJIA of 6–12%. More radical Bears have constructed models predicting a much more severe correction as shown in the graph here. According to this normal distribution (of days since the last market decline of 40% or more), there is an 89% likelihood that a 40% correction should have already occurred. As the chance of a 40% correction continues to rise, now would be a good time to move your portfolio into "value" stocks, or something less risky such as Treasury Bills. Remember to do your homework and do not take these signs too lightly. Be aware. The Bears are coming out!

by Steve Tice

HISTORICAL PROBABILITY DISTRIBUTION OF LENGTH OF TIME BETWEEN 40% MARKET CORRECTIONS



STETSON UNIVERSITY

TETRA TECH, INC. (WATR)

Since 1966, Tetra Tech, Inc., a California based environmental engineering firm, has provided innovative environmental engineering and consulting services to both the government and private industry with its main focus on water pollution problems. WATR currently concentrates on five primary areas:

- Surface Water
- Ground Water
- Waste Management
- Nuclear Environment
- Resource Management

In 1994, WATR was recognized by *Forbes* as one of the "200 Best Small Companies in America". Out of the 200 companies, WATR ranked 7th, placing them as the top environmental firm. Also, in April of 1995, Equities Magazine ranked WATR number 35 in their list of "The Most Profitable NASDAQ Companies."

STOCK DATA

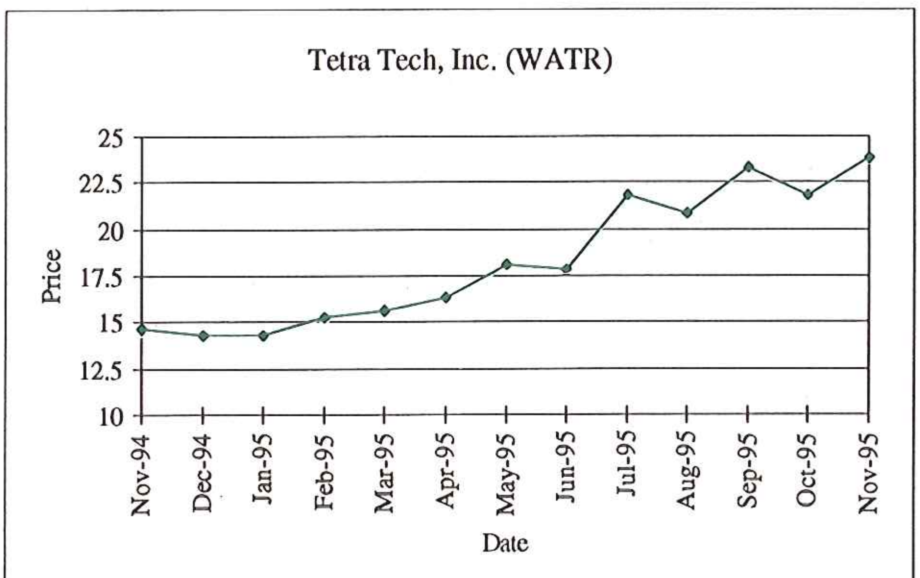
1996E EPS:	$ 0.82
Current Price:	$22.75
P/E Ratio:	27x
Dividend:	N/A
Return On Equity:	17%
Annual Growth Rate:	20%

Of recent, the environmental industry has been lagging due to Congressional indecision. As a result of this, customers of the industry are currently waiting to ascertain the extent to which they will have to comply with government regulations concerning pollution control. A continuing nation wide environmental concern, however, is likely to aid in applying pressure to Congress and industry, resulting in future growth.

WATR has had sales growth in the past five years of approximately 20%, annualized. Net income has followed at an impressive rate of 90%, annualized. Earnings per share for WATR have been strong, even after the effect of a 5–for–4 stock split.

In 1995, earnings are estimated to be $0.68, and the forecast for 1996 is $0.82. Due to WATR's increase of earnings per share for 1995 and a forecasted increase for 1996, the Price/Earnings ratio will likely decrease, making the stock actively priced.

WATR has followed the consolidation trends within the industry. In 1993 they acquired Simons, Li & Associates, a civil–engineering firm in advanced water resources management. In 1994, they acquired Simon Hydro–Search Inc., which is another water resources management firm. So far in 1995, WATR acquired PRC Environmental Management Inc., which has annual revenues of $100 million and a contract backlog of $500 million.



As Americans' concern for the environment continues and our resources decrease, a company such as WATR, which holds a Herculean position within the environmental industry, has strong potential for future growth. We feel that the addition of Tetra Tech, Inc., to any portfolio, will certainly be an *unsoiled* venture.

by Steven Allender and Brian Trimyer

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Analytical Surveys, Inc. (ANLT)

Analytical Surveys, Inc. is an innovative provider of digital mapping services to municipal, utility, and commercial customers nationwide. The company uses a variety of advanced technologies to convert maps and aerial photography into digital form and then adds on related data to create fully integrated Geographic Information Systems. These systems are easily accessed, analyzed and updated on computers by end users in a broad range of decision making processes.

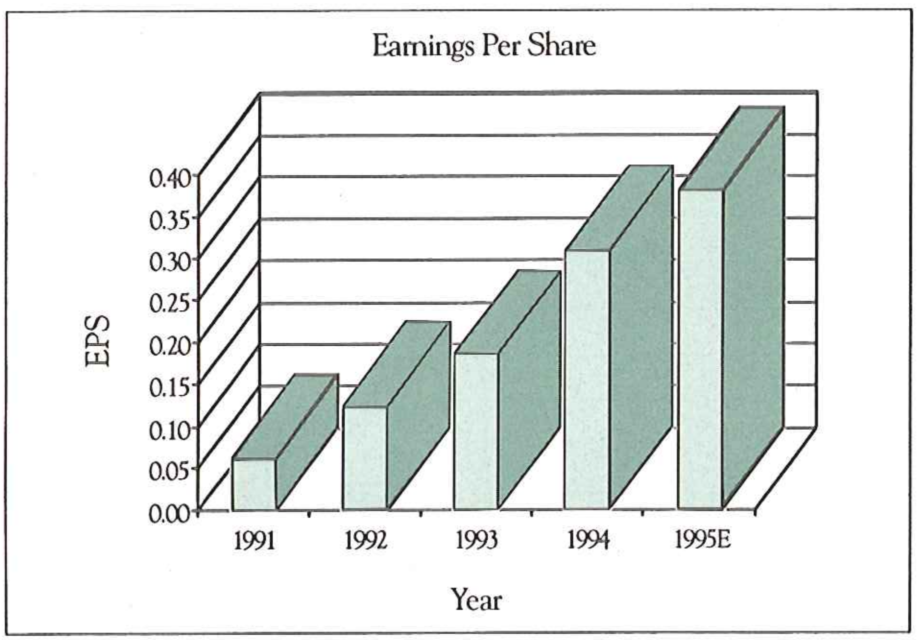
The Geographic Information Systems industry is still in its infancy and is predicted to grow at 20% for the foreseeable future. Analytical Surveys is the leading producer in this specialized product and service industry. Not only have more customers begun to convert their paper maps into digital maps, but the firm's clients are now returning for add-on and updating services. 1995 has been an exceptional year for the company. The firm has received contract awards in excess of $4.1 million . Further, they have a working backlog of $11.9 million, ensuring strong cash flow well into 1996.

Stock Data	
1996E EPS:	$0.44
Current Price:	$7.63
P/E Ratio:	17x
Dividend:	N/A
Return On Equity:	19%
Annual Growth Rate:	23%

ANLT , based in Colorado, is an exciting investment opportunity. Sales for the company have demonstrated solid growth for the past five years. Estimates for 1995 are $13 million, up 16% from last year and 43% from 1993. Earnings for ANLT have also demonstrated consistent growth. Earnings per share for the year are estimated to be $.37 up from $.30 in 1994 and $.18 in 1993. Third quarter earnings for 1995 had growth of 30%. In comparing quarterly earnings to those of the previous year, ANLT has shown improved earnings in fifteen of the last sixteen quarters.

The stock is now trading under $8.00 per share. The stock currently has little or no analyst coverage. As the firm continues to excel, analysts will no doubt take notice of ANLT's performance. Once this occurs, the share price could soar. In a market that may be overpriced, many investors are seeking companies with solid fundamentals and growth potential for the future. As the leader in an industry still in its infancy, ANLT is poised to offer investors impressive future gains.

by Matthew Miller and Charles Bryant



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The timetable for inclusion in the European Customs Union by Turkey was set 25 years ago. On March 6, 1995 the final terms were settled between Turkey and the governments of all 15 EU members, and the Customs Union should be put into force on January 1, 1996. All it needs now is the European Parliament's approval on December 14, 1995. Turkey is already the EU's 10th biggest trading partner. For 22 years it has had access to the European Market for all industrial goods and processed foods. All 15 EU members agree that the customs union is in the European Union's interest.

Turkey is linked in language to central Asia and the Caucusus. It is one of the few democracies in the Moslem world, and the only avowedly secular one. The entry of this country of sixty million inhabitants within the European Community seems to be the most secure way to create an area of stability between the Balkans, the Caucasus and the Middle East: "The main areas of instability have shifted from East to the South East of the Continent. Thus the role of our country has accrued" said Turkish Ambassador in Paris, Tansug Bleda.

The industrial capacity of Turkey is well forged. Similar to family enterprises of Northern Italy, they have been successfully dealing with foreign competition for 15 years. The Foundation for Turkey's Economic Development (IKV) estimates that 80% of Turkish industries are capable of confronting international competition, particularly in the sectors of textile, household appliances, cement, and automotive.

The rapid increase of foreign investment for past years will surely contribute to the country's technological development — more than 2,000 enterprises, of which 400 are Germans, are installed in Turkey.

Due to tight monetary and fiscal policy prescribed by the International Monetary Fund, interest rates rate are high. Furthermore, as a characteristic of an emerging market, the currency (Turkish Lira) remains volatile. Stock market transactions have reached a daily rate of $250 million.

The Turkish Investment Fund seeks long–term capital appreciation. Normally, it invests at least 80% of assets in equity securities of Turkish companies. The balance can be in dollar and lira–denominated debt securities. The Fund gained 43.4 percent for the first six months of 1995. In the first and second quarter, it outperformed the Morgan Stanley Turkey Index.

by Giliane Vital–Herne

The Key Numbers

Population	61.2 million
GNP	$169 billion
Unemployment	12.6% (end of 1994)
Inflation Rate	125.5%

Advantageous Commercial Position

	Import	Export
Western Europe	$14.6 billion 49.6%	$7.85 billion 51.1%
Eastern Europe	$2.26 billion 7.7%	$1.04 billion 6.8%
Middle-East	$2.8 billion 9.5%	$2 billion 13%

Comments

The Roland George Investments Program has existed since 1980 due to the generous gifts of Sarah George. Her husband, for whom the program is named, believed that students would benefit from the practical application of their business education, and this has been the experience at Stetson University. Concepts learned in other courses seem to become more clear after their use in a practical exercise.

In managing a portfolio in excess of $1.5 million the analysts, as we refer to the students, attempt to function as an investment management firm. A complete investment policy has been established by them and is revised as needed. Individual security selections are researched using both fundamental tools, Compustat and others, and technical methods, using Windows on Wall Street for example. Then the analysts must defend their recommendations to the other analysts and a Committee, dominated by students that functions much as the senior strategy group of any investment management firm.

Equity security selection is a two–step process composed of a set of investment criteria to delineate the investment style, and a pricing discipline for determining the relative merits of securities. The investment criteria results in a style that might be described as a small capitalization, established growth approach. Companies are small in size but have demonstrated an ability to earn profits and build a balance sheet. For example, 74% of the stocks meeting the investment criteria, using Compustat as a data base, would have outperformed the S&P 500 in 1994.

To discuss the merits of the Roland George Investments Program call Dr. James Mallett at 904–822–7442.

The *George Inve$tment View* is intended to be an educational document. Investment views belong to the authors and not Stetson University.

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