George Inve$tment View

Spring, 1996 Volume 2, Number 2

Welcome to the Spring 1996 edition of the *George Inve$tment View*. This newsletter was introduced about two years ago and has provided investors with many productive ideas. Our analysts provide articles on many different investment topics that include both Bullish and Bearish positions on the stock market. We also look into the bond market as well as give some stock picks that we believe will produce exciting returns.

The Roland George Investments Program is set up so that the class decides on which criteria will be most important for picking stocks and bonds. This information is then presented to the trustees for approval. With the expertise of Ned Schmidt and other professors for guidance, we are able to pick extremely profitable investments. Our goal is to earn profits that will pay for the program as well as increase overall wealth of the portfolio.

Working with our advisor, over the past year, we have been able to achieve our goals. Ned has directed our team of analysts to create incredible profits. As part of this newsletter, we share outstanding stock picks that could possibly create wealth for everyone who sees our selections. Throughout the existence of this newsletter there have been numerous stock picks that have done extremely well. Many money managers ask how we do so well, but when you have professors like Ned Schmidt and our other professors success is easily accomplished. We recommend that everyone pay serious attention to our picks since we have done extensive research on these companies and we feel that they are undervalued at this time.

Advisor's Comment: Matt and Rob will likely be extremely successful in marketing their firm's investment services.

by Matt Helmling and Rob Picard

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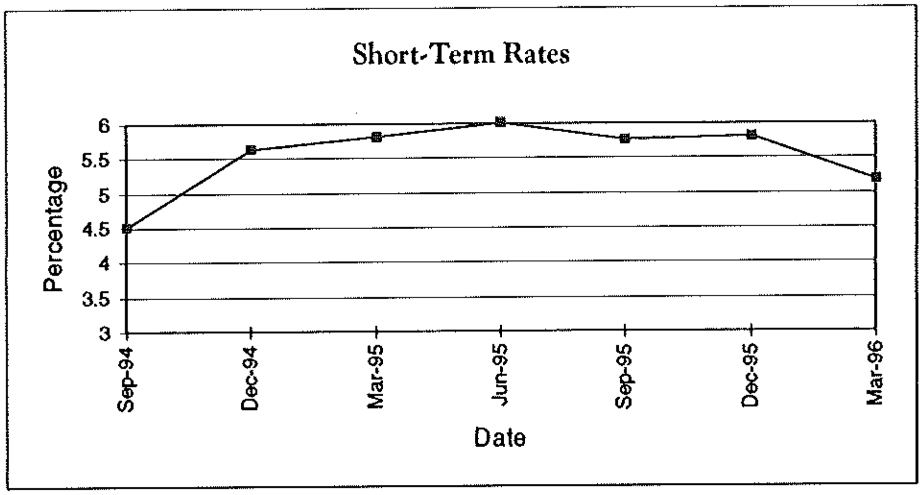
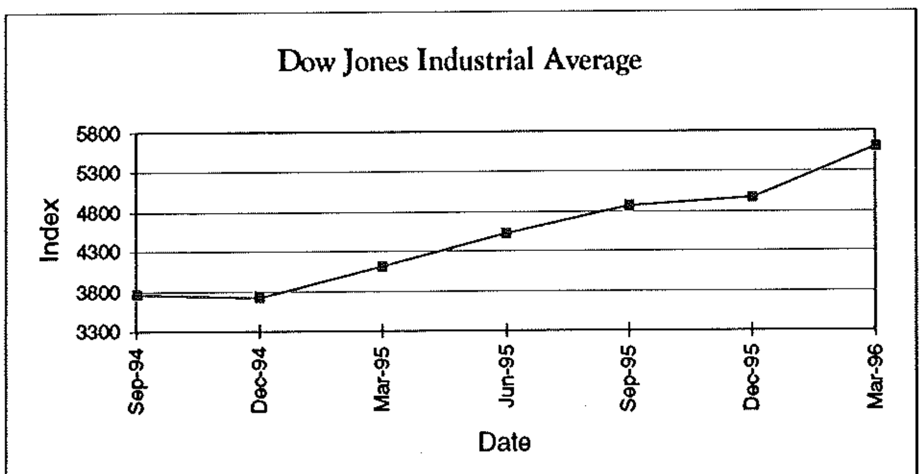
Table of Contents

Review of Market Action

The U.S. economy is continuing a 2% to 3% annual growth rate as consumer price inflation remains between 2.75% and 3%. These numbers do not suggest a booming economy, but they do not suggest a recession either. The number of jobs created rose significantly since December as the economy showed signs that it may be strengthening.

The Federal Reserve held a meeting recently at which Alan Greenspan decided to leave interest rates unchanged. With low interest rates we have witnessed a significant stock market rise which now seems to be leveling out as the hope for lower interest rates is fading. In the metals market, we have seen gold break the $400 mark, but it slowly retreated back.





THE BOND MARKET

Treasury Bonds have been profitable for investors over the past year, although it seems like that rally is over for now. The 30–year Treasury bond has begun to lose ground, with the bonds yield rising to 7.0%. The higher yields are due to Alan Greenspan and the Federal Reserve leaving interest rates unchanged because they believe that the economy is recovering.

An improving economy causes a decline in the bond market because there is a possibility that interest rates will rise. Political uncertainty is also causing the bond market to suffer for now. Even with this news, analysts believe moderate growth and mild inflation will result in a continuation of this bullish bond market. With yields this high, it just may be a good time to invest in bonds.

THE STOCK MARKET

The Dow Jones Industrial Average has continued its strong growth trend by exceeding the 5600 mark, up almost 10% since January. The S&P 500 stock index is also lingering around record levels. This has happened despite a decline of 18% in net income of large companies in the fourth quarter of 1995. More money has poured into mutual funds this year than any other period of time in history.

Technology stocks have continued to be extremely volatile, while computer related sales have slowed drastically. Many investors have begun to switch into industries that perform well when the economy is growing slowly, such as utilities. Investors keep trying to guess when a decline in the market will occur, but perhaps there is no decline in sight.

by Rob Picard
and Matt Helmling

Bullish on Stocks

According to the Leading Index of Inflation (CIBCR), Greenspan's favorite index of future inflation, pressures still remain low. Greenspan's inflation index has remained in the negative numbers for nine months now; CIBCR showed the year–over–year change to be –6.6%. Since 1991 until now, Greenspan has shown a record of inflation fighting. (We can expect to see his continuation in this role, now that he has been reappointed.) The table shows the record of inflation in the 90's. You can see that it has been below 3% since 1991 and forecasts are that it should stay this way for the next couple of years.

In 1994, marking the first year of the Clinton administration, the Fed began tightening interest rates. The index's year–over–year rate of change was showing a rapid increase until the beginning to mid year of 1994. In April, the index started its decline. Instead of lowering rates at that time, the Fed watched the numbers for several months before taking action. The Fed lowered rates last summer. So basically, to get the Fed to even think about raising interest rates, the index would have to start an uphill climb and continue it for several months.

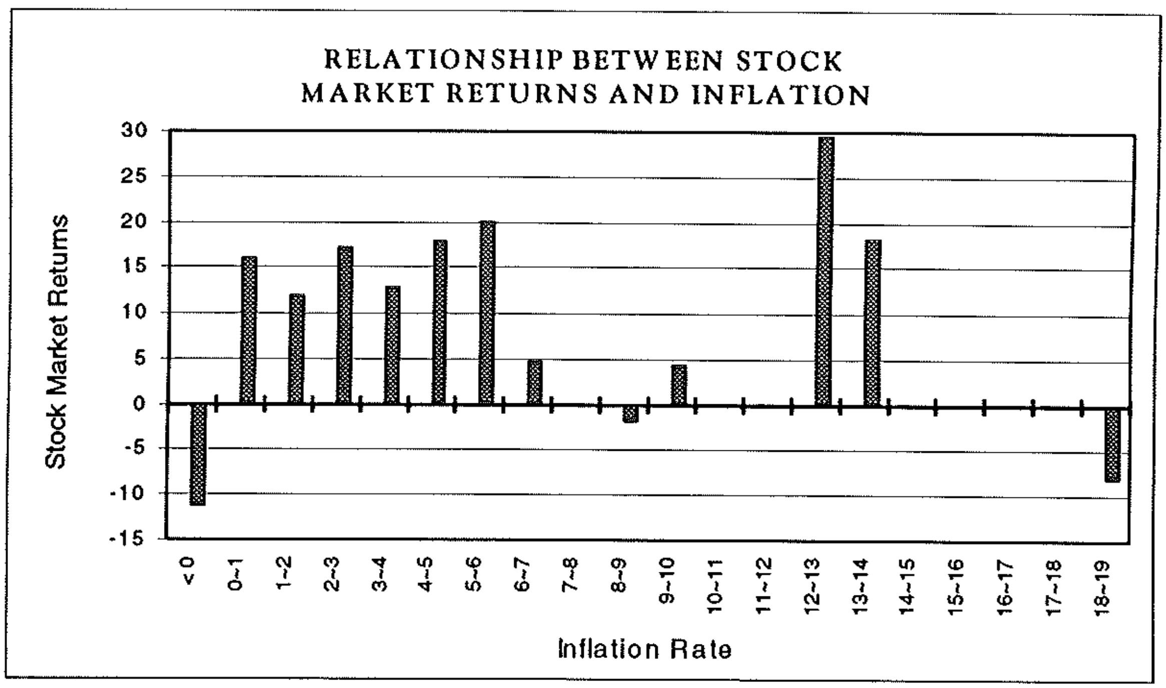
CPI Inflation for 1991–1995

1991	*2.98%*
1992	*2.96%*
1993	*2.74%*
1994	*2.60%*
1995	*2.60%*

Note the graph below which shows the average return for the stock market grouped by the rate of inflation. For example, in all the years since 1926 when inflation was 0–1%, the average return was above 15%. ***As the chart data shows, the inflation rate would have to double before stock market returns would be hurt.***

This year marks the fourth year of the Clinton Administration. Since the election is rapidly approaching, the high rate of gains that we have previously experienced should continue. This is the most likely outlook because of the increased pressure on the Fed to keep interest rates low.

by Kerri Durney and Kim Devore



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Bearish on Stocks

The last year was good to investors. Those who dabble in the market found themselves trading in their Toyotas for Range Rovers, changing their vacation plans from Disney World to Hawaii, and living the life they only dreamed of. Life is good. But as Charles Dickens once wrote, "It was the best of times, it was the worst of times." The volatility that has plagued the market in 1996 is a good indication that greedy investors are attempting to squeeze the last gains out of the bull market while jumping at every sign that the end is here. The Bull's run is winding down and the great Bear is slowly awakening from its long hibernation.

I considered explaining all the economic and market indictors which point to the fact that the "end" is coming; however, most investors already hear enough about those doom filled facts in the morning paper or nightly news. Instead, I will touch on something that might help you survive the times ahead. ***Stock selection may be the key to keeping your portfolio up and your new Range Rover out of repossession.***

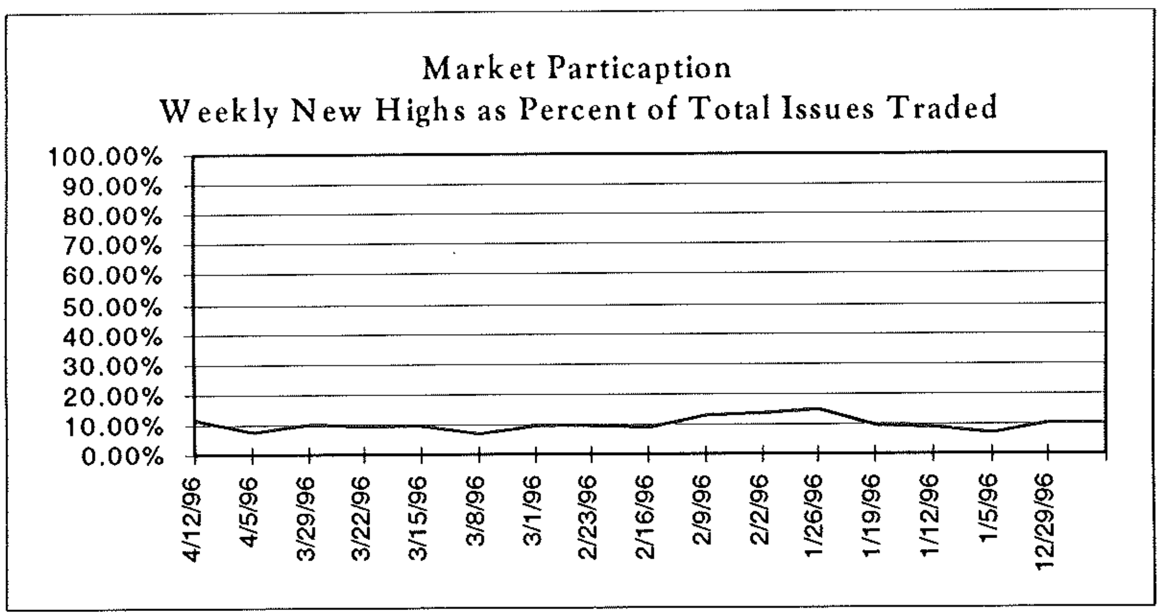
In the future, investors will no longer be able to allocate their portfolio into stocks that end in "tech" or mention the internet in their prospectus and hope to double their money. The intelligent investor will look past management's promises of "synergy" and search for companies that will be competitive and profitable in light of a market turn. I have listed several basic suggestions that might assist you in stock selection.

First, be sure the company has products or services that have sufficient market share and growth potential to increase sales into the future. Second, a company must have dedicated management that is willing to maximize shareholder wealth and put their personal agenda aside. Third, the company must have shown strong margins in the past and show effort toward improving them in the future. And finally, it should be determined if the company is working for short–term gains or long–term profitability.

Although the previous suggestions are relatively simple, often they are overlooked when analyzing securities in light of complicated models. Sticking to the basics will allow the investor to first weed out the companies with obvious problems before turning to more sophisticated screening techniques.

To conclude and show the importance of careful stock selection, a recent study of 1,000 stocks conducted by our program showed that almost 40% of stocks prices are currently lower than at the end of 1993. ***And, as the graph indicates, very few – about 10% of all issues – are trading at a new high.***

by Steve Barnett



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Mail Boxes Etc. (MAIL)

Mail Boxes Etc. (MAIL) is the world's largest franchiser of neighborhood postal business and communications service centers. Its global network includes more than 2,700 MAIL centers in the United States and almost 400 centers operating in the United Kingdom, France, Italy, Spain and Turkey, as well as the Asia–Pacific region. Mail Boxes Etc. claims to be the fastest growing nonfood franchise in the world. This growth can be attributed to the services MAIL provides for people with at–home businesses, small businesses, and for anyone needing packing and shipping services.

In the last several years Mail Boxes has been recognized as one of the top franchising organizations in the country. It was named one of the best small companies by *Forbes* in 1991, 1992 and 1993 — and the number one nonfood franchise for 1993 and 1994 by *Entrepreneur Magazine*.

Mail Boxes has had sales and earnings growth exceeding 13% in the past five years. In 1995, MAIL's earnings were $0.60. Earnings for 1996 are projected to be $0.73, and $0.87 for 1997. In relation to the industry, MAIL holds a stable position. The industry's projected earnings growth for the next five years is 15.1%, whereas MAIL's forecasted earnings growth is a healthy 18.5%. Over the past few years, MAIL has had strengthening sales resulting in a return on sales of around 15%. MAIL's annual sales have increase by 20% in stores open a year or more, and both royalty and marketing fees have increased 24%. According to A.W. DeSio, President and CEO of Mail Boxes Etc., about 61% of the company's revenues are being generated by recurring sources, those being mostly royalties and marketing fees. This is up from 57% a year ago.

Stock Data

1997 E EPS:	$ 0.87
Current Price:	$14.88
P/E Ratio:	19.7x
Dividend:	N/A
Return On Equity:	13%
Annual Growth Rate:	15%

With the worldwide trend for governments to privatize their postal services, the international market for MAIL looks opportunistic in the future. Countries such as China and India are unable to provide resources for retail distribution outlets. Therefore, MAIL franchises are very lucrative to these countries, because their people can get the services without having to put up capital.

After reviewing Mail Boxes, we believe that this company stands to realize significant growth in the coming years and will *surely* deliver admirable results to investors.

by Steve Allender
and Brian Trimyer

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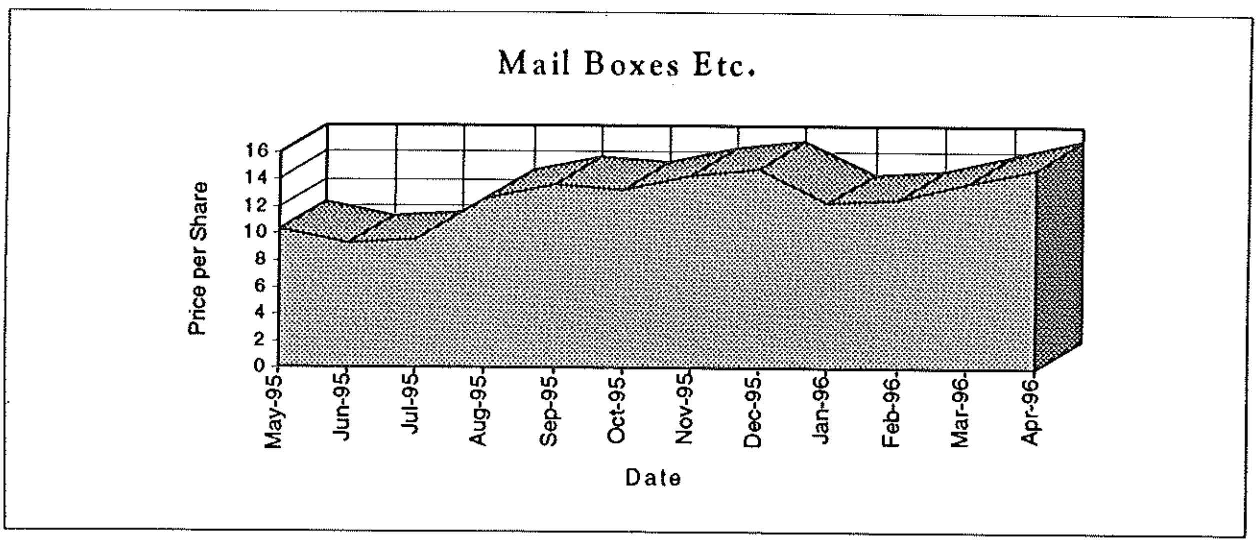

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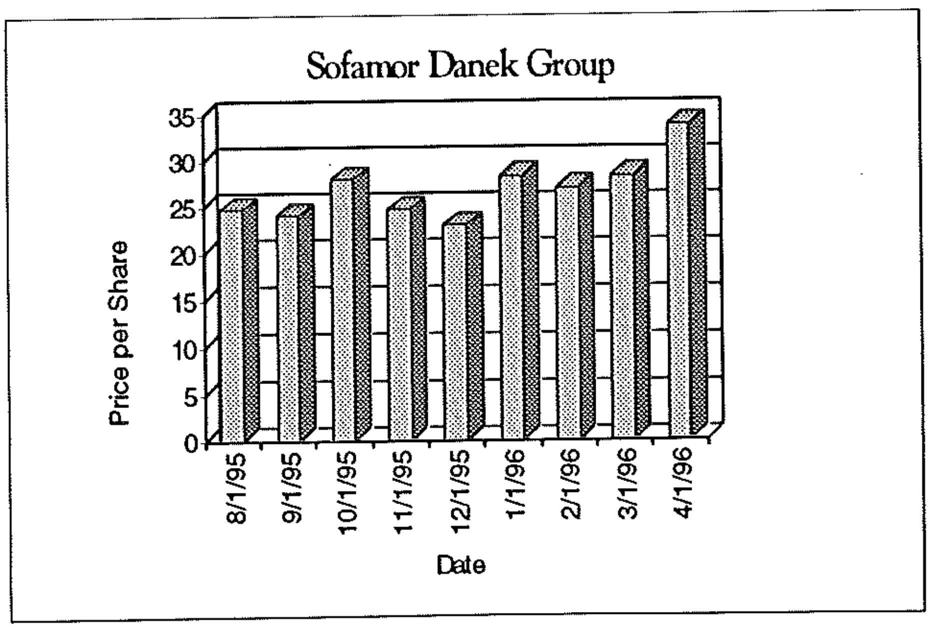
SOFAMORDANEK GROUP (SDG)

The Sofamor Danek Group (SDG) is a company that develops, produces and markets spinal implant devices. These products are used in the treatment of spinal degenerative diseases, and also in the treatment of spinal trauma patients to increase stability.

STOCK DATA	
1996 E EPS:	$1.60
Current Price:	$33.00
P/E Ratio:	21x
Dividend:	N/A
Return On Equity:	27.3%
Annual Growth Rate:	37.6%

The company has four major product lines which are the TSRH Spinal System, the TSRH Cross–Link System, the Danek Bone Plate and Screw, and the Cotrel–Dubousset spinal instrumentation system. The TSRH Spinal system is a group of support rods and locking mechanisms that allow greater axial and torsional spinal support. The Cross–Link system is also inter–twined with the Spinal System. It produces a specialized design in which spinal rods are locked together improving both the stability and effectiveness of the implant. The Danek Bone Plate and Screw product line consists of devices that are attached to bones that attain fixation during the healing process. The Cotrel–Dubousset spinal instrumentation system enables a three–dimensional correction of spiral deformities.

Sofamor Danek also has other products in the process of being approved by the FDA. One such example is their spinal cages which have interbody fusions and is currently being marketed abroad. It is expected to be approved within the next year. Another product which is expected to be profitable is their Bone Morphogentic Protein which is designed to induce bone growth. However, it has a couple of years to attain approval.



SDG's financial figures look positive. The liquidity is good with a current ratio of 3.79 comparable to an industry average of 2.41 along with a $1.90 cash flow per share of stock. The profitability is also positive with a profit margin twice that of the industry average. Furthermore, return on total equity is twice the industry average.

SDG currently has an earnings per share of $1.36 – estimates predict $1.60 for 1996 and $1.90 for 1997. Yearly sales are likewise expected to rise sharply once the FDA approves several devices pending. The projections are for almost $100 million in sales by the end of 1997.

Sales for Sofamor Danekare growing at a five–year least square rate of 65%, with a 68% growth in net income. The company, however, does not pay dividends to the 1400 stockholders of the company, 28% of which is owned by the management.

by Evan Bell
and Karl Morawski

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What happened to Mexico a year ago was nothing short of an economic disaster. Some analysts expect Mexico to be one of the hottest markets simply because they have no where to go but up. The country faced a chain reaction of events that included the devaluation of their currency (peso), extreme inflation, and eventually a near depression.

A common reaction from Americans when they read about such negative situations is to simply say "that's what happens to others, it could never happen to me". Well, according to a recent article by Randall W. Forsyth of *Barron's*, "Without the foreign central bank purchases of Treasuries, the U.S. would face a currency crisis not unlike what Mexico went through a little over a year ago. The dollar would be substantially weaker and inflation substantially higher, leading to vastly higher U.S. rates, and most likely, a recession."

These purchases by foreign central banks of Treasuries are the theme of Forsyth's article entitled "Pumped Up". These holdings are the total of U.S. government securities held in "custody" at the New York Fed for foreign monetary institutions. For the twelve months ending March 1996, these holdings increased from $419.2 billion to $549.1 billion, a 31% increase. As the graph shows, over the past 10 years these holdings have increased at an alarming rate, especially for the last four years. Furthermore, the trend has not slowed in 1996. In the first quarter of this year the holdings increased $48.5 billion, a 55% annual rate. As if these figures are not sufficiently shocking, consider the fact that the Fed's own outright holdings total $377.1 billion, over $100 billion less than foreign holdings.

The next logical question is why should we care? Frank Leitner of Tudor Capital Management calls this "a back–door way in which the U.S. public doesn't have to buy Treasury debt". These foreign inflows of money are being used to help fund our federal budget deficit and current–account defect. Without these inflows the U.S. would be forced to raise interest rates in order to continue to finance the budget deficit.

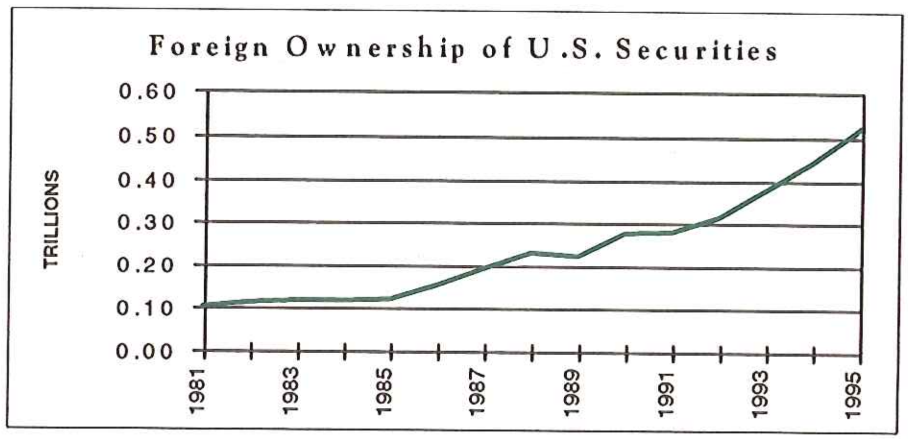
The trends in the budget deficit and current–account deficit over the past 10 years show that the U.S. has become a net debtor. Last year the current–account deficit increased to $152.9 billion. This amount is basically what the U.S. earned minus what it spent on goods and services. The trade deficit for 1995 rose to $111.4 billion and is perhaps the real problem. The trade and budget deficits are not the source of the problem, but rather the behaviors that they reflect. American's have become dependent on spending and have become complacent in their savings patterns. These are trends that have forced the U.S. to rely on foreign moneys to finance investment and growth.

A lot of speculation can go on with regards to what would happen if and when these foreign inflows slow down or even stop. The ultimate solution would be to modify those afore–mentioned spending and saving patterns as well as control the budget and trade deficits. However, a more immediate result would be rising interest rates which also could mean the end of our "free ride" in the U.S. bond and stock markets.

Little emphasis in the "Pumped Up" article was placed on the fact that Japan is buying the bulk of these securities. Japanese officials did not believe that the country could afford to lose valuable exports due to their recession and rising yen. Therefore, Japan was forced to decrease the value of the Yen. They accomplished this through purchases of U.S. Treasuries. While it is not likely that Japan will continue to provide these inflows, it is apparent that it is clearly not in Japan's best interest to allow the U.S. economy to collapse.

Predicting the outcome of this situation is difficult but concern is appropriate for the future of both the bond and stock markets.

by John Durrant



Comments

The analysts, as we refer to the students in the Roland George Investments Program, have great promise as future investment managers. Already they possess the skills necessary to interface with future clients. Why, the ability to remember only winning stocks. No one seems to remember those that were less than optimal in perform–ance. As their recommendations actually end up part of the $1.6 million dollar portfolio, those that do not win can not be totally forgotten.

The philosophy behind this applied program of investments is to learn by doing. As those of us that have had the opportunity to manage money know, not all stocks go up. Several of our analysts will never forget their experience with Intel. A long time winner for the portfolio was hard to part with in the $70's. They anguished over every dollar left in the market and now again face an interesting decision point.

Where analysts find their ideas is sometimes one of the great mysteries of money management. Last semester they identified Analytical Surveys, Inc. (ANLT) that maps municipal utilities with only $13 million of revenues. At $7.63 it appeared in our Fall newsletter and soon after in our portfolio. Where is ANLT now? The stocks traded at $19.50 today. Sorry, both of those analysts are already employed.

Another that seemed to come out of their imagination was Turkey. Again, Turkey is not a mainstream idea. We hope that the analysts will learn to reach out beyond what is common to that which may be the future. How has the Turkish stock market done? Since the mailing of our last letter the Turkish stock market has risen, in U.S. dollar terms, at a 75% annualized rate.

To discuss how someone you know might gain from the Roland George Investments Program, or how your firm will gain from one of its graduates, call Dr. James E. Mallett at 904/822–7442.

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