thegeorgeinvestmentsview

george i

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high expectations... first place finish... experience of a lifetime!

R.I.S.E.

by Gerri Catha

In early April, a Boeing 727 left Orlando International Airport with high expectations and four Roland George Investments Program students, who returned four days later with a first place finish in the fixed income category and an experience of a lifetime. Accompanied by Finance Department Chair and Director of the Roland George Investments Program, Dr. Larry Belcher, the George students attended the fifth annual Redefining Investment Strategy Education Symposium (R.I.S.E.) hosted by the University of Dayton, Ohio during the first week of April.

R.I.S.E. and the George Program's trophy case have grown significantly since its beginnings in 2001. Starting with only a handful of schools in the auditorium of the university's student union, this year R.I.S.E. was attended by over 130 universities from around the world, including China and Russia, and sponsored by big players such as CNBC, the Wall Street Journal, Deutsche Asset Management and the NYSE. For the

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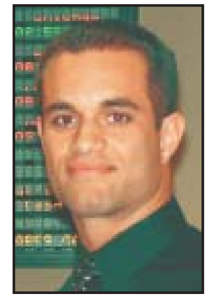
editor's note –

by Arthur Bom Conselho



On the close of its 25th year of existence, the Roland George Investments Program continues to exemplify the dedication and enthusiasm that is necessary to maintain the excellence our program has demonstrated over the years. My colleagues and I are genuinely appreciative of the opportunities that have been offered by the generous donation of the Roland George family and the continued dedication of Stetson University and the School of Business to higher education.

The spring semester was one of hard work, interesting learning experiences, and also one of exciting events. As it could be imagined, managing nearly $2.8 million worth of assets is no easy task. In particular, managing the fixed income component of our portfolio proved to be a challenging commitment. As we went through the semester we were faced with demanding tasks and immense responsibilities; but with the aid of analytical computer programs and research data bases, such as Bloomberg, Reuters/Bridge, Baseline, and Morningstar, we were able to overcome those challenges, rise to the occasion, and make incisive contributions to the program. We are very thankful for the insightful knowledge, advice, and expertise passed down to us by our professors Dr. Larry Belcher, Dr. Jim Mallett, and especially Dr. K. C. Ma.

This semester also brought us the opportunity to learn from world renowned investors. Speakers from around the country presented to us the applicability of theoretical material that is taught to us inside the classrooms. Experts in economics, equity investments, and fixed income investments displayed their vast knowledge of financial markets which allows us to better understand the nature of market intricacies. The decision making process in which

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what's *inside*

portfolio manager's report

by Nicole Galinat

The market is off to a disappointing start this year. GDP growth is expected to slow to 3.6% in 2005 while our trade deficit hit another record high in February due to increased oil imports. Investors continue to be concerned about rising oil prices, which remain over fifty dollars a barrel, with expected spikes to occur this summer. Another upset this year has been AIG, a blue chip stock that has put the phrase 'corporate scandal' back on the front page of every major newspaper. The Federal Reserve's intention to increase interest rates in order to keep inflation down has also caused a lag in the financial markets.

Although the year has not been one to celebrate, every major prediction shows that the market will recover from its rough start to finish on a good note this year. Whether or not the market reaches this expectation is still yet to be known; however, the Roland George Investment Program has a history of outperforming the market in good conditions as well as bad and this year proves to be no different.

The table accompanying this report shows that the total portfolio is roughly two percent above the S&P and when comparing just the growth portion of the portfolio to the benchmark our returns jump to five percent above the market. Our superior returns can be attributed to, among other things, better sector allocation. In this unsteady economic recovery the Roland George program has decided to stay underweighted in the unpredictable and therefore risky Information Technology and Telecommunications industries. We have instead chosen to invest more heavily in consumer discretionary and consumer staples due to our history of superior stock selection within those sectors.

As we celebrate another year of success and growth in the program we continue to look to the future in attempts of continuing our superior returns for generations to come.

purchases

Glacier Bancorp Inc. (GBCI) is a regional multi-bank parent holding company for nine wholly owned subsidiaries providing commercial banking services from fifty-five banking offices. Glacier Bancorp has had five years of steadily increasing returns as their stock price continues to rise.

SeraCare Life Sciences, Inc. (SRLS) is a manufacturer and provider of biological products and services for diagnostic, therapeutic, drug discovery and research organizations. It has enjoyed earnings growth of 55% compared to the industry average of just 13%.

Comfort Systems USA, Inc. (FIX) provides heating, ventilation and air conditioning installation, maintenance, repair and replacement services within the mechanical services industry in 49 cities and 60 locations throughout the United States. Its financial condition is strong with $21.19 million in positive free cash flows for the last year and earnings estimates of 38% for 2005.

Analogic Corporation (ALOG) conceives, designs, constructs, and sells standard and customized image processing based medical and security systems. They have been working with the Transportation Security Administration (TSA) to manufacture a new product, which is currently in testing that incorporates significant advances over the conventional technology employed today at passenger portals. This technology is expected to become standard at airports in the future.

American Bank Note Holographic, Inc. (ABHH) is a world leader in the origination, production and marketing of holograms. Their holograms are currently being used by MasterCard, VISA, and Discover to provide effective security against counterfeiters using a number of overt and covert features. They are currently working on a design to update their technology to incorporate the hologram into the magnetic strip on credit cards.

Sector Allocation Comparison			
Sector	**George Program**	**S & P 500**	**Difference**
Consumer Discretionary	26.9%	11.3%	15.6%
Consumer Staples	23.6%	10.5%	13.1%
Energy	4.6%	8.5%	-3.9%
Financials	12.8%	20.2%	-7.4%
Health Care	16.9%	13.7%	3.2%
Industrials	5.9%	11.5%	-5.6%
Information Technology	9.3%	14.8%	-5.5%
Materials	0.0%	3.1%	-3.1%
Telecommunication	0.0%	3.1%	-3.1%
Utlities	0.0%	3.3%	-3.3%
Total	100.0%	100.0%	0.0%

sales

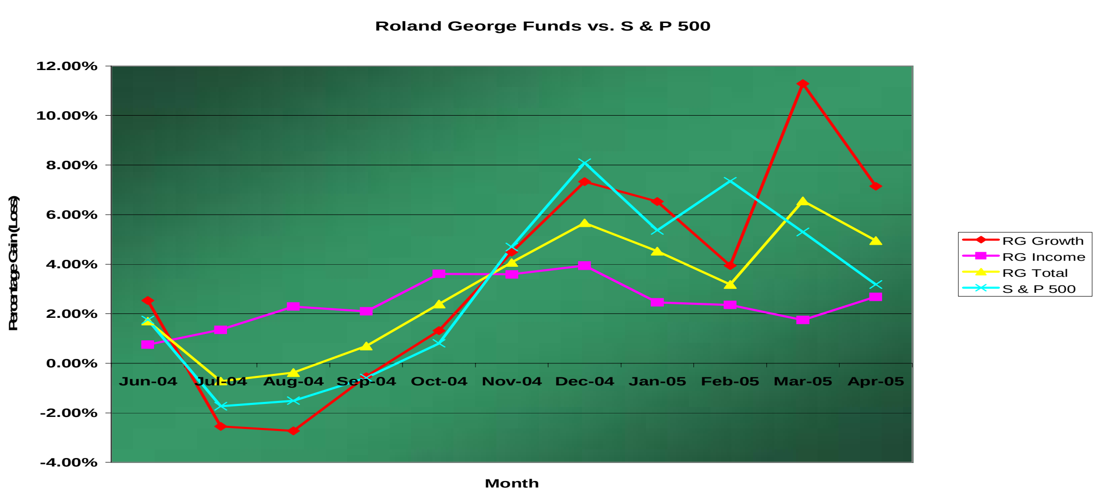
Sovran Self Storage, Inc. (SSS) is a self-administered and self-managed real estate investment trust that acquires, owns and manages self-storage properties. The company is currently overvalued due to its slowing growth potential as competition in the market has increased. Also, in a rising interest rate environment the company faces the risk of having its REIT classification hurt its value.

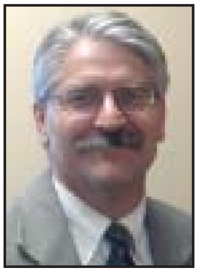
Gentex Corporation (GNTX) designs, develops, manufactures and markets electro-optic products, including automatic-dimming rearview mirrors for the automotive industry and fire protection products primarily for the commercial building industry. This company has been hurt by the downfall of the automobile industry, and will likely continue to decline as production levels in the industry drop.

MFC Bancorp Ltd. (MXBIF) is an international merchant banking company whose business encompasses a broad spectrum of activities related to the integrated combination of banking and commercial trading. After receiving a substantial gain from this company the investment committee decided to liquidate our position due to their stagnant growth resulting from the company's move into the industrial and engineering services industry.

Central European Distribution Corporation (CEDC) is an importer and distributor of alcoholic beverages in Poland. After the 2005 earnings expectations were increased at the beginning of the quarter, the stock enjoyed a substantial gain. However, after losing a major acquisition to a leading competitor, the company's questionable ability to maintain growth and market share in the long run caused its value to decline in the market.

CollaGenex Pharmaceuticals (CGPI) markets and sells products and equipment in the dental and dermatological fields of medicine. The company has lost significant market value as its risks have dramatically increased due to the majority of their potential revenues hanging in the balance of an FDA decision.





director's *update*

by Dr. Larry Belcher

direction for the future

This spring we returned from another successful trip to the R.I.S.E. Symposium at the University of Dayton. In addition to three days of more information crammed into our heads than they could hold, we returned with a first place finish in the Fixed Income Management competition. This goes well with our other accomplishments, and is certainly a credit to our student-managed portfolio managers.

After the semester ended, I went to our facility in Celebration, Florida to meet with the Business Board of Advisors. Periodically we report about what we are doing and this time the Dean asked me to talk about future directions for the George Program and George Investments Institute. After some reflection and discussion with other members of the Finance Department, I prepared a brief talk on some things that have been percolating for some time. Here is a list of some future possibilities. Some are closer than others to being realized — some are far off into the future.

- *Another fund to increase our assets under management.* This could come from former alums or we could solicit funds from outside investors as a closed mutual fund.

- *A journal for student-managed investment funds that would track returns and publish research by students in George-type programs as well as outside submissions.* Dr. K.C. Ma has already contacted individuals to serve on an editorial board and we have begun investigating production.

- *A potential move of the Journal of Financial Education to Stetson with Dr. Stuart Michelson as editor.* Preliminary discussions have already taken place.

- *A "Day at Stetson" for high school students with finance magnet programs.* This spring we hosted students from the Spruce Creek High School finance academy at Stetson. We had a great time and are looking to invite several schools for a similar day this fall. We will let them use the labs, feed them, and give them special t-shirts. This is in the planning stages.

- *A symposium for students and faculty at Celebration to specifically discuss how to set up and manage a student portfolio.* This would include a competition for student teams that would be scored on the basis of returns as well as a presentation to a panel of judges. This is in the preliminary planning stages.

- *A partnership with the Prince Entrepeneurial Studies program for private equity/venture capital analysis.* Dr. Bill Andrews of the Management Department is currently attempting to raise $10 million for a venture cap fund.

- *A real estate program.* For the first time in close to 20 years we will have a Real Estate course taught this fall. Steve LaFreniere, a Stetson alumnus and successful Orlando real estate developer, will teach this class. We are attempting to develop an awareness of real estate from a portfolio management perspective.

As you can see, we have an ambitious agenda. Dean Jim Scheiner is very supportive as have been our alumni. The future will tell how many of and how fast these things take place. If you have any comments about them, please email them to me at lbelcher@stetson.edu.

economic & interest rate outlook

by Joe Kurelic

The state of the economy is believed by many analysts to be caught in the grips of an energy induced "soft patch." This is a term that economists use to describe a stagnant period, and this time it appears oil is the main cause for our cap on growth. An indication that a soft patch could arise has been the slowing of GDP growth at 3.6% down from last year's 4.4%. Gasoline prices and other forms of retail energy have jumped as much as 27% since the turn of the year. If this trend continues we could eclipse the energy surge of the spring of 2004. One analyst stated this current surge could trim as much as $55 billion or more of consumers' personal disposable income.

It was believed with the increasing interest rates the housing market would begin to slowly erode in 2005. The market however remains fundamentally strong, although sales have pulled back nearly 18% just in this first half of 2005, the largest decline since 1991. The elevated 6% mortgage rates are taking the majority of the credit for the slowdown, and in a close second are the increased prices for housing commodities. Consequently, consumer confidence has started to slip and risks associated with housing investments have caused investors to pull back.

When we boil down our economy to the base we look to employment and job creation as the overall indicators for stability. It appears the employment situation has seen a slump in the past few months. The first ten months of last year had average monthly increases of 191,000 jobs. So far monthly averages for 2005 have been near 120,000-130,000. This is under many economists target of 150,000–200,000. Is this latest trend indicative of a permanent slowdown or is there hope for a rebound in the near future? These monthly figures vary greatly in terms of short-run predictability, but over time they have been a fair indicator of labor market trends. With new jobs at their lowest levels in more than four years we will just have to keep our fingers crossed that a rebound in new hiring is around the corner.

Last on the economic radar and cause for the most recent concerns is the inflation indicators. As a consumer we pay the going price for goods that are "needs" in our lives. But just take a step back and look at some of our needs, and think of your last trip to the grocery store — the prices for a loaf of bread, dozen eggs, pound of ground beef, any of the items in the basket of the CPI index. It has been rumored the data from the upcoming CPI report could shift attention back to inflation. Regardless of which way the economy heads, an increased inflation environment could be negative for our equity and bond market. If the weak economic growth story is true with rising inflation, a stagflation environment could be of concern. This environment would have the opposite desired effect — steeper yield curve, weaker dollar, and higher long-term bond yields. It is well known that Mr. Greenspan and the Federal Reserve will allow markets to take substantial damage before they would allow inflation to take over.

With the economic picture laid out, what is the next move with regards to interest rates? Some would stand on the slowing job growth, higher prices for commodities & imports, and the current housing and construction trends as the case for increasing rates. People on the other side of the table are looking at gasoline prices finally putting a dent in consumers' wallets which could lead to the so-called "soft patch." Or a near term rally might alleviate concerns of foreign investors who have started to sell off Treasuries and other dollar denominated fixed income instruments as a case for lowering rates.

Opinions have been split down the middle since the last Federal Reserve meeting as to whether the 25bp hike trend will continue into the next period. But with news of the past weeks the quarter point jump seems almost inevitable. Hopefully historical trends will hold, and the summer "lull" or freeze will hit and lock in the new rates for a substantial period. Earlier the market projected a Federal funds rate of 4% to 4.325% by year-end, but now the estimate is down in the area of 3.65%. Even though estimates have slowed, investors are still reducing exposure to longer-term interest rates and upgrading credit quality. Twenty to thirty year maturities are being sold off and the latest flattening of the yield curve shows the "sweet spot" on the handle of the curve to be at the ten year maturity. Most non-laddered investors are coming in on the yield curve to durations shorter than ten years to an even more conservative position. So as an investor you can see from the above information the projected interest rates and bond markets look to be shaky at best for the next 6 to 12 months.

high expectations... first place finish... experience of a lifetime!

R.I.S.E.

Imagine encountering this one starry evening!

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first time, this year's events were broadcasted live to China. Bigger than ever, we knew that competition would be tight for our portfolio in the fixed income category. For the second year in a row, the Roland George fixed income portfolio placed first in its category. This first place finish will accompany our first place finish in the Blend category in 2001, first place finish in the Value category in 2002 and second place finish in the Growth category in 2003 for the Program's equity portfolio as well as the first place finish in the Fixed Income category in 2004.

The portfolio competition is only one of three major aspects of the R.I.S.E. symposium. The educational and networking portions of the weekend provided the students with a better perspective of the economy as viewed by some of the top analysts in the country, the various facets of the finance/investment industry and the different approaches to student-managed portfolio programs.

The educational portion of the symposium included some of the most watched analysts and investment figures representing more than 60 top firms in the financial sector. The first day consisted of interview style panels that focused on six topics – the economy, the bond market, the Federal Reserve, the stock market, corporate governance and the real estate industry. The format of these sessions allowed for a majority of the session to be dialog between students and the panel speakers. This allowed students to directly ask questions to individuals such as Chief U.S. Economists Richard Berner and Nancy Lazar; Strategists Chris Garman, Francois Trahan, Abby Joseph Cohen and Gary Gordon; Federal Reserve Governor Dr. Ben Bernanke; SEC Commissioner Dr. Cynthia Glassman; and Wal-Mart CEO H. Lee Scott. The first day came to a conclusion with the very entertaining and insightful discussion from Samuel Zell, the largest landlord in US history. The wealth of knowledge that came together for this first day of the event was truly inspiring.

The second day consisted of breakout sessions which tailored to each participant's areas of interest. The breakout session topics included: Equity and Fixed Income Portfolio Management, Career Trends, Financial Reporting, Private Equity, Alternative Investments, Risk Management, and International and Emerging Markets. The breakout sessions were in a much smaller setting which allowed more R.I.S.E. participants to interact with the speakers. These classroom style sessions built on the principles discussed in day one's keynote sessions thus applying the overall principles to each participant's area of interest.

At the conclusion of day two, all of the R.I.S.E. participants boarded buses to the banquet traditionally held in the hanger of the National Air Force Museum. Before the banquet, everyone was able to tour the museum after it had closed. Although this visit was not directly related to investments, the experience of walking through the hanger and viewing such massive equipment put many of the things learned throughout the previous two days into perspective. The tour was concluded with a dinner and the announcement of the competition winners. The team was proud to represent the Roland George Portfolio as it was announced that the portfolio won first place in the fixed income category. It was a proud moment for all but especially for those who contributed to the fixed income portfolio last year.

Day three focused on potential career paths in investments and finance-related positions and concluded the R.I.S.E. symposium.

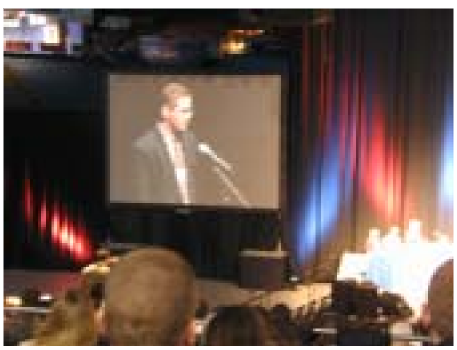
Throughout the entire event, Dr. Belcher and the four students were able to network with other professors and students. In discussing the structure of the Roland George Investments Program, everyone was able to learn more about other universities and exchange ideas on how to improve one another's programs. Everyone took away some great ideas about how to improve the George Program and a better appreciation for its successful history.

The student team returned to Stetson having experienced a once-in-a-lifetime opportunity to meet some of the greatest minds in the financial industry.

***Special Note – The student team would like to thank Dr. Larry Belcher for taking time out of his schedule to accompany us on this trip.*

R.I.S.E.

Jason Buser, B.J. Gilcher, Nicole Galinat and Gerri Catha check out the aircraft at the National Air Force Museum.



Jason steps up to the challenge of an impressive panel of professionals.

Our R.I.S.E. team finally has a chance to relax a bit.

interview with a pro . . .

By: Jason Orrico

Bob Schumacher was employed by Evergreen Investment Management Company in 1997 where he holds the position of Director and Senior Portfolio Manager in Jacksonville, FL. In his role he manages the program for insurance companies. In addition, he is co-manager of the Evergreen Diversified Bond Fund.

Mr. Schumacher has more then 25 years of investment experience. Before joining Evergreen Investments he was Chief Investment Officer for Riverside Group, Inc.

Q: When is it most appropriate to use the barbell and when is it most appropriate to use the bullet?

A: A bullet structure is best in a rising interest rate environment or a steeping in the yield curve. A bullet structure is clustered at a central point concerning the maturity distribution. A barbell structure is most appropriate in a falling interest rate environment and when the yield curve is flattening. A barbell structure is clustered at both ends concerning maturity distribution.

Q: What are the most important factors you determine when looking at a market sector and what decisions must be made about these factors?

A: A key factor is whether the added risk is rewarded by adequate compensation, meaning a fair return. We also look at anticipated spread changes within the industry. Some major sectors that we tend to focus on are treasuries, agencies, corporates, mortgage-backed, asset-backed, and municipals. The decisions about these sectors include interest rate decisions, yield curve decision, market sector decision, and security selection decision.

Q: What are the most important factors when picking an individual security?

A: There are two significant criteria in determining what individual security to choose. First, there is credit judgment and assessing whether event risk is more or less likely to occur. Second, there are embedded options such as call or convertible options that must be considered.

Q: What are some of the objectives you try to achieve when constructing a portfolio?

A: The first thing we must consider is preservation of capital. More important than making more money is keeping what you already have. There is also a need for liquidity. You need to be able to get out of a bond position quickly if there is an adverse change in the market. Obviously, though, there is no need for people to give me their money if I can't make them more of it. I want to maximize yield, consistently achieving top quartile performance.

"new york — a great blend

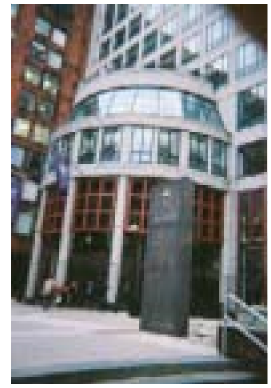
by Abhi Mukherjee

Among the various reasons why the Roland George Investments Program (RGIP) is considered the best of its kind in the nation is that hands-on learning and exposure to real life financial situations assume primary importance. Such exposure is indeed consequential to the unmatched performance of our portfolio year after year, and truly defines the extent of knowledge that the students are able to apply in making investment decisions. With this objective in mind, the program facilitates a trip to New York City every year during Spring Break where students can learn and observe the practical applications of their class work. Twenty students took the week-long trip this year accompanied by Dr. Ma, the professor of the Roland George Investments Program.

Although we were keeping up our tradition, one could not say so about the weather in NYC. We were hit by one of the coldest spring seasons in decades, but were determined not to let our spirits get dampened by it. We checked in at the Embassy Suites Flagship Hotel on the morning of Saturday, March 5, 2005 for our five day, four night stay there. The hotel is conveniently located in the financial district, across the street from the World Financial Center. For the students who were visiting the Big Apple for the first time, the magnificence of the buildings and skyscrapers was unbelievable. So was the sight at Ground Zero, which is not far from the hotel. The site for the twin towers of the World Trade Center is now a colossal construction project, with machines crawling around in what seems like an awkwardly placed void in the midst of towering office buildings and bustling city streets.

The open agenda for the first day of the weekend allowed us to explore the financial district for places of interest, and some of us decided to spend time at the World Financial Center (WFC) plaza, defrosting with some hot chocolate and coffee. Overlooking the New York harbor, the soaring glass-enclosed WFC Winter Garden is home to the arts & events program, which is an innovative year round series of free performances, exhibitions, and cultural festivals. There are numerous shops and services that cater to the thousands of patrons who either work or visit the

A walk along the Hudson River



Stern School of Business

Looking down a busy NYC street near Tims Square

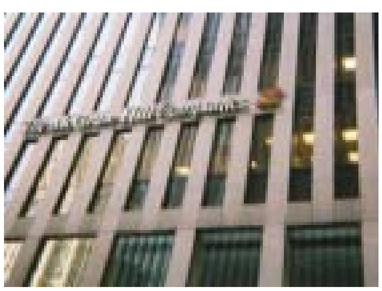
Wall Street

Visiting the New York Stock Exchange with the group are:
(front row) Peter Heise, John West,
(back row) Jim Simcoke, Eddie Johnson and Mike Sabonjohn.

Washington Square refurbished

Spires of St. Patrick's Cathedral during snow storm!

# of leisure and learning”



Plenty of exciting career opportunities — in spite of the cold and snow!

center everyday. Besides playing host to cultural events in Lower Manhattan, the WFC is also known as the focal point for prestigious private and public enterprises, including world headquarters for American Express, Merrill Lynch, Dow Jones, and Deloitte & Touché. Another group of students visited the Statue of Liberty on Ellis Island, across the Hudson River from our hotel.

The majority of the items on our agenda were accomplished between Monday, March 7th and Wednesday, March 9th. This included a guided tour of the New York Stock Exchange (NYSE) scheduled over the three days for six students at a time, a visit to Millennium Partners, Inc., followed by a tour of the Deutsche Bank North America headquarters. Given the stringent policies of the NYSE, visiting student groups were assigned to individual floor brokers who sponsor tours on the floor of the exchange and provide information and explanation of the daily activities at the world’s largest stock exchange. Access to the floor is subject to photo-identification and approval of each and every visitor, *without any exceptions*. Even NYSE employees are required to present identification every time they step in and out of the exchange.

For someone truly interested in the financial markets, working at the NYSE is like living a dream. With close to 1.5 billion shares valued at approximately $45 billion traded daily, the NYSE is the world’s leading and most technologically advanced equity exchange. Only member firms are allowed to buy and sell securities on the floor. A “member firm” is one that owns or leases seats on the NYSE. Seat prices are currently close to $2 million. Our group progressed through the three different sections of the exchange, known to traders as “the garage”, “the blue room” and the “new room” respectively. The blue room was opened to meet the increased trading volumes and increases the trading space by about 20%. The garage inherits its name from the 1920s when it was actually used as a parking space by traders. As trading volume increased with commercialization, parking concerns took a backseat and the garage was transformed into a trading room. The common denominator in the different sections of the stock exchange was the noise level, which led many of us to contemplate on the stress level that people working there are exposed to – nervous breakdowns and panic attacks are not uncommon. Working at the world’s largest stock

"new york — a great blend . . . '

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Carnegie Hall

Ice skating at the Rockefellar in March!

Nicole, Arthur and Mike join Eddie Johnson, Dr. Ma, Joey Troendle and Chris Smith for a bite to eat.

Reconstruction at Ground Zero continues

Students take a little break to warm up a bit!

"Flags" art exhibit at Central Park

exchange has its challenges, and the fickleness of the market makes it all the more interesting.

The investment analysts and managers at Millennium Partners work in an environment which is not nearly as hectic as that of the NYSE. Millennium Partners is an umbrella fund which invests with smaller hedge funds using tested investment strategies and continually work to develop and improve programs which account for movements in the market. Analysts study a plethora of market situations, and assemble algorithms which can pick favorable invesment instruments that outperform the market consistently. The company also tests and suggests strategy modules to its clients. As and when these client hedge-funds come up with proven investment tactics and practices, Millennium Partners supports their growth with more funding. Our host also talked about the concept of index-arbitrage, a strategy designed to profit from temporary discrepancies between the prices of stocks comprising an index and the price of a futures contract on that index. Like all arbitrage opportunities, index arbitrage opportunities disappear rapidly once the opportunity becomes well-known and many investors act on it. Index arbitrage can involve large transaction costs because of the need to simultaneously buy and sell many different stocks and futures, and so only large money managers are usually able to profit from it.

Our last stop for the day was at Deutsche Bank, where we were given a tour of their trading floor and different functional areas of the office. Deutsche Bank provides brokerage services for the Roland George Investments Portfolio. Students had an opportunity to ask questions and discuss areas of interest in the boardroom where we got an idea of what it is like to work for a premier investment bank. Our host informed us about the different needs of the bank's clients and how Deutsche Bank adjusts their business model to serve them.

The spring break trip to New York was a great blend of leisure and learning. In addition to the corporate tours, the students had ample opportunity to experience culture and the arts in New York. The art exhibit at Central Park, Times Square, Battery Park, China Town, and plays at Broadway were some of the few other places we visited. All things considered, between dining at the best restaurants in the Big Apple to listening about complicated investment strategies employed by some of the biggest firms, the students got an idea of the benefits of participating in a program such as RGIP.

On behalf of the fixed income class of 2005, I would like to take this opportunity to thank Dr. Ma for his continuous support and guidance, and for the incredibly enjoyable tour of New York City.

finding value . . .

by Ben Ferguson

Daimler Chrysler is the 5th largest carmaker in the world. They develop, manufacture, distribute, and sell a range of automotive products — mainly passenger cars, light trucks, and commercial vehicles. The company also provides financial and other services relating to its automotive business. The core strategic business units consist of Mercedes, Chrysler, Jeep and Dodge.

The first part of 2005 has been treacherous for US car makers. Ford and General Motors posted large losses in the first quarter which are likely to push their debt rating to junk status. The rest of the industry has seen their yield spreads rise in anticipation of a down year for the industry. Investor's overreaction to the new of Ford and General Motor created an opportunity to find value in the Daimler Chrysler bonds.

Daimler Chrysler has had a productive first quarter. The sales for Chrysler are up 7% in the first quarter with the introduction of the 300 and 300c. The brand image created through the reintroduction of the Hemi line of engines is paying off as well. The troubles at Ford and GM are opening the door for Chrysler to pick up market shares throughout the year. Mercedes on the other hand has struggled through the latter part of 2004 and early 2005 due to problems with their smart car line. This however, was nothing new; they do not expect their smart cars division to be profitable until 2007 but the company has everything in place to make this a profitable venture in the future. Meanwhile the Freightliner segment released news that they anticipate growth of 20% over the next 15 to 18 months. The last good news came in early April when a Delaware court ruled in favor of Daimler Chrysler laying to rest a $1 billion lawsuit over their merger.

". . . the company has everything in place to make this a profitable venture in the future.

I recommended that the George Program board of trustees swap our Arrow Electronic (7% 01/15/06) position for a position in Daimler Chrysler (4.05% 6/04/08). The swap was consistent with the objectives set forth by the program of maximizing total returns and preserving capital while keeping a lower average duration in investment grade bonds. Using expectations theory and market consensus, I predicted the interest rates would rise 50 to 75 basis points throughout the year. The higher duration on this bond would not significantly affect the portfolio duration. Due to market overreaction the Daimler bond was underpriced while the Arrow bond was at a high price. The swap would also increase ratings.

The main difference in the two bonds was the yield. The yield spread was at an all time high at 203 basis points and I believe that the spread will revert to the mean allowing us to pick up a profit as the spread narrows. The initial swap would provide us with a 178 basis point pick up and a net P&L of $1,946. If the bond reverts back to the mean we would pick up around 400 basis points and a net P&L of over $4,000. For the swap to lose money the spread would have to increase to 350 basis points or the interest rates would have to rise 175 basis points.

My analysis is that our fixed income portfolio will profit from this swap over the next 10 to 12 months as the automotive industry calms down and Daimler Chrysler continues to have a steady year. Their yield spreads will narrow, increasing the price of the bonds to their mean levels around $100 to $101 — up from our purchase price of $94.47. The swap will also allow us to capitalize on the performance of the Arrow position and get out while it is overpriced.

"...determine and implement the best strategy..."

by Mike Sabonjohn

Brian Bruce is the Director and Head of Equity Investments for PanAgora and a Visiting Professor of Investments at Baylor University. Before PanAgora, Bruce was President and Chief Investment Officer of InterCoast Capital, a subsidiary of a Fortune 500 energy company and served as a professor at Southern Methodist University's Cox Business School. Bruce also has over 25 years of investment experience and frequently appears in the media including NBC, ABC, CNBC, Wall Street Journal, Bloomberg, Washington Post, New York Times, Associated Press, Reuters, Financial Times and Business Week.

With all of his experience and accomplishments, it was a privilege for the Roland George Investments class to meet with Brian Bruce on February 23, 2005. Bruce explained that recent research focused on two unique attributes of small capitalization data. The two areas of concern are breaks in data availability and trend breaks at extremes.

On average, 11% of stocks do not have analysts following them. Research shows that stocks without analysts under perform the market. Bruce attributes this phenomenon to the fact that analysts do not want to cover stocks that are going to fail. Nevertheless, stocks with numerous analysts do not generally have exceptional stock performance because they are so closely followed.

Low price stocks tend to outperform the market. PanAgora has established a model that analyzes book-to-market verses a bankruptcy score. When the companies that will go bankrupt are eliminated from the market, the cheapest companies outperform the market. A modified Z score was used to determine the companies that are expected to go bankrupt.

Data analysis also shows that companies with the highest debt ratio tend to underperform. Indeed, higher debt allows a company to leverage and increase earnings but it also increases the risk of financial failure and increases fixed operating costs. A company with reasonable debt can find itself in trouble if its stock price falls because this will cause its debt ratio to be very high.

By utilizing different techniques that guest speakers present to the class, the George Program is able to determine and implement the best strategy for our portfolio. Indeed, the future of the market cannot be determined by what has happened in the past; however, a better understanding of the market's past behavior can guide us to make better decisions of future movements.

Bank of America Higher Standards

bac on track

by Arthur Bom Conselho

Bank of America is the largest consumer bank in the United States and has demonstrated outstanding proficiency in pursuing its acquisition strategies. The company has been a top performer in the financial services industry and continues to report strong financial results as well as growth that is likely to continue into the future. According to *Fortune*, Bank of America was the world's most profitable banking institution and the world's fifth most profitable company in 2004. Because of the financial performance and debt structure the company has set up over the years, their acquisition strategy will continue without hindrance and without raising credit risk concerns or investor speculation. With the acknowledgement of such information the bank's debt became an attractive candidate to increase the value of our fixed income portfolio.

In view of current economic conditions, the Roland George Investments Program has set strict parameters to accommodate adjustments in market conditions. The swap between 100 Goldman Sachs 7.35 non-callable bonds (GS) and 100 Bank of America 6.625 non-callable bonds (BAC) permitted the program to lower portfolio exposure to interest rate risk while maintaining credit risk at an unaltered level. In addition, the price spread between Goldman Sachs and Bank of America allowed for us to sell GS at $110.50 and buy BAC at $102.263, a notable difference and a fine swap pickup. Under the existing circumstances the swap allowed for a 77 basis point pickup on the yield while lowering duration on the position by 1.73 years.

Although the swap itself was eye-catching, the future outlook for the position looks to be even more promising. As interest rates continue an upward trend and the yield spread between GS and BAC begins to narrow, scenarios for the swap become significantly more profitable. Nearly 85% of the analyzed scenarios showed a profitable outcome. With expectations of yield spread regressing to its mean, our confidence in such lucrative scenarios is further strengthened.

The Bank of America bond is a complementary addition that will assist the Roland George Investments Program to implement and execute its total return maximization strategy. Moving forward in time this swap will prove to be a key component to our student-managed portfolio.

editor's note –

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portfolio changes are made also permitted us to learn from one another. Whether it was through discussions or constructive criticism offered to us by peers or professors, the opportunity to make recommendations before the board allowed for each of us to pick up the necessary skills required in making such presentations.

During Spring Break we were given the unique opportunity of visiting the financial district in New York. We stayed at the Embassy Suites across the street from Ground Zero in Manhattan. While there, we ate from the finest restaurants, saw world acknowledged sites, visited some of the top global financial institutions, and had the noteworthy experience of visiting the floor of the New York Stock Exchange.

To cap off a great semester, the Roland George Investments Program attended the R.I.S.E. Symposium in Dayton, Ohio to compete in the student-managed portfolio competition and, I am proud to announce, departed Ohio as the 2005 national champions in the fixed-income category. This accomplishment brings delight to all, for it illustrates the aptitude that exists within the program. Together we continue to achieve and surpass the highest standards and look to preserve the legacy established since the program's inception.

By exposing us to real world problems and different situations, the Roland George Investments Program has made it possible for us to acquire the expertise and skills necessary to become top performers in our field of study. It has been a privilege and an honor to be a part of one of the most distinguished student-managed portfolios in the country.

In this issue of "The George Investments View" several highlights of the spring semester are depicted in the various articles throughout the newsletter. This includes a synopsis of our portfolio performance, current economic conditions affecting our investment decisions, detailed accounts of distinguished events, and other stories about the spring semester. I hope you enjoy our newsletter and continue to accompany the success of the Roland George Investments Program.

global company —two business sectors

by Eddie Johnson

Ford Motor Company (Ford) is a global company operating in two business sectors: Automobile sector and Financial Services sector. The Automotive sector sells cars and trucks throughout the world. During the year ended December 31, 2004, the Company changed the reporting of its automotive sector from two segments (Americas and International) to three segments: The Americas, Ford Europe and PAG, and Ford Asia Pacific and Africa/ Mazda. The Financial Services business includes the operations of Ford Motor Credit Company (Ford Credit), a provider of vehicle-related financing, leasing and insurance, and The Hertz Corporation (Hertz), which operates a car and equipment rental business.

For the fiscal year ended 12/31/04, revenues rose 4% to $171.65 billion. Net income from continuing operations and before accounting change rose from $902 million to $3.63 billion. Revenues reflect higher vehicle sales in major western European markets, Turkey, and Russia. Net income also reflects fewer provisions for credit losses[1].

rationale for bond swap

Given our portfolio objectives of preserving capital, maximizing total return, and lowering duration to protect from rising interest rates, I recommended that the Roland George Investment Committee sell our current position in DOW 6.7 4/1/2009 bonds and buy F 7.25 10/01/2008 bonds. The swap yielded an instant profit of $1,282 or 116 basis points. The spread between these two bonds is at 1.245, near the high of 1.346. As the spread narrows and regresses to the mean of -.199, the bond swap becomes more profitable. This swap is forecasted to be profitable in 76.7% of scenarios given various shifts in yields. The spread on this swap must widen by at least 194 basis points for it to become unprofitable. Essentially, swapping Union Carbide for Ford increased coupon payments by 55 basis points, reduced duration, while still maintaining a rating of BBB-.

[1] http://finance.yahoo.com/q/pr?s=F

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negative outlook turns program away — tommy hilfiger bonds

by Joe Matuszczak

Tommy Hilfiger Corporation (TOM) sources and markets men's and women's sportswear, jeans, and children's clothing as well as accessories, footwear, fragrance and home furnishings under the Tommy Hilfiger trademarks. Their products can be found in the United States, Canada, Europe, Mexico, Central and South America, Japan, Hong Kong, Australia and other countries in the Far East.

While looking through the Roland George Investments Program's fixed income portfolio, I saw that Tommy Hilfiger stuck out like a sore thumb compared to our other holdings. Under our investment objectives, which were set forth by the members, we decided not to invest in a company with credit ratings under BBB-/BB+. Tommy is currently rated at BB- and analysts have a negative outlook with the possibility of a falling credit rating in the future. This bond has been continuously downgraded since November 17, 2003 starting from BBB- to its current status.

Tommy's problems seemed to have started last September when they were brought into a federal investigation to see whether the company improperly shifted income out of the United States to avoid taxes. At the same time, the company reported a 59 percent plunge in pretax earnings in the third quarter,

"...— tommy hilfiger bonds"

cut 20 percent of its U.S. work force, and had its credit rating cut by Standard and Poor's three times in a little more than a year. Since then the company has been striving to reach its previous levels.

Within the last couple of months, Tommy has started restructuring by appointing new senior executives, knowing that the company is currently struggling and in need of some internal change to obtain a turnaround and new start. On top of restructuring, the already illiquid bond becomes more difficult to sell if the credit rating reaches single "B" status. Also, Tommy had just been granted an extension waiver for potential defaults until April 30. The fact that the company needs these waivers, indicate a possibility of default in which the Roland George Investments Program runs the risk of not receiving the principal back upon the bonds' maturity.

After looking at all the dilemmas that Tommy Hilfiger is going through, grouped with a negative outlook by analysts, I recommended that the program sell all of its holdings of TOM 6.85% non-callable bond due June 1, 2008 and hold cash.

bond swap — lehman brothers replaces nationsbank

by Gerri Catha

Yields dropped with the news of a $461 million lawsuit settlement with WorldCom stockholders creating an ideal time to take profits on our position in NationsBank. The decision to replace NationsBank (BAC) came after the Program agreed that the bond was overpriced at almost $110. Three different alternative positions were presented to the Board of Trustees: Northwestern Financial (WFC), Morgan Stanley (MWD) and Lehman Brothers Holding (LEH). Opting for a higher initial profit, Lehman Brothers Holding Corporation was selected for the swap.

Lehman Brothers Holdings Corporation is a global company involved in many aspects of the large-market investment banking industry. Lehman Brothers serves corporations, institutions, government and high-worth clients. Capital market activity is Lehman Brothers' largest division which includes institutional brokerage, equity research, securities lending, mortgage banking and real estate investment. The company also specializes in merger and acquisition advisement and financing, debt and equity underwriting, restructuring consulting and private equity operations. Lehman Brothers manages over $135 billion in its asset management division alone.[1]

Lehman Brothers Holding replaced our NationsBank position with an initial 77 bp profit and the potential for higher profits in the anticipated rising interest rate environment. With a 97 bp increase in yield to maturity, the swap entailed a slight decrease in credit rating from A+ to A and an increase in duration by six months. Although increasing duration is not the overall goal for the fixed-income portfolio during this time of rising interest rates, the flattening yield curves on the five-year horizon reduce some of this risk. Added Lehman Brothers to the portfolio still allowed the portfolio to remain within the investment objectives outlined by the members of the Roland George Investments Program.

Ultimately, timing was the key to this swap as it takes advantage of the negative news and subsequent overpricing in the market of our position in NationsBank.

[1] http://yahoo.investor.reuters.com/

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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 $2.8 million dollars. Insights are gained through contact with professionals such as Robert Stovall, CFA, of Wood Asset Management, Inc., Sarasota, FL.

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

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