

# George Inve\$tmnt View

Fall, 1996

Volume 3, Number 1

Welcome to the Fall 1996, edition of the *George Inve\$tmnt View*. Within this semester's publication you will learn a few of the many investment secrets that go into the management of a \$1.6 million endowment fund. Students enrolled in the Roland George Investments Program, along with the expertise of Ned Schmidt, our visiting George professor of applied investments, actively manage a portfolio containing income and growth equities as well as fixed income securities. This Fall our focus has been mainly on the selection of stocks to add to or remove from our portfolio.

The George Investments Institute provides students with state of the art investment analysis technology. Currently available to the students is the new BRIDGE system, Computat, Windows on Wallstreet, and the on-line service SIGNAL.

Such technology enables the students to obtain current key information which can be applied when selecting securities to buy and/or sell. It also allows students to fine-tune their researching techniques and to gain practical experience for investing in the bond and stock markets.

How does the Roland George Investments Program work? There are certain security selection criteria and pricing disciplines, established each Fall, that must be met and applied to the security at hand. If the class approves the recommendation of the students proposing the security, it moves to the Board of Trustees for a final vote. If the class does in fact approve the proposal, the Board will, at least the majority of the time, approve the recommendation as well.

We implemented a new policy which allows the board

to vote without the inconvenience of an entire Board meeting. Under this policy each Board member receives a copy of the proposed security and, in total confidentiality, votes his or her approval or disapproval. The majority opinion decides whether we buy, sell, or reject the security at hand.

Recently, we invested in about six new stocks, all of which are expected to help diversify our portfolio and to provide us with healthy returns. Currently, we are exploring the purchase of shares in the German fund as the newest addition. With reunification, the German economy has begun a new growth cycle and we believe this will be a lucrative investment in the long run.

by Todd Pasquarello  
and James Campbell

## EDITORIAL STAFF

### Editors:

Todd Pasquarello and James Campbell

### Director:

James E. Mallett, Ph.D.  
George Investments Institute  
904/822-7442

### Advisor:

Ned W. Schmidt, CFA, CEBS  
Visiting Professor of Applied  
Investments

### Publications Specialist:

Lynn Thompson

## Table of Contents

<i>Introduction</i> .....	1
<i>Review of Market Action</i> .....	2
<i>Bullish on Stocks</i> .....	3
<i>Bearish on Stocks</i> .....	4
<i>Tommy Hilfiger Corp. (IOM)</i> 5	
<i>Pfizer, Inc. (PFE)</i> .....	6
<i>Bonds</i> .....	7
<i>Comments &amp; Disclaimer</i> .....	8

STETSON  
UNIVERSITY



## REVIEW OF MARKET ACTION

Since the beginning of the year, real gross domestic product has grown at an annual rate of 3.4%. This, coupled with a modestly low inflation rate hovering around 3.0%, led the credit and equity markets toward continued stellar performance. The nirvana-like quality of low inflation and steady growth do not hint toward overheating or recession. Current unemployment is at 5.2%, a number signaling continued health of the U.S. economy.

During the latest Federal Reserve meetings, Alan Greenspan did not raise interest rates, a likely result considering this was an election year. These low interest rates have helped the stock market while at the same time keeping the bond market stable. The U.S. dollar has also been strengthening steadily over the past year.

### THE BOND MARKET

Since the beginning of the year, the yields on long-term and short-term Treasury bonds have had a favorable trend. The situation is directly attributed to the low interest rate as dictated by Fed policy. The Federal funds rate has remained around 5.25% since early this year. In the new year, assuming GDP continues at a strong pace, we expect the Fed to increase the federal funds rate 25 basis points, as the economy has little reason to falter.

We still consider bonds to be a good shield against a stock market decline which has been

expected ever since the Dow Jones Industrial Average (DIJA) reached 3600. Short-term interest rates are relatively high when compared to the inflation rate; therefore, we view Treasury Bills as a timely investment.

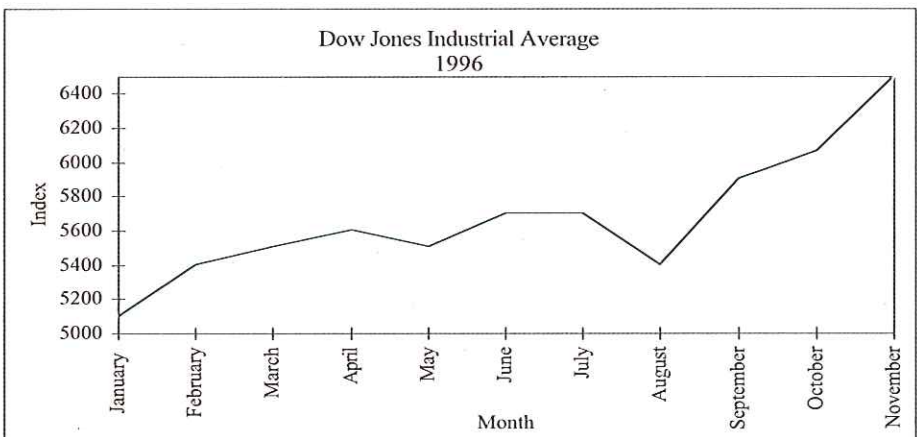
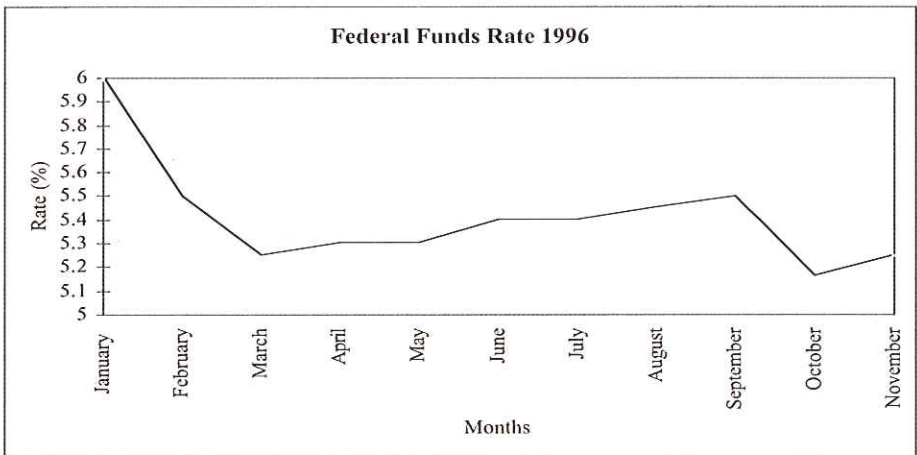
### THE STOCK MARKET

The stock market has broken a major psychological barrier by passing 6000 without stopping. Further, the DIJA has increased 27% since the beginning of the year. The NASDAQ index has also increased 20% in that period of

time. These increases are remarkable considering a slight correction during the summer months which mainly affected the technology sector.

A vast amount of capital continues to pour into mutual funds as investors expect continued above average returns. Assuming there are no negative earnings surprises this quarter, we expect the DJIA to continue rising. Since this is one of the longest bull markets in history, investors should remain cautious as a correction may be looming in the near future.

by Steven Jonas  
and Brian Caldarelli



STETSON  
UNIVERSITY

## BULLISH ON STOCKS

"Things are different this time." Anytime these words emanate from an economic expert one's first reaction should be to check to make certain your wallet is still there. Most often things are not all that different, and the dismal scientist's explanation of this perceived new world order will not only have a short shelf-life, but be absolutely wrong as well. Why do we make this observation? Well, your intrepid scribes here contend that things are ... "altered" this time.

Certainly stock prices are still swayed by earnings projections for next quarter, interest rate trends and year-over-year comparisons. Such factors will remain important determinants of security prices. However, if one is to peer into the crystal ball and gaze at the "big picture," an additional factor can be discerned - liquidity.

The story of the origins of this new factor go back to the end of the Second World War. Fresh from their big adventures

came a flood of GIs returning to the States. Once home GI Joe looked into the eyes of his lovely wife Rosy-the-Riveter and said, "Dear, let's go make some hippies."

Fifty years later those baby boomers are now reaching their prime earning years. Their President turned 50 last year and will remain at the same address for another four years. Eighty million so-called boomers were born between 1946 and 1964. Now with the kids flying the nest and home equities increasing, the boomers are looking to stash enough cash to make their emeritus years golden.

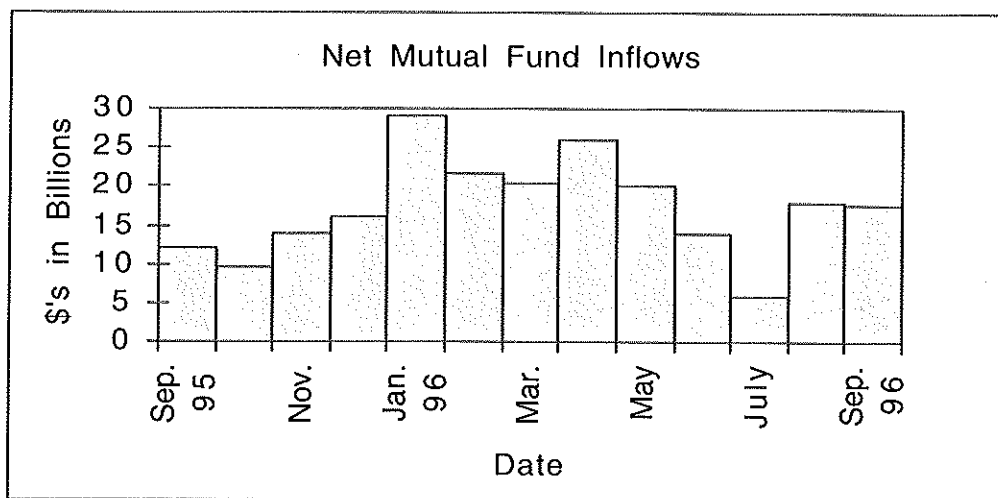
And it is these now responsible, former flower children who are bullish on stocks. Mutual funds appear to be their investment vehicle of choice, as new money has been flowing into the coffers at record rates throughout this decade. Fund managers, flush with new cash, are willing (or are forced) to pay prices that by historical

fundamental standards are rich.

Nonetheless, the liquidity provided by the increased accumulations of savings by the baby boomers will provide an upward bias for stock prices through the next several economic cycles. So are things different this time? Perhaps not. When demand increases faster than supply, prices rise (and that is a law never ever violated ... most of the time).

Now what will happen when the boomers become seniors and begin to cash out stocks in favor of Winnebagos and Harleys, hip replacements and dental bridges, and gifts to spoil the grandkids? Will the long-term bull market that began in either the early 1970's or early 1980's (depending on who is keeping score) go out with a bang rather than a whimper? These questions we leave for future George students to contemplate.

by Jimmy Cannon  
and Tom Jackson



Source: Investment Company Institute

**STETSON**  
UNIVERSITY

## BEARISH ON STOCKS

In making investment decisions, there are many factors which must be taken into consideration. The market's volatility is directly related to conditions that are economic, political, international and social. As times change and these factors vary, investors must adjust their strategies when speculating in the market.

In the two decades proceeding World War II, Americans found themselves living in the wealthiest nation in the world. Many new industries were emerging as a result of advanced technologies developed during the war. These things, coupled with the Korean and Vietnam wars, led to a long and prosperous boom in the United States. Investors felt the benefits of these factors through significant returns and limited risk.

Although we have experienced an extensive period of growth in a bull market that

has provided a Dow Jones Industrial Average of over 6000, this trend is sure to come to an end soon. There is a new era ahead for investors. In this new era it will be far more difficult to invest successfully and either a different investment policy will be required or those of the past will need to be followed more strictly.

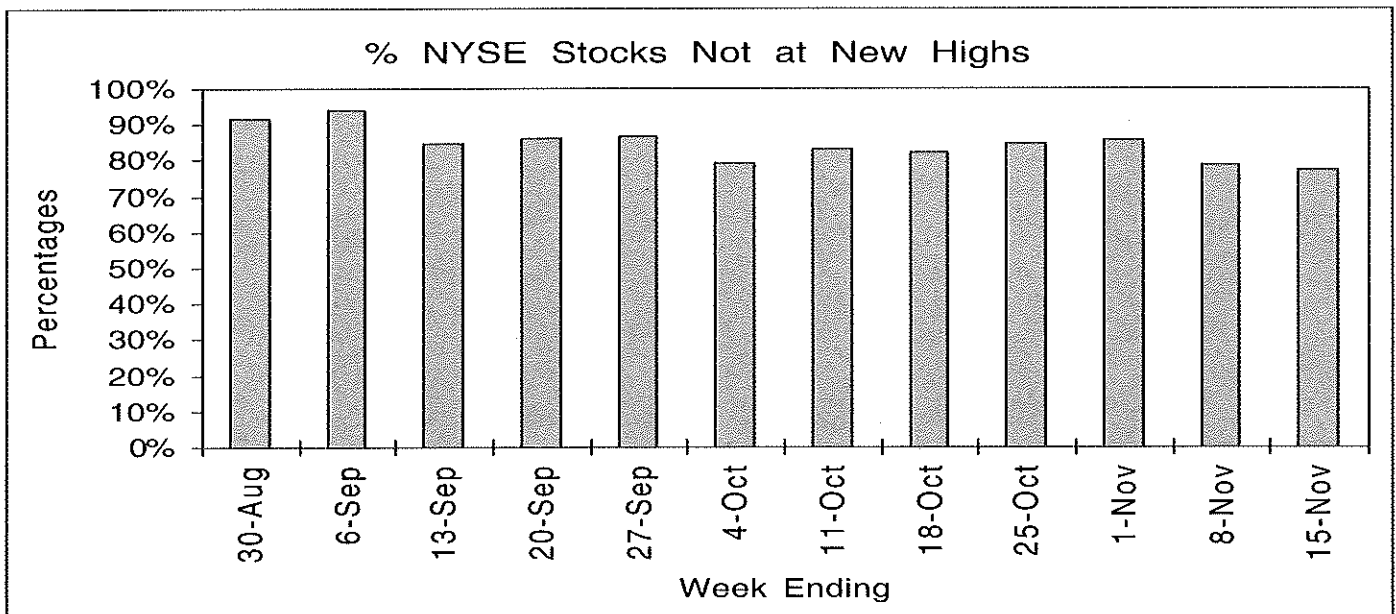
The economic and political concerns of the early 1960's have become the reality of the late 1990's. A combination of the rapid deterioration of our nation as a leader in the non-communist world and the absence of leadership in the other capitalist nations had become serious problems for our country and will adversely affect investors in the coming future. Investors have turned to foreign markets where they can receive higher returns. The optimistic investors that are staying in the market out of either the greed or fear that

detains them there will only increase their losses when the market turns south.

The days of buying stocks without extensive research are coming to an end. It will not be too far in the future when investors' fear will force them to pull out of the market, adding even more volatility to an already increased market risk. As the graph below indicates, on average only about 15% of the stocks listed on the New York Stock Exchange were at new highs from August through November.

Speculators as well as investors will soon need to choose their stocks based on the company's market share, as well as other quantitative information, instead of just putting their savings in any stock that ends in the word "tech".

by Mindy Giebels  
and Drew Rasmussen



**STETSON**  
UNIVERSITY

## TOMMY HILFIGER CORPORATION (TOM)

The Tommy Hilfiger Corporation designs, produces, and markets men's and boys' casual and sportswear clothing. The company's classic merchandise mix consists of men's outerwear, jackets, pants, and shirts. The famous shirts alone account for 69% of the mix. The boys' wear collection, which accounts for 11% of the mix, was started in June of 1994. Starting in the fall of 1996, Tommy Hilfiger launched its new line of women's casual clothing, along with a new women's fragrance from Estee Lauder.

Tommy Hilfiger competes with brands such as Nautica, Ralph Lauren Polo, and Claiborne. The clothes are distributed largely through in-store shops within department stores such as Macy's, Bloomingdales, and Lord & Taylor. They have licensing agreements with Oxford Industries, Hart Schaffner & Marx, Jockey, Mountain High Hosiery, and Trafalger to manufacture clothing under the Tommy Hilfiger name. Currently they have 866 in-store men's wear shops and 872 sales areas for boys' wear.

The company's success has been achieved through management's ability to promote the "Tommy" trademark through a variety of licensing arrangements. This Fall women's casual wear arrived in 425 stores and income is expected to increase from licensing the new line. New ventures expected in the near future include the introduction of a bridge line which will be

STOCK DATA	
Current Price:	\$54.63
1997 E EPS:	\$ 2.50
P/E Ratio:	22x
Dividend:	N/A
Return On Equity:	20.9%
Annual Growth Rate:	45.3%

dependent upon the women's casual clothing success.

Tommy's financial figures show definite signs of growth. Earnings per share over the past five years have been growing at a rate of 43%, and EPS are expected to grow to \$3.95 by the year 2000. Sales as well are expected to continue growing and should reach \$28.75 per share by the year 2000 compared to \$12.96 sales per share in 1995. Cash flow per share is currently \$2.03, with expected continuing growth well into the next century. Estimates are for cash flow per share to reach \$4.70. These figures suggest

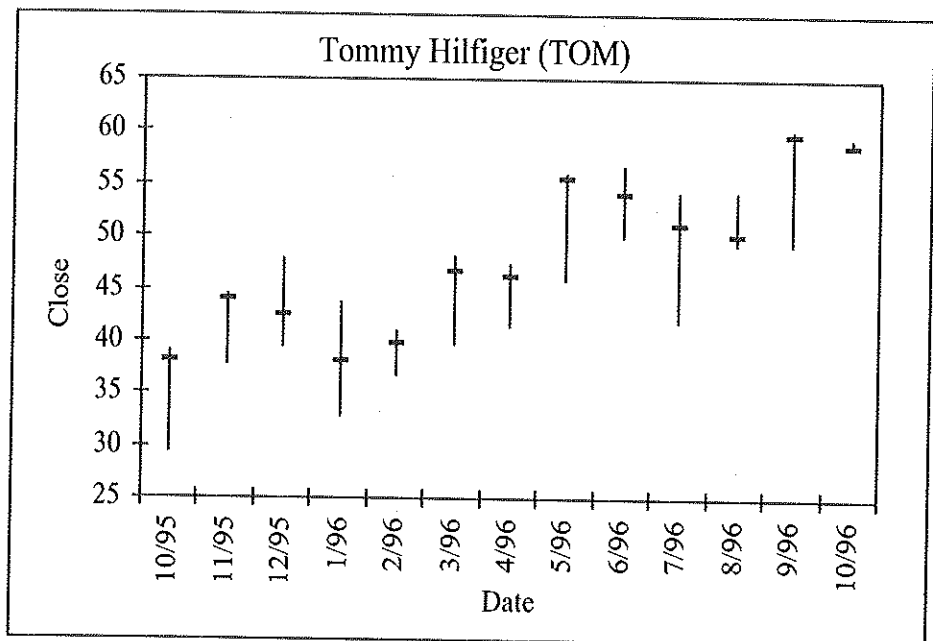
that the Tommy name will not lose its luster well into the future.

This growth oriented stock is suited for the aggressive investor. With the uncertain conditions of the retail industry in the past, Tommy Hilfiger has proven to withstand the cyclical trends that have occurred. However, risk is evident, due to the instability of the apparel industry. Although predicted estimates show rapid growth, the risk averse investor may want to seek a more stable investment.

*by Christen Rano  
and Les Williams*

**For more information, contact:**

*Joel Horowitz,  
Chief Executive Officer  
(212)840-8888*



**STETSON**  
UNIVERSITY

## PFIZER, INC. (PFE)

The delivery of health care, particularly in the United States, is undergoing a rapid and fundamental transformation. The almost unrelenting growth of health care expenditures in recent decades is a function of many factors – rising incomes, aging population, new sophisticated technologies, the spread of public and private health insurance, and rising patient and physician expectations. During the 1980's, the increasing burden on corporations and governments stimulated a global search for new policies and approaches to health care delivery.

For Pfizer and the entire research-based medical products industry, such change brings risk and also offers opportunities.

Pfizer (PFE) is the fifth largest research based pharmaceutical manufacturer (71% of sales) and a leader in anti-infectives, cardiovascular, anti-inflammatory, central nervous system and anti-diabetes agents. The company's other major health care businesses are hospital products (14%),

STOCK DATA	
Current Price:	\$84
1996 E EPS:	\$3.00
P/E Ratio:	26x
Dividend:	\$1.23
Return on Equity:	29%
Annual Growth Rate:	15%

consumer products (5%), and animal health care (10%). International sales account for 50% of revenues.

Pfizer has accelerated earnings growth as a result of the successful performance of major new products and is clearly the sector's earnings growth leader with expected 18% EPS improvement through 1998. Pfizer also has one of, if not the richest, research pipelines of any major pharmaceutical company. We believe that the street currently underestimates the great strength of the company's existing and future products and that the market will increasingly recognize PFE's potential for growth. This growth potential is further evidenced by nine major new drug products likely to be launched in 1997 through 1999.

The momentum behind Pfizer's growth today is the

result of strategic decisions made over the past few years: to focus on health care; to seek greater efficiency and productivity; to build their global business; to increase investment in R&D; and to meet patients' unmet medical needs.

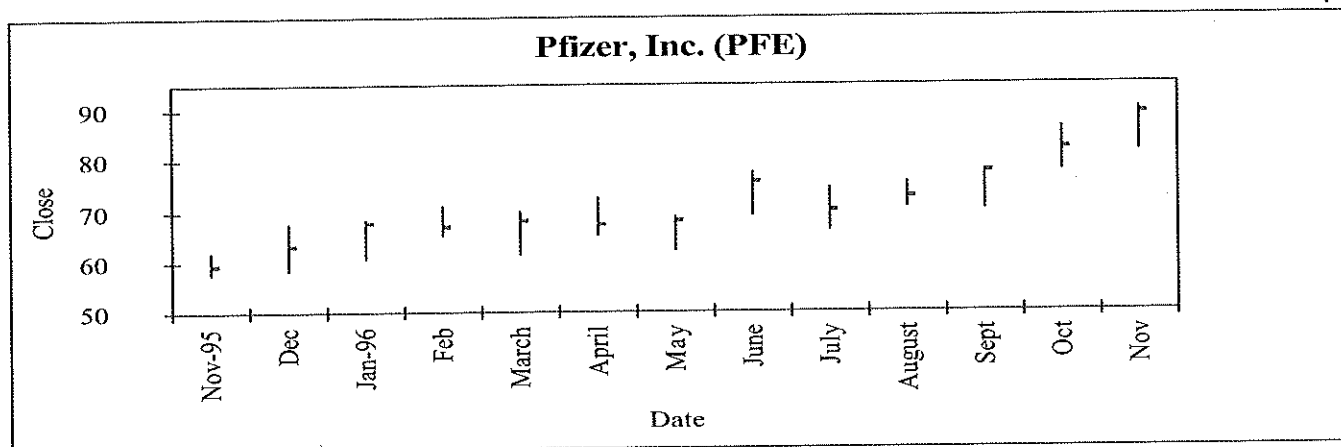
Pfizer remains "comfortable" with market expectations of a 1996 full-year earnings per share in the range of \$2.95 to \$3.00 according to CFO David Shedlaz. He also said that he is pleased with the company's "solid and balanced performance" throughout the three quarters which produced a 12% lift in sales and a 23% rise in net income.

In September of 1996, Pfizer approved a repurchase of up to two million shares of common stock over the next two years.

by *Adrian Warfield*  
and *Derek Tompkins*

**For more information, contact:**

*W. C. Steere, Jr.*  
*Chairman and*  
*Chief Executive Officer*  
*(212) 573-2323*



**STETSON**  
UNIVERSITY



## BONDS

### *Risk-Free Returns*

Why invest in high-risk stocks in a market that is overvalued when there are riskless Treasuries offering a 5.5 yield in two years? Most investors today would laugh you off the street with the mention of bond investing - and with just cause. Indeed, for the past three years Treasuries have been returning a minuscule 4% on average annually. This, in relation to a hefty 15% yearly return in the Standard & Poor's Stock Index, justifies investors' actions. But have investors been caught in a fish net of euphoria? With an average of \$20 billion a month pouring into stock funds this year compared to only a billion for bond and income funds, it's no wonder the stock market has risen to new heights. What will be the dreadful outcome when investors realize that prices in the stock market cannot sustain an average price/earnings multiple of 19.7x, which historically plateaus around 13.5?

Judging from the inverse of price/earnings, the earnings/price ratio measures the "earnings yield" or simply the earnings a firm can supply per dollar invested in its stock. Currently this figure is gazing at 5.1 or 1.8 percentage points lower than the 30-year Treasury bond. According to Standard and Poor's, this gap is the highest since all post-1945 stock market peaks, with the exception of July 1990 and August 1987. Likewise, the ratio of the ten-year Treasury bond yield relative to the average dividend yield on stocks weighs in at approximately 3 times the

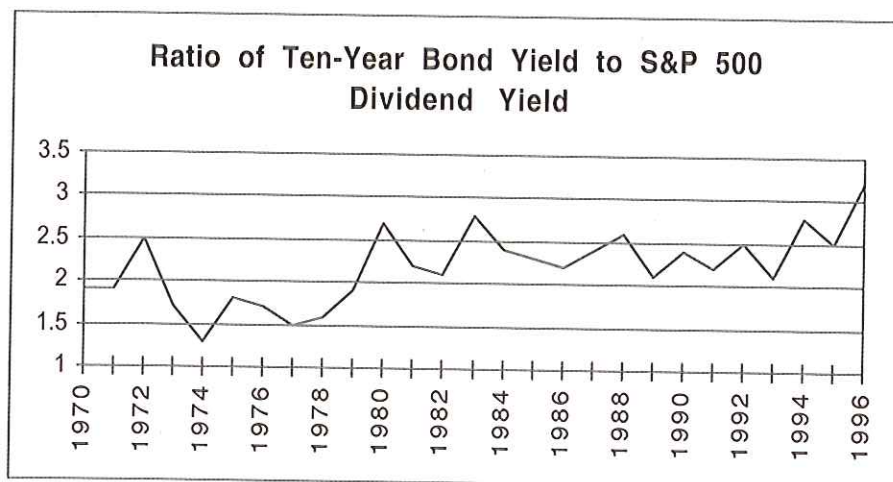
dividend yield (see chart). The last time the ratio was this high was in 1987 prior to the crash. Therefore, armed with this picture, which market will "correct" itself to effectively close the gap - an overvalued stock market or an undervalued bond market? Either way, investing in short-term maturity bonds equate into a win/win situation. Did we forget to mention this investment was risk free?

While bond investment in the U.S. has been relatively flat for 1996, the top performing bond mutual fund yielded 20% in the first three quarters of 1996 by investing in emerging markets. This, and a measured 30% return for the trailing 12 months, abetted the trade-off between losses from the 1994-1995 Mexican peso crisis. Furthermore, the expectations of the Economic and Monetary Union in Europe have already translated into lower interest rates overseas. Assuming the

Maastricht Agreement of 1990 is fulfilled by the year 2000, the European countries bound by this agreement are required to lower their budget deficits to 3% or less of total GDP and no more than 60% of GDP in governmental debt. As countries like France and Germany pay off their debt (no longer allowed to deflate debt amounts by inflating the currency) and budget deficits are offset with an optimal combination of lower spending and higher taxes, interest rates in these countries have already adjusted to lower levels, causing bond price appreciation.

Finally, as European countries control inflation by cutting debt levels, foreign bonds are yet another lucrative market to dabble in. This factor, when viewed in aggregate with risk levels in the U.S. stock market, causes bonds to yield a moderate to high return with no risk.

*by Karl Kletzing  
and Thomas Wilkins*



## ADVISOR'S COMMENTS

My daughters once asked why they make some movies in black and white rather than color. For the same reason in my first job out of college as an investment analyst they provided the instructions on how to run a regression analysis in nine minutes on a large Monroe "calculator". Today, the students in the Roland George Investments Program surf Compustat with ease on Gateway 2000's containing the awesome Pentium chip. One wonders what will make that system the "black and white set" of the 1990's.

The challenge for the Roland George Investments Program, as it is for any other education program, is not providing the technology of the day but keeping up with the ability of today's students to utilize technology. We are working with an Academy of Finance program at a

local high school and they plan to install Windows On Wall Street so the students can get a better understanding of how securities trade. While those of us that remember punch cards know we are aging, those that think they are on the cutting edge on the "net" will be made obsolete by the high school students of the day.

Yet we find that the "tools of the ages" continue to have meaning as the technology of today simply allows the tools to be applied faster. The value of a stock is still the present value of the future stream of dividends discounted at the appropriate discount rate. In an era when the stock market has lost all contact with rational valuation we find from James P. O'Shaughnessy's What Works on Wall Street that a value approach remains a timeless and superior form of security

selection.

Bringing together the technology of today with the timeless tools is an interesting and rewarding task for those of us at Stetson University. Fortunately, the students do all the hard work – They think!

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

**STETSON**  
UNIVERSITY

School of Business Administration  
George Investments Institute  
421 N. Woodland Blvd., Unit 8398  
DeLand, FL 32720-3774



NON PROFIT ORG.  
U.S. POSTAGE  
**PAID**  
PERMIT NO. 455