

editors' note

by Jeff Hamrick & Laurie Harlan

By the time you finish reading this newsletter, you may be sick of hearing about how successful the students of the Roland George Investments Program have been at managing money over the past year.

It's true that we produced outstanding returns for the period from November 2000 to November 2001. It's also true that we defended our title as "National Investment Champions" at the RISE Symposium in Dayton, Ohio, February 20-22.

But what exactly does our victory mean? Our victory affirms the notion that non-professionals can add real value to money management.

Our victory vindicates the basic philosophy that underlies Stetson University's pioneering program in investment education: that for business education to be effective, students must leave the classroom, step into the "real world," make mistakes, and then learn from those mistakes.

More subtly, our victory highlights the importance of maintaining a strict investment discipline: don't chase returns; invest in businesses you understand; kick the tires on companies before you buy them; find companies that have been neglected by the market; and find companies with compelling goodwill, formidable

national champions



by Todd Tarrance

For the second year in a row the Roland George Investments Program brought home top honors in the national investment competition known as the RISE (Redefining Investment Strategy Education) symposium.

Five students represented Stetson University at the symposium this year at the University of Dayton in Ohio. Those students were Jeff Hamrick of Tampa, David O'Regan of Dublin, Ireland, Laurie Harlan of Longwood, Robert Pile of Sarasota, and myself.

This year the competition took place over two days in February and encompassed three separate types of investment styles: value, growth, and blend. The contest was based on our risk-adjusted investment performance for a 12-month competition period. This year Stetson University's Roland George Investments Program competed in the value category by selecting good companies at a reasonable price. There was a panel of three judges in each category who were responsible for choosing this year's winner. These judges made their selections based on our portfolio performance along with the quality and comprehensiveness of our presentation.

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portfolio performance

by Laurie Harlan and Melissa Jasmin

This semester's Roland George Investments Program participants focused our efforts on rebalancing our fixed-income portfolio by initiating a new investment strategy. This strategy reflects our belief that the economy will strengthen over the next 12 to 18 months. Naturally, then, we expect interest rates to rise during the same period. Positioning the fixed-income portfolio to eliminate or significantly reduce potential interest rate risk is a high priority in our thinking.

We chose to match this thinking with a repositioning of the duration of each bond to within a four-to seven-year range. We also require new additions to have credit ratings between BBB and AAA. Our final objec-

tive is to maximize the fixed-income portfolio's total return.

During the course of the semester we eliminated higher duration positions and replaced them with those fitting our designated parameters. Our new positions also tend to pay higher coupons. Some of those bonds include **AOL Time Warner**, **Goldman Sachs**, and **Ford Motor Credit**.

The fixed-income fund's trailing twelve-month return of 5.86% barely outpaced that of the benchmark Deutsche Intermediate-Term Bond Fund, with a trailing twelve-month return of 5.85%.

The growth fund's trailing twelve-month performance of 20.49% greatly surpasses the Dow Jones Industrial Average and S&P 500 returns of 5.3% and -1%, respectively. All of the returns are as of March 28, 2002.

The year-to-date performance of

financials, industrials, and consumer discretionary products, all of which reflect our belief that the economy will recover in the coming months.

Information technology, a sector from which we have traditionally shied away, is under-weighted due to our lack of confidence in current company financials and the lack of corporate spending in this area. We aimed at positioning the portfolio in a manner that would continue our winning streak at the national investment

competition held each February.

Our success as a program, and as a class, is a result of a disciplined strategy that is implemented by the students at the beginning of each academic year. Student analysts are responsible for

Sector	S&P 500	George Equity Portfolio	Difference
Consumer Discretionary	13.9%	17.0%	3.1%
Consumer Staples	9.6%	12.1%	2.5%
Energy	6.9%	8.5%	1.6%
Financials	19.3%	25.5%	6.2%
Healthcare	13.8%	7.8%	-6.0%
Industrials	10.7%	15.5%	4.8%
Information Technology	15.6%	7.1%	-8.5%
Materials	3.0%	0.0%	-3.0%
Telecommunication	4.2%	0.1%	-4.1%
Utilities	3.1%	6.4%	3.3%
Total	100.0%	100.0%	

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

the combined funds for the period ending March 28, 2002 was 11.36%. The Roland George Investments Portfolio beat the Wilshire 5000 Index by 8.82%.

We have positioned our equity portfolio to capture profits from sectors that we feel will outperform the market over the next 12 to 18 months. Currently, we are over-weighted in

researching, proposing and monitoring the portfolio with the established strategy in mind. Results of this commitment can be seen in the elimination of **AT&T Wireless**, **Inforte**, and **Citrix Systems**, and the addition of future hopefuls like **Infinity**, **Rocky Mountain Chocolate Factory**, and **Chicago Pizza & Brewery**. We have a strong portfolio going forward.

Equity

purchases

American

National Financial (ANFI), a provider of title insurance and other real estate-related financial and informational services, is expected to significantly outperform the overall stock market during the next year to two years due to continuing mortgage refinancing. The company is exposed to interest rate risk, but we believe that proper monitoring and a good enter-exit strategy will mitigate this risk. The company has a strong growth plan and the cash reserves to complete that plan.

Chicago Pizza & Brewery (CHGO) consists of 26 casual dining restaurants located in the Western United States. Strong management experience and our expectations of a near-term economic upturn justified the establishment of this position.

Infinity (IFNY) is an independent energy exploration and development company that concentrates on coal bed methane. It is expected that the company's shares will significantly outperform the overall stock market during the next 12-18 months as natural gas prices return to historical averages.

Rocky Mountain Chocolate Factory (RMCF), a manufacturer, retailer, and franchiser of packaged premier chocolate candies, has been ignored by the marketplace (no major analysts follow the company) and is expected to experience abnormal near-term growth.

Fixed-Income

The debt of **AOL Time Warner (AOL)**, a powerhouse in the multimedia and entertainment arena, was swapped

for the existing convertible position of **MFC**

Bancorp. The swap aligned the portfolio with the class' new fixed-income strategy by shortening portfolio duration and increasing coupon rates.

Citigroup, Inc. (C) is a diversified global financial service holding company with businesses that provide a broad range of financial services to consumer and corporate customers. The purchase of this debt was made in order to comply with the new fixed-income strategy.

Ford Motor Credit (F) is the financial arm of **Ford Motor**, the second largest motor vehicle manufacturer in the world. The addition of this debt to our fixed-income portfolio allowed us to obtain pickup by swapping for our current debt position in **Bell Atlantic-New Jersey**. This swap also realigns the position's duration to within the required class parameters.

The debt of **Goldman Sachs (GS)**, a leader in global investment banking and asset management and securities services, was swapped for a current treasury position because of the higher coupon and a lower duration.

The debt of **Tommy Hilfiger (TOM)**, a designer and marketer of men's and women's sportswear, jeans wear and children's wear, was added to the portfolio. We believe that this company's debt may receive a credit upgrade during the coming year. The company also has the habit of "making whole" its debt prior to maturity; in other words, the company tends to buy its debt back earlier at a premium.

Equity

sales

Our **AT&T**

Wireless (AWE) position was completely eliminated because of the company's bandwidth limitations and the company's inability to control costs. The class felt that exposure to wireless technology would not be profitable over the next 12 months.

Citrix Systems (CTXS), a software company purchased in the fall of 2001, did not meet our expectations for growth and product strength relative to its competitors.

Electro Scientific (ESIO) provides circuitry used in wireless communications, computers, automotive electronics and many other electronic products. This company's deep exposure to weak wireless technology manufacturers was the main justification for the termination of this position.

Global Crossing, Ltd. (GBLXQ) went bankrupt last fall and we eliminated the position based on our expectation that the company would not emerge successfully from bankruptcy.

Inforte Corp. (INFT) delivers strategic technology consulting, comprehensive demand-chain management solutions, and solutions that optimize supply-chain integration. After our initial evaluation, it was found that little near-term growth was going to occur due to macroeconomic decreases in corporate spending on technology.

Skechers (SKX) met its target price of \$17 per share and, in keeping with the investment strategy set by the class, was sold at that price.

WorldCom (WCOM), a

well-known telecommunications player, has been punished by the market for what seems to be accounting concerns and the recent resignation of their chief executive officer in April. Prior to this time, we decided to reduce our exposure by half due to decreased momentum in voice and data call volumes.

Fixed-Income

Bell Atlantic-New Jersey (VZ), now known as **Verizon**, is a provider of wire line and wireless communication services in the United States. In keeping with our perceptions about the wireless technology industry at the moment, we opted to eliminate our exposure to this company's debt and move into a longer duration position.

The debt of **International Paper (IP)**, a global forest products, paper and packaging company complemented by an extensive distribution system, was sold from the fixed-income portfolio because its duration did not match that which was established by the class.

MFC Bancorp (MXBIF) is a financial services company that focuses on merchant banking and also specializes in banking and corporate finance services internationally. Because this company is Swiss-based, the position was eliminated due to the lack of practical research information available to the class.

U.S. Treasury Bond (T 5) and **U.S. Treasury Inflation Index (TII 3 5/8)** were eliminated in order to capture a higher coupon rate and lower portfolio duration.

director's update

by Dr. Jim Mallett

I wish to congratulate our current students, and past George students, who contributed to this year's repeat victory as National Value Investment Champions at the RISE Symposium held at the University of Dayton. Stetson University is the only school to win two years in a row.

Both Professors K. C. Ma and Frank Castle have been mentoring the students for the past two years and their teaching shines through the results of these students. The entire finance faculty took time to listen to the team presentation and make suggestions. Additionally, Professor Larry Belcher volunteered his time to accompany the students to Dayton this year and guide them as they practiced for their final presentation.

While it is difficult for any stock fund to continue at this high level of performance, the discipline is in place for the students to continue to search out securities that offer unique value. Patience is then needed for the market to recognize whether or not the student analysts are right. Finding undervalued stocks with low risk should be a winning combination over the long run.

We continue to work to improve the Roland George Investments Program in other ways. Over the past year our goal has been to institute a plan that would integrate our investment program both horizontally and vertically in the School of Business. Horizontally, we want students in other classes to benefit from the George Program. With our brand new trading room in the beautiful new Lynn Business Center building, our aim is to create a lab for other classes to investigate financial markets also.

Vertically, we would like to create student involvement in the Roland George Investments Program from the freshman year through the senior year.

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trading room

by Brian Smith

The Roland George Investments Program has been operating in relatively close quarters during its 18-month stay in the Lynn Business Center's temporary home in the Bank of America building.

The program's roughly 20 students and research assistants are all operating out of a 200 square foot room that only houses 6 computer workstations, many of which are reaching the end of their productive lives.

Fitting all of the program's students and equipment in a small room with no air conditioning vents has been quite a challenge on some days, but all of that will change with the opening of the newly renovated Lynn Business Center (LBC) this coming fall.

The new LBC will feature a new trading room for the program that is almost three times as large as the program's current one. The new trading room will fill almost 600 square feet of floor space, and will feature new trading desks, similar to the ones used by Wall Street's major trading firms.

The desk will eventually grow to house 14 brand new computer workstations, three times the number of computers currently utilized by the program. According to Dr. Jim Mallett, director of the George Investments Institute, the institute plans to eventually furnish the lab's new desks with 14 new Dell workstations, complete with twin heat-reducing

flat-panel monitors.

The workstations will all be running industry standard software packages such as Bloomberg, Bridge, and Baseline, and should prove especially useful for the Roland George Program's fixed income program. Currently, all students and research assistants are sharing one Bloomberg workstation, the definitive bond trading and research tool.

The new trading room will also include a brand new data wall and stock ticker display, similar to ones found in major stock exchanges and trading houses.

The northwest lab data wall will continually update trading information for all of the program's equity and fixed income investments, which will make it much easier to track the day-to-day performance of all of our investments. A stock ticker will sit atop the data wall, providing continuous price information for potential program investments.

The completion of the new lab will also allow other finance classes, such as FIN320 (Investments) and FIN415 (Risk Management), to incorporate the trading room's major software packages into their daily coursework.

This change will help finance students not enrolled in the George Program to become more proficient with programs such as Bloomberg and Baseline, making the transition into both the program and the

“Fitting all of the program's students...in a small room...has been quite a challenge...”

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Chicago Pizza & Brewery currently owns and operates 26 restaurants featuring deep-dish, Chicago-style pizza. Chicago Pizza & Brewery also specializes in company-crafted beers—their restaurants have microbreweries at some locations. In addition to their signature items, they carry a large menu of over 100 items including salad, sandwiches, and pasta.

The restaurants are located mainly in the western part of the United States, including locations in California, Colorado, Hawaii, and Oregon. The restaurants currently operate under the names of BJ's Pizza & Grill, BJ's Pizza, Grill & Brewery, and Pietro's Pizza.

According to the company's 2002 restaurant industry forecast, restaurant sales for 2002 are expected to hit record highs of \$407.8 billion.

This 1.4% real increase in growth for the industry will ensure a safe environment for investment funds. The recent economic downturn had a negative impact on the company's industry, resulting in a less-than-expected rate of growth.

Depending on the rebound of the economy, we predict the industry may experience growth of more than 4%. To capitalize on this increase in growth, we felt that we must choose an investment in the same industry that will experience the same growth, or possibly outperform its peers. Chicago Pizza & Brewery is the perfect candidate for this type of investment: the company has solid management, expansion possibilities, and highly marketable and distinctive products.

Michael Nakhunst, a recent addition to Chicago Pizza & Brewery, brings 30 years of experience to the organization. The majority of his experience comes from his involvement with Chili's Restaurant—he was a member of the first management team from 1977 to 1999.

He also served as the chief operating officer for the Cheesecake Factory, Inc. With experience and knowledge, Nakhunst plans to open four to five new restaurants this year and six to eight more restaurants during 2003.

The company averages \$4.2 million in sales per restaurant, but we expect same-store revenues and profits to increase. The future of Chicago Pizza & Brewery appears to be optimistic. Taking into consideration Nakhunsts' plans for expansion, we believe the company's fair value over the next 12 to 18 months is between \$10 and \$17 per share.

Chicago Pizza & Brewery

Ticker	CHGO
Recent Price	\$7
Capitalization	\$132 million
Industry	Restaurants
Exchange	NASDAQ
Web Site	www.bjsbrewhouse.com

chicago pizza

by Michael Fassnacht

A Fitting Finish.



Students enrolled in FIN422 (Fixed-Income Analysis) converged on Gene's Steakhouse for the program's end-of-year banquet. Pictured, from left to right, are Brian Smith, Michael Sweeney, Kjell Aasheim, David O'Regan, Melissa Jasmin, Robert Pile, Todd Tarrance, Laurie Harlan, Justin Parnell, Tyler Pullen, Jayme Wiggins, Jeff Hamrick, and Brad Hoffmann.

national champions

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Stetson University entered the competition with a 20.4% return for the 12-month period from November 2000-2001. This return would be impressive in most any year, but having this return last year, when the S&P 500 produced negative returns, helped our investment strategy stand out beyond all others. Only one competitor, Purdue University, beat Stetson University in terms of absolute returns.

Even though the returns for the Roland George Investments Program were astonishing, the team needed more than good returns to bring home the trophy. "We knew we had the returns, but the presentation is still the wild card," said Associate Professor of Finance Larry Belcher, who accompanied the team to Dayton this year.

"As our presentation unfolded, I saw other student teams' collective mouths drop open," said Belcher. "Our students were performing flawlessly."

The audience was amazed at how well the program participants presented their philosophy with such professionalism

and confidence. "We practiced the routine many times. All of us knew the entire presentation perfectly. It was just a matter of staying calm and explaining our positions," said O'Regan.

"What made this year's competition even more intense was having the defending growth champions and home team, the University of Dayton, in our category," said Pile. But Stetson University managed this extra pressure with confidence, which made us the first university to win two consecutive investment championships.

The team attributed most of its success to the outstanding leadership in the program. The director of the George Investments Institute, Dr. Jim Mallett, and the most recent rotating professors of applied investments, Dr. K.C. Ma and Mr. Frank Castle, have given the program a sharp edge over competition.

Although only five students went to Dayton, the entire class was responsible for the programs' high returns, which lead to the new trophy sitting in our trading room.

chair's update

by Dr. Larry Belcher

This was a year to remember in the department. We began the year with the first new finance faculty member hired since 1990, Dr. Stuart Michelson. Dr. Michelson joined us as the new Roland and Sarah George Professor of Finance after several years at the University of Central Florida and immediately made his presence felt in the classroom and the overall life of the department.

Dr. K.C. Ma joined us again as the Roland and Sarah George Professor of Applied Investments, contributing his academic and professional expertise to the department as well as the George students.

These two hires have both contributed greatly in a number of ways and have helped to make the department as strong as it has been in my tenure at Stetson University. We look forward to the move into our new facility, with our new trading room and new research capabilities.

The grand finale of the year for the students in the program was a repeat performance as National Champions in the University of Dayton RISE student-managed portfolio competition. The team was coached by Dr. Jim Mallett, Dr. K.C. Ma, and myself.

The students also made a number of presentations to their classmates before we left for Dayton. The presentation was very well-received and Stetson University became the first multiple winner in the short history of the competition.

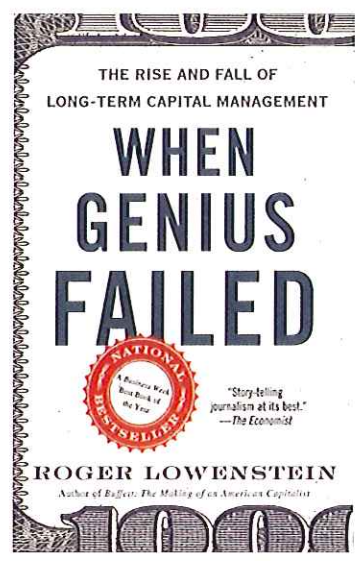
We ended the spring with a trip to New York City, where the students opened the NASDAQ MarketSite and senior finance major Jeff Hamrick was interviewed on CNBC's Squawk Box with Mark Haines.

We were also treated to a two-hour meeting with Michael McManus, chief executive officer of Misonix — you'll find their common stock in the George Equity Portfolio. It was a fitting end to a great experience and a great semester. We look forward to more great things ahead, and to the support we'll need from you to make those great things happen.

book review

the failure of genius can provide ordinary investors with important lessons

by Jeff Hamrick



When *Genius Failed*, by Roger Lowenstein, has all the elements of a fantastic and compelling tale: powerful sorcerers (Robert Merton and Myron Scholes), weapons of war (options pricing models), ignorant kings (investment banks), initial glory and an aura of invincibility (400% returns between 1994 and 1998), quirks of fate (Russia's default on its debt in late 1997), and lessons learned (you can't eliminate all risk).

In this must-read for any investor, Roger Lowenstein masterfully tells the story of Long-Term Capital Management (LTCM), a firm started in 1993 by bond trader John Meriweather and "genius" partners, including Nobel Laureates Robert Merton and Robert Scholes.

The firm collapsed in 1998 and was bailed out by the very investment bankers who had loaned them tremendous amounts of money on very favorable terms. The story of LTCM is well-known in the investment community today.

Lowenstein's strength as a writer lies in his ability to organize and pace the tale. By his own admis-

sion, Lowenstein is neither a quant jock nor a bond trader. As a result, he is less effective at parsing apart the underlying reasons for LTCM's failure.

A friend gave me this book for Christmas and said "Hey, you're a math major. This is what happens when a bunch of math nerds get together and decide that they can rule markets." Lowenstein seems to agree.

Um, excuse me.

It seems to me that LTCM's managers were perfectly aware of the limits of their models. They knew,

“[The firm]...was struck down by the same monster that strikes down many seasoned investors: a loss of focus.”

for example, that historical price patterns do not necessarily persist into the future. They knew that many of their assets were illiquid and would lose tremendous value if they had to be sold off quickly. They knew that their models had some questionable assumptions, particularly about events that had a low probability of

occurring. Indeed, any marginally competent financial mathematician is aware of all of these issues.

In my opinion, LTCM's failure can be explained by some other factors. First, LTCM's managers and strategists were all bond traders who made an ill-fated decision in 1997 to use equities in their hedging strategies—despite the fact that they knew very little about equities in comparison to bonds. In other words, LTCM was struck down by the same monster that strikes down many seasoned investors: a loss of focus.

LTCM also failed because it was leveraged to the hilt (its leverage peaked in 1995, with \$30 borrowed for every \$1 actually under LTCM's control). Because many of LTCM's mathematical models were based on qualitative assumptions created from the experiences of LTCM's impressive list of partners, LTCM was unable to purge risk entirely from its hedging strategies. Moreover, LTCM was loaned tremendous amounts of money on such favorable terms (1-2% annual

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infinity incorporated

by Jeff Hamrick

Infinity Incorporated

Ticker	IFNY
Recent Price	\$9 (split-adjusted)
Capitalization	\$60.65 million
Industry	Oil & Gas Services
Exchange	NASDAQ
Web Site	www.infinity-res.com

Infinity was discovered by one of Dr. Jim Mallett's students in FIN320, a course in basic investment theory. That student, Bryan Hinmon, polished his recommendation and I sponsored it for inclusion in our equity portfolio. To date, our 8000-share position in Infinity has appreciated in value by approximately 90%.

Infinity is an independent energy exploration and development company that concentrates on coalbed methane. The company provides oil field services in Kansas, Oklahoma, Missouri, and Wyoming. Through its subsidiaries, Consolidated Oil Well Services, Inc. and Infinity Oil and Gas, the company provides oil and gas well services and acquires gas properties.

Infinity has all of the attributes of a Warren Buffett-style value-growth play. The company has been essentially ignored by the marketplace. The company's management is competent, and is always careful to conservatively estimate the company's gas reserves and the speed with which it will start extracting those reserves and selling them on the open marketplace.

Stephen Ross and John Klugh, the two men who run the company, have worked effectively to create a corporate culture focused on generating value and cutting costs. The company is tremendously undervalued using any standard valuation model.

With a recent surprising announcement—that it would purchase 106,000 new acres of land rich with permeable coalbed methane gas at a discount—Infinity informed the world that it was doubling its gas holdings. We expect gas to begin flowing to market from these so-called "Leasehold properties" within 24 months.

Infinity is a tempting prize. Rumors are circulating that natural gas and oil behemoth Anadarko Petroleum, another company represented in the Roland George Equity Portfolio, could purchase Infinity.

Bryan Hinmon and I expect that Infinity will generate FY2002 EPS of \$1.45 and that the company can sustain near-term growth rates between 16 and 19 percent. With the addition of the Leasehold properties, Infinity is more likely to grow in the near-term at a 19 percent rate. This growth rate, if realized, would suggest that Infinity is worth between \$22 and \$28 per share.

Hinmon and I expect that Infinity's equity will mature to an appropriate valuation as the market begins to take notice of Infinity's attractive holdings and its efficiently-run extraction operations.



Photo by Kevin Hale

speaker spotlight

investors are too focused on quarterly earnings and not on long-term results

by Tyler Pullen

You might have seen him on CNBC, or you might have read one of his columns in Reuters or Bloomberg, or you could have caught him as a “Hall of Fame” member on Wall Street Week with Louis Rukeyser.

Fortunately, when Robert Stovall is not prepping for television, teaching, or working as the Senior Vice President at Prudential Securities, he finds the time to visit Stetson University where he preaches to the eager minds of the Roland George Investments Program.

One student described him as a financial Buddha; another like an ancient sage of Delphi. Regardless of the exact imagery used to describe the man, Robert Stovall’s knowledge has come from years of experience with some of the biggest names out there, making him one of the most sought-after minds in academia and Wall Street.

Setting the stage for the semester as our first guest speaker, Stovall entertained,

advised and taught us a great deal about the current market conditions and touched on what he believes lies ahead.

Beginning with a brief summary of security analysis and then bringing us back to the present situation, Stovall spoke about the task of forecasting quarterly earnings and how this method has evolved to be the dominant technique employed by analysts.

As other valuation methods have fallen out of favor with analysts, the present concerns, as Mr. Stovall sees it, are no longer on the strength of management or long-term prospects. Rather the focus has moved to corporate guidance on quarterly estimates and pre-announcement warnings.

Stovall said that he was concerned about the validity of this method and the growing concern over responsible corporate accounting and earnings announcements, i.e. the Enron debacle.

Stovall spoke about the growing trends in the job market. He explained that despite

the past year’s layoffs many companies were beginning to hire, but finding a job will be a formidable task. “Getting a job is like getting a date,” said Stovall. “Don’t wait for a call, you’ve got to get out there and make an offer.”

These were the words of advice that hit home with most students. Jayme Wiggins, a program participant who is struggling to find both a date and a job, found a glimmer of hope in these words and plans on tackling the challenge very soon.

When asked about his favorite stock picks for the next twelve months, Stovall liked two American icons, GE and Johnson & Johnson. His feelings were that in this time of uncertainty, when it’s time to make a decision, “...it doesn’t pay to bet against the good old USA.”

Stovall’s visit was summarized by Robert Pile, who said that “Stovall is a legend of the Street, and hearing him speak was a gift that is not to be forgotten.”



energy update

by Michael Sweeney

Over the last twelve months, the energy sector has underperformed most of the major benchmarks.

Since February of 2001, the sector has lost approximately 11% of its value, while the Standard and Poor's 500 Index has declined only 4.3%.

A steep fall in the oil and gas drilling industry (13.5%) and the oil and gas exploration and production industry (8.7%) have contributed to the losses. Small, healthy companies will be the best investments over the next year, however.

As larger firms prepare for the upcoming economic rebound, they will look to acquire smaller corporations that will synergize with their current operations. This will provide growth in revenues while minimizing the effect of expansion on the financial statements.

The Organization of Petroleum-Exporting Countries (OPEC) and non-OPEC countries should continue to work together to maintain stable oil prices. Last December, OPEC agreed to reduce output by

1.5 million barrels per day through June of 2002. Non-OPEC producers then pledged to reduce output by 462,500 barrels per day.

This will allow prices to average around 21.57 USD per barrel through 2002. The recovering economy and corresponding demand will help raise prices to approximately 24.59 USD per barrel in 2003. These prices are still below the levels reached in 2001 (25.95 USD).

Natural gas prices have fallen to new lows because of sliding demand and increased amounts of stores. The

the five-year average.

As bleak a picture as these numbers represent, there is a light at the end of the tunnel. Rising depletion rates and falling imports will push future domestic demand beyond available supply.

Domestic field depletion rates are reaching levels of 40% annually. The import infrastructure (pipelines and natural-gas bearing vessels) has only a limited capacity that is expected to fall short of long-term demand.

This will push prices higher over the long term, increasing revenues

“The outlook for the oil and gas drilling industry is positive over an extended time horizon...”

price in 2001 was 4.27 USD per million BTU. The forecasted average price in 2002 is expected to be 2.80 USD per mmbTU (a 52.50% drop) and only 3.39 USD in 2003 (still 25.95% below 2001 prices). Last year, stores of natural gas exceeded 2 billion cubic feet, nearly 44% over

for all industries within the sector. The outlook for the oil and gas drilling industry is positive over an extended time horizon.

The rebounding economy, spurred by low interest rates and current uncertainties about supply from the Middle East (political tensions)

should help this industry recover lost earnings levels by the second quarter of 2003.

The record interest rate cuts by the Federal Reserve Board of Governors during 2001 (to 1.75%) provided the stimulus needed for the domestic economy to recover in the near future (most likely the fourth quarter of 2002). This recovery will drive spending by other industries that provide revenues to the drillers, namely from exploration and production.

The international drilling concerns should outperform most of their American counterparts because of continued spending by producers on deepwater oil-focused projects. Many domestic companies provide drilling for producers of natural gas, which has slowed because of weak American demand and increasing depletion rates.

Noble Drilling (NBL) is poised for the projected increase in spending by exploration companies. They have shifted some of their assets to international sites, enabling them to maintain revenues and minimize exposure to the decline in Gulf of Mexico activity. The international projects will continue to provide income, and with the Gulf poised for recovery, Noble is in position to take advantage of increases in oil and gas drilling services demand.

The oil and gas production industry has been greatly affected by the weak commodities market over the last half of

2001. Slumping revenues from the global economic slowdown and rising costs of drilling have driven valuations to the lowest levels in recent history. This has spurred a flood of mergers and consolidations.

These consolidations should accelerate because of attractive valuations and the synergy gained in exploration, production, and distribution. For example, **Apache Corporation** (APA) has grown production

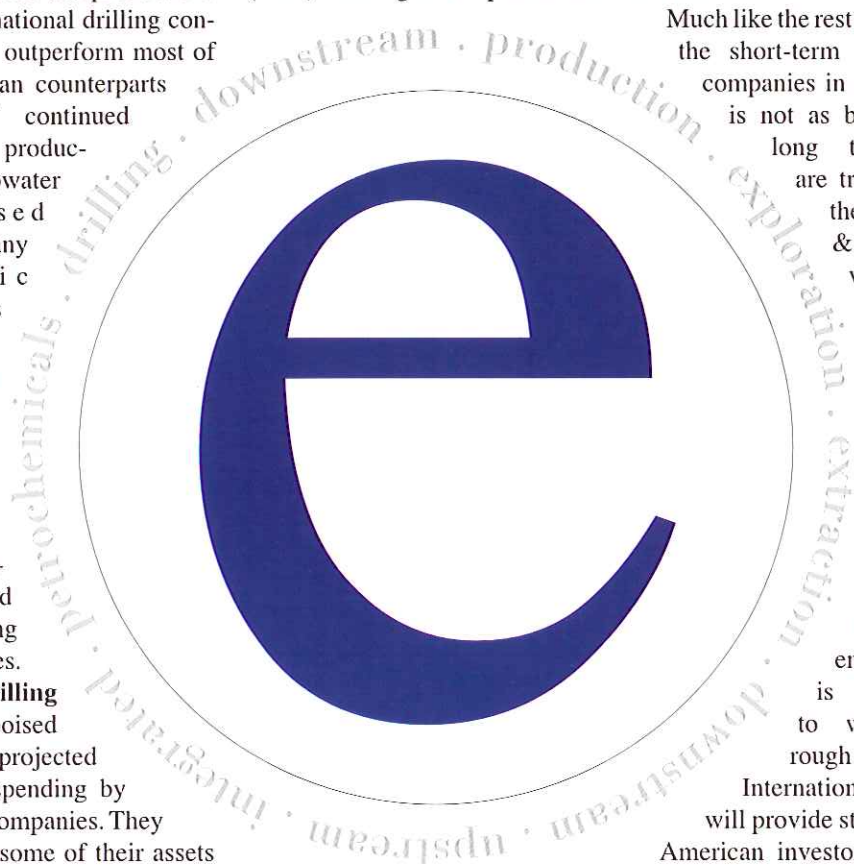
economy. But the increasingly complex regulatory environment will cause most of the companies to reevaluate their future plans. One step that many will take to raise new capital for updating old infrastructure is consolidation. Acquisition of smaller, newer, and more flexible firms will enable them to expand refining capacity in current operating environments as they strive to meet the expected growth in demand.

Much like the rest of the sector, the short-term outlook for companies in this industry is not as bright as the long term. Most are trading above their Standard & Poor's fair valuations.

The short term future may look bleak as the country continues to move toward recovery, but the energy sector is positioned to weather the rough times ahead.

International markets will provide stability while American investors shake off effects of the September 11th tragedies.

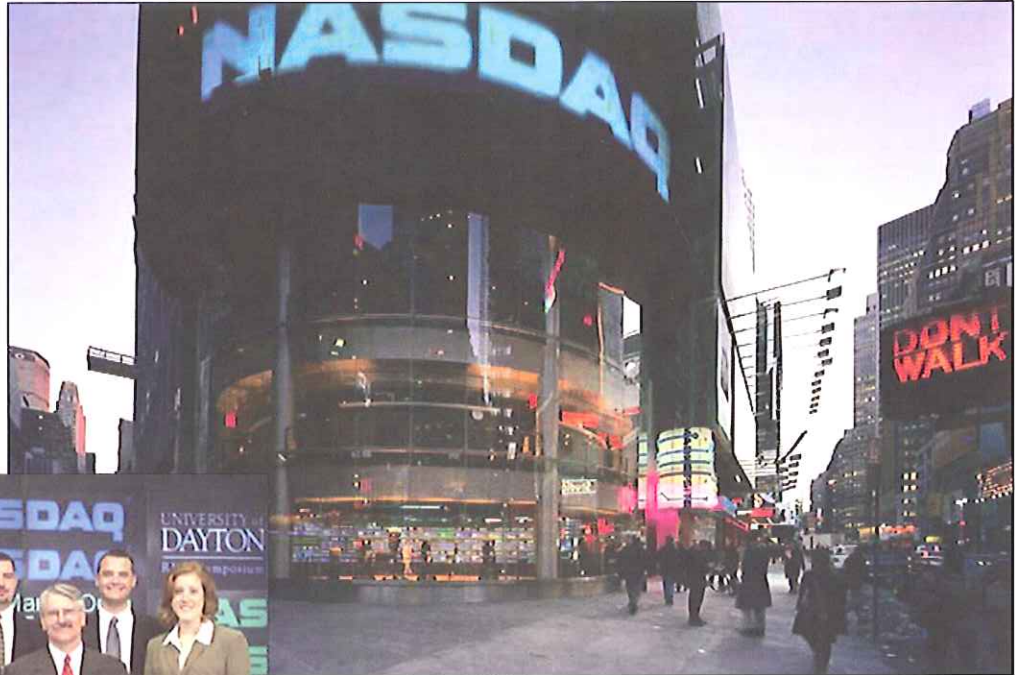
Within eighteen months, the economy will begin to see the effects of current monetary policy come to fruition. We will discover, not surprisingly, that longer-term demand for energy is not waning. New demand will come from foreign markets as well. Those with longer investment horizons should take a close look at the potential of the energy sector.



capacity through 2001 with an aggressive acquisition plan. A large involvement in deepwater projects and geographically diverse portfolio should help maintain this company's growth rate in earnings and cash flows.

The integrated oil and gas industry outperformed the S&P 500 in 2001, and many investors have fled to this part of the sector because of solid operating results in 2001 amid a declining

Below, the Stetson RISE competition team poses at the NASDAQ. Pictured, from left to right, are Robert Froelich, Vice President, Scudder Investments; Todd Tarrance; Robert Pile; David O'Regan; Dr. Larry Belcher, Chair, Department of Finance, Stetson University; Jeff Hamrick; and Laurie Harlan. Left, a picture of the NASDAQ headquarters' exterior.



new york
by Todd Tarrance

The competition team headed off to New York on April 14th to open the NASDAQ after being named national champions in portfolio management for the second year in a row. Opening the NASDAQ and being interviewed on CNBC was part of the reward for receiving top honors at the RISE symposium in Dayton, Ohio. Laurie Harlan, Jeff Hamrick, Robert Pile, Dave O'Regan, and Todd Tarrance were lead by Professor Larry Belcher to this memorable event.

The team arrived in New York Sunday morning with the day free to explore the Big Apple. The first order of business was checking into our hotel and finding some good food. After lunch, the team toured the city, taking in as many sights as possible in our limited time. As the day quickly wended down we were ready for some rest, tired from miles of walking around the city and excited about the next day's events at the NASDAQ.

The morning came quickly and we started our journey by joining the polar bear club thanks to the hotel's overwhelming supply of frigid shower water. But this hurdle was quickly jumped when Laurie "The Hurricane" Harlan got hotel management working expeditiously to fix the water heaters.

After a refreshing hot shower, the team was ready for the experience of a lifetime. Once arriving at the NASDAQ Market-Site, we had to pass through security checks. We then entered the building—amazed by our famous surroundings, the NASDAQ. The people were extremely polite, giving us a warm welcome and answering any questions asked.

After a bit of socializing and picture taking, the three championship teams and the host team were brought center stage to open the market. Quickly we were taken through a practice run of what to expect.

Then before we knew it, the count down began as we were told to start clapping. All we knew to do was smile and clap—we had no idea when we were actually on the air. After opening the market, we were given a tour of the NASDAQ and had the privilege of speaking with some of the reporters such as Tom Costello of CNBC's "Market Watch."

The tour included seeing the office areas, computer systems, and having our pictures taken by a photographer who jokingly nicknamed our Irish teammate David O'Regan "Green Card." The NASDAQ experience was memorable for all of us and the highlight of our trip. Later that day the six of us had the great pleasure of going to an elite club in New York known as the Sky Club to have a meeting with the chief executive officer of Misonix (MSON), Michael McManus.

First, let me mention that Mr. McManus is the best-spoken and most sincere company leader I have ever encountered. It was an honor to have him give us two hours of his time and we thank him greatly along with all those who set up this endeavor. The meeting was a great opportunity to learn more about the George Equity Portfolio's position in Misonix and to continue our 'kick

continued on page 17

Rocky Mountain is a manufacturer, retailer, and franchiser of over 200 varieties of bulk and packaged premier chocolate candies. The company also generates auxiliary business through fund raising, corporate gifts, Internet sales, mail order, and wholesale accounts.

Several years ago, Rocky Mountain's management elected to open and operate a number of company-owned stores to supplement its franchising operations. This decision was a serious mistake in judgment, as the company-owned stores consumed management time and resources much greater than their potential contributions to the bottom line.

The company soon found itself with an unprofitable store operations division that was draining the profitability and productivity of its manufacturing and franchise divisions. After several changes in senior management, the company decided to sell most of its own stores to franchisees and to focus on its highly profitable manufacturing and franchise operations.

The results of this turnaround have been impressive: On September 26, 2001, Rocky Mountain announced gains in non-retail revenues and earnings for the last part of FY2002. Non-retail revenues (primarily royalties and factory product sales) increased 18% to \$8.0 million during the six months ended August 31, 2001, compared with \$6.7 million in the year-earlier period. Net income rose 32% to a record \$959,000, or \$0.49 per diluted share, compared with \$724,000, or \$0.34 per diluted share, in the first half of the previous year.

We anticipate that another 20-30 franchised stores will open in fiscal year 2003 and that the company's diluted earnings per share will rise 20%-30% to around \$1.10.

We expect Rocky Mountain's shares to significantly outperform the overall stock market during the next 18 months, as revenues accelerate from Internet sales, corporate gift, and fundraising programs and Rocky Mountain is recognized for its distinctive franchise concept. We think the company is worth around \$24-28 a share.

Rocky Mountain's store locations are listed on their web site. George students have visited two franchises in St. Augustine as part of our commitment to kick-the-tires research. Why don't you stop by a store at some point, have a slice of chocolate-dipped cheesecake or a caramel apple, and discover why we think this company is going to be a free cash flow-generating monster over the next couple of years?

Rocky Mountain Chocolate Factory

Ticker	RMCF
Recent Price	\$12
Capitalization	\$31 million
Industry	Confectioners
Exchange	NASDAQ
Web Site	www.rmcfusa.com

rocky mountain

by Jeff Hamrick



bond targets

there are some new faces in our fixed-income family

by Kjell Aasheim, Robert Pile, and Jeff Hamrick

citibank

Citigroup, Inc. is a diversified global financial services holding company whose businesses provide a broad range of financial services to consumer and corporate customers. We proposed to swap our debt position in some Treasury Inflation-Indexed bonds for new Citigroup debt.

The company has over 192 million customer accounts in over 100 countries and territories. For the fiscal year ended December 2001, Citigroup achieved record core income of \$14.6 billion (up three percent from 2000), making them once again one of the world's most profitable companies.

Revenues grew eight percent and core diluted earnings per share were up three percent. Citigroup also completed multiple acquisitions in key markets. At the same time, they received credit rating upgrades from Standard & Poor's and Moody's.

Citigroup became the leading global underwriter in combined equity and debt for the first time. The company's debt-to-equity ratio is

1.50, which is very good compared to its peers. We don't attribute much credit risk to the company.

With the real federal funds rate near zero and the accompanying fiscal policy response, it is likely that the easing pattern we currently enjoy will reverse itself during the second half of 2002.

There are some factors, though, that could increase inflation over the next year, however. Long-term inter-

est rates are not affected as much by inflation movements compared to short-term interest rates. So, we expect that an increase in short-term rates will be accompanied by a smaller increase in long-term rates (a flattening of the yield curve).

to slow down inflation. The bank will probably raise the target rate by another 25 basis points towards the end of the first quarter of 2003.

The mean historical yield spread between the two bonds is 277.15 basis points. The current spread is 276.39 basis points. We believe the yield spread will float around where its average is, and maybe will even narrow a bit within the next year. If the spread stays close to its mean or narrows, and should interest rates stay the same or rise, the pickup will be positive and higher for this bond swap.

The reasoning behind this swap was to make sure our portfolio was complying with the objectives the class

had decided upon (duration of 4-7 years, maturity in less than 10 years, BBB credit rating or better, and total coupon income of at least \$60,000). The swap will increase the current coupon rate from 3.625% to 7.25%. The yield will increase from 3.392 to 6.127. Duration will go from 8.43 down to 6.33. Time until maturity will decrease by 17.5 years to 10.01.2010.

	Buy Candidate	Sell Candidate
Company	Citigroup, Inc.	TII Inflation Index Bonds
Sector	Financials	Government
Maturity	10.01.2010	04.15.2028
Duration	6.328	8.425
Coupon	7.25%	3.625%
YTM	6.127%	3.392%
Price	\$107.32	\$104.06
Rating	Aa2/A+	AAA

goldman sachs

Goldman Sachs is a leader in global investment banking. The company has more than 40 offices worldwide, and in addition to its renown in initial public offering underwriting business, was the world leader of mergers and acquisition coordination in 2001 with business in excess of \$575 billion.

The company's services fall into two segments: its global capital markets segment, which includes trading and principal investments and investment banking, and its asset management and securities services, which coordinates institutional brokerage, investment management, and merchant banking.

Goldman Sachs owns Spear, Leeds & Kellogg, a specialist firm on the New York Stock Exchange. Goldman Sachs has a debt-to-equity ratio of 1.7, which is less than the industry's ratio of 2.84. They decreased corporate debt by \$4.3

billion dollars in 2001. The company has greatly increased its client asset base recently.

These very strong results demonstrate the value created through the company's diverse, multi-product global platform. With a Standard & Poor's credit rating of A+, we see continued stability in this company's credit strength. Goldman Sachs continues to build their high net worth business and believe it is one of their most attractive growth opportunities.

Because of the financial position of Goldman Sachs, it's a great addition to our current fixed-income portfolio. In order to complete this new posi-

Buy Candidate

Company	Goldman Sachs
Sector	Financials
Maturity	10.01.2009
Duration	5.747
Coupon	7.35%
YTM	6.67%
Price	\$104.50
Rating	A1/A+

Sell Candidate

U.S. Treasury (T5)
Government
02.15.2011
7.200
5.00%
4.97%
\$103.21
AAA

tion, we chose to swap out of a U.S. Treasury 5% bond currently being held in the portfolio.

Performing the swap increased the coupon rate from 5% to 7.35%, which substantially increases cash flows. Also, the duration of the T-Bill is 7.2, which is not congruent with the class' goal of lowering duration to between 4 to 7 years. The swap has lowered the duration to 5.747 years. As a result of lowering duration, the swap will help the portfolio be less sensitive to interest rate changes.

tommy hilfiger

Tommy Hilfiger, through its subsidiaries, designs, sources and markets men's and women's sportswear, jeanswear and childrenswear. The company offers a broader array of apparel, accessories, footwear, fragrance and home furnishings.

Tommy Hilfiger has been reducing the amount of debt in its capital structure, and it is sitting on cash reserves of half a billion dollars—more than enough to pay off all of its two major debt issues. The company's equity is trading at nearly book value, despite improving margins and continuing expansion of the company's brand name and specialty stores.

On April 9, 2002, Tommy Hilfiger activated a "make whole" provision in its 6.5% senior 2003 notes that permits the company to purchase its debt from willing sellers at a premium. Tommy Hilfiger has plans to purchase \$125 million of its 6.5% 2003 debt

offering, approximately half of the whole offering.

Tommy Hilfiger's current credit rating may be somewhat unjustified. The company's sales declined somewhat last year due to general macroeconomic conditions, but the trend has been upwards over the past few years. The company has steadily grown free cash flows and has used free cash flow to repurchase debt and equity, as well as finance overseas openings of its specialty stores.

While the company's total debt-to-equity ratio and long-term debt-to-equity ratio are slightly higher than industry averages, the company has

Buy Candidate

Company	Tommy Hilfiger
Sector	Apparel Clothing
Maturity	06.01.2008
Duration	4.9240
Coupon	6.85%
YTM	7.721%
Price	\$95.815
Rating	BB1

Sell Candidate

International Paper
Paper and Paper Products
11.01.2023
10.8459
6.875%
7.427%
\$94.111
BB2

been working to lower those ratios. We propose to swap our current debt position in International Paper corporate bonds due 11.01.2023 with Tommy Hilfiger corporate bonds due 06.01.2008. This swap provides the immediate benefit of reducing the duration of the entire portfolio, improving the credit risk of the portfolio, and permitting us to pick up additional yield. We showed if interest rates remain constant or increase, the buy candidate is superior to the sell candidate.



student research

it may be better to buy stocks that are thrown out of the S&P 500 Index

by Jayme Wiggins

Anyone who invests in stocks is familiar with the Standard & Poor's 500 (S&P 500) stock market index. The S&P 500 Index is managed by a committee that oversees all changes, either automatic or discretionary, made to the Index.

One type of automatic, or forced, change could result from a merger whereby two former companies in the S&P 500 basket become one, leaving a vacancy to be filled by a new addition. An example of a discretionary change might be the committee's decision to remove a company from the Index because its market capitalization becomes too small.

Conventional wisdom in the investments business maintains that when companies are added to the S&P 500, their common equity experiences abnormal short-term gains. This primarily occurs because of the dynamics of index funds. Index funds are passive mutual funds that track a stock market benchmark, like the Dow or S&P 500, assuring the investor no worse performance than the overall stock market.

The reason that S&P 500 company additions temporarily jump in price is that the multitude of index funds which track the S&P 500 are forced to purchase any new additions

to the Index as they are announced. The tremendous buying pressure caused by this occurrence pushes the prices of added stocks upwards. This phenomenon is known as the "S&P effect."

On the other hand, those companies that are removed from the S&P 500 experience an opposite effect. Their common equity typically drops due to automatic selling by index funds. We hypothesized that, in cases where the S&P 500 Index Committee exercises discretion in changing

in potentially superior returns for the removed companies. We focused on examining the discretionary, or subjective, changes to the S&P 500 because these usually involve cases where both the added and removed company still exist after the index change, allowing us to compare their returns.

The results of our research were surprising, and confirmed our hypothesis. Removed companies, on average, outperformed their added counterparts from the date of the change to 6 months, 1 year, and 5 years later. Our results are statistically significant up to 2 years into the future when one uses the change date stock price as the beginning value in the return computation.

We believe that our findings demonstrate that potential information arbitrage opportunities

exist for composition changes to the S&P 500 Index. The actions of index fund managers, in continually realigning their funds with the S&P 500 benchmark, cause mispricings in the stocks of companies removed from the index. Our analysis indicates that annual returns in excess of 20% may be achievable by pursuing a consistent strategy of buying companies on the date that they are removed from the S&P 500 Index.

Total Return of Added and Removed Companies
Based on a sample of n = 46 additions/removals

Sector	Added	Removed
Six months	0.3%	15.4%
One year	-0.1%	23.4%
Two years	21.4%	50.5%
Three years	97.8%	156.3%

Return calculated from the date of the Index change.

the composition of the Index, the subsequent returns of removed companies actually exceed the returns of added companies. Since added and removed S&P 500 companies are, at the time of their Index entrance or exit, bought and sold without regard to valuation, their stocks will assume artificially inflated or depressed prices. We theorized that the market will ultimately correct its mispricing of the stocks, resulting

new york

continued from page 12

the tires' approach to research. The team left the meeting with some investment ideas in mind and a solid understanding of the company's future.

After the pleasurable meeting, the students were headed out for a night on the town. Some enjoyed seeing a ball game while others just strolled around, enjoying the big city.

Tuesday, CNBC interviewed one representative from each category winner. Jeff "The Hammer" Hamrick was our

spokesperson. The representatives from each of the three winning schools were asked questions about their portfolio and the investment strategies that had been used during the competition period. The interview went smoothly for Jeff—he spoke with eloquence, while hammering away to ensure that the entire world knew that Stetson University's Roland George Investments Program teaches students how to actively and effectively manage money. Jeff truly represented the George Program

with intelligence and confidence.

The New York trip was the culmination of an entire year's work done by everyone associated with the Roland George Investments Program. While in New York, the entire team represented the university with pride and created memories to treasure forever. More importantly, Stetson students assisted this program in obtaining some of the national recognition that it deserves. We're setting a new standard in investment education, and we're proud!

trading room

continued from page 4

workplace easier. Although it has always been possible for other classes to require the use of such software packages in their courses, the lab's limited space and availability have currently made extensive use difficult.

All of these improvements come at a price, of course. The estimated cost of completion for the new trading room is somewhere around \$150,000, which is currently being paid by the George Investments Institute. However, the Institute would prefer to fund the project by donation, and is looking for a donor willing to contribute \$250,000 for the lab's completion. In exchange for the \$250,000 contribution, the new trading room would bear the name of the contributor.

editor's note

continued from page 1

barriers to entry, superior management, and growth selling at a reasonable price.

This issue of *The George Investments View* is specifically designed to give you a glimpse into our shared project of investment education, our bottoms-up research process, and our search for companies to add to our equity and fixed-income portfolios.

In this issue, you'll find commentaries on three new members of the equity portfolio: **Infinity**, **Rocky Mountain Chocolate Factory**, and **Chicago Pizza & Brewery**, as well as commentaries on the new additions to our fixed-income portfolio which include **Goldman Sachs**, **Ford Motor Credit**, and **Citigroup, Inc.** We'll also provide you with an update on the renova-

tions to the Lynn Business Center and paint a picture for you of how our new trading center will appear.

You'll also have a chance to review some of the impressive research being conducted by program participants, and get some insights into how one program participant thinks the energy sector will perform over the next year.

We remain interested in your comments and feedback. If you'd like to send a letter to the editor, or just give us a few informal suggestions, we'd be happy to receive either.

You can email us at dhamrick@bu.edu and lmharlan@yahoo.com, respectively. Please don't hesitate to contact us. We'd love to hear from you.

book review

continued from page 7

interest, in some cases), LTCM was able to tremendously magnify both its gains and losses. It's the losses, however, precipitated by an ultimately surprising event—the collapse of Russian financial markets in late 1997—that easily broke the back of the LTCM camel.

You should read *When Genius Failed*, though, and do your own research to determine exactly why Long-Term Capital Management failed in its gargantuan quest to use leverage to generate unbounded risk-free returns.

director's update

continued from page 4

This year we have a freshman, a sophomore, and a junior assisting the seniors in various research endeavors.

Further vertical integration is possible with graduates of our program. Alumni are encouraged to help in mentoring and placing our students. Additionally, resources for our new trading room are needed to bring it to a standard necessary for a nationally recognized program.

The Roland George Investments Program is one of the nation's oldest student managed investment funds. In terms of

assets under management, it is among the larger programs. With two consecutive wins at a national competition, it has been recognized as being among the best student-managed investment programs in the country.

In order to continue these past successes, we welcome suggestions for guest speakers. With the help of our students, faculty, and alumni, we plan to continue improving our program and fulfilling our mission objectives: sound investment education and community outreach.



Todd Tarrance looks at the snow-capped buildings of downtown Chicago from the Sears Tower's observation deck.

Chicago is not your typical spring break destination. However, ten students from the Roland George Investments Program and the School of Business Administration chose to spend five days in the brisk Chicago weather to visit the Mercantile Exchange, the Chicago Board of Trade, and other financial centers.

Dr. Ma arranged for us to stay at the Embassy Suites Hotel on State Street. Staying in “the loop,” a nickname for the center of the city, gave us easy access to shopping, restaurants, and pubs within walking distance. On arrival, the students set out for the famous Gino’s Pizza, to experience the trademark food for which the city is best known.

Chicago’s weather was the coldest it has been recently during their unusually mild winter. During our five-day trip, the sunny Florida students had to endure -20 degree wind chill factors as they made their way through the city.

Monday began bright and early as the students watched the open of the Mercantile Exchange. A short lesson in hand signals was given by a retired trader and students were able to inquire about life as an options trader. That afternoon the students set out for the Board of Trade where they stood on the floor for the close of the market. Tuesday consisted of a visit to the Midwest Stock Exchange and a meeting with Portfolio Manager Michael Serio of Stein Roe Investments Council.

windy city

by Laurie Harlan



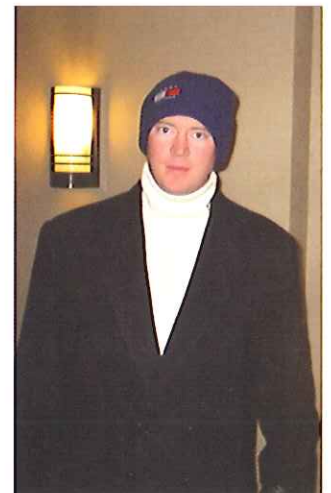
Above, from left to right, William Carpenella, Andrew Calleri, Melissa Jasmin, Robert Pile, David O’Regan, Michael Sweeney, and Laurie Harlan; on floor from left to right, Todd Tarrance and Zachary Cheek.



Left, students visited the floor of the Chicago Board of Trade. Pictured from left to right on the first row are Melissa Jasmin, Laurie Harlan, Zachary Cheek; second row, Todd Tar-rance, Robert Pile, William Carpenella, Patricia Miller; third row, Dr. K.C. Ma, Brian Smith Michael Sweeney, Andrew Cal-levi, and David O'Regan.



Left, Dr. Ma enjoys a pink balloon at Gino's Pizza, after chowing down on some famous Chicago-style pizza. Below, Zachary Cheek and Laurie Harlan share a moment for the camera. Right, a view of snowy downtown Chicago taken from the Sears Tower's observation deck. Bottom right, Robert Pile piles on the clothes to battle the elements in the Windy City.





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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.

