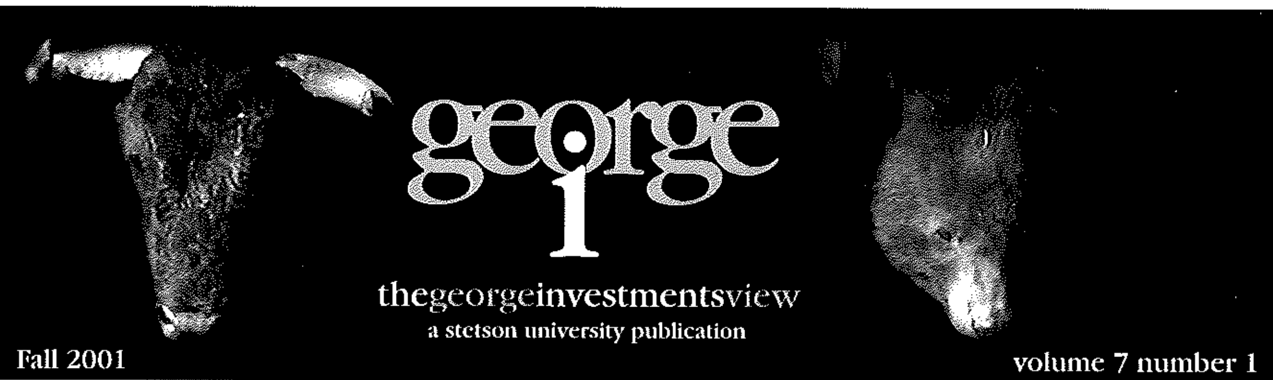
thegeorgeinvestmentsview



a change in strategy

by Ryan Edelman

The Roland George Investments Program is known for its long history of acquiring undervalued companies with strong goodwill, encouraging growth prospects, and solid fundamentals. This philosophy has been constructed over the life of the program—since 1981—by students. This year's Roland George Investments Program participants have continued their adherence to this long-standing philosophy.

However, with the departure of Frank Castle, CFA, and the return of K. C. Ma, Ph.D., CFA as the Roland and Sarah George Visiting Professor of Applied Investments, the time was right for a review of our existing investment strategies.

"...the time was right for a review of our existing investment strategies."

Ma's arrival also coincided with the official onset of a full-blown economic recession. Shortly after the Roland George Investments Program's classes commenced, the market was further impacted by devastating terrorist attacks on the symbol of America's economic prowess: the World Trade Center.

The combination of these events caused us to rethink our trading strategies. Program participants determined that a general macroeconomic recovery was unlikely before the end of the second quarter, and that the market would essentially move sideways until that time. Because of this determination and our own recognition of the limits of our ability to precisely time the macroeconomic recovery, we decided to constrict our emphasis on the general market or specific market sectors.

Instead, participants created the following strategic framework: we decided to focus on individual companies, especially those companies with a value bias and those companies well-positioned to take full advan-

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editors' note

by Jeff Hamrick & Laurie Harlan

As part of our mission for the 2001-2002 academic year, the students participating in the Roland George Investments Program have recommitted themselves to producing work of outstanding quality.

This commitment to excellence permeates every aspect of our program: it motivates our decisions to acquire undervalued or neglected firms that have prospects for impressive growth; it augments our desire to combine classroom theory with real-world practice; and it has inspired a reengineering of the *George Investments View*.

This new *View* will still provide you with important updates about the Roland George Investments Institute, the student-managed portfolio associated with it, and the exciting work being done to create state-of-the-art trading facilities for future program participants.

However, this *View* has some new additions. Two of this year's program participants will engage in a head-to-head debate over the proper valuation of **Panera Bread**, one of the portfolio's success stories. We'll also cover one of our less successful positions that hasn't done so well this year, **Global**

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portfolio performance

by Jeremy Adams and Pulat Tillaboyev

The past year, unfortunately, has brought the investment community more downs than ups. The markets, already reeling from an economy sinking into the grips of recession, were shaken to their very core on September 11.

The disaster of the World Trade Center attacks pushed an already skittish market deeper into negative territory while the rest of the world watched, hoping for a glimmer of hope to rally around. While there have been a few glimpses of light at the end of the tunnel in recent weeks, the prognosis for the near future is not particularly promising.

In spite of less-than-favorable market conditions, the Roland George Investments Program portfolio has continued to outperform the market.

The growth fund's year-to-date return of 8.7% has outpaced the standard benchmarks—the Dow Jones Industrial Average and the S&P 500— by 16% and 21.3% respectively. The year-to-date returns for the Dow Jones Industrial Average and S&P 500 were respectively -7.3% -12.6% as of the end of November 2001.

The income fund's return, while still a respectable 6.6%, lagged the benchmark Lipper Intermediate Investment-Grade Bond Index by 2.2%. That index has experienced a year-to-date return of 8.8% as of the end of November 2001.

The combined growth and income components have produced a year-to-date return of 7.7%, surpassing the Lipper Balanced Fund Index by 11.7%. That index has experienced a year-to-date return as of -3.96% as of the end of November 2001.

Sector	S&P 500	George Program Growth Portfolio	Difference
Consumer Discretionary	12.9%	12.5%	-0.4%
Consumer Staples	8.4%	5.5%	-2.9%
Energy	6.1%	5.9%	-0.2%
Financials	17.8%	18.8%	1.0%
Healthcare	14.9%	17.4%	2.5%
Industrials	11.0%	5.9%	-5.1%
Information Technology	17.6%	20.4%	2.8%
Materials	2.7%	2.8%	0.1%
Telecommunication	5.5%	8.7%	3.2%
Utilities	3.1%	2.1%	-1.0%
Total	**100.0%**	**100.0%**	

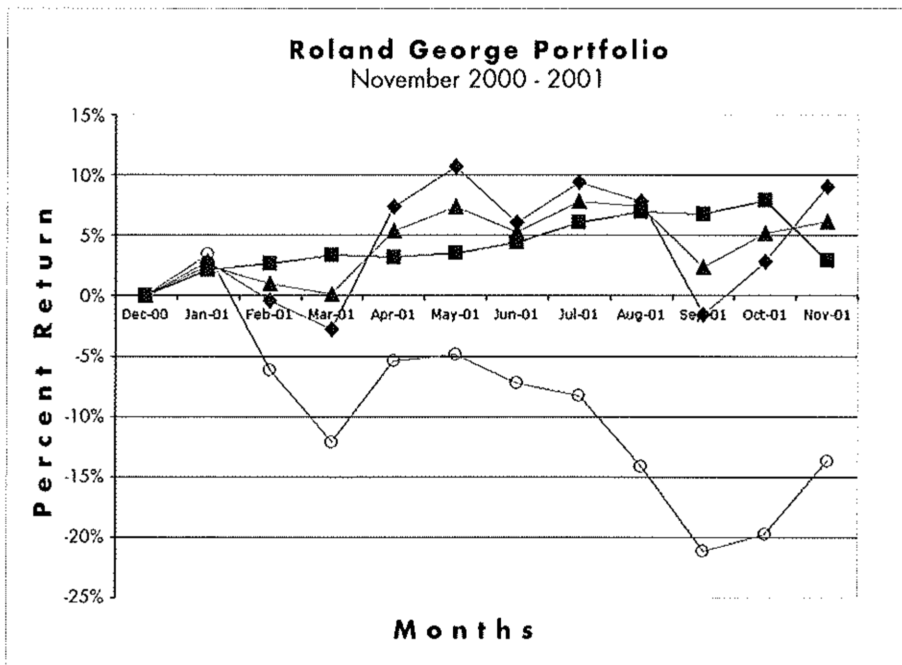
Roland George Portfolio sector versus S&P 500 Index weights.

The growth fund's current sector weightings, as compared to the S&P 500 Index, illustrate which sectors we feel will outperform the market. We view the opportunities in the telecommunications, information technology, and healthcare sectors to be superior. The industrial sector, in our opinion, will continue to be negatively affected by commodity pricing and economic uncertainty in the near term.

The outstanding performance of the Roland George Investments Program portfolio can be attributed to the dedication and tenacity of the George Program analysts. The challenge to "Beat the Street" may be daunting but it is a challenge, practically a tradition, that we plan to meet. The current crop of analysts continues to dig for those "diamonds in the rough" that are felt to offer superior returns. Each fall new keepers of the faith arrive and bring with them new insights and ideas.

The portfolio has already begun to show the new strategies. Gone are positions in **Halliburton** and **Fox Entertainment**, but new treasures such as **Brown & Brown** and **Arkansas Best Corporation** have taken their place.

As diligent analysts and cautious prognosticators, we must learn from past mistakes and continue searching for new opportunities if we are to keep our winning streak alive. To complete this task, we must remember company fundamentals and intrinsic value.



Growth Portfolio
Income Portfolio
George Portfolio
S&P 500

The growth and income components of the portfolio have outpaced the S&P 500 benchmark for the trailing twelve-month period ending last November.

purchases

Arkansas Best Corporation (ABFS), a transportation services company, is positioned to take advantage of an economic upturn and is clearly undervalued.

Brown & Brown (BRO) provides property, life, and health insurance along with risk management services. We believe we have acquired the company's future growth at a significant discount to its intrinsic value.

Fossil, Inc. (FOSL) now provides us with exposure to the retail industry. The company produces apparel, accessories, watches, and sunglasses.

MIM Corporation (MIMS) is a pharmaceutical healthcare organization that provides pharmacy benefit management and specialty pharmaceuticals over the Internet. We believe that this under-followed company is trading at a discount.

Sketchers USA (SKX) is a manufacturer of active and casual footwear. We believe that the management is well-positioned to deliver superior and unexpected returns in the near-term.

Perry Ellis International, Inc. (PERY) is a manufacturer of casual and sports attire. The company supplies retail giants like Wal-Mart, J.C. Penney, and Target. We believe Perry Ellis is significantly undervalued and well positioned to take advantage of improved consumer confidence.

Misonix (MSON) is a medical technology firm that has a strong research pipeline of ultrasonic devices. The company also produces mail handling technology that can be used by small- and medium-sized companies to treat mail suspected of carrying anthrax. We believe that this small and under-followed company is trading at a discount.

WorldCom Group (WCOM) is a company that we believe is well positioned to lead the telecommunications industry during any near-term economic recovery.

The class decided to add **Citrix Systems** (CTXS) to create exposure to the software industry. We believe that the company's stock price has been depressed because of threatened competition from Microsoft that will probably never emerge.

The class decided to acquire **Excelon Corp.** (EXC). Excelon's exposure to both coal and nuclear power is attractive, and the company is a conservative addition to our energy portfolio.

sales

We sold 2,000 shares of **Panera Bread** (PNRA). Although the company's stock has grown dramatically over the past two years, we considered the company to be overvalued.

Fox Entertainment Group (FOX) did not perform well during the last year. The class believes that the September 11 events may dampen advertising revenues in the communications industry for the next twelve months.

Paxson Communications (PAX) is a company that previous Program participants believed would be acquired at a premium by NBC. With NBC's recent acquisition of Telemundo, NBC has little cash on reserve to make any acquisitions in the near future. We agreed that we could invest this money more effectively elsewhere.

Halliburton Company (HAL) provides oil- and energy-related services and equipment to industry and government. Fundamentals within the industry will remain weak over the next year and that Halliburton should be reconsidered at a later time.

AT&T's (T) anticipated growth rates never emerged and we wanted to reduce our exposure to the telecommunications industry after purchasing 2,000 shares of WorldCom.

MGM Mirage (MGG) operates several hotel-casinos in Nevada, Michigan, New York, Australia, and South Africa. The class believes that the company will perform poorly over the next twelve months due to eroding fundamentals in the tourism and leisure industry.

We sold our position in **Topps** (TOPP), a maker of premium-branded confectionary products. The company did not perform well for the last quarter (ended September 2001) with net income falling by 69%. The class also believes that Topps had essentially reached its appropriate market valuation.

We reduced our position in **Thoratec** (THOR), a firm that produces proprietary medical devices for circulatory support, by half. We had nearly $100,000 invested in Thoratec, and we wanted to reduce our exposure to this company—the largest holding in the portfolio.

For similar reasons, we reduced our position in **Fischer Imaging** (FIMG) by 3,000 shares. The company's stock has grown tremendously in value this year.

director's update

by Dr. Jim Mallett

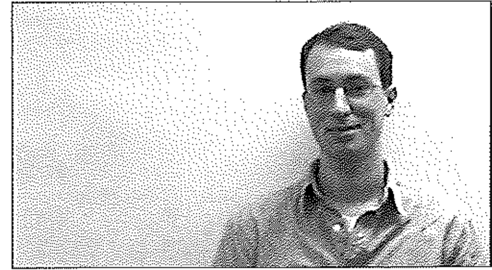
Despite a preoccupation with the September 11 tragedy, students in the Roland George Investments Program are working to make sense of the rapidly changing investment environment. By maintaining their investing discipline, George Program students expect to defend Stetson University's title as National Investment Champions at the RISE Symposium in February.

Dr. K. C. Ma has rejoined the George Investments Institute as its Visiting Professor of Applied Investments. Changing professors in the George Program is very similar to changing coaches in sports. The students continue to make the investment decisions but strategy and focus shift.

Another change that has been occurring over the past year is a growing sense of community between former Stetson University alumni and current participants. We have added three alumni to the George Investments Institute Board of Advisers. They are James Hughes, Jr. of V4 Capital Management, Elliot Perny of STI Capital Management, and David Strickland of First Reliance Bank. Additionally Frank Gaylord, Esq., who continues to serve on our Institute Board of Advisers, now also serves on the Roland George Investments Committee as our representative from the University's Trustee Investments Committee.

To continue strengthening this sense of community between alumni and current participants in the Roland George Investments Program, we will have a dinner for former participants in February during Stetson's Homecoming Weekend. We hope that alumni can provide current students with mentoring and provide leads for placement. Additionally, program alumni can provide advice and resources to enhance our investments program at Stetson.

We look forward to seeing you then, and we hope you have a safe, productive, and profitable investing year.



not as we expected

by Brian Smith

Two years ago, **Global Crossing** was one of Wall Street's greatest success stories. Started by one of Michael Milken's ex-bond traders, Gary Winnick, the company transformed itself from an obscure fiber-optics firm to one of the best-known names on Wall Street, amassing a market capitalization of over $50 billion at its peak.

Global Crossing issued its first public offering in August 1998 amid a relatively optimistic market. The company wielded a relatively sound business plan. Global Crossing intended to build a global fiber optic network, selling some of its capacity to existing exchange carriers such as AT&T, as well as to non-telecommunications firms that wanted to build their own virtual private networks on top of Global's fiber.

In catering to non-telecommunications firms, Global would become somewhat of a strategic partner, providing network support and web hosting.

Global Crossing benefited tremendously from the timing of its initial public offering (IPO). Many Internet firms such as Ebay also made their IPOs in late 1998.

The seemingly unstoppable growth of the Internet created a seemingly unquenchable demand for bandwidth, which helped to push Global from an initial IPO of around $10 to a high of around $60 in one year.

Global's sales approach, combined with a high demand for bandwidth at the time, looked attractive to the Roland George Investments Program. However, during Global's rapid expansion, it absorbed a tremendous amount of debt.

Long-term debt for Global grew from just over $1 billion in 1998 to over $6 billion in 2000. Although the program was interested in investing in Global Crossing, the staggering debt load lead them to purchase Global's convertible preferred shares instead of its common shares.

> "Global Crossing has now lost the uniqueness that initially looked attractive..."

This strategy still gave the portfolio a quasi-equity presence, while providing a greater margin of safety against Global's staggering debt level.

Industry fundamentals have changed significantly in the past three years, depressing the price of the program's preferred shares to around $15, a long way down from our $235 purchase price. Global's unique position in the fiber market allowed them to charge competitive prices, initially securing themselves a foothold in the industry.

However, as other firms noted Global Crossing's success, they rushed in to build capacity of their own, creating a fiber optic supply glut. Global Crossing has now lost the uniqueness that initially

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skechers

by Jayme Wiggins

Skechers USA, Inc.	
Ticker	SKX
Recent Price	$16
Capitalization	$584 million
Industry	Textiles (Apparel and Footwear)
Exchange	NYSE
Web Site	www.skechers.com

Skechers is the fastest grower in the footwear industry. The company designs and markets trendy shoes for men, women, and children primarily in the 12-25 year-old age group. Skechers' branded footwear is sold through department and specialty stores, as well as its own outlet stores.

Skechers has demonstrated tremendous success in capitalizing on footwear fashion trends, thanks to keen management and one of the best research and development divisions in the industry. The company has adopted a strategy of identifying changing trends early, reworking them to adhere to the hip Skechers image, and selling its products at prices that beat the competition. It is able to undercut competitor prices because it contracts with Chinese manufacturers to produce its footwear offerings, and also realizes savings through the use of less expensive materials in some of its lines.

Skechers' sales have grown at an annualized rate of 40% for the past five years, and have only accelerated in 2001. Nevertheless, the company disappointed on earnings in the most recent quarter. Management attributed the earnings decline to increased expenses from rapid sales growth and slower September sales as a result of the terrorist attacks.

Management has begun implementing several cost-cutting measures in response to the slowing economy, including reducing head count, closing an unprofitable division, and lowering marketing expenses as a percentage of sales. The company is poising itself to regain earnings growth momentum going into 2002. Skechers' foray into international markets will buttress its U.S. operations during uncertain times, as the company sells over 900 styles of shoes in more than 100 countries. The diversity insulates it from waning demand for any particular line.

Sketchers' stock has been one of the few in the footwear industry not to rebound to its level before the terrorist attacks. Despite Skechers' superior growth prospects, the company trades at a clear discount to its close competitors. Given a price-to-earnings ratio of 9, return on equity of 36% (over twice that of its competitors), and industry-beating turnover ratios, Skechers is considerably undervalued. We project 2002 EPS of $1.60, which is 30% growth over 2001 estimates. Our conservative forecasting results in a fair value for Skechers of $17 a share. At its current price of $13, Skechers is still a bargain.

thegeorgeinvestmentsview

Is Panera Bread OVERVALUED?

point

by Heather Perry

Though Panera may appear overvalued, I feel that $54 is the fair value of the stock if one uses Panera Bread Company's forward looking earnings per share estimate of $1.35 and an estimated average price-to-earnings ratio of 40.

"I feel that $54 is the fair value of the stock."

If a valuation model based on annual earnings and a growth rate of 40% is used, then this stock's target price will be $62 a share, which would be my current liberal upward price limitation assuming Panera Bread Company can sustain this growth for another year. On September 24, 2001, David A. Geraty at Dain Rausher Wessels estimated a target price of $58.00.

However, if the company steps up its franchise openings then the value of the stock's target price will need to be evaluated again. The franchise seeks to open between 600 and 700 more stores and the firm will realize a 40% cash return on its investments.

These stores are not all slated for opening at once during the next year, though. That would saturate the market quickly, mirroring the mistakes of Einstein Bagels.

After the economic decline, previous restaurant-goers are not dining at home, but instead have refocused their dining habits on places that offer lower ticket prices and a great atmosphere—exactly like the atmosphere at Panera Bread restaurants.

So in the wake of uncertainty, Panera Bread Company has been able to offer both its shareholders certainty by maintaining fabulous revenue growth, opening franchise commitments, offering $8 ticket prices, and creating a great dining atmosphere. You've got to love this stock!

counterpoint

by Brian Smith

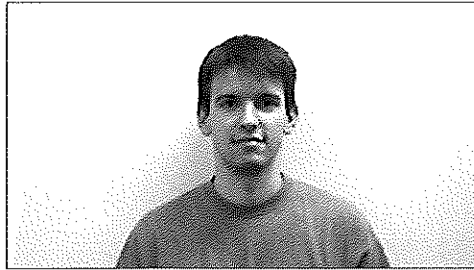
Panera Bread had been very generous to the Roland George Portfolio, contributing returns in excess of 100 percent for the two years the program has chosen to hold the stock. However, after a retailer such as Panera posts such tremendous growth in such a short time, it's only reasonable to begin questioning how much longer it will be able to do so.

Panera's growth story involved its large backlog of more than 500 commitments to open franchises. As of September 2001, Panera had 227 franchised cafes. Converting their 500 promises into actual stores would make Panera's franchise presence almost 3 times its current size, suggesting that it should have no problem with continuing its rapid growth.

However, upon closer examination, I found that Panera only converts approximately 13% of its backlog of franchises per year into actual stores. At this rate, assuming Panera receives no additional commitments to open new stores, it will take the firm seven years to work through their current backlog. Panera only sells franchise commitments in blocks of 10, helping to further increase their backlog of franchise commitments.

"This suggested that the stock was already fairly priced..."

After taking into account the expected growth in Panera's number of franchises and net margins as reported on the income statements, I felt that Panera would probably produce numbers very close to what analysts were already expecting. This suggested that the stock was already fairly priced in the $35 range the stock had been languishing in after a fall from its then 52-week high of $42. This reasoning motivated my recommendation to liquidate our position in the company.



telecommunications sector

who will lead the recovery of this sector next year?

by Justin Parnell

A year ago, the telecommunications industry appeared attractive to investors. There seemed to be limitless demand for telecommunications services because of exponential growth in data usage.

As a consequence, this spiraling demand allowed carriers and investors alike to benefit from high stock valuations. Simultaneously, the mobile phone and Internet sectors grew as new subscriptions and orders rose.

Today, the landscape of the telecommunications industry has an entirely new appearance. Some carriers are on the brink of collapse and sales of cellular phones have dramatically decreased.

In addition, the capital expenditure budgets for large carriers are being slashed. These changes are principally attributed to the worsening economic conditions.

As voice communications rates began to drop more rapidly than expected and data communications revenue did not fill the void, the telecommunications carriers were slammed.

Prior to the economic downturn over $1.3 trillion in debt—omitting the several hundred billion dollars that carriers raised in the equity markets—was issued to carriers that appeared to have substantial profitability. When demand waned and rates dropped, though, there were too many investment dollars chasing too little return. The result was newcomers, such as **Global Crossing**, that dropped in value by over 900% over the year.

Many companies expected their voice communication rates to drop and planned on compensating with additional data communications and Internet service activity to fill the void. But even these companies did not predict a drop to occur this rapidly. This situation adversely effected carrier revenues.

"When demand waned and rates dropped...there were too many investment dollars chasing too little return."

Because too much debt was attached to the predicted gain in carrier revenue, carriers began to collapse. This situation resulted in a host of bankruptcies and restructuring to ameliorate industry positions.

Cuts in spending on capital expenditures pose a major threat to the future success of the telecommunications industry. Consider **AT&T**, for example. The firm will spend an estimated $8.7 billion this year on capital expenditures. But AT&T is only budgeting a mere $6.6 billion in 2002. **Qwest**, which expects to lower its capital spending to $5.5 billion in 2002 from an estimated $8.5 billion in 2001, is leading the cuts.

To accomplish these drastic cuts, carriers have halted their ongoing projects and frozen all shipments from equipment vendors. Consequently, the equipment vendors will struggle for financial success through 2002.

As mentioned, the mobile handset sector has experienced a decrease in sales, thus hurting its position. Market leaders, such as **Motorola** and **Ericsson**, have seen sales fall by over 20% in the latest quarter.

Along with these disappointing figures, consumers have been reluctant to embrace mobile data services. Feeling the effect of these damaged sectors, mobile phone makers **Nokia**, Ericsson and Motorola have joined with wireless carriers to commit to promoting open architecture in the mobile data area. This action is essential to the creation of widespread interoperability, which will hopefully enhance the mass-market appeal of the wireless Internet.

As for the cell tower operators—their shares are hitting new

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brown & brown

by Robert Pile

Brown and Brown

Ticker	BRO
Recent Price	$28 (split-adjusted)
Capitalization	$1.78 billion
Industry	Insurance Brokerage
Exchange	NYSE
Web Site	www.brown-n-brown.com

Brown & Brown is an independent insurance agency and brokerage firm. The firm provides property, casualty, life, and health insurance as well as risk management services through its retail division. The company mainly services commercial clients.

Brown & Brown also designs customized products for niche clients. Additionally, the brokerage division distributes excess and surplus commercial insurance through independent agents. The service segment provides self-insured and third-party administrator services. With the industry raising premiums in January 2002 by 10-15% and the market having an upward trend in the next three quarters, we feel that Brown & Brown will continue to grow. The development of new and existing proprietary programs and the volume of business from new and existing clients will aid the company in its quest to create shareholder value.

For example, stagnant rates of inflation in recent years have generally limited the increases in insurable exposure units. Conversely, the trend in litigation settlements and awards has caused clients to seek higher levels of coverage. Also, with the September 11th tragedy, clients are increasing insurance protections from legal liabilities. Revenues will be around $360 million for 2001. Those revenues represent an increase of 71.43% over the prior year's revenues. Most of the increases in revenue are due to the many acquisitions the company has made during the year, but because of the high demand for liability coverage, Brown & Brown has been able to capitalize on new demand with good strategies.

The company has lowered its debt-to-equity ratio, which is at 0.53, and has at the same time maintained a free cash flow of $50 million. The firm has a $50 million revolving credit agreement with SunTrust Bank that hasn't been used yet. We predict that the company will continue to grow earnings per share by nearly 30% in 2002. The company has also doubled its operating margin. This phenomenon allows Brown & Brown to have a higher price-to-earnings ratio than any other company in the industry. Employees own 36% of the company—so its employees will be fighting hard to drive up stock prices.

The main reason why this company is a great investment is its high growth rate and return on equity. We see Brown & Brown continuing to grow and achieve higher revenues and earnings.

Charles Bryant explains the screens that Kennedy Capital uses to create its universe of equities—equities that are ripe for investigation.

speaker spotlight

by Todd Tarrance

In October, participants in the Roland George Investments Program had an opportunity to speak with Charles Bryant from Kennedy Capital Management, Inc.

The firm for which Bryant works is a registered investment advisory firm ranked among the top investment advisors by the SEI.

Bryant graduated from Stetson University in 1995, where he was a Roland George Investments Program Merit Scholar. Since that time, he has gained extensive experience as an equity analyst with Fidelity National Financial, Burns Pauli Mahoney, and Kennedy Capital Management.

Currently, Bryant follows the food, restaurants, brokerages and the security/safety industries for Kennedy Capital Management. He's also pursuing an MBA at St. Louis University.

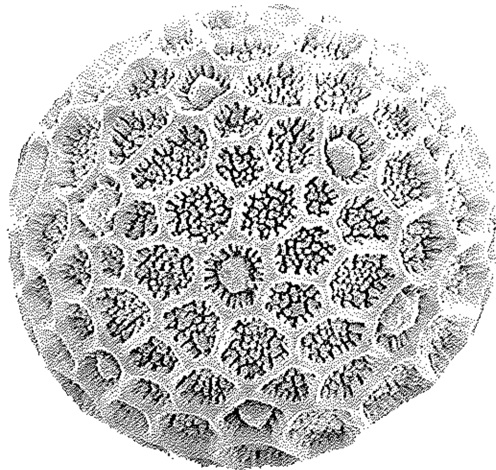
He spoke to program participants about Kennedy Capital's equity selection process and gave some insights into an analyst's responsibilities. He explained how Kennedy Capital looks for the same characteristics for which others look, such as high growth rate in sales and earnings, expanding demand for product, and positive and increasing free cash flow.

However, Bryant explained, Kennedy Capital also seeks companies that lack adequate exposure to the investment community. Specifically, the firm targets companies with little or no research analyst coverage and those with low institutional ownership. This investment strategy is taken because Kennedy Capital believes that those companies with low institutional ownership provide long-term holding potential with little downside risk.

Also, as an analyst, Bryant is responsible for revaluing stocks for which investment bankers have aided the company in an offering and are providing an earnings estimate as part of their service. He will discount the earnings estimate promised by the investment banker due to the potential bias in favor of the client.

This process allows investors to obtain a more accurate and unbiased value for the equity, which ideally leads to more reasoned investment decision-making.

Learning about Kennedy Capital and hearing from Bryant gave program participants insight into the world of the analyst. His presentation not only injected new investment ideas into our program, but also provided us with a first-hand look at what everyday life is like for an analyst at Kennedy Capital. Bryant's ideas are an important asset for any value investor.



biotechnology

by Nick Burwell and Jeff Hamrick

Over the last few years, extraordinary amounts of money have been pumped into biotechnology companies. Products derived from biotechnology seem limitless. The potential benefits range from improving our health care system to cleaning our environment. From 1993 to 1999, sales, revenues and market capitalization have more than doubled.

However the year 2000 saw more money invested in biotechnology than the last five years combined. As a result, business models have matured and the tools of biotechnology research have reached a level that proves the industry is ready for exceptional dramatic growth.

The most significant discovery associated with the biotechnology revolution was the discovery of the structure of deoxyribonucleic acid (DNA) in 1953 and the identification of DNA as the genetic material in all life. This discovery has paved the way for a remarkable understanding of how organisms work.

It is now possible, for example, to orchestrate life to suit our needs. The term "biotechnology" is best used to describe the directed alteration of biological processes. This process is done by introducing new genes into organisms, treating organisms with specific compounds, or breeding organisms to form new alternatives.

Another extremely important development within the biotechnology community was the sequencing of the human genome, which provided a foundation that will support decades of research and discovery.

As a result of the surge in biotechnology many scientific advances have enabled new business models. It is critical to the industry that each advance has a compatible business model to ensure proper commercialization. There is little doubt that the biotechnology industry promises to become one of the largest in the world.

So what is a good strategy for investing in biotechnology stocks? One strategy for maximizing profits is to closely follow Food and Drug Administration (FDA) approvals. People should familiarize themselves with the relationship between market movements and FDA approvals.

For example, in the pharmaceutical field, biotechnology firms are experimenting with therapeutic proteins, immune system modulators, gene therapies, stem cell technology, drug delivery technologies, vaccines, signal transduction, and telomerase and monoclonal antibodies.

A recent study tracked stocks from the date of FDA approval for all companies that received approvals in 1998, 1999, and 2000—a total of 60 companies, whose names are available from the Biotechnology Industry Organization Trade Group in Washington, D.C. Thirty days after approval, the average stock gain was 7%, and 55% of the stocks were up.

The average gain after 60 days was 13.4%, with 58% of the stocks up. This phenomenon is more than an investor can expect from the market in an entire year. The easier and less risky strategy seems to be to buy on the day of approval and hold for at least 60 days. If you've made some profits it is always wise to consider taking your profits and moving on.

A critical mistake made by even the most experienced investors is

being a little too greedy and not knowing when to cash out. If you're a more risky investor and are looking for higher returns another strategy is to buy a basket of stocks with drugs in the last stage of clinical trials. Right now, there are over 150 biotechnology companies that have drugs in Phase III testing.

A critical reason for choosing companies with drugs already in the Phase III trial period is that the total time from invention to approval can be as long as 15 years. According to the FDA, the average length is 8.5 years.

Information regarding the status of clinical trials can be found using Sectorbase, a highly informative database, but unfortunately extremely expensive. Phone calls to individual companies are a more time-consuming method but for those of us who can't afford $425 a month it may be the only way.

For the best returns, look for companies valued at less than $1.5 billion that have managed to retain significant licensing rights to their drugs. Many small biotech firms are forced to sell rights to bigger companies in order to raise money during the years of testing and approval. Here are the names of some of the highest rated small-cap biotech firms: **Charles River Laboratories** (CRL), **Embrex** (EMBX), **Integra Life-Sciences** (IART), **BioReliance** (BREL), **Organogenesis** (ORG), **Techne** (TECH), **Aviron** (AVIR), **Lifecore Biomedical** (LCBM), and **Hemispherx Biopharma** (HEB).

Although the biotechnology industry is full of uncertainty, the industry offers unparalleled long-term returns for those investors who are willing to accept some additional risk in their portfolio.

Biotechnology firms are changing the world in which we live, and it is companies that improve the quality of human life while changing the world that provide the best investment opportunities in the long run.

analyst report

While there are many impressive long-term investment opportunities available in the biotechnology sector, we also believe that medical technology firms offer promising near-term returns. In particular, we like **Misonix, Inc.** (MSON), which designs, develops, manufactures, and sells ultrasonic medical devices, ultrasonic equipment for scientific and industrial purposes, scrubbers for the abatement of air pollution, and air handling systems for the protection of personnel and products from airborne hazards.

The company's attractiveness stems from (1) the failure of the market to recognize the latent value of its business activities and its research pipeline; (2) its essential control over the low-cost end of the market for certain medical instruments; and (3) the tremendous growth in demand the company will inevitably experience for its medical instruments that sanitize mail and packages and reduce the risk of contamination by airborne hazards.

We believe that the company is likely trading at a 40% to 60% discount to its intrinsic value (the company has recently traded around $9.00 a share).

For the past two years, the company's revenues have increased by 12% per year, on average. This increased revenue can be attributed to the development and sale of ultrasonic medical devices. Revenue growth for the company's medical devices and industrial products segments was approximately 22% and 5% on average, respectively. In FY2002 and FY2003, we expect revenue growth in the neighborhood of 15% for its medical devices and 13% for its industrial products. These estimates are conservative, especially considering indications that orders for the company's ductless fume enclosures are dramatically increasing.

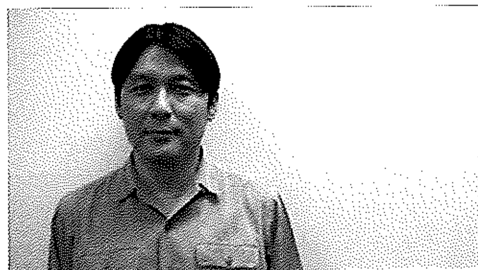
The company announced on November 5 that the increase in orders for its ductless fume enclosures was due to customer interest in anti-anthrax products.

Based on these expectations and Misonix's predicted net margins for FY2002 and FY2003, we believe that Misonix will post earnings of around $0.39 per share and $0.47 a share in FY2002 and FY2003.

Misonix expects to begin large-scale shipments of its latest ultrasonic technology, which dissolves benign prostate tumors, early this year. The company is an attractive acquisition target in this industry, which is likely to experience considerable consolidation during any near-term economic recovery.

With a fair value of around $15-17, Misonix is still an excellent buy—for you or a company hunting for acquisitions.

"A critical mistake made by even the most experienced investors is being a little too greedy..."



a tumultuous investment environment

an assessment and look at the aggregate domestic economy

by Dr. K. C. Ma

The U.S. has officially been in a recession since March 2001. The gross domestic product shrunk 0.4% in the third quarter, the first time since 1993. The unemployment rate rose to 4.9% and again to 6% by the middle of the year. The cumulative jobless claims reached 4.018 million as of Nov. 17, the worst level in 27 years. The consumer confidence index fell to 82.2 in November, the lowest since February 1994.

Other confirming evidence of recession includes a low inflation rate, which only rose at a 0.9% annual rate in the first 6 months—the lowest since early 1960. Additional evidence includes a drop below 5% for long-term interest rates. Of course, the resulting financial impact on the American stock market has been swift and painful. Almost all major market indices dropped more than 50% from their highs within a 12-month period. This leads to the last question in *Who Wants To Be A Millionaire?*—Are we at the end of the tunnel?

If stock prices are said to reflect future economic prospects, then the recent market rally may provide some clues. Despite the obvious delay due to the September 11 attacks and anthrax in the mail, optimists may argue that there are early signs of a rebound. Durable goods orders, adjusted for the inflated wartime demand, fell 7.2% in October, indicating that the decline was leveling off. Long-term rates started inching upward with the expectation that the Federal Reserve's rate cuts, from 6.5% at the start of this year to 2%, may be nearly complete. Retail sales in recent weeks grew, jobless claims fell, the housing market was stronger than expected, and there is a growing sense that the United States is winning the war in Afghanistan.

"... the real economy will bottom out in the first quarter of 2002."

The consensus seems to suggest that the real economy will bottom out in the first quarter of 2002 and recover afterwards. With a recovery potentially in sight, the inflation rate, and therefore interest rates, are expected to go even lower. As shown by Bureau of Economic Analysis, for the past few recessions and recoveries, the annual inflation rate has fallen by an average of 1.4% during the 4 months preceding the end of the recession until 7 to 9 months into the recovery.

A repeat of this phenomenon will put the inflation rate in 2002 at a level of 0.1% to 1.5% higher than in 2000. We should find long-term interest rates closer to 4% next year as well. Both of these changes are necessary ingredients in the recipe for a rising stock market.

The bull market for the last 10 years has been uniquely fueled by strong consumer confidence. Further insight may be obtained from the interesting historical relationship, produced by the Conference Board, between consumer confidence and the unemployment rate. Since 1988, there has been a close inverse relationship between consumer confidence and the unemployment rate.

Based on this relationship, a 6% unemployment rate is associated with a level of consumer confidence between 80 and 85. Economists have estimated the labor market will bottom out in the first quarter of 2002 with a 6% jobless rate. The fact that the consumer confidence index already fell to 82.2 in November may also suggest that the bottoming of the stock market has already occurred.

The students in our program, then, have digested these changes and are repositioning the portfolio to take full advantage of the recovery we expect by the second quarter of the next calendar year. Stay tuned.

arkansas best

by David O'Regan

Arkansas Best Corporation	
Ticker	ABFS
Recent Price	$31
Capitalization	$761 million
Industry	Trucking and Shipping
Exchange	NASDAQ
Web Site	www.arkbest.com

On October 18th, the Roland George Investments Program purchased 2,000 shares of **Arkansas Best Corporation** at an average cost of $23.

Arkansas Best Corporation is a holding company comprised of ABF Freight System, The Clipper Group and Wingfoot. ABF Freight System is a national Trucking Company Operating in the LTL (less-than-truckload) market. The Clipper Group is a multi-modal group with the ability to serve full trailer-loads, partial trailer-loads, and LTL shipments.

On November 1, 2000, a subsidiary known as Treadco became a part of Wingfoot Commercial Tire Systems, LLC, a joint venture between Goodyear Tire and Goodyear Rubber Company. The completion of this venture marked the formation of the world's largest network of new tire sales, service and retread manufacturing centers in which Arkansas Best has approximately a 19% interest.

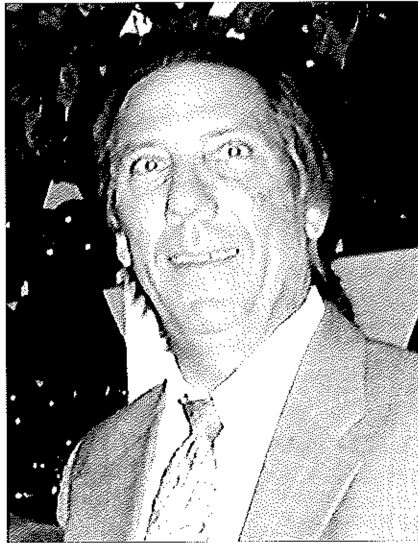
We feel that ABFS shares will continue to appreciate handsomely. Fundamental investors should be attracted by the company's balance sheet combined with a managerial commitment that all segments will return 10% or better on all capital employed.

The long-term outlook for the entire industry is good based on rising LTL. Revenue per hundredweight has increased steadily. Our research leads us to believe that Arkansas Best will continue to hold the best operating ratios among its peers.

Historically, Arkansas Best has achieved the highest operating income among its competitors. We see no reason why this trend should not continue. Downside risks are mainly limited to fuel and labor costs. Currently oil prices are low and all union agreements expire beyond our time horizon.

It appears likely that there may be further consolidations in the industry. Arkansas Best is well-positioned to take full advantage of competitors who continue to suffer financial difficulties. The stock may also be driven higher by the historical migration of investors to this industry in advance of an economic recovery.

We established our position with a 12-month target price of $32, and we believe that this estimate is conservative. Our valuation does not include the future cash flows from the Wingfoot investment, nor does it include a dramatic increase in sales due to likely future industry consolidations.



Frank Gaylord, Esq., is a trustee of Stetson University and is a member of the university's Trustee Investments Committee.

committee addition

by Tyler Pullen

With his recent appointment as a member of the investments committee of the Roland George Investments Program, Frank Gaylord brings with him more than twenty years of involvement with the program and a vision of publicizing the program's achievements to a larger audience in the professional investments world.

Gaylord has been interested in the program since its inception in 1980 when he helped facilitate the negotiations between Sarah George and Stetson University.

"After almost a year of negotiations, Mr. George's dream of having a investments program that was run by students and that would provide a real sense of decision-making with real money came true," said Gaylord.

Gaylord has also been an active member of the board of trustees at Stetson University since 1986. Gaylord's relationship with the university began even earlier when he attended and graduated with a business degree. He later attended Cumberland Law School and currently practices law in Eustis, Florida.

When asked about the future of the program, Gaylord said the goal is to broaden the program's scope in order to stir up more recognition for the years of continuous success that the students have displayed in managing the portfolio. "I want the Program to no longer be known as the best kept secret in the investments world," says Gaylord. "We need to publicize the great track record that the program has had over the years."

This attitude, coupled with the soon-to-be-renovated Lynn Business Center, should provide the environment for both Gaylord's and Dr. Jim Mallett's goal of increasing the program's connections with former program participants. Both Gaylord and Mallett hope to boost networking links for graduating seniors and obtain alumni advice on current investment issues.

According to Mallett, the director of the George Investments Institute, the remodeled Lynn Business Center will have a much larger facility for program participants. This new trading room will be designated solely for research and trading and is expected to house eighteen computer workstations.

Both Mallet and the other investment committee members are looking forward to having another member sit on the board. "It is required by the charter to have a member of the university's investment committee hold a position on the board. Who better than Mr. Gaylord, who has had extensive connections with the program from the beginning, to hold this position?" said Mallett.

Students feel much the same way about Gaylord's appointment. Nick Burwell, who has been a member of the program since last spring, had nothing but good things to say about the program's future. "I'm jealous of the classes who will have the new facilities to work with, and I'm sure Gaylord's participation will add a great deal of knowledge to the decision-making process," said Burwell.

With the fall semester winding down to a close, Gaylord is not likely to make any appearances until after the winter break, but on that day, expect nothing short of greatness!

a change in strategy

continued from page 1

tage of the expected economic recovery.

A more controversial change in our investment strategy was a shift in our time horizon. Under Frank Castle, students in the program generally stated that their intended investment horizon was about 3-5 years, even though many purchases remained in the portfolio for a shorter period of time. Because current program participants believe that they should be able to identify firms that will be properly revalued by the market in the near-term, we selected a much shorter time horizon for our investments—between one and three years.

This strategy led us to acquire firms like **Arkansas Best Corporation** (ABS), **Brown and Brown** (BRO), **MIM Corporation** (MIMS), **Perry Ellis** (PERY), and **WorldCom** (WCOM). Moreover, this strategy led us to reduce or eliminate positions in **MGM Mirage** (MGM), **Halliburton** (HAL), **Paxson Communications** (PAX), and **Fox Entertainment Group** (FOX). Consistent with our new time horizon, it appears that our positions in MIM Corporation and Perry Ellis may be reaching their proper valuations and we might consider terminating these positions shortly.

The students in charge of supervising the implementation of this strategy last fall were Jayme Wiggins, Jeff Hamrick, Nick Burwell, and Todd Tarrance, the student members of the Roland George Investments Committee. They were assisted in this task by Jim Mallett, director of the Roland and Sarah George Investments Institute, and Larry Belcher, chair of the Department of Finance.

According to Jeff Hamrick, a research assistant for the Roland and Sarah George Investments Institute, the students in the program "recognize that...[their] investing strategies will have to be dynamic reflect changing economic conditions."

"As long as our central philosophy remains the same, our current strategy is relatively unimportant, in my opinion," said Hamrick. "The key is making sure that we're adhering to that central philosophy. That's the trick."

not as we expected

continued from page 4

looked attractive to the program, and is now just another struggling fiber optic operator. These effects of low pricing and excess capacity were recently compounded by a decline in Internet- and technology-related spending.

Finally, Global Crossing has recently taken a large loss resulting from the worthlessness of its 20% stake in Exodus Communications. Global sold its web-hosting business to Exodus Communications last year in exchange for a 20% stake in Exodus that was then valued around $6 billion. With Exodus in bankruptcy, Global Crossing took a huge non-cash write-off in the third quarter of 2001.

Shortly after the Exodus bankruptcy, our Global Crossing preferred shares slid from around $40 to less than $10, and have only recently rebounded to around $15. Although the program may have had solid reasons for initially purchasing the Global Crossing shares, we should have seen through Global Crossing's numerous shortcomings and long, protracted fall and moved to cut our losses sooner. Many people question Global's future operating viability, and fear that it could run out of cash as early as the middle of 2002.

Perhaps now is finally the time to step in and cut our losses in Global Crossing.

editor's note

continued from page 1

Crossing. As you may have already noticed, we sport a sleeker, eye-catching design that takes advantage of the latest publication software. You'll still find your old favorites, however, including student analyst reports on some of the promising new acquisitions the program has made and student commentary.

We have committed ourselves to producing a newsletter of outstanding quality, and we are especially receptive to your comments and feedback. The *George Investments View* would be happy to receive letters to the editor, or informal feedback as well. We can be reached at dhamrick@stetson.edu and lmharlan@yahoo.com, respectively. If you're an alumnus or former program participant who might be interested in writing a column, review, or comment for the next *View*, please don't hesitate to contact us and we look forward to hearing from you.

telecommunications sector

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lows and now sell at just a small fraction of their peaks. These valuations are ironic considering the current, relatively healthy positions of companies in this subsector. The strong revenues and avoidance of cut-throat price wars make this area attractive to investors willing to take on the risk.

Weaker players will eventually fall out of the market, creating a better playing field for the stronger players. With most telecommunications players losing more than 50% of their market capitalization from peak valuations, "survival of the fittest" will be a common idea throughout the industry well into 2001.

The future outlook seems dismal, as strong companies will struggle for profitability because they are competing with weakening companies that are desperate for cash. This struggle will result in a plunging cost of services, even if demand rises.

The best investment candidates in this industry are large, established players. The world demand for ever-advancing telecommunications services will continue to rise. Therefore, the big players offering new, in-demand services will make money.

These companies prove to be the best long-term investment candidates in a troubled industry.

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The George Investments View is intended to be an educational document. Investment views belong solely to the authors and do not reflect the views of Stetson University.

The Roland George Investments Program was created in 1980 by Sarah George to provide a unique experience for future investment professionals.

This bequest was intended to honor her husband, Roland, who, after completing his education, began to ply his trade and promptly lost money. Mr. George decided that serious flaws were evident in the traditional educational process for future investors since by overcoming his formal education he was able to master investing and in short accumulate wealth.

From this start, Mr. George formed the idea of creating an investment curriculum that combines 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 investment program at Stetson University in which students manage a portfolio valued at over $2.6 million dollars. Insights are gained through contact with professionals such as Robert Stovall, CFA, of Prudential Securities, Inc.

For more information on the Roland George Investments Program, contact Dr. James Mallett at 386-822-7442.

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