Winter 2001 Volume 6, Number 1

George Inve$tment View

The Fall of 2000 brought a new and eclectic group of seniors and graduate associates to the George Program. We have been fortunate to have had a wide-range of experience from which to draw this semester: restaurateur, banker, Army Officer, insurance broker, full time hedge-fund trainee, Dot.com engineer, and mechanical engineer. There was no limit to our expertise. We have also been blessed with the opportunity to build working relationships with fine people from far away places. Heidi is Venezuelan, Madaminov is Uzbek, Max is Russian, Kathy is from Taiwan, Colin and Dena live in the Caribean. The experience has been constructive, educational, and worthwhile. The George Program was designed to be an interactive, hands-on action-oriented investment bank, and decision-making experience. We spiritedly reintroduce this goal daily. Perhaps it was this combination of personnel, experience, backgrounds and spirit that have been the variables that have provided the leadership allowing the George Portfolios to outperform the volatile and difficult capital markets in the fall of 2000. Our associates' successful approach and strategies are outlined in this edition of their newsletter.

By Professor Frank G. Castle, CFA

Hibernation Comes to an End

The great bull market may have come to an end. History is occurring. The past few years have brought ideas such as Dow 36,000 and Qualcomm price targets of $1,000. "New Economy" ideas have vanished as quickly as the typical dotcom's share price. Investors have finally realized that the short lived new paradigm could not rationalize supporting a company trading at 200 times revenue, and that triple digit growth rates can never be sustained. The bears have gained control of the market. The buzzwords of today include inflation, deflation, and recession. Let's take a deeper look into the factors that are driving the market and derive a forecast for the future.

The Federal Reserve and Alan Greenspan have raised short-term rates by 175 basis points over the past year and have apparently cooled the economy. Why, after six Fed rate hikes, are there still fears of inflation hovering around Wall Street? The still tight labor market and high energy prices have caused inflation fears to linger. Production of goods and services is slowing, but oddly the job market has remained tight. High oil prices, due to strong demand and short supply, remain part of the problem. Although oil does not have as much weight in the CPI and PPI as it did in the past, concern is warranted. Consumer spending may decrease as long as energy prices remain high. The latest reports, however, reflect spending staying strong, even with elevated energy prices. This may be due to a spending lag or consumer's belief that high prices are only temporary. Investors need to watch oil and energy prices carefully.

Despite these fears, recession, even more so than inflation, has been the word on the Street. Slower growth, together with a weak Euro and widening credit spreads, has created the perfect recipe for a recession. Higher interest rates have reduced corporate spending, slowing growth and profits. Furthermore, high oil prices will act as an added tax for some businesses, further reducing spending. Annual GDP growth, which peaked at 7.8% in the third quarter, is expected to fall back to the 2.5-3% range. Reductions in GDP estimates have been occurring daily, and a 2% or lower number is possible. The weak Euro currency has added insult to injury for companies having significant international exposure. Businesses that once received the U.S. dollar equivalent of $1.25 for sales in European countries, when the Euro started trading, are now receiving approximately $.85. Suffice to say the Euro, still in its infancy, is experiencing growing pains. No surprise here. Try taking the economies of 11 distinct countries, all with different growth rates, political agendas, and interest rates, and meshing their currencies into one. You think that's easy? We haven't seen havoc like this since Stetson's last campus-wide faculty meeting. Another reason for the Euro's decline is due to the flood of European investors funneling their funds into the U.S. The Euro should strengthen. If the U.S. market continues to decline, the flow of foreign investment may also decline due to better foreign investment opportunities. Germany plans to lower tax rates; this should provide the Euro with some support. The EU's intervention via price support, in an attempt to stop the Euro's emaciation, has had some effect. It must be noted, however, that if cooperation among all EU members does not materialize and remain indefinitely, a stable and strong Euro is not possible.

(continued on page 2)

(from page 1)

Hibernation Comes to an End . . .

Spreads between treasuries and corporate paper have widened to reflect smart money's desire for safer securities and reduced risk. History has shown that substantial spreads are a leading indicator of a recession. Furthermore, the yield curve has inverted, and forward rates suggest a lowering of rates in early 2001.

Independent of the Euro situation, energy prices, and slower growth, election years historically bring prosperity to the market. This year the past has not been panning out. The election result, or at the time of this writing the lack of a result, should not produce a catalyst for a specific direction in the marketplace. The outcome of the election will have an affect on individual security selection. Bush with his hands-off approach should make tobacco stocks that have continued litigation trouble look more favorable. Growth stocks should perform as well. Gore, with his government spending approach will help government-sponsored entities such as Fannie and Freddie.

We entered this chapter of economic history with a number of grossly overpriced securities. In a speculative market, with uncertainties that include inflation, recession, tensions in the Middle East, and a deteriorating investor psychology from the above factors, is it any wonder we now find ourselves in the midst of a bear market? For the Roland George Investments Program, disciplined individual security selection has never been more imperative given the deteriorating macroeconomic factors that influence a portfolio. So when will these bears go back to hibernation?

Although fears of recession persist, we believe this outcome will not occur. At a definitively slower rate, productivity and growth will continue, which should cushion the fall and make a soft-landing for the economy likely. This bear market should end when economic conditions stabilize, slower overall growth rates are discounted in the market, and multiples slightly above historical averages reappear. We believe that above average multiples are likely because Internet and recent technology breakthroughs have added permanent value to corporations. To date economic conditions remain uncertain, and multiples continue to be heavily inflated. In the short term, unless a catalyst appears, further downside seems apparent. The market is revaluing itself, and in the long-term should only make it stronger. The Roland George Investments Program looks forward to the future, the decisions that need to be made, and the outcomes they will bring.

by Brian Rachwalski

Growth Portfolio Objectives . . .

Growth Portfolio Goals

- Generate equity investments based on thoughtful research and disciplined decision-making, seeking above average, full cycle total return, with a long-term focus.
- Achieve an above-average risk adjusted real return (alpha) by following disciplined asset allocation and equity risk strategies, emphasizing both hidden intrinsic values and depressed, oversold companies.
- Control portfolio risk by selecting both bond and equity securities with attractive margins of safety in a wide array of industries at reasonable P/E ratios.

Growth Portfolio Strategies

Security selection will fall within one of our value/growth categories, several of which we have listed below. We believe the market will at some future date focus on the undervaluation of our individual securities and adjust their values upward.

Hidden or undervalued asset situation –

- Understated good will, real estate, inventory, or natural resource assets whose values should at some future date be recognized by the market.

Corporate earnings recovery and margin improvement situations –

- Confirmed turnaround recoveries, internal management bootstrap operations and recovering (oversold) cyclical industry opportunities.

Extremely undervalued securities whose P/E ratios do not reflect intrinsic value –

- Sound growth companies with enduring customer franchises whose market valuations are depressed because of market panic, negative company image, and/or short-term earnings problems.

Special situations: probable takeover, liquidation, or restructuring candidates. Undervalued opportunities reflecting a company with –

- Exceptional cash flow and/or free cash flow, often with undervalued assets.
- A significant gap between publicly traded valuation and private intrinsic value.

by Brian Rachwalski

Portfolio Performance

The Growth Portfolio has generated a 28% return over the twelve-month period ending December 31, 2000. The Portfolio outperformed the major market indexes and did so with less exposure to market risk, given that the portfolio carried in excess of 10% cash for most of the year-long period while containing equity securities with lower market risk levels. The Portfolio's best performing equity holdings included Panera Bread Company, Biomet, and PerkinElmer. A large energy position initiated in the fall of 1998 further helped boost the year's performance. After reaching new highs in the summer, our energy exposure (9.5% of our portfolio) did retreat substantially (25.8% from its peak). The best one-month return came in August with a 9.65% increase in the portfolio.

Offsetting these gains were declines in our four-year-old investments in technology. After selling 50% of our holdings in Micron Technology and Electro Scientific in May 2000, we experienced serious declines in these investments. Our healthcare holdings (17.7% of portfolio) have outperformed the market returning 32.8%.

The Income Portfolio was basically flat for the year ending December 31, 2000. Severe principle losses in high-yield bonds were off-set by gains in high-grade corporate bonds with longer duration. Performance was consistent during the period with September the best month gaining 5.02%.

By Jason Smith

Changes in the Portfolio

Sell – Beckman Coulter (BEC)

We made the decision to sell BEC, a developer of medical instruments, after analysis of our overall portfolio asset allocation. We owned 200 shares of BEC, comprising 1.16% of the portfolio, putting the stock in a position where we either needed to increase our holdings or sell our stock. While BEC has been diligent in paying down their debt, their long-term debt as a percentage of capital still remains at 80%. With approximately 25% of their revenues obtained from Europe, the weakening Euro has already begun to affect BEC's bottom line. Competition in this field has recently increased at an amazing pace, and the high barriers to entry that once sheltered BEC are no longer a safe haven. Our analysis values BEC at $71.69, indicating that BEC was overvalued.

by Michelle Dass

Sell – Perkin Elmer (PKI)

The Program made the decision to sell our entire PKI position when the stock exceeded our valuation ($90). We felt the additional risk from the uncertainty of growth estimates did not match our investment strategy. We also felt value investors were exiting the security and distributing the stock to momentum investors. Moreover, the volatility in PKI shares had increased dramatically. We had purchased PKI on the basis that a new outstanding management team would be able to unlock asset values, increase operating margins, and generate a higher P/E ratio, prior to selling the company. While that management team remains strong, we determined that economic conditions and the lack of potential takeover targets brought a new uncertainty to the company.

by Jason Smith

Table of Contents

COX COMMUNICATIONS, INC. (COX)

Until recently, the average transfer rate for a modem to transfer a 10 megabyte file was 46 minutes. Now it can be done in 8 seconds with a 10 Kbps cable modem. Cable modems are said to be the wave of the future for business use as well as for home use because they transfer at more than 100 times the speed of the traditional telephone connections. Growth is substantial, and cable modems are available to 32 million households. By 2008 it is estimated that 78 million people will access the Internet through cable modems. Over the next decade, broadband technology will become increasingly important in the development of the Internet.

Cable companies such as COX offer high-speed entertainment packages to their customers that generate high gross margins and cash flow for their shareholders. Profit growth will continue to increase for three reasons.

- Cox's low product costs reflect the previously expensed technology costs experienced in the build out of the cable system over the previous decade.

- Only a handful of successful cable companies exist in the cable industry, due primarily to expensive territory contract requirements that were necessary to gain access to potential customers and control market share. This means that COX is now a low cost producer of high margin cable services in specific market areas within the country where it is dominant.

- Finally, strong cable companies like COX are able to offer high margin modem service to an increasingly large captive customer base. This demands only small marginal increases in capital expenditures, but the result is a significant improvement in COX's asset turnover, driving ROE significantly higher.

Future innovation in cable modems is occurring rapidly, making Internet connections more efficient on a daily basis. There is less down time with cable connections compared to all other forms of Internet connection. This translates into more information at a faster rate per person all the time and increases the efficiency of the Internet. The benefits are so large that it appears that companies would be foolish not to switch to cable modems to reap efficiency benefits before their competitors do.

The leading cable companies in the United States realize how valuable a few seconds can mean to their consumers. However, we do not expect that they are going to charge a high rate for service for this technology simply because they expect new services will create a large number of consumers.

by Jeff Fischer

MBIA (MBI)

The years 1999 and 2000 were exciting years for MBIA, Inc. The difficult events of 1999 were the losses resulting from the bankruptcies of both Allegheny Health and the Educational Research Foundation. Further, the extraordinary charge-offs in the year 2000 of the recently acquired Capital Asset Holdings were material, undermining investor confidence in MBI.

In 2001 we are now experiencing the meltdown of the California power companies, where MBI has very significant guarantee exposure. Despite the fear and noise of the marketplace, we continue to see an undervalued company where the underlying fundamentals remain strong. These events led to a depressed stock price. However, solid management and financial performance have the company well positioned to win back investor confidence.

MBIA's management has forecasted earning per share (EPS) growth of 10-13%, which we believe is well within reason given the horizon for structured finance and a growing demand for bond insurance in the global markets. Both of the aforementioned segments command higher premiums and are aggressively marketed by the company. Moreover, pricing strategy has been improved, insurance operating expenses reduced, and underwriting requirements have been tightened. These efforts have propelled a 7% growth in net income and an 8% growth in earnings per share. Given these improvements and the opportunity to increase guarantee fees on the back of the California debacle, we are forecasting an accelerated growth rate for EPS.

MBI's ability to meet EPS estimates (2000E of $4.94) had led to a higher stock price prior to the California energy problem. We note for the record that MBI's entire guarantee exposure is collateralized. Although MBI will pay-out interest expense for both PG&E and Edison short-term, any and all pay-outs should be recovered. In a worst case scenario, MBI would lose interest while it is recovering its payments to bond holders in bankruptcy court. No charge-offs to principal or interest should occur given the large margin of safety provided by the assets of PG&E and Edison. The George portfolio continues to hold a position of 1,000 shares, and we would be willing to increase this position should MBI's' fundamentals continue to improve while the market's concern over California utilities further depresses MBI's share price.

By Dena Andrews, MBA Program

PANERA BREAD COMPANY (PNRA-$20)

PNRA is currently a significantly over-weighted position in the George Growth Portfolio. While it has been a major "winner" for the Portfolio, we have yet to sell any shares. This after doubling our position over one year ago at $7 per share. Despite its relatively high P/E ratio, we believe that growth and value "are joined at the hip", and that PNRA remains a value at $20/share.

Until May 1999, Panera's parent company was St. Louis-based Au Bon Pain, Inc., a publicly traded company since 1991. The company sold off its Au Bon Pain division, leaving St. Louis Bread Co. as the remaining business unit. To better reflect the nationwide expansion plans and keep a consistent identity, the names of both the bread stores and the parent company were changed to Panera Bread Company.

Panera is a combination of bakery, coffee house, and deli offering a menu of made-to-order sandwiches, soup, salads, and pastries. These bakery-cafes are typically 4,500 square feet and seat between 90 – 200 people. Management's competitive strategy is to offer a diverse menu. With its wide product offering, it is able to avoid being pigeonholed as a breakfast or luncheon place, and provides a menu for the entire day.

Regardless of menu diversification, Panera is known for its high-quality bread. Management insists that there is solid demand for fresh-baked bread, because they believe that most consumers have grown tired of prepackaged sliced breads and crave more variety.

Panera is developing a unique brand and creating a niche within a large population segment. Panera fills that niche by catering to two emerging trends in the food industry: heath conscious consumers and quality/service conscious consumers. Panera caters to both of these trends by offering superior quality and healthy alternatives to major fast-food chains.

Panera's management has major expansion plans as part of its competitive strategy. At the end of fiscal year 1999, there were 81 company-owned and 100 franchised bakery-cafes operating in 24 states. For the full year, Panera opened 68 new cafes (including 12 company-owned and 56 franchised bakery-cafes). This represents a 57% increase in the number of bakery-cafes opened as of the end of fiscal year 1999 compared to the prior year-end. Moreover, as of December 25, 1999, there were franchise commitments in place for the development of 543 additional bakery-cafes.

Indeed, it appears that Panera achieved a good start on expansion plans in the fiscal year 2000. By August 2000, Panera had already opened 39 additional bakery-cafes, (6 company-owned, 33 franchise) bringing their total to 220 stores. Panera opens nearly 20 stores per quarter. Even the most conservative estimates are 550 total stores by year-end 2004. Management believes that the longer-term market could support 2,100 stores.

Panera remains a value investment. However, there are several risk factors that should be considered. Competition is high within the restaurant industry. This is an industry dominated by major fast-food chains. There are low barriers to entry. Experienced competitors and innovative newcomers may imitate Panera's concept. There are risks associated with rapid growth. The number and timing of bakery-café openings may not meet projected expectations. Public acceptance of new bakery-cafes could suffer if openings are carelessly rushed.

In terms of industry risks, Panera could suffer a significant reduction in gross profit margins as a result of increased labor costs. In the past, Panera passed along any increased labor costs through food price increases, but there can be no assurance that all increased labor costs can be absorbed by price increases without diminishing consumer spending at the bakery-cafes. Another potential risk is rising commodity prices. In the past, Panera has been able to recover commodity price increases through increased menu prices. This may be a problem in the future, however, as competitive pressures may limit Panera's ability to recover such cost increases in their entirety.

Reasons for Ownership –

- Growing, large market for this fresh concept.
- Rapid expansion, backlog of franchises (+550).
- Restaurants are highly profitable, producing an estimated cash-on-cash return of 40%!
- This 40% cash return is the very reason for the growing number of backlog commitments, and the attractive incentive for franchsees to open new stores ASAP.
- Produces strong Cash-Flow in relation to its capital expenditure requirements.
- Cash flow is enhanced due to tax credits that allow Panera to pay minimum taxes for the next two years.
- Same-store sales up 5% for 16 consecutive quarters!
- Asset Turnover and Operating Margins will continue to increase as the number of franchise stores increases relative to the number of company stores.
- Very Liquid.
- Debt-free.
- Industry experienced and competent management – shareholder-oriented.

Recommendation – HOLD

Panera's P/E ratio is 1.3x its growth rate. Given the backlog and projected profitability to both franchisees and Panera owners, we anticipate ROE to rapidly improve and EPS to grow 35% annually. We currently value PNRA in excess of $28 per share based on its current growth, the size of its market, and its improving profitability. While not inexpensive, we believe strongly that this is a long-term growth company with only modest exposure to market risk and/or P/E compression.

by Michael Vincent Peloso

FIRST INDUSTRIAL REALTY TRUST, INC. (FR)

Given their lackluster price movement, Real Estate Investment Trusts (REITs) might not appear as exciting as technology stocks. However, their high and growing dividend payments and solid earnings growth have provided the Roland George Income Portfolio with a necessary margin of safety during the recent period of market volatility.

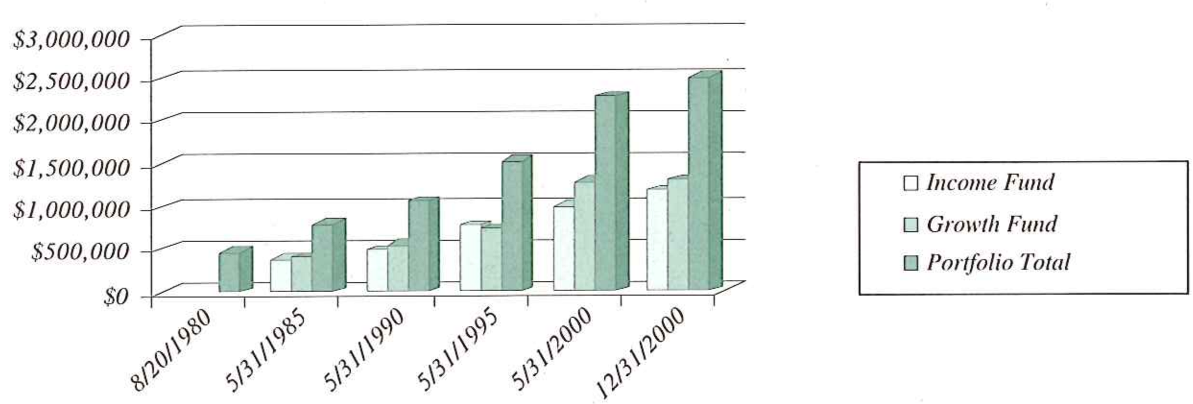
First Industrial, headquartered in Chicago, Illinois is an Umbrella Partnership REIT whose primary objective is to acquire and manage warehouses and light industrial properties. Since 1995 they have increased their ownership of properties from 226 to over 976 properties. Management's goals are stable growth and increasing shareholder value. One of the new long-term strategies set forth by management is to exit eight slower growth markets (Cleveland, Columbus, Dayton, Des Moines, Grand Rapids, Hartford, Long Island and New Orleans) during the next two years, while searching for greater opportunities in developing markets (Miami, San Diego, San Francisco and Seattle). First Industrial has been right on target for consistently growing FFO at a double digit pace of 10.1%.

We estimate EPS for 2000 and 2001 at $3.65 and $4.07 respectively. The Company appears on target for our estimates. At $27 (our purchase price), the stock was trading at its book value. However, after rummaging through their financial statements and grilling their investor relations, it was concluded that First Industrials' net asset value rested somewhere near $35, a 22% margin of safety above our cost. FR's dividend yield, at 8.2% is currently 134 basis points higher than its peer group's average. The Roland George Investments Program is not the only believer in First Industrial.

During a charitable event in Nebraska held by the local University, Warren Buffett was approached by two college students who asked for a donation. Instead of cutting a check, Buffet suggested donating his 24-year-old wallet and a stock recommendation that would be hidden inside the wallet. As the buyer peeled the billfold apart, the scrap paper that lay at the bottom had two letters scribbled on it. Those two letters were FR, First Industrial's ticker symbol. It is especially encouraging to know that during times of economic distress, there are companies like First Industrial that can weather the worst bear markets.

by Jack White

TOTAL PORTFOLIO VALUE



Liberty Media Group (LMG.A)

Investment Thesis – Recommended for Growth Portfolio

Company Description:

Liberty Media Group is a holding company in the broadcast media industry with major investments in video programming services, communication services, technology, and Internet businesses across the United States, Latin America, Europe, and Asia. Some of its major public and private investments include Discovery Communications, Inc., QVC, Inc., Starz Encore Group, Time Warner, Inc., USA Networks, Inc., Motorola, Inc., Sprint PCS Group, The News Corporation Limited, and Liberty Digital, Inc. Through its investments in these companies, Liberty Media is strategically positioned for long-term growth.

Recommendation	Buy
Current Price	$13.00
NAV	$24-$26
Estimated Market Capitalization	$35 Billion

- Liberty is managed by John Malone, who is known in the industry as an expert deal maker and aggressive asset manager. He is a large shareholder and manages the company for the benefit of the shareholders. Liberty Media Group currently trades as a tracking stock of AT&T. AT&T plans to spin-off Liberty in the second quarter of 2001. The spin-off will ease the competition, conflicts of interest, and regulatory pressures that have risen between Liberty and AT&T.

- *Long-Term Growth –*

Although Liberty was created as a holding company, it is transitioning into an operating company, and it is experiencing strong growth in operating revenues. Liberty receives a large portion of its revenues from subscriber fees and the sale of advertising time to local and national advertisers. The slowing economy is causing slower growth for the media companies' advertising revenues. Although Liberty is affected by slower advertising growth, the domestic advertising market affects only 20% of the revenues from its private businesses. The domestic advertising market doesn't affect QVC and Starz Encore. Growth in cable subscribers historically has not been affected by changes in economic conditions. Therefore, slowing domestic advertising markets should not adversely impact Liberty's revenues. Another risk associated with the company is that many of Liberty's assets are publicly traded. They fluctuate with market trends, causing short-term volatility in their asset valuations. Liberty's stock trades in relation to its largest holdings, causing it to resemble a sector specific mutual fund.

- *Valuation –*

Liberty is currently trading at a 45% discount to its net asset value of approximately $24 per share. This asset value was calculated by adding the current stock prices of its publicly traded assets to the valuations of its non-public investments (estimated from a discounted cash flow analysis of its non-public investments). This valuation does not include any upside potential for publicly traded assets, the goodwill of the private operating companies, or the goodwill of this company's superior management. Given these valuations, Liberty's historical revenue growth rate, and the growth potential for its developing businesses, we decided to add Liberty Media Group to the Growth Portfolio.

by Graham Forum, MBA Program

Ensco International, Inc. (ESV)

Investment Thesis – Recommended for the Income Portfolio

Recommendation
BUY

Current Price
$24 3/4

P/BV Ratio
2.59x

Company Description:

Ensco International, Inc. is an international offshore contract drilling company that also provides marine transportation services in the Gulf of Mexico. The Company's operations are an important factor in exploration, development and production of oil and natural gas in the United States.

Summary –

Ensco is directed by an experienced management team that has been in place for over one decade. We believe that the company remains undervalued given its excellent performance to date, its undervalued rig assets, its strong balance sheet, and its leadership position in the industry. Further, we conclude that management can maintain Ensco's market position at little cost while generating significant RPS increase in the near future.

Earnings Potential –

Ensco is expected to show significant earnings momentum over the next two years, reflecting the growing demand for rig assets in the Gulf . Given oil prices in excess of $25/bbl, we believe that increasing day rental rates for rigs are a fact of life for the major drilling companies. Ensco's customers, the global oil companies, are today generating very large free cash flows from high oil prices and dramatic cost cutting, the result of recent mergers. The energy indistry is anticipating new drilling initiaves by the major oil companies to meet today's energy demands. New drilling contracts should accelerate revenue growth for Ensco and its competitors. Our initial position purchased in 1998 was based on the fact that oil service companies with rig assets were the most leveraged investment in the energy industry.

Valuation–

Although Ensco's P/E ratio appears high in terms of last year's earnings, we believe that free cash flow multiples are not expensive, and that EPS and FCF growth estimates more than justify today's price. Critically, the extreme scarcity of rigs worldwide (very few have been manufactured since 1985) makes Ensco's assets invaluable. Using year-end Ensco market cap valuations, we estimate that the rig valuations are in excess of 150% of today's market cap valuation.

Undervalued –

Given ESV's rigs, investments, cash and goodwill, we believe ESV remains seriouysly undervalued as a leveraged energy asset for the long term. Any acceleration of the current drilling trends in the Gulf of Mexico, North Sea, and/or Asian markets will drive Ensco's revenues above analysts'estimates. EBITDA is currently 40% of the revenues and is expected to be 57% in the year 2001.

Conclusion –

If oil is to remain above $25/bbl, the industry is in the early stages of a long up-cycle, with earnings not expected to peak until the year 2004. Higher oil and natural gas prices and the cutbacks in oil production capacity by OPEC have led to improved demand for drilling rigs in both domestic and international markets. This accelerating demand for rigs in combination with the shortage of available rigs is now edging day rates higher. As rig utilization rates increase, we expect day rates to accelerate higher. Strength in the global economy, attractive commodity prices, and the expectation for exploration and production spending to exceed consensus expectations in 2000 would suggest a very positive fundamental backdrop for oil service and equipment equities.

by KathyTorrungruang, MBA Program

TECHNOLOGY OVERVIEW –

The "dotcom hype" that fueled the technology market from 1998 until early 2000 has dried up. Spouting off Doomsday comments may be appropriate, but it probably is not the truth. The truth is that the recent decline has: (1) exposed the chaff; (2) created a great bottom-fishing opportunity; and (3) given birth to a new mindset that will greatly impact the way business is transacted.

It seemed that any 13-year-old with an idea of a dotcom could obtain funding and subsequently have a venture capital firm push the company towards an IPO. Profitability and P/E valuation were forgotten, at least temporarily. Companies such as Dr. Koop.com (NASDAQ: KOOP) and Salon.com (NASDAQ: SALN), which were relying on third party advertising revenue and burning tens of millions of dollars in cash each month, have nearly been eliminated. While some have obtained emergency capital to keep afloat, it has become apparent that the operating model will be insufficient to keep these companies around much longer.

While some technology companies have not succeeded financially, they do possess assets, (other than their URL), that may be of value. Companies such as Yahoo! (NASDAQ: YHOO) and America Online (NYSE: AOL) have become Internet consumer staples and are household names. Both are well off from their 52-week highs and boast ROEs of 14% and 24% respectively. Another potential bargain and acquisition target is Stamps.com (NASDAQ: STMP). Stamps.com is trading under $3, has a book value close to $10 per share, and has nearly $6 per share in cash. Their technology provides Internet mailing and shipping services to small businesses, large corporations, e-commerce vendors and individual consumers. The company's subsidiary, EncrypTix, Inc., develops secure printing opportunities in the events, travel and financial services industries. Stamp's original investors have taken control of the company and are attempting to stop a serious cash burn. In short, the argument is that companies possessing goodwill (e.g. YHOO, AOL) will survive and prosper. Where companies own technology and cash (i.e. Stamps) , we look for them to be acquired.

The Internet hype and explosion were not without justification. It seems that the rapid growth seen in the past two years may only be the beginning of a major trend, and what the market is experiencing now are temporary growing pains. We may never again see a period characterized by the levels of speculation that has been experienced, but the opportunity for growth via the Internet for transacting business is tremendous. The Business-to-Business or B2B sector could grow as large as $6.3 trillion by the year 2005, from $336 billion in 2000. Companies have begun to use this new media to transact business, communicate with vendors, and improve their efficiency and cost structures. This may result in an opportunity for companies such as Inforte, Inc. (NASDAQ: INFT) and Sapient (NASDAQ: SAPE) that develop Internet solutions. Furthermore, nearly every company may accumulate some form of earnings benefit if they are able to integrate this technology correctly, thereby reducing administrative costs.

As the demand for information exchange increases, the pipeline or bandwidth must expand with it. A company such as Advanced Fibre Communications (NASDAQ: AFCI), which develops broadband and bandwidth solutions for the last mile should prosper. CAIS Internet (NASDAQ: CAIS), which provides broadband Internet access services, should also benefit, given the current and growing need for bandwidth.

It may take some time for such growth to propel the capital markets forward. While the threat of an extended bear market and recession loom large, the promise of the Internet and its related technologies to transform the way business is transacted is certain to bring added value and profitability to the companies that leverage the technology correctly.

Earnings drive the market. As earnings disappointments have driven the market down this year, efficiently wringing out the inefficient and unprofitable start-ups, the survivors that provide real Internet solutions are in a position to capitalize. These well-managed companies face tremendous opportunities in accelerating markets.

by Terence Channon

– THE HEALTH CARE SECTOR IN THE ROLAND GEORGE PORTFOLIO –

Given the aging baby boom population and the desire for technology investments, the health care industry and biotech industries have become important investments in equity markets. The Roland George Investments Program has taken positions in these industries with investments in companies as ***Biomet (BMET), Thoratec Labs (THOR), and Quorum Health Care (QHGI).***

Biomet provides orthopedic implants and hip fixation devices. We feel that demand for Biomet products will grow as the baby boom generation ages and requires knee and hip replacements to stay active. We estimate that Biomet will generate revenue growth in excess of 15% annually over the next five years. (Biomet was very recently sold out of the Growth Portfolio when its price reached our intrinsic valuation. We would be willing to repurchase this stock should it's stock price pull back to a substantially lower level.)

The Roland George Investments Program also holds an investment in Thoratec Labs, a manufacturer of heart pump equipment and cutting edge vein replacement technology. Given THOR's planned merger with Thermo CardioSystems, THOR is locking in a dominant position in the VAD (pump) market. While they work for approval of their vein replacement graphs, THOR should have little problem increasing net income given their current VAD product mix. The merger with Thermo CardioSystems has meant that they will command a dominant position in the Vad market, resulting in greater revenue stability, higher gross margins, improved distribution, and sizeable cash balances. Thermo Cardio was available for sale because its 60% shareholder, Thermo Electron, wished to maximize its investment. We feel that purchasing TCA was a strong move for the future prosperity of Thoratec labs, one that reduced the risk of our investment substantially.

The Roland George Growth Portfolio currently owns Quorum Health Care as an investment in the health care facility industry. The nursing facility market has been plagued by a lack of funding and bankruptcies. At the time of our investment, Quorum had maintained solid growth, had undervalued hospital assets, a valuable consulting business, and large cash balances. Recently Triad Hospitals made a bid for Quorum, offering both cash and Triad stock. This should result in a 50% gain on our investment of one year ago. We are currently evaluating Triad's operations in order to determine whether to hold Triad as an equity security.

Currently health care and biotech investments represent 15% of the investments in the Growth Portfolio. Our current strategy is to maintain this allocation in the health care industry because of the future of the industry, where growth is strong, and where there are still many undervalued opportunities.

We recently reduced our exposure in health care by selling Beckman Coulter. This sale was used to make room for other companies we believe are undervalued. One company we are analyzing is Fisher Imaging (FIMG). We believe that Fisher could be a strong addition to our portfolio given its position in mammography equipment and its competitive position in mamo-technology. Fisher manufactures digital X-ray equipment, breast cancer mammography equipment, and biopsy equipment, as well as endovascular and interventional machinery. In the breast cancer prevention market, Fisher Imaging is currently seeking FDA approval for a new machine called the Senoscan, a digital mammography machine that can identify very small cysts and/or tumors in women of <u>all</u> ages. Improved clarity, lower exposure to X-Rays, and the ability to X-Ray younger women are important steps in mamo-technology that should lead to both finding tumors when they are very small and avoiding unnecessary surgery. Fischer's second new product is the Mammotest. It allows for a core needle biopsy of any lump to determine whether it is malignant or benign. Compared to a normal surgical biopsy, Mammotest is less invasive, relatively painless, reduces recovery time, and reduces hospital costs. Fisher Imaging is a technology leader.

Overall we feel that our allocation to the health care sector is eclectic and undervalued. The current aging of the population will increase the demand for the products of our investments. These products will allow people to remain active and will reduce the cost of health care. Our current investments are meeting the demands of the older consumer with new technology and product advances. They are leaders in technology in their markets, but also currently offer investment value. Over time we expect this sector to be a strong performer in our portfolio.

by Katie Norsen

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 more than thirty 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 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 on investments and personal finance.

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.ImproveYourFinances.com

STETSON UNIVERSITY
Florida's *First* Private University
School of Business Administration
George Investments Institute
421 N. Woodland Blvd., Unit 8398
DeLand, FL 32720-3774

Comments & Disclaimer

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 portfolio valued at over $2.5 million dollars. Insights are gained through contact with professionals such as Robert Stovall, CFA, of Prudential Securities, Inc.

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

George Investments Institute Staff

Director:
James E. Mallett, Ph.D.
jmallett@stetson.edu
www.stetson.edu\~jmallett

Advisor:
Frank G. Castle, CFA
Visiting Roland and Sarah George Professor of Applied Investments

Publications Specialist:
Lynn Thompson