

Southwestern University Financial Analyst Program

2001 Annual Report



YEAR IN REVIEW

TABLE OF CONTENTS

Year in Review..... 3

Economic Summary..... 5

Portfolio Strategy..... 6

Portfolio Objectives..... 7

Participants..... 8

Portfolio Activity..... 9

Performance..... 10

Portfolio Financial Statements

 Quarter 1..... 12

 Quarter 2..... 13

 Quarter 3..... 14

 Quarter 4..... 15

Appendix A: Sharpe and Treynor Estimates..... 16

YEAR IN REVIEW

At the beginning of 2001, most analysts were bullish on the market and confidently suggested aggressive investment. However, before the end of the first quarter, signs of economic recession began to appear. Analysts became less optimistic and began to recommend a more defensive stance in the market. Still, analysts hoped for economic recovery, but the downturn continued and conditions were significantly worsened by the September 11th crisis.

Throughout the year, key economic indicators reflected a declining economy. Consumer confidence continued to drop and unemployment reached its highest point in several years by yearend.

Likewise, 2001 proved disappointing for the Southwestern University Student-Managed Portfolio. Despite the best efforts of its members, the program ended the year

with a loss of 11.09%. The year was simply a tough one all around for the economy in general, and especially for investments. Both the Dow Jones Industrial Average and the S&P 500 turned in overall losses for the year. In fact, the SU Student-Managed Portfolio actually *outperformed* the S&P 500. Reporting a loss of 13.04%, the S&P 500 lost almost 1.5 times the amount of the SU student fund. In comparison, the Dow lost 7.1%, performing only somewhat better than the SU portfolio.

While comparing the SU Student-Managed Portfolio to other major indexes may prove helpful, risk-adjusted return performance models yield a better idea of how the SU portfolio performed. The Sharpe Measure is calculated as the return on the portfolio (-11.09 percent) minus the risk free rate (3.89

percent) divided by the standard deviation of the portfolio (0.02). This yields a performance index of -6.93. This means that the risk-adjusted return is extremely low (actually a loss, as earlier stated). But the SU Student-Managed Portfolio performed better than the aggregate market portfolio, which had a Sharpe measure of -9.19.

The Treynor Measure is the return on the portfolio (-11.09 percent) minus the risk free rate (3.89 percent) divided by the portfolio beta (1.68). This yields a performance of -8.93. The aggregate market portfolio's Treynor measure was -.2.

The SU Student-Managed Portfolio's best ideas this year were International Game Technology and Sysco Corporation, with strong gains of 40.4 percent and 41.5 percent, respectively. With the food wholesalers industry being an outperformer most of the year, purchasing Sysco

YEAR IN REVIEW

Corporation, one of the strongest performers in that industry, was obviously wise. Likewise, gaming was a highly-ranked industry this year, and the recommendation to purchase International Game Technology evidenced the reliability of Valueline and Investor's Business Daily rankings. Another on performer was UnitedHealth Group, which earned 17.8 percent.

Offsetting these gains, however, the fund incurred some substantial losses. Dynegy, Inc. got caught in the Enron disaster and suffered our worst loss, with a decline of 45.3 percent. Other losers included Apache Corporation at -19.4 percent and Phillip Morris, which lost 11.4 percent. Dynegy, Inc. and Apache Corporation proved to be the worst ideas because energy prices and Enron suffered so much in 2001.

The United States economy underwent trying times in 2001. A sharp rise in energy prices helped push the country into its first recession in ten years. The slump only deepened with the September 11th attacks. Although the country pulled together under the pressures of war, the economy slid as investors lost confidence. Capital consumption and non-residential investment fell, contributing to the economic deceleration that lasted throughout the year. Aggregate demand fell due to low inventory investment, exports, and business fixed investment.

Matters began to improve, however, as personal expenditures and orders for non-defense goods rose in the fourth quarter. The general health of the economy proved to be better than expected as the Commerce Department revised the fourth quarter GDP estimate from 0.2 to 1.4 percent. Personal consumption also contributed to an improving fourth

ECONOMIC SUMMARY

quarter, resulting from increased vehicle purchases driven by the tax cut.

The fourth quarter surge in 2001 is expected to lead into a recovery in 2002. Consumption spending should rise, but not as quickly as in the latter quarter of 2001. Moreover, inflation should decrease from its 2.2percent rate of 2001.

Still, the unemployment rate will rise to 6 percent in the middle of 2002 and GDP should increase only a modest 2-3 percent. Essentially, the recovery will not be as robust as those of the past. The U.S. should dip once more before a full recovery can be underway. The fourth quarter rebound was primarily due to the liquidity and interest rates that the Federal Reserve fed the U.S., Therefore, when the Fed reduces its efforts and oil prices rise once more, the economy will dip.

The Southwestern University Student-Managed Fund has the same performance guidelines that all equity funds in the investment pool of Southwestern University have: to assure the preservation and expansion of Southwestern University's endowment. However, the Fund serves other purposes and seeks additional objectives as well.

- The fund seeks to have a risk exposure similar to that of the its benchmark, the Standard and Poor's 500 index. More specifically, the fund desires a close correlation with the index, measured by a portfolio beta. The fund attempts to accumulate a beta near 1.00.
- The fund looks to have annual returns that exceed those of its benchmark, the Standard and Poor's 500 index.
- The fund seeks a portfolio-turnover rate of less than 100%. The fund needs a healthy rate of turnover to

PORTFOLIO STRATEGY

achieve its goal of capital appreciation, however excessive turnover leads to a violation of the long-term appreciation strategy of the fund and to exorbitant transaction fees.

- The fund also attempts to achieve above average risk-adjusted results based on the Treynor and Sharpe ratios. The fund seeks positive risk-adjusted returns that reflect superior result in both the Treynor and Sharpe ratios. Specifically, the fund wants to see both the Treynor and Sharpe ratios higher than annual return of the portfolio, demonstrating superior gains while allowing for risk.
- Finally, the fund helps fund managers gain valuable experience in building and monitoring a portfolio and developing financial analysis skills in a real world situation.

The objectives of the fund require a specific investment strategy to meet the goals involving risk-exposure, capital appreciation, portfolio turnover, and managerial experience.

- The fund purchases common stock of publicly held corporations, with market capitalization more than \$100,000,000 for long-term capital appreciation.
- The most critical portion of the fund's strategy is the fundamental analysis of potential stocks. Fund managers analyze the financial health of prospective companies for growth potential and liquidity strength to determine whether these companies have proper valuation. Furthermore, fund managers look for innovative business models that indicate exceptional growth potential.
- The investment strategy requires detailed economic analysis to identify investment opportunities based on

PORTFOLIO OBJECTIVES

the overall economy. Such analysis leads to allocation decisions based on cyclical industries or overall growth trends in the global economy.

- Technical analysis plays an important role in the purchase of equities. Fund managers study historical price patterns of stocks to determine potential upswings or collapses of stock prices. Technical analysis helps the fund to find ideal purchase and sell points
- Fund Managers constantly monitor currently held stocks and industries to avoid excessive losses and to identify potential gains. All managers set bottom sell points that adjust to market conditions to help lock in profits on successful stocks and limit losses on unsuccessful ones.

Southwestern University

**Financial Analyst Program Student
Analysts**

January-May 2001

**Margaret Blair
David Coleman
James Cunningham
Melanie Davis
Megan Inman
Kai Stratman**

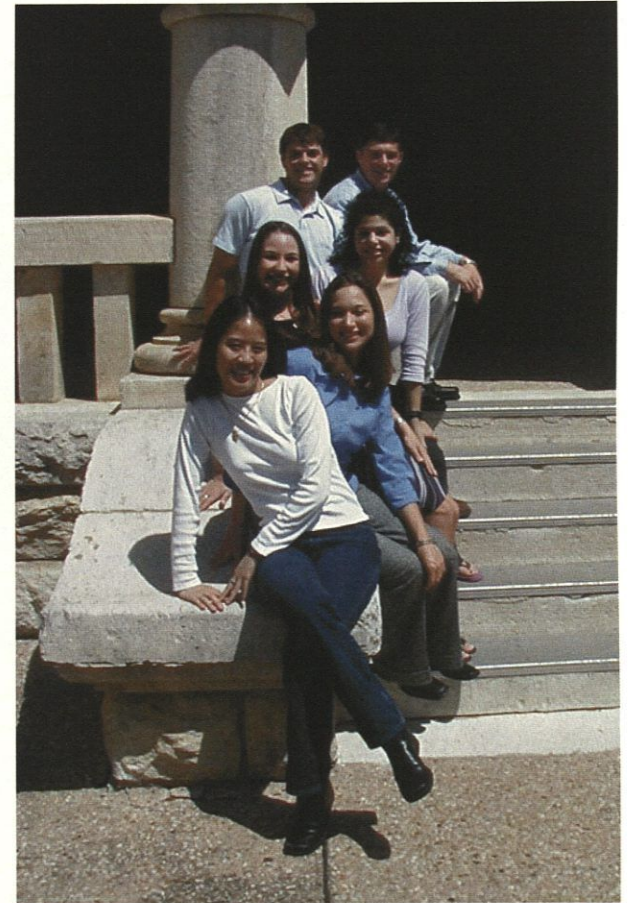
May-December 2001

**Martina Dai
Tim Gandre
Shauna Jackson
Sara Lopez
Taylor Paul
Amanda Whitt**

Director

Dr. A.J. Senchack

PARTICIPANTS



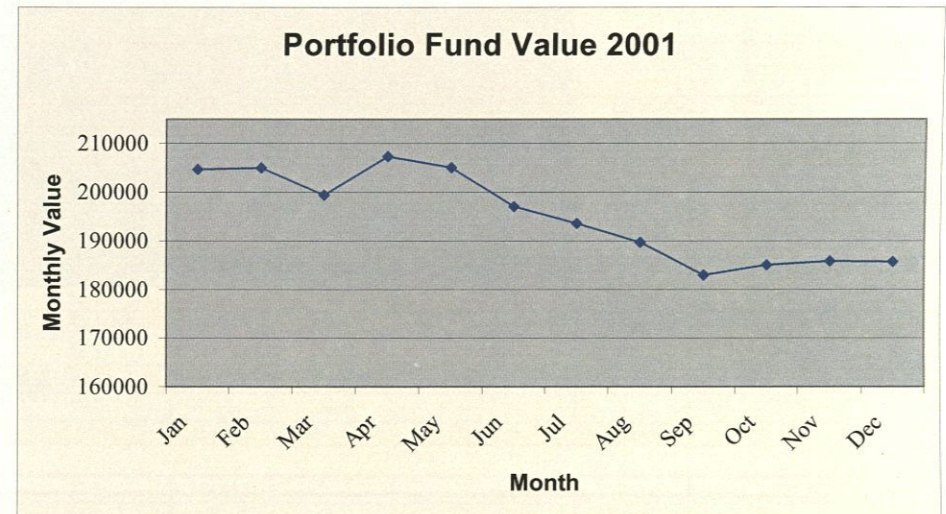
T-B: T. Paul, T. Gandre, S. Lopez, A. Whitt,
S. Jackson, T. Dai

PORTFOLIO ACTIVITY

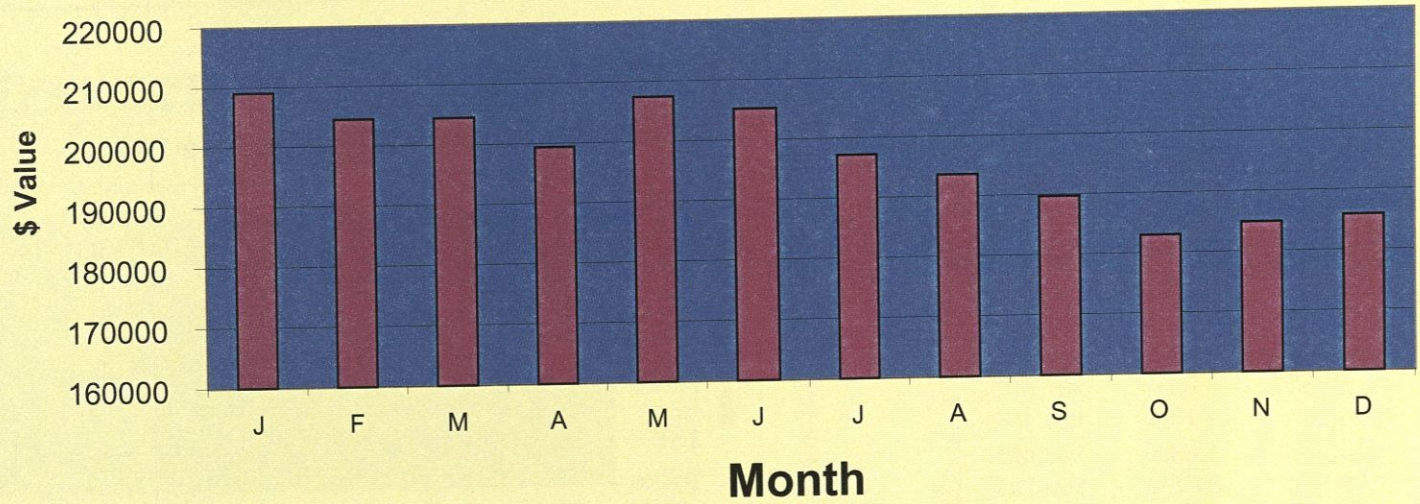
Company Name	TCK	Date	# Shares	Bot (B) Sold (S)	Transaction Price	Total Purchase Price	Total Cost of trade
Apache Corp.	APA	15-Feb	170	B	\$60.25	\$10,243	\$10,293
Applebee's International Inc.	APPB	5-Dec	300	B	34.74	10,422	10,472
Alza Corporation	AZA	23-Mar	200	S	29.42	5,884	5,834
Alza Corporation	AZA	13-Feb	200	B	43	8,600	8,650
Biogen Inc.	BGEN	28-Nov	90	B	58.36	5,252	5,302
Anheuser Busch Companies	BUD	1-Feb	200	B	43.09	8,618	8,668
Brown Shoe Co	BWS	8-Oct	500	S	10.76	5,380	5,330
Brown Shoe Co	BWS	7-Mar	500	B	18.29	9,145	9,195
Diagnostic Products Corp.	DP	27-Nov	110	B	41.44	4,558	4,609
Dynegy Inc.	DYN	1-Feb	200	B	48.79	9,758	9,808
Education Management Corp	EDMC	16-Jan	265	S	29.06	7,701	7,651
Education Management Corp	EDMC	29-Nov	100	B	34.88	3,488	3,538
Education Management Corp	EDMC	31-Oct	165	B	30	4,950	5,000
Elan Plc. Adr.	ELN	25-Apr	200	B	46.13	9,226	9,276
ITT Educational Services Inc.	ESI	19-Apr	300	B	33.2	9,960	10,010
General Dynamics	GD	7-Mar	140	B	71.85	10,059	10,109
International Game Tech	IGT	19-Apr	75	S	58	4,350	4,300
International Game Tech	IGT	1-Feb	200	B	48.16	9,632	9,682
Intel Corp.	INTC	26-Sep	40	S	44.69	1,788	1,738
Intel Corp.	INTC	19-Apr	40	B	117.94	4,718	4,828
M.D.C. Holdings, Inc.	MDC	19-Apr	230	B	41.81	9,616	9,666
M.D.C. Holdings, Inc.	MDC	11-Jun	230	S	32.66	7,512	7,461
Phillip Morris Companies	MO	3-May	180	B	52.03	9,365	9,415
SEI Investments Company	SEIC	23-Mar	200	S	32.75	6,550	6,500
SEI Investments Company	SEIC	15-Feb	100	B	93.38	9,338	9,388
Sysco Corp.	SYU	3-Apr	250	B	36.63	9,158	9,208
THQI, Inc.	THQI	30-Nov	160	B	58.16	9,306	9,356
Tol Brothers, Inc.	TOL	23-Jan	225	S	35.38	7,961	7,910
Tol Brothers, Inc.	TOL	29-Nov	225	B	39.06	8,789	8,839
United Health Group	UNH	1-Mar	165	B	59.42	9,804	9,854
Waste Connections	WCNX	28-Nov	300	B	29.85	8,955	9,006

PERFORMANCE

	Market Value	Percent change	Cost
January	\$209,006		\$201,622
February	204,661	-2.08%	200,576
March	204,400	-0.13%	201,178
April	199,435	-2.43%	198,943
May	207,296	3.94%	197,052
June	205,028	-1.09%	197,420
July	197,055	-3.89%	187,855
August	193,565	-1.77%	188,155
September	189,723	-1.98%	188,425
October	182,974	-3.56%	188,762
November	184,987	1.10%	185,149
December	185,829	0.46%	185,372
Year 2001	\$181,321	-11.09%	\$193,376



Monthly Market Value



PORTFOLIO FINANCIAL STATEMENTS

1st Quarter 2001
Ending March 30, 2001

	Date Sold	No. Shares	Per Share Cost	Cost	Per Share Market	Market	Broker Fees	Realized Gain/Loss	% Realized	Unrealized Gain/Loss	% Unrealized
Cash and Cash Equivalents				\$106,969.9		\$106,969.9					
Equities:											
Alza Corporation	23-Mar	200	\$43.0	\$8,650.0	\$29.4	\$5,884.0	50.0	(\$2,816)	-32.55%	(\$2,766)	-31.98%
Anheuser Busch		200	43.1	8,668.0	45.9	9186.0	50.0			518.0	5.98%
Apache		170	60.3	10,292.5	57.6	9793.7	50.0			(498.8)	-4.85%
Brown Shoe Company		500	18.3	9,195.0	18.9	9425.0	50.0			230.0	2.50%
Dynergy-Class A		200	48.8	9,808.0	51.0	10202.0	50.0			394.0	4.02%
Education Management Corporation	23-Mar	265	165@30, 100@34.9	8,487.8	29.1	7651.6	50.3	(886.5)	-10.44%		
General Dynamics		140	71.9	10,109.0	62.7	8783.6	50.0			(1,325.4)	-13.11%
Intel Corp.		40	60.4	2,414.2	26.3	1052.5	26.3			(1,361.7)	-56.40%
International Gaming Technology		200	48.2	9,682.0	50.4	10070.0	50.0			388.0	4.01%
Precision Castparts Corporation		150	35.4	5,356.3	42.1	6309.5	50.0	***	*****	*****	*****
SEI Corporation	28-Mar	200	46.9	9,425.2	32.8	6550.0	50.2	(2,925.4)	-31.04%	(2,875.2)	-30.51%
Sysco		500	18.4	9,206.3	26.5	13255.0	26.5			4,048.8	43.98%
Toll Brothers	26-Jan	225	39.1	8,839.4	35.4	7959.4	50.3	(930.3)	-10.52%		
United Health Group Inc.		165	59.4	9,854.3	59.3	9777.9	50.0			(76.4)	-0.78%
Total Common Stock				79,229.3		81545.7		(7,558.2)	-21.35%	(3,324.8)	-77.14%
Foreign Stock											
Elan Corporation		200	46.1	9,275.0	52.3	10450.0				1,175.0	12.67%
PanCanadian Petroleum Limited	1-Feb	150	24.4	3,716.1	25.3	3787.5	50.1	21.2	0.57%		
Total Foreign Stock				9,275.0		10450.0		(7,536.9)	-16.95%	(2,149.8)	-2.43%
Total Equities				88,504.3		91995.7					
Net Assets				195,474.2		198965.6					
Current Period Accrued Income				469.1		469.1					
Total Assets				195,943.3		199434.7					
RETURN ON INVESTMENT											
Beginning Total Assets (12/31/00)				\$201,622.3		\$209,006.4					
Ending Total Assets (3/30/01)				195,943.3		199434.7					
% Change from 4th Qtr 2000 to 1st Qtr 2001				0.0		-4.58%					

PORTFOLIO FINANCIAL STATEMENTS

2nd Quarter 2001
Ending June 30, 2001

	Date Sold	No. Shares	Per Share Cost	Cost	Per Share Market	Market	Broker Fees	Realized Gain/Loss	% Realized	Unrealized Gain/Loss	% Unrealized
Cash and Cash Equivalents				\$83,174.2		83,174.2					
Equities:											
Anheuser Busch		200	\$43.1	\$8,668.0	\$41.2	\$8,240.0	\$50.0			(\$428.0)	-4.94%
Apache		170	60.3	10,292.5	50.8	8,627.5	50.0			(1,665.0)	-16.18%
Brown Shoe Company		500	18.3	9,195.0	18.1	9,025.0	50.0			(170.0)	-1.85%
Dynegy-Class A		200	48.8	9,808.0	45.5	9,100.0	50.0			(708.0)	-7.22%
General Dynamics		140	71.9	10,109.0	77.8	10,893.4	50.0			784.4	7.76%
Intel Corp.		40	60.4	2,414.2	29.3	1,170.0	50.0			(1,244.2)	-51.54%
International Gaming Technology		125	48.4	6,051.3	62.8	7,843.8	50.0			1,792.5	29.62%
International Gaming Technology	24-Apr	75	48.2	3,662.0	58.0	4,350.0	50.0	\$638.0	17.42%		
ITT Educational Services Inc.		300	33.2	10,010.0	45.0	13,500.0	50.0			3,490.0	34.87%
MDC Holdings Inc.	14-Jun	230	41.8	9,666.3	32.7	7,511.8	50.0	(2,204.5)	-22.81%		
Phillip Morris Cos Inc		180	52.0	9,415.4	50.8	9,135.0	50.0			(280.4)	-2.98%
Sysco		500	18.4	9,206.3	27.2	13,575.0	50.0			4,368.8	47.45%
United Health Group Inc.		165	59.4	9,854.3	61.8	10,188.8	50.0			334.4	3.39%
Total Common Stock				95,023.9		101,298.4		(1,566.5)	-11.75%	6,274.5	6.60%
Foreign Stock											
Elan Corporation		200	46.1250	9,275.0	61.0	12,200.0				2,925.0	31.54%
Total Foreign Stock				9,275.0		12,200.0					
Total Equities				104,298.9		113,498.4				9,199.5	8.82%
Net Assets				187,473.1		196,672.6					
Current Period Accrued Income				382.0		382.0					
Total Assets				187,855.1		197,054.6					
RETURN ON INVESTMENT				-6.07%		-1.47%					
Beginning Total Assets (3/31/01)				\$195,943.3		\$199,415.5					
Ending Total Assets (6/30/01)				187,855.1		197,054.6					
% Change from 1st Qtr 2001 to 2nd Qtr 2001				-4.13%		-1.18%					

PORTFOLIO FINANCIAL STATEMENT

3rd Quarter 2001
Ending September 30, 2001

	Date Sold	No. Shares	Per Share Cost	Cost	Per Share Market	Market	Broker Fees	Realized Gain/Loss	% Realized	Unrealized Gain/Loss	% Unrealized
Cash and Cash Equivalents				\$84,126.6		\$84,126.6					
Equities:											
Anheuser Busch	200		\$43.1	\$8,668.0	\$41.9	\$8,376.0	\$50.0			(\$292.0)	-3.37%
Apache	170		60.25	10,292.5	43.0	7,310.0	50.0			(2,982.5)	-28.98%
Brown Shoe Company	500		18.29	9,195.0	11.4	5,675.0	50.0			(3,520.0)	-38.28%
Dynergy-Class A	200		48.79	9,808.0	34.7	6,930.0	50.0			(2,878.0)	-29.34%
General Dynamics	140		71.85	10,109.0	88.3	12,364.8	50.0			2,255.8	22.31%
ITT Educational Services Inc.	300		33.200	10,010.0	32.0	9,600.0	50.0			(410.0)	-4.10%
Intel Corp.	40		60.355	2,414.2	20.4	817.6	50.0			(1,596.6)	-66.13%
International Gaming Technology	125		48.410	6,051.3	42.5	5,312.5	50.0			(738.8)	-12.21%
Phillip Morris Cos Inc	180		52.030	9,415.4	48.3	8,692.2	50.0			(723.2)	-7.68%
Sysco	500		18.413	9,206.3	25.5	12,770.0	50.0			3,563.8	38.71%
United Health Group Inc.	165		59.42	9,854.3	66.5	10,972.5	50.0			1,118.2	11.35%
Total Common Stock				95,023.9		88,820.6				(6,203.3)	-6.53%
Foreign Stock											
Elan Corporation	200		46.1250	9,275.0	48.5	9,690.0				415.0	4.47%
Total Foreign Stock				9,275.0		9,690.0					
Total Equities				104,298.9		98,510.6				(5,788.3)	-5.55%
Net Assets				188,425.5		182,637.2					
Current Period Accrued Income				336.4		336.4					
Total Assets				188,761.9		182,973.6					

RETURN ON INVESTMENT	-5.62%	-8.51%
-----------------------------	---------------	---------------

Beginning Total Assets (06/30/01)	\$195,943.3	\$199,415.5
Ending Total Assets (09/30/01)	188,761.9	182,973.6
% Change from 2nd Qtr 2001 to 3rd Qtr 2001	-3.67%	-8.25%

LEGEND	= Sold
	= Purchase

PORTFOLIO FINANCIAL STATEMENTS

4th Quarter 2001
Ending December 31, 2001

	Date Sold	No. Shares	Per Share Cost	Cost	Per Share Market	Market	Broker Fees	Realized Gain/Loss	% Realized	Unrealized Gain/Loss	% Unrealized
Cash and Cash Equivalents				\$51,522.3		\$51,522.3					
Equities:											
Anheuser Busch		200	\$43.1	\$8,668.0	\$45.2	\$9,042.0	\$50.0			\$374.0	4.31%
Apache		170	60.3	10,292.5	49.9	8,479.6	50.0			(1,812.9)	-17.61%
Applebees International		300	34.7	10,472.0	34.2	10,260.0	50.0			(212.0)	-2.02%
Biogen Inc		90	58.4	5,302.8	57.4	5,161.5	50.4			(141.3)	-2.66%
Brown Shoe	11-Oct	500	18.3	9,195.0	10.8	5,380.0	50.0	(\$3,865.0)	-42.03%		
Diagnostic Products		110	41.4	4,609.0	44.0	4,834.5	50.6			225.5	4.89%
Dynergy-Class A		200	48.8	9,808.0	25.5	5,100.0	50.0			(4,708.0)	-48.00%
General		140	71.9	10,109.0	79.6	11,149.6	50.0			1,040.6	10.29%
ITT Educational Services		300	33.2	10,010.0	36.9	11,061.0	50.0			1,051.0	10.50%
Intel Corp.		40	60.4	2,414.2	31.5	1,258.0	50.0			(1,156.2)	-47.89%
International Gaming		125	48.4	6,051.3	68.3	8,537.5	50.0			2,486.3	41.09%
Phillip Morris Cos		180	52.0	9,415.4	45.9	8,253.0	50.0			(1,162.4)	-12.35%
Sysco		500	18.4	9,206.3	26.2	13,110.0	50.0			3,903.8	42.40%
THQ Inc		160	58.2	9,355.6	48.5	7,755.2	50.0			(1,600.4)	-17.11%
United Health Group		165	59.4	9,854.3	70.8	11,677.1	50.0			1,822.7	18.50%
Waste Connections		300	29.9	9,006.0	31.0	9,297.0	51.0			291.0	3.23%
Total Common Stock				124,574.3		124,976.0		(3,865.0)	-42.03%	401.6	0.32%
Foreign Stock											
Elan		200	46.1	9,275.0	45.1	9,012.0				(263.0)	-2.84%
Total Foreign Stock				9,275.0		9,012.0					
Total Equities				133,849.3		133,988.0				138.6	0.10%
Net Assets				185,371.6		185,510.2					
Current Period Accrued				211.7		211.7					
Total Assets				185,583.3		185,721.9					
RETURN ON INVESTMENT				-7.21%		-7.14%					
Beginning Total Assets				\$188,761.		\$182,973.					
Ending Total Assets				185,583.3		185,721.9					
% Change from 3rd Qtr 2001 to 4th Qtr				-1.68%		1.50%					
Beginning Total Assets (01/30/01)				\$201,622.3		\$209,006.4					
Ending Total Assets (12/31/01)				185,583.27		185,721.90					
% Change from 1st Qtr 2001 to 4th Qtr 2001				-7.95%		-11.14%					

LEGEND = Sold
 = Purchase

APPENDIX A:

SHARPE AND TREYNOR ESTIMATES

Month	Portfolio Return Less Risk Free Rate	S&P 500 Return Less Risk Free Rate
Jan-01	-8.06%	-2.52%
Feb-01	-5.62%	-14.72%
Mar-01	-7.74%	-11.73%
Apr-01	-0.86%	2.88%
May-01	-5.30%	-3.70%
Jun-01	-7.86%	-6.47%
Jul-01	-5.54%	-4.84%
Aug-01	-5.63%	-10.06%
Sep-01	-6.63%	-11.24%
Oct-01	-1.39%	-0.68%
Nov-01	-1.63%	5.43%
Dec-01	-2.86%	-1.06%
12 Month Average	-4.93%	-4.89%

Beta Risk	<u>1.68</u>
Standard Deviation of Portfolio Returns	<u>2.16</u>

Sharpe Risk-Adjusted Return	<u>-6.93%</u>	(<u>Portfolio Return-Risk Free Rate</u>) Standard Deviation of Returns
Treynor Risk-Adjusted Return	<u>-8.93%</u>	(<u>Portfolio Return-Risk Free Rate</u>) Portfolio Beta