University of Utah
Student Investment Fund
Annual Report

2002-2003

http://www.business.utah.edu/investmentfund

UNIVERSITY OF UTAH
DAVID ECCLES SCHOOL OF BUSINESS

Student Investment Fund

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Members of the Fund: Back Row: Dr. Liz Tashjian, Greg Schow, Lee Song, Von Anderson, Dan Miles, Stan Bonnemort, Peter Novak, Luke Mau, Ben Beagley, Rachel Latela. **Middle Row:** Mike Yeates, Kajal Negi, Rob Oldroyd, Heather Cannon, Nik Yip, Ryan Barclay. **Front Row:** Dave Broadbent, Ted Ashton, Angela Nguyen-Dinh, Randy Olsen, Clara Pugsley. **Not Pictured:** Steve Woodward, Sanjin Piragic.

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History of the Fund

In October 1998, David Eccles School of Business finance students received a generous $50,000 grant from brokerage firm D.A. Davidson & Co. to create a working stock portfolio. The purpose of this program is to foster student learning outside the classroom in a real-world setting.

Beginning in December, students formed a Student Investment Fund Club and met regularly to develop an investment strategy, research and invest in specific stocks, listen to investment professionals, and to track their investments. The original club that first year was comprised of 12 students and their advisor, Professor of Finance Liz Tashjian.

The first year, the students eventually selected a strategy of investing in volatile stocks in the technology and finance sectors. Between January and April, the portfolio realized returns of over 40%. In April, the students voted to sell a third of their equity positions to reduce the fund's risk over the summer. By the end of the summer, the portfolio's annualized return was 35%.

The original $50,000 remains intact year to year, supported by D.A. Davidson. The investment firm subtracts gains up to 5% from any returns on the Fund to cover brokerage costs, and any returns above 5% are split in half and shared by the firm and the Student Investment Fund. D.A. Davidson guarantees students against any losses below the original $50,000 mark, which will be replenished year to year if necessary.

Beginning in the fall of 1999, the Student Investment Fund developed from a club into a restricted-enrollment class. This class, Finance 5880, is limited to selected students, and students wishing to take it must apply for acceptance. The class is a year-round class, taught by Professor Tashjian. It meets once a week to track the Fund and plan for future investments. Each year, students are required to publish an annual report listing the Fund's activities. The Fund is subject to an annual audit by fellow students in the accounting society Beta Alpha Psi. In 2003, Finance 5880 was designated as an honors class by the university.

Introduction to Our Investment Philosophy

We inherited the portfolio on August 27, 2002, a time of economic uncertainty. The market had suffered significant declines during the summer with the S&P closing nearly 50% off of its 2000 peak at one point and the NASDAQ hitting a low more than 75% below its high in 2000. Many of us in the Fund feared that the economic slump would spread to consumer spending, causing a double-dip recession. In the first three years of the Fund, the class had pursued a high-risk strategy of investing in growth stocks primarily in the technology sector. That strategy was very successful in 1998-99, earning an annualized return of over 35%. However, in 1999-00 and 2000-01, our portfolio underperformed both the S&P and the NASDAQ indexes. We considered two strategies: 1) invest in volatile stocks that might produce a high return within the nine months we controlled the fund, or 2) invest in stocks that we believed would produce long-term growth.

Based on our evaluation of previous classes' strategies and existing economic conditions, our management strategy took the following shape.

Find Value: We believe that the dramatic drop in the market over the past few years has resulted in the stock of many companies being undervalued. We presume that those stocks eventually will return to their fair value, which will provide a return for those who purchase the undervalued shares. Based on discounted cash flow and ratio analysis, we felt that most of the companies we purchased were undervalued at the time of our purchase.

Invest in Earnings: Living in the aftermath of the "Tech Bubble," our class placed an emphasis on solid earnings. We shied away from investing in companies that did not have proven earnings track records.

Diversify: We did our best to diversify the portfolio by selecting companies from many different industries. When we bought or sold stocks, we considered the effect of the decision on our exposure to the S&P sectors. We decided to use Spyders, an exchange traded fund linked to the S&P 500, to maintain a diversified exposure to the market until we found individual stocks that met our investment criteria.

Cash Position: Given the significant market declines of the summer, we elected to keep a significant cash position – about 45% of our portfolio – in the early weeks of our investment year. This strategy proved desirable when the market dropped precipitously in October, reaching five-year lows. In October, we began moving into equities and maintained an average cash position of 15% for the remainder at the year. At the end of the spring semester, we held only 4% of our portfolio in cash.

Informed Investing: When we voted to buy, sell, or hold a stock in our portfolio, we tried to base our decision on sound information. If we could not identify a compelling reason to buy or sell a stock, we generally chose not to trade.

Transactions in 2002-2003 Portfolio

Ticker: ABMD, NASDAQ

Company: **Abiomed** | **Industry:** Medical Equipment and Supplies
Purchased: 03-13-2002 | **Sold:** 08-28-2002

Abiomed was purchased by last year's class on March 13, 2002 at a price of $9.99 per share. The company had developed an innovative artificial heart that was in clinical trials. A patient had recently died, depressing the stock price, but several other patients in the trial had had exceed their life expectancies after receiving the artificial heart. One clever feature of Abiomed's product was that it was fully implanted, reducing vectors for infection present in earlier devices. The class believed that if the product succeeded, Abiomed's price would soar. When we took over the portfolio on August 27, 2002, several more patients enrolled in the study had died and the clinical trials had been halted. We believed that the company's stock price was not likely to rebound in the near future and so we sold the stock to incur the transaction cost prior to the portfolio's rebalancing on September 1. We sold the stock at $5.15 per share.

Ticker: DAVE, NASDAQ

Company: **Famous Dave's Restaurant** | **Industry:** Leisure Goods
Purchased: 10-31-2001 | **Sold:** 12-04-2002

Last year's fund managers purchased Famous Dave's on October 31, 2001 at $7.68 per share. We held onto the stock because our class felt the company's newly announced plans to continue operations in Texas would significantly increase barbeque restaurant sales. Unfortunately, a bad earnings announcement was eventually released including a significant write-off of one of Dave's bigger stores, signaling possible management incompetence. The level of debt Famous Dave's carried continued to climb. High debt levels soon became a problem as money sources dried up and Famous Dave's loans were called in. Our fund decided to perform a bankruptcy test when its price dropped to the $3-5 range, and found the company may not fare well, according to Altman's z-score test. With no real signs of a turn-around Dave's stock continued to suffer. We decided it was not worth holding and sold our 500 shares of Famous Dave's on December 4, 2002 at $3.41 per share.

Ticker: KMB, NYSE

Company: **Kimberly-Clark** | **Industry:** Household Products
Purchased: 04-03-2002 | **Sold:** 12-23-2002

The 50 shares of Kimberly Clark inherited from the previous class were a disappointment. Kimberly Clark was purchased by the fund on April 3, 2002 at a share price of $63.75. The company's 52-week high was back in May 2002, when it was selling at $66.79 a share. From that time on, Kimberly Clark continued to drop until it hit a 52-week low in March 2003, at $42.92 a share. Kimberly Clark is selling at $47.48 per share at the time of this report. Even with the small rally in the month of April 2003, Kimberly Clark has performed poorly over the past year. Some important reasons for weak performance are

1) stiff competition in the diaper industry, 2) a profit loss due to a $21 million dollar litigation settlement related to the acquisition of Safeskin, and 3) weaker then expected sales in Latin America and Asia. However, we felt that the primary reason for a decreasing stock price was the fierce competition from industry leaders, such as Procter and Gamble. This threat was presented to our class in November, and by December we decided to sell Kimberly Clark before the stock dropped any further. Our class sold the stock on December 23, 2002 when it dropped to $46.85 a share.

Ticker: PLCM, NASDAQ

Company: **Polycom Inc.** **Industry:** Communications
Purchased: 03-14-2001 **Sold:** 01-29-2003

Polycom was purchased by the 2001-2002 class on March 14, 2002, at $24.83 per share. Polycom provides video conferencing, which the previous class expected would be a strong growth area following the September 11th terrorist attacks. We held onto the stock for diversification purposes, hoping for a rebound. Ultimately we were convinced the stock was purchased at an overvalued price and would never increase back to the original purchase price. Our class decided to sell Polycom after many analysts downgraded the stock. We sold PLCM on January 29, 2003 at $11.52 a share.

Ticker: CEPH, NASDAQ

Company: **Cephalon Inc.** **Industry:** Biotechnology & Drugs
Purchased: 03-13-2002 **Sold:** 04-16-2003

The Fund also inherited Cephalon, which was purchased by the previous class on March 13, 2002, for $64.55 per share. Cephalon is a biotech company that we considered to be under-priced in a competitive industry. We decided to sell Cephalon because of an unfavorable court decision adversely affecting the patent on Provigil, the company's most successful drug. At the time of the announcement, Provigil produced 40% of the company's revenue. Our class also needed cash to purchase a stock whose prospects were deemed more favorable than Cephalon's, so we sold Cephalon on April 16, 2003 at $38.57 per share.

Ticker: SPY, AMEX

Company: **S&P Depositary Receipts** **Industry:** Index ETF
Purchased: 08-29-2001 **Sold:** 40 units sold 4-16-2003
100 units currently held in our portfolio

The 2001-2002 class inherited a portfolio that had lost over 50% of its value in the previous year. In an effort to regain some of its losses, the 2000-2001 class had purchased several extremely risky stocks at the beginning of the summer. Unfortunately, the portfolio experienced significant losses over the summer, particularly on a substantial investment in Global Crossing, which filed for bankruptcy shortly thereafter. Consequently, at the first meeting of the year, the 2001-2002 class liquidated the portfolio. In order to maintain exposure to the market while researching individual stocks, the class purchased 140 units of SPDRs. We held the position until April, when we identified several stocks we wished to purchase. We sold 40 units to generate cash for our purchases and continue to hold 100 units.

Ticker: CVX, NYSE

Company: **ChevronTexaco** **Industry:** Energy
Purchased: 04-24-2002 **Sold:** currently held in our portfolio

Chevron Texaco is another security inherited by the Fund from a previous class. The stock was purchased on April 24, 2002 at $85.85 per share. Chevron Texaco is a large integrated oil and gas company. The current company was created in 2001 from the merger of two large oil companies, Chevron and Texaco. The company develops, markets, refines and explores for natural gas, petroleum products and crude oil. We are currently holding CVX for diversification purposes. Revenues dropped in 2002 as profit margins decreased and recently CVX has been negatively affected by a $1.2 million dollar write down on its investment in Dynergy. Recent troubles in Nigeria have also affected CVX with a reduction in oil output. We feel the fall in stock price has resulted more from industry factors than from company specific factors, making the stock relatively cheap. CVX has yet to realize the expected $2.2 million in savings due to financial synergies resultant from the merger with Dynergy. We expect these synergies to be realized this year. We have decided to hold the stock with an understanding it is trading near a 5-year low. Our fund also considered selling the stock if we found a better investment. Chevron Texaco currently trades at $63.40 per share.

Ticker: ANF, NYSE

Company: Abercrombie & Fitch Co. **Industry:** Retailers
Purchased: 10-09-2002 **Sold:** 01-15-2003

Abercrombie & Fitch is in the retail apparel market, targeting teenage and college-age consumers. At the time of purchase, we concluded that ANF was undervalued as a result of low retail Christmas season sales projections, bad publicity from potential lawsuits, and a recent dock strike in Southern California. ANF, however, dominated its market segment and showed strong potential for stock appreciation. In addition, the P/E was near its 52-week low. ANF also displayed solid potential for future expansion and growth. Based on our analysis, we estimated stronger than expected earnings growth during the holiday season and valued the stock in the low $30s. On October 9, 2002, we bought two hundred shares of ANF at $17.39.

Our ANF stock analyst, Heather Cannon, believed the stock price had achieved our price target by January. ANF had a great run up during the holiday season and reached our expected price target. On January 15th, our fund voted to sell ANF at $26.28. The sale represented a net gain of 44% after commissions.

Ticker: GE, NYSE

Company: General Electric Co. **Industry:** Conglomerates
Purchased: 10-09-2002 **Sold:** currently held in our portfolio

We chose to purchase General Electric on October 9, 2002, for four reasons. First, we believed that GE was undervalued given its very strong brand name. Second, we felt that a very solid management team runs GE. Research suggested that all the top-level management had spent numerous years within GE. We believed this would be extremely important, especially with the resignation of Jack Welch. Third, we believed that GE would offer benefits in terms of portfolio diversification. Finally, we felt GE was selling near a 40% discount to its fair market value. This was due to the market's overreaction to Welch's pension/retirement payments and skepticism concerning reported earnings. Using a discounted cash flow and price-to-earnings comparables, a price range of $38-$42 was calculated to be the fair market value of GE (at the time, GE was selling near $23). We purchased GE at $22.15 per share.

Ticker: JBLU, NASDAQ

Company: JetBlue Airways
Industry: Airlines
Purchased: 10-06-2002
Sold: currently held in our portfolio

JetBlue was one of the few "hot" IPOs in 2002. The fund members were intrigued by JBLU's innovative business model and its strong growth strategies. Interestingly enough, JBLU's CEO, David Neeleman, was once a student at the University of Utah. JBLU beat market expectations in Q2 by eight cents per share, and was expected to beat the consensus earnings estimate of 28 cents per share in Q3. We believed that JBLU would give our portfolio exposure to the airline industry, which had been unduly punished in the wake of Sept. 11th. JBLU is one of the few airlines that operate at a profit and is in a strong position to attain a greater market share as the industry consolidates and moves toward the discount airline model. Some student analysts, however, were skeptical about JBLU due to its high P/E. We debated whether the P/E represented future earnings potential or just overall hype in the market place. In the end, we determined JBLU was a good fit in our portfolio because of diversification, strong market presence, high potential for growth and margin enhancing initiatives. We purchased 100 shares of JBLU on October 6, 2002, at $41.19. JBLU split 3:2 on December 13, 2002.

Ticker: OSTK, NASDAQ

Company: Overstock.com
Industry: Retailers
Purchased: 11-20-2002
Sold: currently held in our portfolio

Overstock.com, a locally owned company, sells brand-name surplus merchandise at discounted prices over the Internet. Several students from the fund met with management, including CEO Patrick Byrne, and concluded that the management controls expenses efficiently and that the company is well positioned to meet future demand. OSTK demonstrated strong growth with revenues increasing at a 122% compounded annual growth rate between 1997-2002. During Q3 2002, gross merchandise sales increased 145% to $38.4 million. OSTK surpassed earnings estimates and we anticipated a strong holiday season as more consumers began purchase over the Internet. OSTK's business model was appealing and retained a strong competitive position in the existing market space. After our analysis, we valued OSTK as a buy with

12-month price target of $24-$28 per share. OSTK was trading between $9-$12 per share resulting in a 105% upside potential. The Fund bought 300 shares of OSTK at $10.20.

A few members of the fund were concerned about the value of the retail Internet sector and felt we should sell the stock after it appreciated a few dollars. The vote did not pass and we currently are still holding the stock.

Ticker: ELAB, NASDAQ

Company: EON Labs **Industry:** Biopharmaceutical & Drugs
Purchased: 01-29-2003 **Sold:** currently held in our portfolio

EON Labs specializes in generic pharmaceuticals. The pharmaceutical industry has a long product cycle due to the product development and federal approval processes. Our class concluded that generic drugs were a good entry point into the healthcare industry. EON strives to be the first company to offer the generic version of brand-name drugs. By being among the first, EON ensures larger profit margins, brand name recognition and the ability to secure a place in the market ahead of other generic manufacturers. Our fund considers EON better positioned to capture market share than other generic drug producers. On January 29, 2003, we purchased 200 shares of EON at $22.03.

Ticker: HDI, NYSE

Company: Harley-Davidson Inc. **Industry**: Recreational Products
Purchased: 01-09-2003 **Sold:** currently held in our portfolio

Harley Davidson is a premier brand name. The company has recently introduced new models and accessories for motorcycles, which should produce continued growth. Profit and operating margins are currently 14.3% and 21.7% respectively. ROA and ROE are also strong at 17.57% and 30.58%. Harley is a market leader within its industry, and we felt that diversifying into the firm ultimately would prove to be beneficial to our portfolio, especially after HDI dropped in price to near its 52-week low. We felt we could gain from a rebound of the stock price. We purchased 100 shares of Harley stock on January 23, 2003, at a $40.76 per share.

Ticker: WM, NYSE

Company: Washington Mutual Inc. **Industry:** Savings & Loan Banks
Purchased: 03-26-2003 **Sold:** currently held in our portfolio

We bought Washington Mutual while it was trading at a discount to its peers: WM's P/E was 9 compared to the industry average of 12.6. We also believed that the stock would stabilize our portfolio through diversification despite GE's presence in financial sector. At the time of our purchase, financial services comprised about 20% of the S&P 500. WM's low beta of .47 would help protect it on the downside, but as a financial company it is well positioned to benefit from a market recovery. WM also has a dividend yield of 3.26%, and has increased the annual dividend yearly at a high rate. However, we also believe that given a large fraction of WM's loan portfolio consists of mortgages, there might be some interest rate risk associated with the investment. We purchased Washington Mutual on March 26, 2003 at a price of $35.57.

Ticker: UTSI, NASDAQ

Company: UTStarcom Inc. **Industry:** Communications Services
Purchased: 03-26-2003 **Sold:** currently held in our portfolio

UTStarcom manufactures telecommunications equipment, primarily for sale in China. We expect China's communication market to experience rapid growth for the next several years, driven by the government's commitment to developing a communications infrastructure and China's recent induction to the World Trade Organization in 2001. With a leading 65% market share in China's fixed mobility market, UTSI is well positioned to benefit from China's telecom growth. The stock is currently trading at 15x our 2003 EPS estimate of $1.40 and 12x our 2004 estimate of $1.73, a significant discount to our 3-year 30% growth rate. We believe the discount is unwarranted, as UTSI has consistently met or exceeded its EPS guidance in the 12 quarters it has been public. Moreover, our earnings estimates could see significant upward revisions as the company increases its exposure outside of China. A successful expansion effort would likely increase the stability of the stock. The company is also debt free and has over $300 million in cash reserves. We purchased UTStarcom on March 26, 2003, at a price of $20.43.

Ticker: RCII, NASDAQ

Company: Rent-A-Center **Industry:** Rental & Leasing
Purchased: 04-21-2003 **Sold:** currently held in our portfolio

Rent-A-Center dominates the consumer rent-to-own industry in market share and growth. With its strong balance sheet, we expect RCII to expand its market presence further. The industry appears to be underserved with 2.2 million households of the 44 million in its focus demographic being served. Over 50% of the industry is still run by companies with 20 or fewer stores. These two elements combine to give RCII large potential market growth. With strong cash flows and solid management performance, we felt that RCII would yield a high return in both the near and long term. Prior to making a decision to invest, class members had a conference call with RCII's CFO. We purchased Rent-A-Center on April 21, 2003, at $55.40.

Transaction Summary

Ticker	Purchase date	Price/share	# Shares	Commission	Sale date	Price/share	# Shares	Commission
Inherited Items We Sold								
ABMD	3/13/2002	**9.99**	200	66.21	8/28/2002	**5.16**	200	64.89
DAVE	10/31/2001	**7.68**	500	112.16	12/4/2002	**3.41**	500	85.50
KMB	4/3/2002	**63.75**	50	67.11	12/23/2002	**46.85**	50	64.93
PLCM	3/14/2002	**24.83**	200	102.28	1/29/2003	**11.52**	200	72.68
CEPH	3/13/2002	**64.55**	60	74.87	4/16/2003	**38.57**	60	64.96
SPY	8/29/2001	**116.00**	40	46.25	4/16/2003	**88.88**	40	75.80
Inherited Items Still Held in Portfolio								
Ticker	**Purchase date**	**Price/share**	**# Shares**	**Commission**	**Sale date**	**Price/share**	**# Shares**	**Commission**
SPY	8/29/2001	**116.00**	100	115.61				
CVX	4/24/2002	**85.85**	50	79.60				
2002-2003 Investment Group Purchases								
Ticker	**Purchase date**	**Price/share**	**# Shares**	**Commission**	**Sale date**	**Price/share**	**# Shares**	**Commission**
ANF	10/9/2002	**17.39**	200	89.91	1/15/2003	**26.28**	200	113.96
GE	10/9/2002	**22.15**	300	138.01				
JBLU*	11/6/2002	**41.19**	100	82.04				
OSTK	11/20/2002	**10.20**	300	92.75				
ELAB	1/29/2003	**22.03**	200	100.47				
HDI	1/29/2003	**40.76**	100	81.55				
WM	3/26/2003	**35.57**	100	75.65				
UTSI	3/26/2003	**20.43**	100	64.85				
RCII	4/21/2003	**55.40**	100	86.45				

* JBLU split 3:2 on December 13, 2002; we received an additional 50 shares for a total of 150 shares.

Pepsi Bottling Group Presentation

On February 11, 2003 the University of Utah Student Investment Fund gave a presentation to local financial industry professionals on Pepsi Bottling Group (PBG, NYSE), the world's largest manufacturer, seller, and distributor of Pepsi Cola beverages. Student analysts rated the company as a "hold." The event was held on campus at the University of Utah in the C. Roland Christensen Center. Professionals attending the presentation included Nick Bapis of Morgan Stanley, Jack Bernhisel of European Marble and Granite, Phil Clinger of Merrill Lynch, Senator Jake Garn of Summit Ventures, Reese Howell Sr. of Security Title, Sterling Jenson of Wells Fargo, Brent Maxfield of KPMG, Dick Pratt of Richard T. Pratt Asscociates, John Scowcroft of Morgan Stanley, Ryan Snow of Wasatch Advisors, Sam Stewart of Wasatch Advisors, Ramona Stromness of Richard T. Pratt Associates, Rex Thornton of D.A. Davidson, and Buzz Welch of Bank One. Student analysts included Von Anderson, Rob Oldroyd, Ryan Barclay, Clara Pugsley, Stan Bonnemort, Lee Song, Heather Cannon, Nik Yip, Luke Mau, Steve Woodward, and Peter Novak

Stan Bonnemort (right) discusses the current market with Wasatch Senior Analyst Ryan Snow.

In preparation of the event, selected students (Pepsi Students) covering the stock broke down Pepsi Bottling Group activities into several different sections and appointed sub-committees to research each area. The analysts concluded that ultimately, Pepsi Bottling Group is in the business of selling Pepsi beverages and is therefore greatly affected by PepsiCo's strategy. The Pepsi brand is extremely important to the Company and how well PepsiCo and PBG market this brand has a significant impact on demand for the products. The Pepsi Students collected many types of data from macroeconomic data to Pepsi Co. marketing data to financial information on PBG and assembled the information into an extensive company report, with an accompanying Power Point presentation for the guests.

Rob Oldroyd, Kajal Negi, Dan Miles, Lee Song, Mike Yeates, and Heather Cannon breathe a sigh of relief after the presentation.

John Scowcroft of Wasatch Advisors and Business School Dean Jack Brittan catch up on old times.

At the conclusion of the presentation, the students had the opportunity to field questions from some of the guests. Questions concerning the vertical integration of Pepsi Bottling with the parent Company, Pepsi Co., the company's capital structure, and industry competitiveness were raised and addressed by the analysts. At the close of the presentation the students and guests were able mingle and enjoy a catered lunch, speaking with one another about current events, the economy, and careers in the industry.

Rent-A-Center Presentation

Another bright spot for the student portfolio was the student presentation of Rent-A-Center Inc. (RCII, NASDAQ) on April 8, 2003. Selected students presented their stock analysis to a group of local industry professionals, with a recommendation to buy RCII. The student analysts felt pressured to maintain, if not exceed, the level of recognition and success achieved by the student analysts who made the Pepsi presentation a few months earlier.

Kris Liacpolous of Fidelity Investments and Ben Beagley discuss the presentation.

The professionals in attendance were Nick Bapis of Morgan Stanley, Fred Fairclough of Bonneville Mortgage, Reese Howell, Jr. of Celtic Bank, Reese Howell, Sr. of Security Title, Amy Hu of Wasatch Advisors, Kris Liacopoulos of Fidelity Investments, Bud Mahas of Bud Mahas Construction, Ruth Novak of Hercules Aerospace, Dick Pratt of Richard T. Pratt Associates, Ryan Snow of Wasatch Advisors, and Rex Thornton of D.A. Davidson.

The University of Utah Student Investment Fund would also like to thank all of the guests that participated in the presentation on April 8, 2003. Their questions and insights were invaluable to the students.

Professor Liz Tashjian and Dick Pratt, of Richard T. Pratt Associates, discuss the future of Rent-A-Center.

The presentation started with an overview of the overall business model by Ted Ashton. Mike Yeats followed with industry analysis demonstrating that the market for rent-to-own purchases is widely underserved. Rachel Latela reported that RCII's competitive advantages included such factors as economies of scale, brand name recognition, and lower costs of capital (compared to industry). Finally Dan Miles finished with ratio analysis, valuation, and recommendation. The ratio analysis showed that RAC appears to be a stronger institution financially than its competitors. RCII's valuation, which was on the conservative side, indicated a target price of $76 and a trading range from $56-79. Our analysis indicated that RAC has managed its growth effectively, has potential for more growth, and has the resources available to continue as the industry leader.

Clara Puglsey (center) navigates the guests and students in attendance, awaiting an opportunity to question Jack Britain, Dean of the Business School.

The time allocated for question and answer became a discussion on the industry business practice, particularly Rent-A-Center's business model and target market. The discussion over whether the rent-to-own market offers a valuable service to customers or whether the industry charges unfairly high implicit interest rates was opened up to the industry professionals and faculty in attendance. The conclusion of the dialogue was that RAC provides a service that is not unlike other rental businesses; similar fees are seen with car rentals, heavy equipment or household durables. RAC also takes on risks by serving a higher risk clientele and serves a market niche.

The week after the Rent-A-Center group made its presentation, the class followed the recommendation of the group and purchased 100 shares of RCII. By the end of the semester, the stock had appreciated 15%.

The University of Utah Student Investment Fund would like to thank all of the guests that participated in the presentations in February and April. Their questions and insights were invaluable to the students as they embark on careers in the financial industry.

Invitation to CNBC's "Power Lunch"

On March 5, 2003, members of the Student Investment Fund appeared on CNBC's midday program Power Lunch with Bill Griffeth. CNBC contacted Professor Tashjian after viewing the Fund's website. The website, which is managed by a student in the Fund each year, has helped gain exposure for the Fund.

The Fund patiently awaits the signal from Washington D.C.

Every Wednesday, a segment of Power Lunch is dedicated to an investment club at a different university. The segment lasts for about eight minutes. The investment clubs are invited to make three stock recommendations. Following the student recommendations, CNBC airs the recommendation of a professional on the same three stocks. Presenting students also field general questions about their investment philosophy as well as questions about how current political or macroeconomic factors might affect the performance of the fund. In addition, students may be offered the opportunity to respond to the professional's assessment of their stock recommendations. Although all the University of Utah Student Investment Fund members were invited to appear on camera, only three students were selected to speak on behalf of the fund; the remaining students appeared standing in the background.

Ted Ashton, Angela Nguyen-Dinh, and Randy Olsen minutes before the broadcast!

The selection and training processes were intense. In order to select representatives, each student presented a short stock pitch of a chosen security to Professor Elizabeth Tashjian and media consultant Beth Levine. Then, all the students received some basic media training. Ted Ashton, Angela Nguyen-Dinh, and Randy Olsen were chosen to represent the class. Stan Bonnemort was also chosen as a backup in case of unforeseen circumstances. After spokespeople were selected, the class voted on which stocks to pitch on the show. The decision was tough because many of the stocks we held had already realized gains and the class was hesitant to promote stocks which had already realized much of their upside potential. In the end, the class selected to pitch **General Electric**, **Harley Davidson**, and **Overstock.com**. Once stocks were chosen, the class broke into groups to help prepare the pitches and create a summary of the class's strategy. Ted, Randy, Stan, and Angela also went through another session of media training with Beth Levine. Beth helped the four students learn how to field difficult questions, learn appropriate posture and etiquette, and muster the confidence needed appear on national television. Wednesday morning, March 5, students of the Student Investment Fund met at Rice Eccles Stadium to prepare for the live broadcast. Class representatives were wired up with microphones and earplugs and the remaining students were arranged in aesthetic order in the background. From that point on, the students waited tediously as local camera crews waited for the signal from the network in Washington D.C. After 20 minutes of sitting or standing with perfect posture and a half-smile, the students were finally on-air. Ted answered the first question dealing with the macro environment. Randy fielded the next question about the history of the University of Utah fund. However, the broadcast was interrupted by unforeseen world events about two minutes into the segment. Developments leading up to the war in Iraq were underway and the network broke away to an important press conference at the Pentagon with Secretary of State Colin Powell and Secretary of Defense Donald Rumsfield. Apparently, the politicians hadn't coordinated with the University of Utah in scheduling a major press conference. Alas, although the fund managers received some national exposure, the full segment has been rescheduled for next fall.

The Student Investment Fund, as they appeared Live on the CNBC afternoon program, "*Power Lunch*".

Angela, Randy, and Ted were invited to perform a simulation of their broadcast at a National Advisory Board meeting on April 11. They made an excellent presentation, and the NAB enjoyed learning more about the Student Investment Fund.

Speakers 2002-2003

Ryan Snow
September 10
Senior Analyst, Wasatch Advisors

Ian Davidson
November 12
Chairman, D.A. Davidson & Co.

Cal Boardman
March 4
Professor of Finance, University of Utah

Amy Hu and Valerie Nowak
March 11
Analysts, Goldman Sachs

Annual Audit & Fund Performance

The Student Investment Fund had its fiscal year audit performed by four students from the accounting program at the University. The audit focused on the operational aspects of the fund, as well as the various forms of information that the Student Investment Fund reports to outside parties. The auditors issued an unqualified opinion based on their findings during the audit and offered suggestions for improvements in the form of a Management Report. The Management Report will be further reviewed to assess the benefits of the suggestions.

Overall, the 2002-2003 Student Investment Fun has experienced success, especially when compared to market indexes. As you can see from the chart below, as of **May 8, 2003** the fund was valued at **$54,721.24**.

D.A. Davidson Student Investment Fund Holdings on May 8, 2003

Stock Symbol	Company	Number of Shares	Purchase Price	Current Price*	Industry
spy	Spyders	100	$116.00	$92.45	Index Fund
cvx	Chevron	50	$85.85	$67.34	Oil & Gas - Integrated
ge	General Electric Co.	300	$22.15	$28.47	Conglomerate
jblu	JetBlue	150	$27.46**	$31.94	Airline
ostk	Overstock.com	300	$10.20	$11.09	Retail (catalog & mail order)
hdi	Harley-Davidson	100	$40.76	$43.91	Recreational Products
elab	Eon Labs	200	$22.03	$30.35	Biotechnology & Drugs
wm	Washington Mutual	100	$35.57	$40.17	Savings and Loan banks
utsi	UTStarcom	100	$20.43	$22.54	Communications Services
rcii	Rent-A-Center	100	$55.40	$64.84	Rental & Leasing
$2234.54 cash Total Portfolio Value: $54721.54					

* Current Price at 5:42 PM EST.
** Split Adjusted

Overall, we believe there have been three significant highlights in our performance as managers of the Fund.

1. With the exception of ChevronTexaco, every stock we purchased throughout the year has increased in value. We are particularly proud of our gains in GE, Eon Labs, and Rent-A-Center. We believe the solid performance of these stocks is the result of carefully applying our *Investment Philosophy* (p.5).
2. We were disciplined in selling when we concluded that a stock no longer met our criteria. We made a significant capital gain on Abercrombie & Fitch, which we sold for a gain of 44% after commissions.
3. Also, we chose well in timing when to enter the market. As you can see from our fund performance below, we outperformed both the S&P and Nasdaq in the beginning of the year due to 1) patience to find stocks we believed in and 2) a strong cash position when the market dipped in October. In October the Fund's performance began to resemble the major indexes as we bought into the market with our purchases of ANF and GE.

The Students participating in the D.A. Davidson Student Investment Fund outperformed the S&P by 7% and underperformed the Nasdaq by 5% during their brief tenure as portfolio managers during the Fall 2002 and Spring 2003 semesters.

Although the class members do not meet regularly in the summer, the 2002-2003 student managers will maintain control of investment decisions until the next group of students claims control in the fall of 2003.

Portfolio Return v. S&P and NASDAQ
August 27, 2002 through April 22, 2003