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## *opportunity knocks in the George Program*

**by Bryan Hinmon**

The School of Business Administration is frequently exalted on a statewide and occasionally on a national scale because of its revolutionary programs. Such programs – the Roland George Investments Program in particular – offer students the supplemental experiences that embrace the abstract of theory and instruction and showcase its application elegantly. Opportunities like this cement Stetson's advantages in student development and preparation over other universities. Students in the Program are entrenched in the possible and bred to succeed while at the same time are challenged on the same plane as industry professionals.

It would be an injustice to say that the George Program is a mere emulation of a professionally managed fund. The Program's portfolio has outperformed most professional funds in recent years and is every bit as industrious as professional funds. Students benefit from the same decision tools used by the industry mavens (Baseline, Bridge, Bloomberg, and Morningstar) and suffer or reap the same results – as seen in the value of the fund. The state of the art facility prepares George analysts (or perhaps even pampers them) for a career environment based around technology and research.

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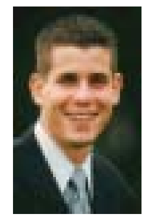
## *editor's* note —

**by Carlos Domenech**



Spring Semester is usually an exciting time in the Roland George Investments Program as students are introduced to a new alternative of investing: Fixed Income. Not only is the excitement surrounded by learning new strategies, but also the annual competition in Dayton, Ohio. RISE (Redefining Investment Strategy Education) is the competition that allows the students in the George Program to publicly display the skills they have gained in both Equity and Fixed Income courses. The experiences that these students acquired recently at the competition can never be forgotten as the tools they exhibited at the competition led to a second place in the Growth category and a fourth place finish among the top student– managed portfolios in the United States.

In reminiscing the past year that has come and gone, we the students feel very proud of our Program, professors, and the opportunities that we were given. In specific, we would like to thank the program and its professors for the time, hard

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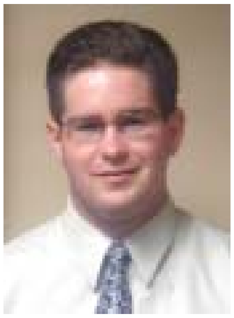


# portfolio performance

*by Jason Buser*

The past year has certainly been a turbulent one for financial markets. Since the spring of 2002, more corporate scandals have rocked the business world, interest rates have gone to lows not seen in forty years, and consumer confidence has reached a nine–year low. Throw in extended uncertainty over a war with Iraq, and you get a very hostile environment for any investor.

The events of the past year are reflected in the returns of major stock market indices. As shown in the chart, the S&P 500 is down 20.98% over this period, and the Dow Jones Industrial Average (not shown) lost 19.78%. Weathering this financial storm, the Roland George Growth Portfolio only gave back 15.28% over the same period.

However, stock performance has not been the bellwether of the Roland George Investments Program over the past year. As a result of declining interest rates, the Income Fund has shown positive returns of 11.14%. This has helped, in large measure, to offset the losses of the Growth Fund.

Looking forward, however, the Program is faced with new challenges in keeping the Income Fund profitable. With interest rates at forty–year lows, rises in interest rates are inevitable, and with rising interest rates come falling bond prices. As a result, the Program has made very few changes to the bond portfolio this semester, choosing instead to hold securities to maturity if need be to avoid transaction costs on bonds that will lose money anyway.

The Growth Fund, on the other hand, shows more promising prospects for the future. As shown by the sector allocation comparison with the S&P 500, the George Program sees superior potential for future earnings in the Financial and Consumer Discretionary Sectors, as the economy emerges from recession and (1) financial institutions are healthier as a result of higher interest and lower default rates; and (2) consumer spending continues to accelerate. The Program has decided to put less emphasis on the Information Technology and Telecommunication Sectors because of the increased risk associated with the majority of these investments and the difficulty in understanding what these companies do and how they remain profitable.

The Roland George Investments Program prides itself on the time and effort that its students put into researching quality investments with solid fundamentals and high, intrinsic value for purchase in both it's Growth and Income Funds. In order to properly follow its investments, the Program has limited itself to around ten fixed income positions and thirty equity positions. This smaller size gives the Program an edge over larger funds in that each investment is given the individual attention that will help to ensure maximization of profitability and minimization of potential losses.

Stericycle, for example, a regulated medical waste services provider, has returned 16% since its addition to the portfolio on December 4, 2002. NBTY, a vitamin company purchased last October, has returned an impressive 22% to date. One of the strongest–performing stocks in the Growth Fund, American National Financial (ANFI) was bought out on March 26, 2003 by Fidelity National Financial (FNF). Initial fears were quickly allayed when FNF returned 7% in the first three weeks after the acquisition.

By picking companies with solid fundamentals and a clear strategy for making money, the George Program has weathered the turbulence that has plagued financial markets over the past year. By sticking to these core values, the Roland George Investments Program will continue to outperform its benchmarks, whatever the future may hold.

# purchases

## Fixed Income

***R. J. Reynolds*** is the second–largest tobacco producer in the United States and has diversified into other industries including food (Nabisco) and shipping materials. The company has enough cash on hand to cover debt obligations for 1.25 years without any net income. Additionally, the tobacco industry is non–cyclical, a great benefit considering the current economic conditions.

***Sprint*** is a domestic and international provider of telecommunications services. The company has enough total assets to cover long–term debt and has announced plans to tap into new technologies and new global markets.

## Equity

***Renal Care Group (RCI)*** is a health care services company whose main source is the administration of outpatient hemodialysis. The company boasts a 10.2% net profit margin and 19.4% earnings per share growth over the past eight quarters.

***Total Entertainment Restaurants (TENT)*** owns over 50 restaurants under the names of Fox and Hound and Bailey's in 19 states. These restaurants create an upscale but reasonably priced dining environment, complete with a full bar, billiard tables, and satellite coverage of sporting events and music videos.

***1-800-Flowers.com (FLWS)*** is an on–line retailer offering a variety of gift products, including flowers, candies, and children's toys. The company recently signed an agreement making it the exclusive floral provider American Greetings, the 20th most popular site on the web.

***Varco International (VRC)*** is a leading manufacturer of oil drilling equipment for both land and offshore oil drilling. Equipment from Varco can be found in every major oil field market in the world.

***Bradley Pharmaceutical (BPRX)*** makes highly targeted pharmaceutical therapies in the United States and 31 other countries. The company has shown earnings per share growth of 20% over the last three quarters.

***Medical Action Industries (MDCI)*** produces a variety of disposable surgical products from operating room towels to sterile light covers. The company shows a conservative forward–looking growth rate of over 25%.

***Stericycle (SRCL)*** is the largest provider of medical waste management services in the United States. This company actively buys out its competition, creating an ever larger regional and national network. The company has shown earnings growth every quarter since it became publicly traded.

***Corvel (CRVL)*** is an insurance broker that provides a variety of financial services, primarily in the areas of medical insurance and worker's compensation. The company holds no short-term or long-term debt and has an active stock buyback program.

# sales

## Fixed Income

***Citigroup*** is the largest bank in the United States, but has had less impressive returns of late due to decreased interest income. Additionally, the bond issue held in the Income Portfolio was nearing the point where capital gains would begin to be amortized, lowering the total return on the bond.

***Ford Motor Credit*** is a wholly-owned subsidiary of Ford Motor Co., which is currently struggling with $162 billion in debt (most of which is attributable to Ford Credit) and a large pension obligation.

## Equity

***Triquint Semiconductor (TQNT)*** is a manufacturer of various semiconductor products, including components for wireless phones and optical networks. Despite growth prospects in the semiconductor industry, Triquint's potential lags behind that of its competitors because of its lack of concentration in the industry.

***Andarko Petroleum (APC)*** is an oil and gas exploration company. Although the company shows a 7% forward–looking growth rate, the position was sold in favor of a higher-returning investment.

***Exponent (EXPO)*** is a diversified business consulting company, offering everything from failure analysis, to chemical regulatory advice. Although the company shows some growth prospects with its Land Warrior project with the U.S. military, it is expected to lag behind industry and sector averages.

***Frequency Electronics (FEI)*** designs and manufactures high-technology frequency components for satellite and terrestrial video, voice and data telecommunications. This company is therefore, closely tied to the telecommunications sector, which has seen a generally grim future outlook.

***Cox Communications (COX)*** is nation's fifth largest provider of cable television. Potential future problems include increased labor costs and bad debt expenses due to the Worldcom collapse.

***Thoratec (THOR)*** manufactures circulatory support products for heart patients. The outlook for the company is dim, projecting losses and falling margins.

***Liberty Media (L)*** spun off from AT&T in 2001, holds a variety of programming, communications, and internet services in the United States and abroad. Many of the company's assets are cyclically sensitive, with greater volatility in down markets.

***Global Santa Fe (GSF)*** is an international drilling contractor, with the majority of its business offshore. The company's assets are concentrated in the Middle East, creating a great deal of uncertainty for returns with current geopolitical events.

***MFC Bancorp (MXBIF)*** is a financial services company that focuses on specialized banking and corporate financial services. The company has market capitalization of less than $100 million, making it more volatile and susceptible to price manipulation.

# director's *update* —

**by Dr. Larry Belcher**

## "Raising the Bar-Or Setting It?"

I just returned, along with five George Program students, from three days in unusually sunny Dayton, Ohio. We were there for the third annual University of Dayton RISE Symposium. As we have done for this and the past two years, we went to Dayton to both learn from nationally recognized investment professionals as well as to compete in the student–managed portfolio competition. The acronym RISE stands for "Redefining Investment Strategy Education" and the byline used for the conference is "together, we can raise the bar in investment education." Based on discussions that I had with other participants as well as the students' interactions, I can say that in many ways the Roland George Investments Program sets the bar for other student–managed funds to follow.

Is this just a statement full of institutional bravado? I think not. One of the founding principles instilled in the program by the Roland George gift was to let the students run the program. Mr. George was clear in his belief that students could and should learn best from practice. We currently have an environment at Stetson, thanks to that philosophy and gift, which other schools are envious of because it does just that.

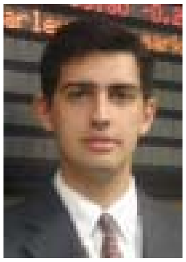
Let me expand on this idea. At many schools, for example, the students are given funds on a short–term basis from the university's endowment. Some have it for a semester, some for a year. Some are required to liquidate their portfolios each year. This means that they must go through additional layers of bureaucratic management "help" to really "manage" their funds. Many schools have funds provided by private endowments that limit their decision–making capabilities. Many are small and under–funded; some are really "investment clubs" where the students capitalize the fund themselves. At Stetson, our students have the freedom and fiduciary responsibility to manage their own endowment. This level of freedom is the exception, rather than the norm.

It is also rare for other schools to have a specific two–semester curriculum taught by a dedicated faculty member like our current George professor, Dr. K.C. Ma. At Stetson, we do not separate classroom and practice, but meld the two together to insure that students learn from textbook theory and models as well as practitioner knowledge. Couple this with the impressive array of guest speakers each year, and our students leave with an impressive set of tools with which to pursue financial careers.

With the addition of the trading room, we also have a state of the art research facility with professional software: Bridge, Baseline, and Bloomberg. The growth in this practice nationwide reinforces what we have known for years – that to train professionals, you need professional tools. It says something for our program when local investment shops come to us for research help because of our facilities! Take these factors, plus the travel, research, software and hardware, and other support that the George program and Institute generate, and you see their "reach" going out into both the Business School and broader community.

After twenty-three years, we are one of the oldest student–managed funds in the nation. As we all know, however, "oldest" is not always synonymous with "best." An objective look at our program, though, leads one to say that we truly "set the bar" in student-managed funds. Your support and encouragement continue to keep that bar high.

*Bryan Hinmon, managing editor of the george investments view, sits on a panel at the RISE symposium in March.*



# a daily journal - RISEing to dayton

***by Andre' Uflacker***

## march 26

Will Carpenella, Michael Fassnacht, Bryan Hinmon, Tish Miller, and myself (Andre Uflacker) competed in the 2003 RISE Symposium Portfolio Management Competition, in Dayton, Ohio. Under the guidance of Dr. Larry Belcher, we presented a flawless presentation on the George philo–sophy, strategy, and holdings. We arrived at the competition ready to compete in the Morning Star selected Growth category and in time to practice our presentation only two more times. After correcting a few last minute blanks and glitches we entered the classroom where a panel of three judges from the investment industry looked less than excited to be in attendance.

This picture changed shortly after we began our presentation. Bryan Hinmon gave the introduction, in which he explained to the judges how seriously we took our jobs as analysts. The panel laughed as Bryan described the intensive research done on Rocky Mountain Chocolate Factory, one of the portfolio's holdings. " . . . Much to my chagrin, this involved stuffing my face full of fudge, fudge, more fudge, and a variety of chocolate truffles," said Bryan. "We realize that being analysts is hard work, and we are prepared to make the sacrifice." Bryan then made a transition into the portfolio strategy.

We were all thankful that Bryan had lit a fire under our small audience; and using his momentum, we delivered a presentation full of life and humor. During our portfolio presentation, I joked about how we selected a firm called Stericycle that deals with disposing toxic waste: "The idea to purchase Stericycle came to us while eating at the school's cafeteria. Being surrounded by toxic waste (no offense to the Commons staff), we decided that Stericycle could be a wise investment." Mike Fassnacht joked about purchasing Berkshire Hathaway " . . . for five reasons: Warren Buffet, Warren Buffet, Charlie Monger, $50 billion in cash, and Warren Buffet!" Tish Miller also had her spotlight; as she finished her presentation on Fossil, Inc. We all demonstrated our support for the company and its products by showing off our collection of Fossil watches - worn by every team member. The judges welcomed our approach with laughs and smiles, which made us more confident than ever. Will Carpenella, who also expertly created and edited the Flash slide show, wrapped up the presentation and opened the floor for the judges' questions.

Each question seemed to be scripted perfectly for the entire team. We jumped at each, unable to wait our turn to speak. After our 30 minutes were up, Dr. Belcher, while on his way out, approached the judges to thank them; but we were kept there for another five to ten minutes with endless questions about our program. The judges were flabbergasted at our technological resources, our disciplined and unemotional approach to investing, and by the fact that each student presenting had already passed the NASD Series 7.

Jubilant and satisfied with our performance, we returned to the hotel, eager and anxious to hear the results in next evening's dinner session.

## march 27

The biggest reward we brought back from Dayton was not second place in the Growth category – nor the honor of being the 4th best portfolio management program in the U.S. By far, the most satisfying reward was discovering that big–shot Wall Street professionals were doing what we were doing.

The first two speakers were Ralph Acampora from Prudential and Joe Battipaglia from Ryan, Beck & Co. The two discussed issues in today's markets, such as the bear market, the economy, and strategies for the next few years. We were very satisfied to hear that they recommended individual stock picking, a focus on positive funda–mentals, positive free cash flow, and solid management.

All of these criteria for stock selection are embedded in the George strategy. Battipaglia and Acampora do not stress timing the market or jumping from sector to sector – neither do we. Battipaglia and Acampora believe growth stocks are a favorable choice. Battipaglia also mentioned the importance of firm liquidity – factors included in all George analyses.

We also heard from Ned Riley of State Street Global Advisors and Hugh Johnson of First Albany Corp. Riley and Johnson validated the need to oppose popular consensus. Both professionals agreed that the market for small cap stocks is less than perfectly efficient. None of us could believe that we had yet another facet of our strategy - our commitment to find small cap firms - approved by Wall Street gurus.

Other professionals included Richard Bernstein, Tobias Levkovich, Jeffrey DeGraaf, and Jeffrey Applegate. One of Mr. Levkovich's main points was

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# opportunity knocks in the George Program

continued from page 1

Financial markets function on their ability to cope with dynamic shifts in thought. It would therefore be fatal to become complacent in one's knowledge or practices and Stetson has embodied this truth into the structure of the George Program. The professor of the Program is chosen on a revolving basis so that no one belief dominates the Program philosophy, strategy, or practice. On top of allowing students the exposure to differing investment theories, each visiting professor brings in a different consortium of academic and professional cohorts who provide a valuable educational and referential resource to students in the Program. It has been the policy of the professor to share with his colleagues the nature and success of the Program, and in return students have been the beneficiaries of resulting guest lectures and job offers.


Many student–run investment portfolios do not combine the classroom element with the portfolio management element of investments. In this respect the George Program weaves an intricate web of collaboration between in class learning and out of class implementation. The demands are certainly considerable, but no more than those of an industry professional. The two-class structure (Equities in the fall and Fixed Income in the spring) allows for educated portfolio decisions with a measurable progress tool that is often painfully real – performance. Classroom theory is immediately applicable to portfolio decision–making ensuring that students blur the line between apprentices and practitioners.

Whether students display interest in the sales side or research side of the investments industry, the George Program makes available access to professional licensing that sets apart respected industry bellwethers from banal industry employees.

For sales–bound students current professor Dr. K.C. Ma has, through his local hedge fund KCM Asset Management and New York broker dealer Millennium Brokerage, sponsored several students in their attempt to become licensed brokers. This process involves registering with the National Association of Securities Dealers (NASD) and completing a comprehensive examination known as the NASD Series 7. This license ensures that those who obtain it have a sound understanding of investment options and can receive commissions based on their advice about such decisions. The Series 7 is something required of all brokers, and often industry lemmings are hired contingently – and are only retained – upon passing this difficult exam. Currently, seven students have been passed their Series 7 exam.

The industry gold standard is the Chartered Financial Analyst (CFA) designation for research–minded students. This honor is bestowed upon candidates that pass a three–level three–year examination. The designation is awarded by the Association for Investment Management and Research (AIMR). Obtaining a CFA identification is the highest honor in the field of investment research, and is therefore extremely difficult to obtain. Currently, four students have been sponsored to sit for the Level 1 examination on May 31. In addition to making students aware of the importance of this license, current charter holders of the CFA designation can sponsor CFA candidates, which makes the exam more affordable for students. Current professor Dr. K.C. Ma and former George professor Dr. Frank Castle have aided students in funding their Level I examination fees.

Moreover, students have been given the opportunity to witness firsthand a budding trend in the industry – the proliferation of hedge funds. Dr. K.C. Ma has locally opened his hedge fund and has given several students an opportunity to realize gainful experience in trading, hedge fund operations, and business-sense. His operation has been shared with the members of the Program and has paved the way for enterprising and entrepreneurial students to aspire for their own business. Four George students have accepted full–time contracts at KCM after they graduate and several other students continue to man the hedge fund part–time.

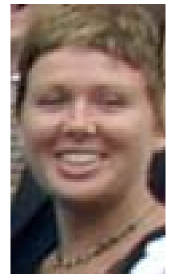
It can easily be seen how the opportunities generated by the Roland George Investments Program fertilize the success of its participants. The program itself, its resources, the caliber of instruction, the doors it opens, the quality it demands, and the real–life experience it bears make the possible investment education one can receive at Stetson a virtually risk–free investment. Business oriented and non–business oriented people alike can and should appreciate the return on an investment such as participation in the George Program. We do.

*Above, Dr. Stuart Michelson reviews presentation with guest speaker, Brian Bruce, PanAgora Asset Management, Inc.*

Acne, foot fungus, warts, and dandruff took center stage in the Roland George trading room when students purchased shares of a small pharmaceutical company based in Fairfield, NJ. Bradley Pharmaceuticals, Inc., (NASDAQ ticker symbol BPRX) sells prescription and over the counter drugs to a specialized physician market in the US and 37 other nations worldwide. Bradley is comprised of two main operating units, Doak Laboratories and Kenwood Thera–peutics, and most of its therapies focus in the dermatology, gastroenterology, and nutritional areas. Since its birth in 1985, BPRX has successfully acquired and marketed over 16 different product lines. In March of this year, Bradley unveiled two new products: Rosula Aqueous Gel, a treatment for acne and rosacea, and AnaMantle, a treatment for hemorrhoids. We in the program enjoy how such undesirable afflictions generate such spectacular profits.

BPRX's philosophy of "Acquire, Enhance, and Grow," summarizes its unique business strategy. Bradley buys relatively small sales products from big drug companies that find it unprofitable to continue manu–facturing the small lines. BPRX then concentrates on enhancing the drugs' formulas and extending the products lines. These mature products have already gone through the lengthy research and development phases, bringing a huge cost savings to BPRX. Bradley also bypasses the expense of building and maintaining production facilities; all of the drugs Bradley sells are manufactured by contractors.

Outsourcing these activities leaves BPRX free to concentrate on sales. Bradley currently employs 96 sales people and recently announced its intention to increase this figure by 25% in 2004. The extremely dedicated sales force targets dermatologists and specialty physicians with creative marketing and lots of hustle. CEO Daniel Glassman often visits clients personally, an oddity in the pharmaceutical industry. Glassman called on over twenty dermatologists last year, gaining excellent insight into his clients' needs. Unique marketing techniques help to set Bradley apart



***by Lea Picou***

from its competitors.

BPRX's sales grew by 38.5% in the past year, and they recently increased sales forecasts for this year. Bradley expects to experience EPS growth of 25% over the next five years – much greater than the industry. BPRX trades at significantly lower price to earnings, price to book, and price to cash flows ratios when compared to the rest of the pharmaceutical industry, and is currently followed by only one analyst. With Americans aging fast, demand for Bradley Pharmaceuticals products will continue to gain strength over the foreseeable future, bringing solid returns to the Roland George equity portfolio.

# varco

***by Andrew Callieri***

Varco International is a manufacturer of high performance oilfield equipment that operates in 49 countries around the world. Varco is the world's leading manufacturer and supplier of innovative drilling systems and rig instrumentation, oilfield tubular inspections and internal coating techniques, solids control systems and services, and coiled tubing and wireline equipment for land and offshore drilling operations.

A significant portion of the company's recent growth in revenues and earnings has been the result of its aggressive acquisition program. The company's future operating results will be impacted by their ability to identify additional attractive acquisition opportunities, consummate such acquisitions on favorable terms and successfully integrate the operations of the acquired businesses with those of Varco.

The United States–Iraqi conflict has proven beneficial for VRCO. Oil prices have hit an all time high that resulted in unprecedented profits and growth for the company. Varco has a win-win scenario – should oil prices remain high, then Varco will profit from higher profit margins. However, should oil prices recede, the consumption rate of oil and gas will increase, creating a larger demand for Varco's products and supplies.

The price of Varco has risen since our purchase and is projected to rise above the 52–week high set earlier this year. The negative uncertainty of the Oil Sector has ignored Varco, as it was not affected by the recent drop in the price averages for the sector. The Roland George Equity Portfolio looks forward to profiting from analysis such as that which uncovered Varco International.

# strategy lesson —

## Equity Strategy

*by John West*

The current investment strategy of the Roland George Investments Program Equity Portfolio is very different than the average investor's strategy. Although it is suggested by many analysts, we do not use specific industry weights to define and restrict our portfolio selections. We pick stocks the old fashioned way – we research them until our analysts become experts with regard to all aspects of the company. It is not unusual for one of our analysts to actually go and visit potential companies or call a member of upper management to determine whether or not a particular company should be included in our portfolio. While researching the Rocky Mountain Chocolate Factory, a George analyst traveled to one of the retail sites. He observed customer traffic and sampled products in order to obtain a better understanding of what the company actually does.

The present investment style that was agreed upon by students of the Program during the fall semester of 2002 is very specific. We focus on growth companies that are extremely under–followed and have potential for a large increase in stock price. The prospective companies must be trading at above five dollars a share, have a market capitalization of at least $50 million, a price to earnings ratio above 12, a price to book ratio above two, and an average daily trading volume greater than 20,000 shares. The companies that we incorporate into the portfolio are tremendously under–valued, have a steady stream of historical growth, and contain quite a great deal of potential.

Our analysts pick companies that we believe will do well under the current state of the economy given our time horizon of 12 to 18 months. However, as mentioned earlier, the portfolio is not industry weighted. We pick companies that will prosper in the current market environment. Often this leads us to be over weighted in some sectors with respect to the standards set by our benchmark. These "over weightings" tend to be the result of a promising social or business trend or commonalities in growth drivers. For this reason, we are not bothered by whatever our actual weightings may be. We are currently heavily weighted in both healthcare and financial companies, with almost 40% of our portfolio coming from these two industries. Inconsequentially, we view both of these industries as defensive industries. We are more enamored with the tremendous potential for growth the companies we chose in these categories possess.

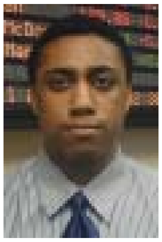
The companies in the portfolio are not long–term buys and holds. We primarily look for businesses that will appreciate in share price within a year to year and a half. Most of our analysts feel we should not be tying up any of our capital for any long period of time.

The strategy of picking individual stocks has helped the Roland George Investments Portfolio win top honors at the annual educational portfolio performance competition in Dayton, Ohio two out of the past three years. Through our tedious research of picking under–followed companies with a great deal of potential we believe we will continue to create returns that will far surpass any index.

# a roland george perspective

## Fixed Income Strategy

*by David Francis*



In a bear market climate that is characterized by the lowest federal funds rate (1.25%) in four decades, an obstinate recession, the geopolitics of the U.S.–Iraqi conflict, the ambivalence as to the direction of interest rates, and the aggregate investor diffidence, the Fixed Income Portfolio of the Roland George Investments Program fiinds itself at the center of a financial maelstrom. Fortunately, the oldest and most prestigious student–managed portfolio of its kind has positioned itself to surmount these current and imminent challenges.

Specifically, this is accomplished by the meticulous evaluation of the following six key factors: (1) preparation for interest rate changes; (2) the credit rating of current and prospective additions to and/or replacements for the fixed income portfolio; (3) the selection of an appropriate investment horizon; (4) the proper assessment of the attendant duration; (5) the coupon; and, (6) the advantages of forming the portfolio structure according to a bullet or barbell composition.

Needless to say, the manner in which the Federal Reserve will alter the federal funds rate is subject to conjecture. In spite of the many divergent opinions that surround the issue, reasonable inferences can be made from the condition of economic indicators, the analyses of economists, and statements issued by the Federal Reserve. For instance, the state of unemployment, though holding steady at approximately 5.8%, is not a particularly good portent. It is speculated that if the foregoing figure worsens, an emergency cut might be in order.

Nevertheless, the inertia of the Federal Reserve regarding the federal funds rate has been due to some of their uncertainties surrounding the U.S. conflict with Iraq – a plurality of Federal Reserve officials have expressed the conviction that additional time is needed to gain a clearer economic outlook. They advocate the idea that this powerful tool of monetary policy should not be employed until more definitive economic judgments can be made – the ramifications of altering the Federal funds rate are considerably obscured at present.

Conversely, the recent decline of the Federal funds futures insinuates the anticipation of a Federal funds rate cut. Dissenting views cite a threadbare economic principle that a rate reduction is generally a plausible economic stimulus and is considerably more effective than maintaining the status quo.

None of the foregoing perspectives lacks merit. However, like other pundits, the analysts of the Roland George Investments Program have their own perceptions – which, unlike the others heretofore mentioned, are a little longer–term in their focus. The consensus is that rates are likely to be raised by at least 25 basis points within the next 12 to 18 months. Moreover, they are likely to be raised consistently for a while thereafter. One of the primary reasons for this conclusion is the observation that the Federal funds rate is at a notable historical low. In spite of the possibility that the Federal funds rate might be lowered a little further, a great deal of credence is given to the probability of a consistent increase for a significant portion of the portfolio's holding period. This paradigm is the primary motive behind the portfolio's management strategies that have been adopted.

First, given the aforementioned market climate, certain common sense precautions are taken. The Program's analysts have opted not to invest in companies whose credit rating fall below BB (as assessed by Standard & Poor, for instance), not to select bonds with a duration in excess of five years, and to minimize price risk by choosing fixed income securities that mature in fewer than twenty years (in order to minimize maturity risk). Second, more esoteric safety measures have been explored: because bond trading is not a province of the portfolio's management approach, bonds with higher coupons are given more than cursory attention. This measure is taken because bonds with higher coupons, not to be confused with those which are traditionally relegated to "junk" status, grant comparatively greater insulation to interest rate risk than others that provide relatively lower coupon rates. Similarly, more emphasis is placed upon maximizing income (revenue derived from coupon payments) and preserving capital as opposed to maximizing capital gains (in lieu of the fact that the expected increase in interest rates over the short and long term will effectively reduce the price of the bonds within the portfolio), maximizing total returns, and minimizing tax payments. The fixed income segment of the Roland George Investments Program has projected that this methodology will allow for the construction of an agile, well-immunized portfolio – one that is fit to weather the current financial turbulence which confronts the bond market and the overall economy.

## MEDICAL ACTION INDUSTRIES INC.

***by Kevin Novaro***

Medical Action Industries Inc. (NASDAQ ticker symbol MDCI) has grown into a market leader in the arena of diversified disposable medical devices. Having started with only 2 employees and $100 revenue in the late seventies, the company is approaching $83,000,000 in annual revenues. MDCI develops, manufac–tures, markets and distributes a variety of disposable, surgical related products. The company is marketing mainly to trauma units in domestic markets but does have limited exposure in limited international areas. MDCI is expanding its customer base to include contracts to physician, dental and veterinary offices.

MDCI is the preferred supplier to leading distributors such as Allegiance Healthcare, Owens and Minor, General Medical and PSS World Medical, Inc. The Company also holds long–term contracts with almost every key hospital acquisition group in the U.S. This places MDCI in a strategic position to benefit from increased volume as other vendors are eliminated in a medical industry that consolidates frequently.

Maxxim Medical Inc., a maker of specialty medical products, filed Chapter 11 bankruptcy protection on February 11, 2002. MDCI recently purchased Maxxim's biosafety business for $23 million. The acquisition of this fledgling business by MDCI looks to be accretive immediately.

Medical Action looks ahead to earnings for fiscal 2003 to be in a range of 85 to 90 cents a share, citing that consolidation in the healthcare business will continue to drive its acquisition strategy. Net sales increased to almost $83 million for fiscal 2002, up more than $7 million from 2001. Net cash flow made available by operating activities increased over $5 million to $11 million over the same period. MDCI notes that this solid cash flow will allow them to internally fund acquisitions, develop new products, and increase shareholder returns.

Roth Capital Partners has recently issued a $17/12–month target price for MDCI. This target is based on 15 consecutive quarters of record net income and a seventh consecutive year of record revenues. Investors Business Daily named MDCI as one of the top 70 stable companies. With Medical Action's strong commitment to being a prominent player in the industry as well as a financial philosophy of increasing shareholder value, there is no doubt they are looking towards a bright future.

## scrl

***by Scott Kimball***

Stericycle's mission statement says it all: "To be the leading company dedicated to the environmentally responsible manage–ment of infection control and compliance services for the healthcare community."

Founded in 1989, Stericycle is the largest provider of regulated medical waste management services in the United States, providing regulated medical waste collection, transpor–tation, treatment and disposal to over 290,000 customers in 48 states, the District of Columbia, Puerto Rico, Canada and Mexico. With its acquisition of the medical waste business of Browning Ferris Industries, Stericycle is the only company offering medical waste services nationally. They operate collection routes that can service virtually the entire U.S. market. SRCL has also established a strong presence in the global marketplace.

Stericycle's full–service program is designed to help protect customers and their employees against potential liabilities and injuries associated with the handling, transportation, and disposal of regulated medical waste. Stericycle's integrated services include regulated medical waste collection, transportation, treatment, disposal, and reduction services, together with related training and education programs, consulting services, and product sales.

On February 11, 2003 Stericycle, Inc., reports record results for the fourth quarter of 2002. Revenues for the fourth quarter ended December 31, 2002 were $103.2 million, up 10.5% from $93.4 million in the same quarter last year. International equipment sales contributed $0.3 million in revenues for the quarter as compared to $2.3 million in the fourth quarter of 2001. Revenues without international equipment sales increased 12.9% over the period in 2001. Gross profit was $43.3 million, up 16.1% from $37.3 million in the same quarter last year. Gross profit as a percent of revenues increased to 42.0% from 40.0% in the fourth quarter of 2001. In 2002 Annual Revenues were $401.5 million; up 11.8% versus 2001. The Roland George analysts have set a $41–43 price target for Stericycle and believe the fundamentals, business model, and excellent management make it a solid pick for the Growth Portfolio.

# the profitability of psychological arbitrage

***By Bryan Hinmon***

On February 19, 2003 the students of the George Program were treated to a liberal arts lecture by Brian Bruce of PanAgora Asset Management that would make the founders of Stetson smile in their velvet–lined caskets. However, applicability was not a problem for the seemingly perpendicular topic of discussion – investor psychology and its effectual financial opportunities – as Mr. Bruce wound a seamless helix of behavior theory and investment strategy.

According to Mr. Bruce, understanding behavioral finance creates unlimited investment windows to be had. Behavioral finance states that the pricing of securities is affected by the trading behavior of individuals, who are human by nature, and who tend to overreact to well–known information and under–react to new information. Essentially, behavioral finance elucidates that equity prices can and do deviate from a fair value because the market is made up of investors who react to information at different times. When investors overreact or are late in reacting to known information, their orders exert pressure on the price pushing it through the security's fair value range creating excess profits for the poised behavioral finance-savvy investor. Mr. Bruce made it clear that these opportunities to profit from investor behavior exist through numerous examples and appealing to logical deduction.

The belief in behavioral finance seems to test Modern Portfolio Theory and the Efficient Market Hypothesis, which deem security prices fairly valued at any given moment due to the instantaneous reaction to information. However, while EMH outlines the rationality that investors react with, it does not address the differing speeds that investors react, thusly creating reaction-based price discrepancy oppor–tunities.

To find these discrepancies, Mr. Bruce looks primarily to sentiment as measured by the diffusion ratio. While citing that analysts are often incorrect in their absolute predictions, their relative combined activity can be a quite useful leading indicator. The combined earnings revisions issued by analysts are therefore more important than the actual dollars and cents change in estimates.

Realizing that securities are traded in an information driven market, Brian Bruce bequeathed the George Students several tools to deal with processing and profiting from such information. He also does so daily as the Director of Global Investments at PanAgora, and as the Visiting Professor of Investments at Baylor University.

*Eleana Philipova and Numi Vukovic discuss recommendations with Dr. Belcher at student trustees meeting.*

*Wall Street professionals, as well as student analysts, sit on panel at RISE Symposium, Univ. of Dayton in Ohio.*

*Class members make use of sophisticated and professional-type resources in preparation for board meeting recommendations and presentations.*

## *editor's* note —

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work, and scholarships that were provided to us.

Inside this semester's newsletter the reader will find articles discussing our portfolio performance both in equity and fixed income, as well as comments from our Director. Also inside are a variety of articles discussing the companies that the program has chosen to invest in, day–to–day action at the RISE competition, fixed income strategy versus equity strategy to investing, and our feature story – "Opportunity Knocks in the George Program".

The lead article covers the most intriguing aspects of the program. Opportunity Knocks as the article is titled is a true testament to what students should expect of the program. However, even though these opportunities are available, effort, hard work, and time are the primary components to taking these opportunities and turning them into realities. The program has always had its perks and opportunities, but this year's class has had the privilege to work in a professional atmosphere having the trading room available for their discretionary use at any hour of the day. The future of the program indeed lies in the hands of the students, and this year's class wishes the best of luck for the upcoming classes to cease the opportunities of the program and carry on the tradition that has led to two national championships the past three years.

If anyone has any comments or suggestions about this year's newsletter we would love to hear your feedback. If you would like to send a letter to the editors or give a few suggestions for next semester's newsletter please email Carlos Domenech at Lita110219@aol.com or Bryan Hinmon at b_hinmon@yahoo.com. Your feedback will surely be appreciated.

## a daily journal - RISEing to dayton

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the need to refocus on firm specific research, not sector and industry weights. Virtually all of the professionals brought on stage validated some aspect of the George strategy.

On that same night, we learned that the University of Northern Arizona won first place in the Growth Category. Their returns were slightly better, down 10% for the year (the George portfolio was down 13%). We all shared feelings of disappointment, but were consoled by being included in the CNBC top 10 student–managed portfolios in the country.

### march 28

The highlight of the day was an exclusive interview with the CEO of the New York Stock Exchange Mr. Dick Grasso. Mr. Grasso discussed the state of the industry and the need for corporate accountability. We also watched the awards ceremony, where our 4th place finish in the U.S. student–managed portfolios competition was announced.

I believe it is important to share with everyone that the Roland George Investments Program, despite missing a jewel in its crown, has an outstanding reputation throughout the country. Whenever those sitting with us at the lunch or dinner table learned we were from Stetson, we immediately became the center of attention. Everyone wanted to know what set us apart, how we could manage to outperform our benchmark so consistently, how much money we managed, and an assortment of other things.

For those students entering the program next year, we hope you will take your responsibility to the program and to the school solemnly and wish you the best of luck.

1-800-flowers.com
your trusted guide to gifting®

*by Elena Philipova*

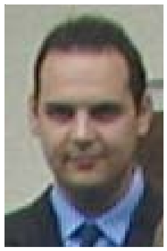
With one of the most recognized names in gift retailing, 1–800–FLOWERS.COM provides a broad range of thoughtful gift products including flowers, plants, gourmet foods, candies, gift baskets, and other unique gifts to customers around the world. The company distributes the products via the Internet (www.1800flowers.com), by a toll–free phone line, and through both company–operated and franchised stores. The company's objective is to be the leading provider of flowers, specialty gifts, and products for the garden and home. Their Class A common stock is listed on the NASDAQ National Market (ticker symbol: FLWS).

As of June 30, 2002, the company had a database of 18.1million customers. During the fiscal year 2002, FLWS achieved revenue growth of 12%, driven primarily by 19% growth in online business despite continued uncertainty in the overall economy.

In January, FLWS said the combination of its convenient, multi–channel customer access and its expanded gift offerings helped attract 1.2 million new customers during their fiscal year 2003 second quarter, including about 510,000 customers online. Nearly 67% of total online and telephonic revenues in the quarter came from non–floral gifts, up from 62% in 2002, proving that 1–800–FLOWERS.COM is more than what their name implies. Additionally, 47% of orders during this period were from repeat customers. The company believes this reflected continuing emphasis on deepening its relationship with existing customers in its marketing and selling efforts. All products come with 100% satisfaction guarantee and many can be delivered same–day or overnight.

During the past few years, FLWS has made several strategic acquisitions that have helped the company expand their gift offering and improve their relationship with customers. In May 2002, FLWS acquired The Popcorn Factory, a manufacturer and direct marketer of premium popcorn and specialty food gifts. The Popcorn Factory is expected to contribute $30 million in revenues. Most importantly, during the last several years the company has gained sufficient experience and developed the necessary skills to quickly and efficiently integrate acquisitions.

On November 14, 2002, 4,000 shares of FLWS were added to the Roland George portfolio. It is a valuable and reliable asset with great growth potential. The analysts in the program set a target price for this company of $17.



# an international testimonial

*by Numi Vukovic*

The new Roland George Investments Program trading room located on the third floor of the newly renovated Lynn Business Center represents the latest innovations in business and finance technology with environment–friendly features. Some of the innovations include two Bloomberg terminals, 14 Dell computers equipped with flat screen monitors, state–of–the art financial software packages including Baseline direct and Bridge (Reuters), etc. Stetson and the George Investments program have finally obtained a trading room that many international financial institutions and organizations could only dream about.

Recently I had an opportunity to visit the trading room of the National Bank of Serbia in my home country. As a part of routine to hire any potential employees in the National Ministry of Finance or the National Bank, the candidates are taken through all the departments of these financial institutions. My attendant took me to the trading room – which was nothing like the Roland George room – it had two older versions of Bloomberg, several computers whose configurations paled in comparison to our Dells, and several other terminals running Bridge. In conversation with the floor manager, I told him a little about the Department of Finance at Stetson and various projects we are involved in. In particular, we talked about the Roland George Investments Program and the facilities we are entitled to have for our research. He was very surprised to hear that as a university student I knew how to use Baseline, Bridge and Bloomberg among various other financial tools. He was also pleasantly surprised to hear about our scholarship program for exams such as the NASD Series 7 and CFA under Dr. K.C. Ma's supervision.

I have to add to that, in majority of Eastern European countries where the Western system of finance is developing, the role of academic institutions in the economic and financial processes is minor. Also, the applied methods of learning are extremely rare – so Roland George Investments Program represents a unique system of learning not just in the U.S. but globally as well. It was interesting to learn that many top executives in the Serbian Ministry of Finance were undergoing training to take CFA exams next year and that some were just learning how to use some of the "new" financial software we use everyday.

As an international student, it is obvious that this program provides finance students with an opportunity to learn from practice, work with top experts in the field, and even impress people from foreign financial institutions. I can witness firsthand the uniqueness and importance of the Roland George Investments Program as a serious academic project with creative practical implications that rely on synergy between the students and the professors.

I am very thankful, as an international student, to be a part of such a team that enhances one's academic and personal knowledge and gives you experience that money can not buy – and of course where you make great friends.

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The *George Investment View* is intended to be an educational document. Investment views belong to the authors and not 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 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 Clemente Asset Management, LLC, New York City, NY.

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

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