



**STUDENT  
INVESTMENT  
MANAGEMENT  
PROGRAM**

**2001 Annual Report**

# **EXECUTIVE SUMMARY**

## **Objectives**

The Student Investment Management (SIM) Program serves several goals with an emphasis on student education, as well as maintaining ties with the business community and creating positive public relations for the Fisher College of Business and Ohio State University.

Within the classroom, the program provides students with an actual portfolio management experience in which they make decisions similar to those they may possibly face in their future jobs. The educational aspect supports the decision-making process and presents the students with an opportunity to engage in group decision-making.

External objectives include establishing and maintaining ties with the business community. This enables the program to reach deep into the financial community to gain access to resources seldom seen in an academic environment. A few of the benefits are internships with brokerage houses, access to current research on the changing economic environment and exposure to online financial information systems.

## **Educational Returns**

The program is well recognized as a valuable, hands-on, real learning experience throughout the business community and beyond. It continues to receive positive feedback from local and national periodicals, which reflect well on the Fisher College of Business and the entire University. This portfolio management class represents an important extension of investment theory courses. The course provides students with a competitive advantage when interviewing for equity, portfolio management, and financial analyst positions. The SIM program also generates Security Industry Awards, which provide scholarships for students, and include internships at local security and investment firms.

## **Fund Performance**

### ***Fiscal Year 2001:***

The SIM Portfolio lost 16.65% from July 1, 2000 to June 30<sup>th</sup>, 2001 compared against a 15.83% drop in the S&P and a 45.52% drop in the NASDAQ Composite for that time period. This loss reduced the equity balance in the Student Investment Management Portfolio from a beginning balance of \$ 23,647,127 to an ending balance of \$19,461,706. The bulk of the losses occurred in the 3<sup>rd</sup> quarter (Jan – Mar 2001) with the other three quarters breaking even when aggregated.

Impacting the US equity markets during this time period were wide fluctuations in interest rates, oil prices, and consumer confidence. The year began with the fed continuing to tighten interest rates in the hopes of a soft landing for the economy. Adding to the inflationary concerns was the rapid increase in the cost of oil and heating fuels in the 4<sup>th</sup> quarter of 2000. These factors, couple with decreases in consumption, investment spending and corporate profits resulted in deteriorating economic conditions. As the millennium ended,

the term 'recession' was beginning to be used in some circles. Feeling the brunt of this slowdown were the darlings of years earlier – technology, biotech, and financial services. During this period, the SIM benefited by being underweight technology, yet felt the full brunt of the financial services decline by being overweight in this sector. The fed's response to these conditions were to reduce the fed funds rate a total of 275 basis points from the beginning of Q4 2000 to the end of Q2 2001.

These interest rate reductions helped the declining market returning 5.8% in the 4<sup>th</sup> quarter of fiscal 2001. As the year ended, questions still remained as to the health of the U.S. economy and whether or not the bottom had been hit. For the first time in a while, investors were having to deal with significant losses across most sectors with little economic data showing relief in the short term.

### ***Most Recent Performance (July 1<sup>st</sup>, 2001 – Sept. 30, 2001)***

While this annual report is focused on the performance for the fiscal year 2001 ending June 30<sup>th</sup>, in light of recent market volatility, commentary is needed as to the performance of the fund in the first quarter of fiscal year 2002. During this period, the fund lost 16.4% versus an S&P decline of 15.83%. This reduced the balance in the fund from a beginning balance of \$19,461,706 to an ending balance of \$16,223,381.

Continuing the decline in the first half of 2001, this quarter was characterized by deteriorating economic indicators with Fed easing unable to stimulate investment spending. Faced with several quarters of a slowing economy and without a rebound insight, corporations, as expected, began announcing layoffs. What wasn't expected were the terrorist activities on Sept. 11 causing a four-day shutdown of the New York Stock exchange. When the exchange did open the S&P dropped 4.9% in one day and in first week of trading after the event dropped a total 7.3%. While this event is behind us, the effect the US's war on terrorism and subsequent invasion of Afghanistan will have on U.S. markets is uncertain.

### ***The Future:***

The recent decline in U.S. equity indices in the past 5 quarters has reduced valuations such that they are now more in line with historical standards. The phenomenal growth on the market in the late 90's had investors favoring growth due to its strong performance. This left many 'Value' stocks in old-economy industries out of favor and deeply reduced on a book to market basis. The trend appears to have reversed with Value approaches to investing in favor. Yet real questions remain as to the health of the U.S. economy and whether the 'bottom' of the market has been reached. In the next year, Volatility appears to be the norm with a lot of uncertainty in the market regarding the speed and stage of the U.S. economic rebound. Optimists would point at the fact that the market, on average, performs well after a year of double digit declines. Pessimists would site the lack of attractive economic indicators out in the market today despite the Fed's significant easing.

### **Transactions**

The total number of transactions during fiscal year 2000 was 85 – 38 sales and 47 Buys. The dollar amount of sales was \$18,564,977 and the dollar amount of buys was \$18,625,999

## **FORMAT OF THE STUDENT INVESTMENT MANAGEMENT PROGRAM**

### **Objectives**

- To provide students with a unique and valuable learning experience
- To preserve and maintain the real purchasing power of the principal while allowing for distributions of income
- To maintain a “well-diversified” portfolio and earn a total return in excess of our market benchmark, the S&P 500 Index.

### **Investment Strategy**

Our investment strategy focuses on obtaining high returns, while maintaining desired risk levels. To generate these returns while minimizing our risk exposure, we generally select companies that have the following characteristics:

- **Growth**
  - Established and increasingly strong and consistent earnings growth
  - Growth in EPS over the past five years of 10% per year
  - Expected growth in EPS over the next five years of 10% per year
- **High Quality**
  - Minimal risk in product lines with established products
- **Size**
  - Market capitalization of at least \$5 billion
- **Strength**
  - Recent upward price momentum

### **Class Structure**

- Approximately 30 students complete the class each quarter
- The class is offered to the following groups of students:

<u>Quarter</u>	<u>Rank</u>
Autumn	Undergraduate
Winter	Graduate (MBAs)
Spring	Undergraduate

- During the class, each student acts as a security analyst as follows:
  - The instructor assigns each student one stock from the existing portfolio; he or she is responsible for monitoring the performance of that stock throughout the quarter
  - The instructor also divides the class into groups, which have responsibility for researching and analyzing a specific market sector. Periodic reports are delivered to the class outlining overall trends, recent developments and specific stock recommendations.
  - The analyst gives updates during each class meeting on the current events and activities affecting their firm. The analyst interprets these events and activities in order to make recommendations to the class regarding the holding.
  - Each member of the class is also responsible for researching a new stock that may be added to the portfolio at the end of the quarter. The analyst prepares a written report and makes an oral presentation to the class.
- During each class session, the professor holds discussions including topics such as portfolio management, capital market theories and specific analytical techniques. Further discussions are then held based on the students' stock and industry reports and how they relate to recent and future portfolio performance.
- For continuity, a graduate associate (MBA) is responsible for:
  - Preparing reports for the Office of the Treasurer
  - Monitoring computer labs and answering questions
  - Making presentations to each new class on previous portfolios and strategies

### **Advisers**

- Former OSU President Edward Jennings, Professors Stephen Buser and Anthony Sanders administer the program
- In addition, the program depends on the assistance received from the Treasurer's Office. Al Rodack, Jim Nichols, Tim Michel and Gary Leimbach have made numerous presentations to the class, while other staff members of the Treasurer's Office and local brokerage firms have helped this program succeed.

### **Bridge**

The class has the ability to monitor current and past performance of stocks and the portfolio using a real-time online information system. Bridge Information Systems has donated the use of its financial information service. The students use Bridge to view market information during class and also have access to the system during off hours in the library and computer labs. During summer quarter 1999, the students began monitoring the portfolio via the

Internet. The portfolio has been set up on Yahoo! Finance to allow the students to obtain up to date news and facts about the securities in the portfolio and allow them the luxury of accessing the portfolio from any computer with Internet access.

## **PORTFOLIO PERFORMANCE AND TRANSACTION DETAIL - FISCAL 2000**

### Portfolio Summary

The SIM portfolio had an ending value on June 30, 2001 of 19,461,706 which includes money market funds. There were a total of 34 stocks held at this time, with a weighted average beta of 1.13.

### Industry & Sector Weightings

The tables on pages 7 & 8 show the breakdown of the SIM portfolio into industry and sector weightings and compares SIM to the S&P 500 Index.

### Transaction Detail

A summary of the purchases & sales in the portfolio can be found on pages 9 & 10. Dividend and interest income are displayed on pages 11 - 13.

### Performance

The table on page 14 shows a detailed summary of the SIM portfolio's performance for fiscal year 2000. It also compares SIM to the S&P 500 over the same period of time.

### Index Comparison

A comparison of SIM vs. its benchmark, the S&P 500, is displayed on the following two pages, including returns since inception as well as five and ten year returns (annualized and cumulative). The graph on page 17 depicts what an equal investment of \$1,000 would have generated in returns if invested at the creation of the portfolio in February 1990. Finally, a Relative Performance Index Comparison is found on page 18. The table and related bar graphs compare fiscal year returns, cumulative five-year and ten-year returns and annualized returns for various indices. This allows comparisons across different benchmarks including the Dow Jones Industrial Average and the NASDAQ Composite Index.