George Inve$tment View

Winter 2000 Volume 5, Number 1

WILL YOU TELL US, BEARS — *How Long Can This Overvaluation Last?*

Last year we were concerned with which way the market was going. Valuations were peaking, a large number of stocks were down from their 1998 April/June peaks, and market psychology was weakening. The Fed, however, was nervous, adding liquidity after the 1998 Russian scare and cutting the discount rate three times. The market responded to the Fed's liquidity with a rather strong upward move, psychology improved, and valuations rose further. Scary stuff. The Fed Chairman commented frequently about the strength of the economy and the markets, warning of possible rate hikes. Were we going to continue along the Bull road highway or fall down onto the Bear street? The experts in Wall Street have been rather hesitant, the majority of equity strategists have avoided a bearish position, probably having been burned by past non-bullish statements.

In 1999 we witnessed a Fed's renewed active cautious stance of raising the discount rate three times, and recent events would indicate that further interest rate increases are close at hand. The Fed may see rising commodity prices, or perhaps the economic data reflects an economy that is too strong for their taste. Recently the Dow Jones Industrial Average (index) was repositioned to better reflect today's economy. Stodgy blue chip stocks were replaced by growth and technology. Now Microsoft, Home Depot, Intel and SBC Communications are in, and Chevron Corp., Goodyear Tire and Rubber Co., Sears, Roebuck and Co. and Union Carbide are out. How will the market react to the new stocks coming in? Will it make the market more volatile? You bet! These new technology stocks that trade at outrageous P/E's are bringing their volatility with them. Year-end brought a truly sobering rally of the tech stocks. Perhaps the markets again predicted the future, reflecting an early demise of Y2K.

What has all this commotion done to the market of today? The roller coaster is still riding its course and direction is unclear, because the market has gone up and down with little conviction. We have an upward trend in interest rates, but the stock market refuses to weaken. The yield on the 30-year bond is now close to its 52-week high of 6.7%. Unemployment is at an all time low — P/Es are at all time highs. Internet stocks continue to carry outrageous multiples, and on-line retailers are trading at values that were unheard of 30 years ago. The Nasdaq is soaring and hitting new highs almost everyday, but the overall market continues to reflect weakness with many stocks down 40% from their highs. The market presents a mixed picture.

A closer look at the market shows that while the NASDAQ sets new highs, the advance/decline line of all stocks has continued to be comparatively weak. According to Merrill Lynch, 37% of all NYSE common stocks and 51% of NASDAQ stocks are still down 40% or more from their 1998-99 highs. To add to our bull market skepticism, we see that we have more stocks making new lows than we have making new highs. Moreover, market breath is negative almost everyday. What does this tell us? It tells us to be careful, to watch the market indicators, and be cautious of the stocks we hold in our portfolio. The indices are going to record highs on the basis of a few large cap growth stocks. As noted, a closer look reveals that the majority of the stocks in the market are not making the move up with them.

To conclude, we believe that we are approaching a major market move down that will correct the market's current high valuations. We are inactive bears and believe that the market will objectively come to grips with rising rates, higher oil and commodity prices, weaker earnings and cash flows, and a questionable market psychology. While we would not rule out continued up and down market volatility in the short term, we do not believe the current valuations can continue to appear attractive compared to the current high yields of ten-year government and corporate bonds. Given that the extreme overvaluations in the Japanese markets endured for years in the face of government rate increases, we may have to wait until next year, but we remain convinced that we shall see this market's demise in our lifetime.

by Russell Kelton, MBA Program

Growth Portfolio Objectives

Growth Portfolio Goals

Our aim is to:

- Generate equity investments suitable for the George portfolio, seeking preservation of capital and above-average, full cycle total return.
- Achieve an above-average risk-adjusted real return (alpha) by following a disciplined strategy of emphasizing both hidden intrinsic values and depressed, oversold values as defined in our Investment Strategies. Virtually all portfolio investments will be relatively out of favor when purchased; patience is needed in order to achieve our goals.
- Control portfolio relative volatility (beta) through liberal emphasis on stocks with low P/Es, stocks generating above-average portfolio income, and a full managed equity/reserve ratio. We stress adequate category diversification of stocks. Our goal is to build a portfolio which should not closely track the broad stock market indices.

Growth Investment Strategies

There is more than one legitimate definition of value and/or growth. Stocks selected and owned will fall into one of our value growth categories, several of which we have listed herein. We believe that the market will, from time to time, focus on the under-valuation of our individual securities and adjust their values upwards.

Hidden or undervalued asset situation

* Understated good will, real estate, inventory, or natural resource assets that ultimately should be better recognized by investors.

Corporate earnings recovery and margin improvement situations

* Internal management bootstrap operations and oversold cyclical recovery situations.

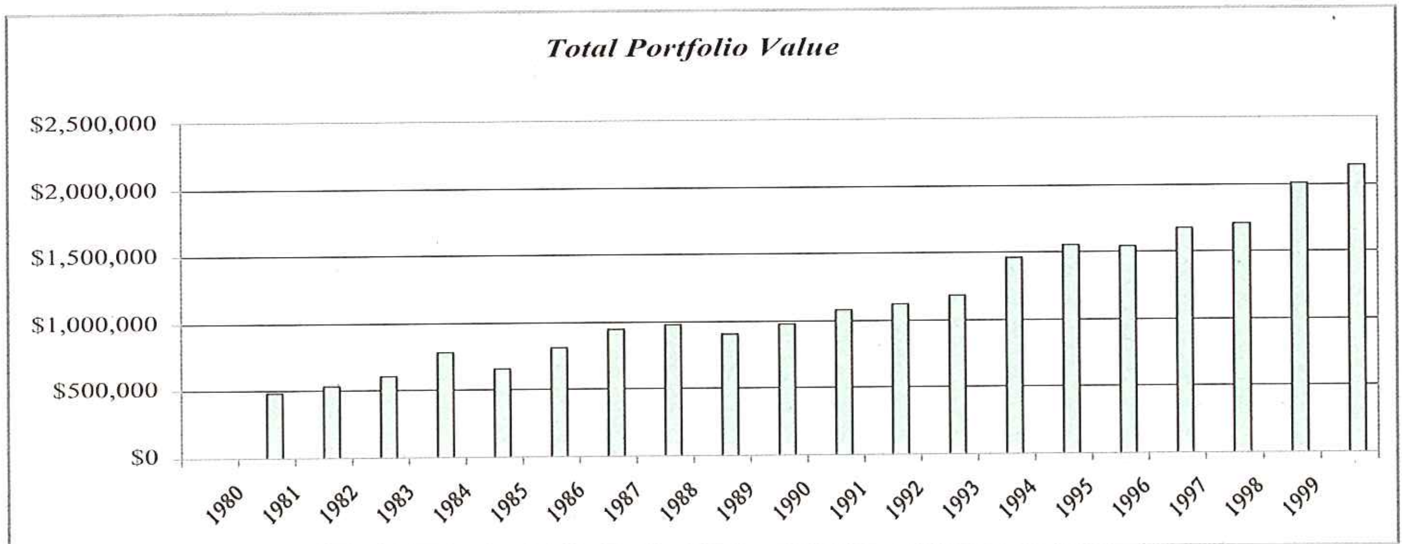
Inordinately low relative or absolute P/E situations

* Sound growth companies inordinately depressed because or market panic or negative company image even though they have strong, enduring customer franchises or good product lines which build in highly visible future growth.

Special situation takeover, liquidation, or restructuring candidates

* High cash flow and/or free cash per share, often with undervalued assets.
* Gap between public and private value.
* Attractiveness dependent on regulatory and economic climates.

Roland George Investments Program
1980 - 1999



The Roland George Investments Program took a number of steps to maximize the value of the portfolio this semester. Changes in the portfolio included purchases, sells, and buyouts. All changes seem to be in line with our philosophy of keeping the portfolio full of value oriented stocks with good management and strong growth.

BUYOUTS

Two of the companies in our portfolio were bought out, changing our holdings to new companies. The first of the buyouts dealt with our largest holding, TCA Cable. Cox Communications (COX) bought out TCA, with a combination of cash and stock. We were left with about 1,600 shares of COX, which is a leader in the consolidation of cable, telephone, and internet services.

The second of the buyouts was the General Dynamics (GD) purchase of Gulfstream Aerospace. GD is a strong, diversified defense company with many government contracts.

NEW PURCHASES

This semester we also made a number of purchases, particularly over weighting the portfolio in broadcast media, with the purchase of Fox and Disney, and food and drink with the purchase of Philip Morris, Panera Bread, and Boston Beer Company. Fox was purchased because it is the fastest grower in its industry and has the cheapest earnings per share multiple. We believe it is relatively undervalued, has strong management, and is dedicated to maximizing shareholder value. Disney was an easy buy because it has an incredible amount of goodwill off balance sheet. Moreover, we concluded that its various assets are currently undervalued given our estimates for their growth. Finally, we believe that in the next few years Disney should cut costs and increase revenues driving margins and ROE higher.

In the food and drink industry we found great value in Philip Morris (MO) on a free cash flow basis. MO has taken a lot of heat lately due to tobacco problems, but the company is much more than tobacco. MO holds a number of well-known brand names in their food divisions that we value at $42 per share. We purchased 1,500 shares at about $23 per share.

The second of our purchases in the food industry was Panera Bread (PNRA). We already had 3,000 shares of PNRA but added 1,500 shares to our position given PNRA's growing franchise revenues and a corporate decision to cease opening corporate owned and managed restaurants.

Finally, we purchased shares in the Boston Beer Company (SAM), best known for the Samuel Adams brands. SAM produces a premium beer line that competes with the likes of Heineken, Corona, Becks, and other imports. SAM is extremely cheap right now in terms of price to cash flow. We value the company at $14/share. We purchased 2,000 shares at $7 per share.

LIQUIDATIONS

As a defensive move, we have decided to hold about 20% of the portfolio in cash. We liquidated our position in Novellus Systems (NVLS) on the basis that it appears to be overvalued on a P/E basis. We tripled our money on this investment.

Our sale of one half of the portfolio's COX shares reflected our desire to reduce our position in COX and fund our purchases in Disney and Fox. We continue to hold our shares of Paxson Communications with very strong conviction.

by Cory Petcoff

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THE JANUARY EFFECT — AN EXPLANATION AND ANALYSIS

There have been several studies on the existence of seasonality in the stock market. Recent evidence of the stock return seasonality has grown out of studies of what is called the size effect. The size effect is an observed tendency for smaller firms to have higher stock return than large firms, noted in a well-publicized study by Rolf Banz. The Banz study found that, for over forty years, stocks of small NYSE firms earned higher risk-adjusted returns on average than the stocks of large NYSE firms. A Donald B. Keim study supports the existence of the significant size effect, to the tune of a 30.5 percent small-cap premium. However, nearly half of this size effect occurred in January, and over half of the excess January returns occurred during the first five trading days of the month. This strong performance in January by small-cap stocks is termed the January Effect.

One reason given for this market trend is that some investors, especially wealthy shareholders, desire a tax break and often sell some stocks at a loss beginning about December 15th each year. Small-cap stocks are the first to go. This causes small-cap stock prices to become battered in October, November, and December, but also allows the prices of these stocks to recover strongly in January (or December or February). The information on this January effect has been available for years and has been widely discussed in the investment community. The interesting question is why the January effect keeps reoccurring each year. Normal market behavior would dictate that when an abnormality of this nature exists long enough for a significant group of investors to notice, investment behavior should correct the market abberation.

Many investors are aware of the effect and have tried to take advantage of this annual discounted pricing. For example, while news of this effect has produced optimistic underwriting of new issues for small companies, stocks debuting in the last few Januarys have raised only marginally more than the initial sums sought. There is some belief that the January effect is occurring earlier as the seasoned investors position and anticipate the effect. However, there has been no significant change in the magnitude of the effect or any trend to suggest that it will disappear. Small-time investors should beware, because the January effect isn't easily exploited and small-cap stocks continue to have a higher liquidity risk than the large or mid-cap counterparts.

by Michael Portnoy, MBA Program

— OIL INDUSTRY —

It was just a year ago that oil prices were the lowest in decades as they were reflected at the pump with gasoline prices well below one dollar per gallon. Now, due to increased demand and reduced supply, the price of crude oil has risen 150% to just over $25 per barrel and the gas prices are quickly following. Many analysts have projected oil prices of $30 per barrel by year-end as the fundamentals of supply and demand take effect.

The global economy is booming as Asian and Latin American economies are prospering. This rapid growth is putting significant upward pressure on the demand for oil as industry and automobiles are becoming huge consumers of oil. Another source of demand is heating oil. Although recent winters have been mild, many believe that a cold winter will result in a surge in demand as people scramble to heat their homes. With economies booming and the threat of a cold winter worldwide, the 2000 demand is estimated at 77.1 million barrels per day, up from 75.3 million barrels per day in 1999, and 74 million barrels per day in 1998.

On the supply side production is currently at 74 million barrels per day. The big news here is the cutbacks by OPEC in effect through March of 2000. They have cut production by 3 million barrels per day to 26 million. Strict compliance by OPEC will keep supply tight as there appears to be no increase in production by non-OPEC suppliers. The resulting drain on reserves presses the need to explore, drill, and produce oil needed to meet the increasing demand. This translates into big business for many within the industry but especially the oil service companies that hold great operating leverage. The operating leverage of these oil service companies positions them to realize accelerated growth in margins, earnings, and free cash flow into the year 2000. We remain confident that the decision last year to overweight in this sector was a reasonable investment (GLM, ESV, HAL, and Coastal).

by Steve Cervino

PERKIN-ELMER (PKI)

Perkin-Elmer is a diversified technology company providing opto-electronic, mechanical and electromechanical components and instruments to manufacturers and end-user customers in the aerospace, automotive, transportation, environmental, medical, photography, semiconductor, and security markets.

When EG&G purchased the Perkin-Elmer division from Perkin-Elmer last April, EG&G's stock price was $22/share. At that time a careful analysis of the company concluded that accelerated earnings growth would begin immediately. In the past, EG&G had missed the bull market due to mis-management, lack of focus, and poor allocation of capital. Acquisitions had not always been profitable, resulting in poor synergies and a very inconsistent earnings record.

The George students, however, saw a bright future for the company. New management led by CEO Grey Summe and CFO Bob Friel (both from Allied Signal) initiated dramatic changes in corporate marketing strategy, asset allocation, and management organization. EG&G's key decision was to purchase the Perkin-Elmer division at a very favorable price and change the name of EG&G to Perkin-Elmer. The acquisition increased market share and provided PKI with a strong global brand name. Management improved margins, consolidated operations, reduced costs, and improved operating synergies. Poor performing businesses have been sold, improving both operating margins and reinvestment rates.

The company is experiencing tremendous revenue growth and is generating free cash flow for the first time in many years. Wall Street has recognized PKI's profitable business model, and the stock price has responded moving up to $46/ share. The company has been a very good investment for our portfolio.

by Mike Gunning

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PAXSON COMMUNICATIONS (PAX)

The George Program purchased Paxson Communications in 1999 on the basis that the company was extremely undervalued in terms of its station assets. We calculated the value of their stations to be $18 per share when the stock was selling for only $8 per share. We believe that the valuation today exceeds $24 per share.

In September NBC purchased a 32% stake in Paxson for $415 million to increase its distribution of television programming. NBC now has the right to buy the rest of Paxson — if the FCC laws restricting the number of stations owned by a single network are changed. This is now under consideration in Congress, and most analysts believe the law will soon allow for larger ownership within the various TV markets. The company has already turned down offers to be bought out for $20 per share.

We expect that NBC will be forced to buy Paxson for a price in excess of $24/share. NBC no longer meets its CEO's demands to be 1,2, or 3 in the industry's marketplace. NBC's competitive position depends on the control of greater distribution. Paxon's 75 stations will provide that distribution.

Given NBC's need for stations and distribution, and in order to compete with the larger networks that have been improving their market positions through major cable, TV station, multimedia, and the internet acquisitions, NBC must buy out the rest of Paxon. The only question is price.

by Graham Forum

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NOVELLUS SYSTEMS (NVLS)

In the Fall of 1997 shares of Novellus Systems were added to the Roland George Investments Program's Equity Growth Portfolio due to the expected profit potential of the company and its industry. Since that time the entire semiconductor sector has experienced a strong recovery and tremendous growth, and has recently visited new highs.

The sector has also faced increased pressure to produce large quantities of chips and the machines required to produce them. The increased demand for these products resulted in a large surplus of chips in the Fall of 1998. Since then the industry has recovered remarkably. With shares of Novellus Systems currently trading at 50 times 1999 earnings of $1.75 (27x 2000 earnings estimates of $3.21), the stock is trading at a premium to its 25% long-term growth rate and five-year average P/E of 21x.

There is a large degree of risk involved with a price multiple based on 2001 and 2002 expected earnings, since the earnings for this sector are extremely cyclical and volatile. This multiple is based on the assumption that there will be a constantly increasing demand for semiconductors and that the company will meet its long-term earnings expectations. If there is an over supply of chips in the future, such as the surplus that was experienced in 1998, the company will not meet its earnings estimates.

This company has tremendous operating leverage, but operating leverage penalizes earnings when revenues fall. In this case the entire sector would experience a compression of its P/E multiples, resulting in a decline in stock prices. We have also noticed that insiders at several of the companies in this sector have been taking their profits over the past several months, selling large blocks of their company's stocks.

We anticipate that investors will take profits in this sector given the risks involved, reducing their exposure to the volatility of semiconductors. At the Roland George Investments Program, we reduced our exposure to this volatile sector by selling our position in Novellus.

by Graham Forum

Gentex Corporation (GNTX-NASDAQ)

Recommendation	Buy
Current Price	$28.50
52-Week Range	$12 - $35
EPS 2000E	$1.01
P/E 2000E	28.5x
ROE	24%
Book Value	$4.04
Price/Book	7.05
Short Interest	1.5%

Investment Thesis — Recommended for Growth Portfolio

Company Description

The company designs, develops, manufactures, and markets proprietary products based on electro-optical technology. Its Night Vision Safety (NVS) automatic-dimming car mirrors have a 90% market share worldwide and are standard or optional equipment on more than 100 vehicle models. Gentex sells its products to such companies as DaimlerChrysler, Ford, General Motors, Honda, Porsche, Rolls-Royce, and Toyota. The company's Gentex GmbH (Germany) subsidiary markets its products in Europe. Gentex also sells more than 60 models of electro-optical smoke detectors and 160 kinds of smoke alarms (about 9% of sales). The company has three factories in Michigan. About a third of Gentex's sales are outside the US.

Profitability — Gentex's profitability is exceptional and has been increasing every year for the last five years. Currently its gross margin is 46.6% and earnings after tax 24.4%. EBITDA margin is 39.9%. Despite constantly lowering their mirror prices, Gentex is able to keep their margins high and even increase them by constantly reducing the costs by using new and cheaper manufacturing processes, investing in R&D, and by vertically integrating glass coaters.

- *Growth Potential* — The potential market for Gentex's Night Vision Safety mirrors is about $2.5 billion according to Gentex. Their current sales are only $222 million. GNTX is best positioned in its industry to reap the benefits of this growth. Gentex, in late 1998, began building a new manufacturing facility to accommodate the growth in mirror production. The new facility is expected to double the current mirror production capacity, which is 7 million units per year. This additional capacity will be needed by the year 2001 when Toyota and other Japanese companies begin installing Gentex mirrors.

- *Industry Leader* — Gentex is the pioneer of the auto-dimming mirror industry. They developed the world's first auto-dimming mirror in the early 1980s, and they are the industry technology leader. GNTX currently has about 60 patents protecting their technology and processes from competition. Their biggest competitor — Donnelly (DON) — has operating margins of only 0.63% where Gentex's operating margins are about 33%.

- *Superior Balance Sheet* — GNTX has $74 million in cash and marketable securities alone, no long-term debt, and unused bank lines.

- *Improving ROE* — Gentex's ROE currently is at 24.6%. The reasons for high GNTX ROE are improving gross margins, superior asset turnover, and no interest costs.

- *Industry Forces* — Entry barriers are high to start a new auto-dimming mirror manufacturing business. One would need a lot of capital, R&D spending, develop supplier channels, manufacturing processes, and distribution channels. It would take a lot of time and money to develop quality auto-dimming mirror technology. It does not appear that the threat from new industry entrants is high.

by Vaidas Petrauskas

Philip Morris Companies (MO)

Investment Thesis — Recommended for Growth Portfolio

Company Description

Philip Morris Companies, Inc., through its subsidiaries, manufactures and sells various consumer products. The Company provides tobacco products, as well as packed foods such as cheese, processed meat products, coffee, and grocery products. Philip Morris also provides a variety of beer and brewed non-alcohol beverages. The Company's products are sold worldwide.

Recommendation	Buy
Current Price	$20
Current P/E Ratio	10.81
Gross Margin	2.5%

- ***Diversified Global Product Offerings —***

Philip Morris is a defensive stock as its product offerings are so well diversified. In addition to providing both domestic and foreign markets with cigarettes and other tobacco items, Philip Morris' Kraft subsidiary is America's largest and most successful producer of beer, coffee, and other various dry and canned food items that the average investor encounters every day on the shelves of his/her favorite supermarket.

- ***Brand-name Recognition – "Goodwill" —***

The Marlboro Man is perhaps marketing's most famous product creation ever, its brand name as powerful as any in existence. Miller brewing, touting labels such as "Lite" and "Miller Genuine Draft", continues as a dominant force in the domestic beer market. Kraft, with a lineup of General Foods, Maxwell House, and Kool-Aid products, just to name a few, attracts customers ready to pay a premium for the food products they have come to know and love. Powerful brand names will provide Philip Morris shareholders with continued steady earnings growth well into the 21st century.

- ***Producer Pricing Power —***

Brand names keep consumers only coming back, and have them doing so in the face of increased prices. In recent years, the price tag attached to a pack of cigarettes has increased steadily, with the largest of these increases coming this year, at nearly one dollar per pack. Regardless, the firm's profitability, measured in gross margin, continues to grow, posting increases of 2.5% or greater in nine of the last 10 years.

- ***Undervalued At Current Market Price — Strong Margin of Safety —***

The current price-to-earnings ratio of 10.81 compared to last year's closing P/E of 16.88, as well as a decrease of 2.81 in the price-to-book measure, reflect a current market price hovering at five year lows. Speculation surrounding the domestic tobacco business and its federal litigation exposures are certainly to blame for this drop in price. Still, an investor has a large margin of safety in this stock. With reputable analysts valuing the firm's food business alone at $42/share, and considering the $4 billion in cash the firm carries on its balance sheet, Philip Morris is in a reasonable position to absorb any settlement that may be levied upon it.

by Vincent J. Fries, MBA Program

The Walt Disney Company (DIS)

Recommendation	Buy
Current Price	32 3/4
52-Week High	38 11/16
52-Week Low	22 3/4
FCF/share	$2.50
Price/FCF	11.1
Estimated FY00 EPS	.68
Estimated FY01 EPS	.84

Investment Thesis — Recommended for the Growth Portfolio

Company Description

The Walt Disney Company is a diversified entertainment company divided into five segments: Media Networks, Studio Entertainment, Theme Parks and Resorts, Consumer Products, and Internet and Direct Marketing.

Reasons Behind Our Investment Decision:

- *Economic Goodwill* — For over 75 years Disney has built up and maintained an abundance of assets. The value of these assets, however, is not reflected on the company's balance sheet. The Disney brand names should command substantial premiums that are not easily valued. We believe that the values of Disney's economic goodwill is exceptional and continually growing.

- *Free Cash Flow* — Disney is a cash machine. The abundant amount of amortization charges from recent acquisitions and the depreciation charges, when subtracted from operating revenues, tend to obscure DIS's profitable operations in the income statement. The amount of capital expenditure necessary to maintain DIS's assets and competitive position is minimal in comparison to the amount of cash the company currently generates. Management has been criticized in the past about the expenditure of their free cash flow, because DIS was growing so fast. Given recent slowdowns, management has become careful about where to spend their free cash flows, making sure that they are devoting it towards projects that present the highest yields—giving shareholders optimal returns. We believe DIS's new operating expense and asset allocation policies will dramatically enhance shareholder values in the next few years.

- *Cost Discipline* — When revenues were experiencing superior growth, Disney did not focus their management time on costs, and Disney was known to lack effective cost controls. Now that revenues have experienced a temporary slowdown the company realizes that in order to add growth to their bottom line they are going to have to focus on cutting unnecessary expenses. For FY00 an estimated $500M in cost inefficiency should be cut out of Disney's operations.

- *Optimization of Current Assets* — After a period of heavy acquisitions DIS has experienced a decline in its revenue growth resulting in lower profitability. Reorganizations, cost cutting, and new strategies have been put in place within the corporate structure. DIS plans on continuing expansion but will not have the "green-light" approach of the past. Aside from being more careful in their decision making process, the company hopes to capitalize on the assets they already have, by utilizing their abundant library of content and by maximizing the cash return on their already profitable theme parks and resorts. Management feels confident that the company will be able to resume 20% returns on investment after cost reductions are in place and proper utilization of assets takes place. We expect to start seeing the benefits of asset optimization in FY01.

by Mike Gunning

Salton, Inc. (SFP)

Investment Thesis — Recommended for Equity Portfolio Growth

Recommendation	Buy
Current Price	$42.50
2000E	5.12
Book Value/Share	4.97
Cash Flow/Share	3.33
P/E	7.23
ROE	64%
P/BV	8.55

Company Description

Salton, Inc. (SFP) is a leading designer, marketer, and distributor of a broad range of branded small appliances, tabletop products, and personal care/time products. Its brand names include Toastmaster, Breadman, Maxim, Juiceman, George Foreman Grill, White-Westinghouse, Rejuvenique, and Sasaki among others. Recently SFP purchased the exclusive rights to use the George Foreman name. This enables SFP to use the George Foreman name without paying back the 60% royalty on sales of the George Foreman Grill. The company's products are sold in Kmart, Zellers, Sears, through the internet by the use of their website, and through the use of infomercials. It is important to note that Salton is not in the business of manufacturing products, but rather in the business of managing shelf space for large retailers to make sure the product can be viewed and will be bought. There is little if any inventory risk.

- *Portfolio Strategy Rationale* —

  EPS growth
  30% Revenue growth year over year and quarter over quarter
  High Short Interest Ratio
  Management Consistently Beats Analysts' Earnings Estimates
  Strong line of Brand Name Products
  Low P/E Ratio

- ***EPS and Revenue Growth*** — EPS for the company have gone from a $0.23 in 1996-97 to $0.76 in 1997-98 to $2.35 in 1998-99. Currently analysts are expecting the company to make over $4.00 with the high estimate of $4.63 for the year ending 6-30-2000. SFP's revenues are growing at a similar rate due to the increase in sales of the George Foreman Grill. Total revenues have expanded from $183 million in 1996-97 to $306 in 1997-98 to $506 million in 1998-99. Analysts are currently expecting the company to make over $750 million for this fiscal year. This is a considerable amount of growth for a company with a market cap of $345 million, and few analysts have recognized the company's potential.

- ***Short Interest*** — With the grill acquisition, the company has a total of 15.5 million shares outstanding. The current float is 8 million shares. At this date over 4 million shares are short this stock, approximately 50% of the float. The short interest ratio is approximately 20 days. We believe one of several events could squeeze these shorts badly. 1) We believe analyst's EPS estimates will rise to $4.60/share for the year ending 6/2000. 2) On 1/21/2000 there was a major BUY recommendation put on the stock by a well known brokerage firm. We believe this is only the first of a number of recommendation upgrades. 3) We believe that the company will announce a secondary stock issue when SFP's stock approaches $40/share, the proceeds of the stock to be used to reduce debt levels substantially. Dilution will be modest - risk reduction will be very significant.

- One may ask why they are short such a strong company. Three reasons exist for shorting this company. 1) Large amount of debt. The interest on the debt and the repayment of the loan can easily be covered as the company continues to expand and future cash flows and revenues are realized. 2) Rumors of a secondary offering floated around late last summer. The offering never materialized and any future plans to do another offering should have no adverse affect on the company. 3) The large dependence on sales from the George Foreman Grill — it makes up close to 35% of sales for the company. SFP is continuing to expand its product line through acquisitions

in order to become less dependent on the George Foreman Grill. So, as the shorts realize their mistakes they will be forced to get out as the stock continues to rise and drive the price higher.

- ***Management consistently beats earnings estimates*** — For many years now SFP has mastered the art of beating the earnings estimates. They continue to lead the analysts to a certain number only to crush these estimates and the analysts by $0.20 to $0.50. They are artfully mastering the earnings estimates game much the same way GE has done for several years now. We anticipate Salton will exceed 4th quarter $2.00 estimates by a much as $.20. Estimates for this quarter have had to be revised up 3-4 times alone.

- *HIGH ROE!!!!!* — The ROE for the company is close to 64%. A couple of reasons exist for this. 1) There is a large amount of debt that the company carries on the balance sheet. 2) Critically, the company is turning over their assets 2X a year. 3) Net profit margins continue to rise and SFP is constantly searching for ways to cut costs and reduce marketing and distribution expenses. We expect operating margins to exceed 10% for the year.

- *LOW P/E* — SFP is currently trading at 14X 1999 earnings and under 10X estimates for 2000. This makes the stock a great purchase for the value investor and for the philosophy of the George Program. The stock is undervalued. We believe that Salton's EPS growth will generate an improvement in their multiple.

- *Summary* — 1) SFP is growing earnings and revenues at superior rates. 2) Management is consistently finding ways to cut costs and improve margins. 3) Short interest is almost half of the float on the stock. 4) Strong product line. 5) High profit margin and *ASSET TURNOVER EXCEEDING 2X/year* leads to high ROE.

by Russell Kelton, MBA Program

"Online Trading: The Future of Investing? Don't Count on it."

You see the commercials at least five times during a half-hour sitcom on any given evening. You see the same commercials at least ten times during an hour of MTV in the middle of the day. You hear them on the radio, between your hard rock, your easy listening, and your sports talk. Online trading firms have flooded the market with advertising for what they call "The Future of Investing." Firms like E-Trade, Ameritrade, and Datek, to name a few, are making available to the average man or woman channels to invest that previously were only a figment of their imagination. The Internet allows real-time communication between the end user investor and the online dealer, with the dealer executing trades based on the instructions delivered via the information superhighway. And it only costs the end-user between $8 and $12 (depending on which firm you're dealing with) to make a trade. With no broker, we might add.

I am certainly impressed by the previously unimaginable strides that Internet technologies have made possible, particularly in this specific area. The open communication and efficiency improvements that the Internet has made, and will continue to make, will lead the business community into the next millennium. But, we certainly think it foolish to buy into these online trading companies' claims that this form of impersonal trading will revolutionize and transform the financial services industry. The only service that these firms provide is the actual execution of an instruction from the end-user. There is no broker at the other end to warn of recently reported earnings, or keep the investor abreast of market developments. There is no relationship development involved, except between your $7.95 and their pocket.

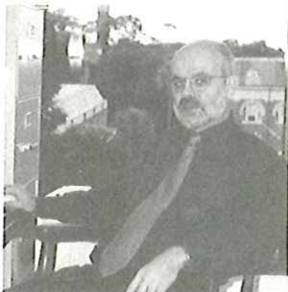
To think that online trades, an interaction between a human and computer, will replace brokers and change the very fiber of this industry is, we think, absurd. The majority of online players today are inexperienced investors, who view investing as a game. They, to be frank, are speculators. And they are not bringing a lot of funds to the table. And, in this market, a monkey could dance on the keyboard and at least break-even. Real investors continue to trust their brokers, paying a premium for their experience, market knowledge, valuable advice, and above all, the long-standing relationship that has served the investor so well. So how long will this online pipe-dream last? How long will Americans play with their kid's college money and their retirement funds as if their computers were Las Vegas craps dealers? No one knows. But allow us the following: Every one who takes a trip to Vegas has to return to reality away from the bright lights and "good life" sooner or later. And most of them leave Vegas tired, disillusioned, and less wealthy. Table 2, changing $500!

by Vincent J. Fries, MBA Program

PROF. FRANK G. CASTLE, CFA
Visiting George Professor of Applied Investments

Since graduating from Miami University in Ohio with a B.S. in Accounting, Prof. Castle has worked in investments and banking for twenty-eight years. He has an MBA from Babson College and attended the Stonier School of Banking at Rutgers University. After performing economic research for the National Security Agency, Prof. Castle worked for Bank of Boston in the Investment, International, and Merchant Banking divisions. Following the Bank of Boston, he worked for Feeley & Willcox, a Wall Street research and investment company. In 1994, Prof. Castle moved to the Middle East as a manager and teacher for the Abu Dhabi Investment Authority, returning to his own firm, Andover Research, in 1996.

DR. JAMES E. MALLETT
Professor of Finance



Prof. Jim Mallett has been teaching in the Finance Department at Stetson University since 1984. He also serves as the director of the Roland and Sarah George Investments Institute in the School of Business Administration. Prof. Mallett completed his Ph.D. in Economics at Wayne State University in 1981. At Stetson University, Jim Mallett teaches personal finance, investments, money and banking, and international finance. Prof. Mallett has written articles in investments and personal finance. He also serves as an investment committee member for Orange County, Florida.

Check out our new George Investments Institute web site and Prof. Mallett's Personal Finance site:

http://www.stetson.edu/departments/finance/institute.htm
http://www.stetson.edu/~jmallett/finplan.htm

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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 $2 million dollar portfolio. Insights are gained through contact with professionals such as Robert Stovall, CFA, of Stovall/Twenty-First Advisers, Inc.

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