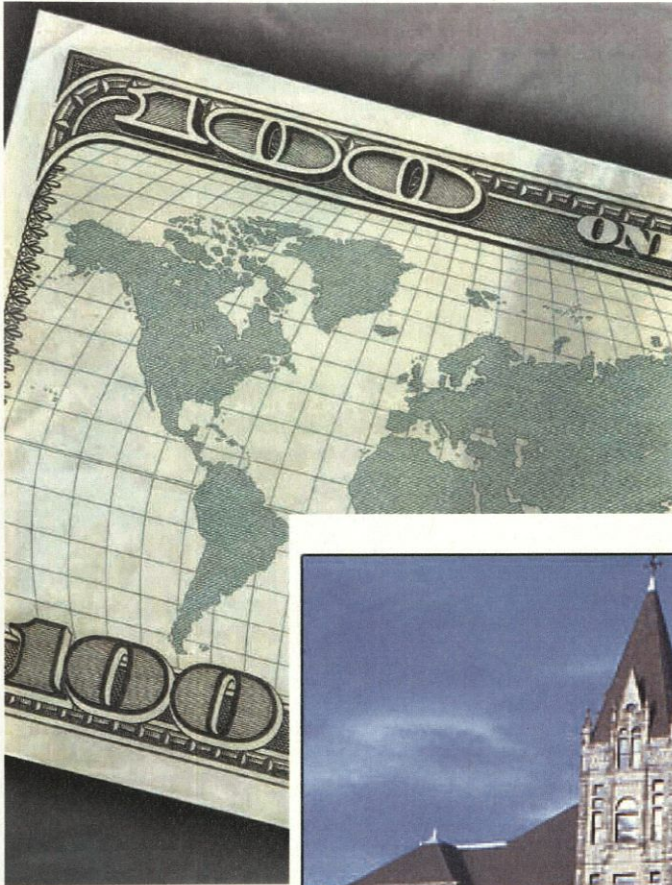


# Southwestern University

GEORGETOWN, TEXAS

## Financial Analyst Program

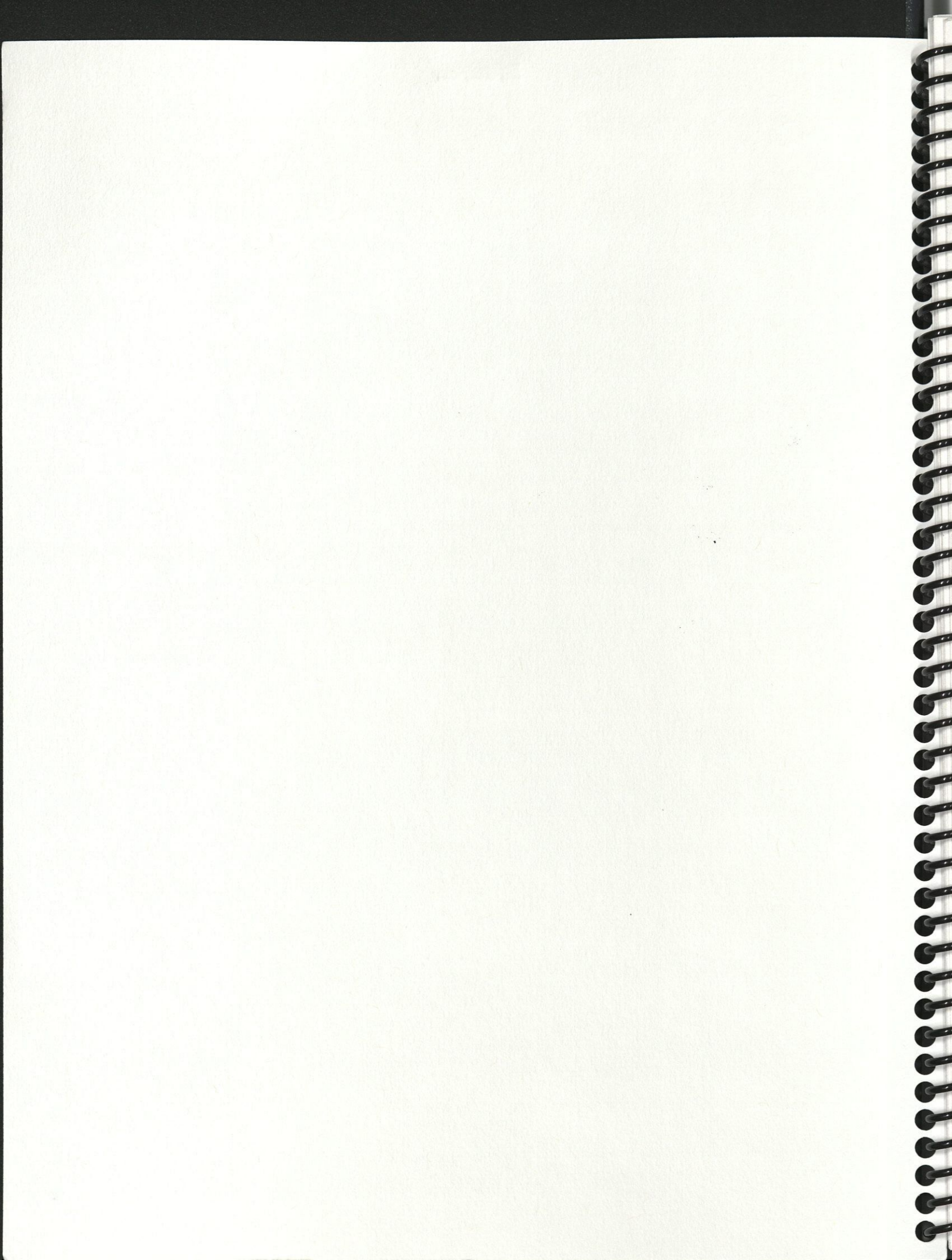
### Financial Analyst Program



**2005**

**Annual Report**





## Table of Contents

About the Program .....	2
2005 Market Review .....	3
2005 Economic Report .....	4
Portfolio Strategy .....	5
Portfolio Objectives.....	6
Best and Worst Ideas .....	7-9
Historical Performance.....	10
Portfolio Composition.....	11
Portfolio Activity 2005.....	12-13
Portfolio Performance.....	14-15
Financial Statements.....	16-19
Sharpe and Treynor.....	20
Efficient Frontier.....	21
Portfolio Managers.....	22

## About the Program

The investment fund is actively managed by Student Portfolio Managers under the guidance and advice of Dr. A. J. Senchack, the Founding Director and Faculty Sponsor of the Financial Analyst Program (FAP), in the Department of Economics and Business. The Fund provides an opportunity for a small group of exceptional students to work closely with faculty and investment professionals to develop their financial and accounting skills. The Managers are selected by the Financial Analyst Program Committee on a competitive basis. The criteria considered include career objectives, previous academic performance, related work experience, and an application.

The Student Fund Managers seek the highest level of return, while assuming risks similar to the Standard & Poor's (S&P) 500 Composite Index. Managers also recommend a targeted portfolio of stocks from a broad set of industries. Recommendations are done generally through a top-down approach, selecting an attractive industry first, and then the best stock in that industry. Analysis is based on research from our investment databases, which include *Value Line Investment Survey*, *Investor's Business Daily*, Dorsey, Wright & Associates, and the *S&P NetAdvantage*. The investing style of the FAP Portfolio most closely approximates a large cap growth mutual fund, i.e., we primarily invest in growth stocks that meet the fundamental and technical standards of the program.

## 2005 Market Review

During 2005, the stock market experienced a lot of volatility due to many outside factors. These included the rising oil prices that reached \$70 per barrel, the unstable war in Iraq, China's rapid economic growth, and Hurricanes Katrina and Rita, all of which contributed to the volatility that the stock market experienced.

The S&P 500 rose from 1211.91 to 1248.29, a meager 3% return for the entire year, but this was caused by a slump in the stock market for the first 4 months of the year. The market did start to gain some steam in the 2<sup>nd</sup> half of the year. During the first four months, the S&P 500 fell 4.54%, from 1211.92 at the beginning of 2005, to 1156.85 by the end of April.

Crude oil prices rose approximately 40% in 2005, ending at \$61 per barrel, caused in part by the tensions in the Middle East and by China's growing demand for oil. This huge increase in demand, combined with a slowly growing supply helped cause oil prices to reach previously unseen heights. The supply of oil was hurt towards the end of the year by the two hurricanes, Rita and Katrina, which hit the Gulf Coast destroying thousands of homes and businesses. The aftermath of these hurricanes was decreased oil supply with 1/3 of the nation's refining capacity being knocked offline. Consequently, oil prices increased even further and many oil companies were achieving record profits by the end of 2005.

The strength of the energy and housing sectors helped to boost the ailing market to finish out 2005. The market rallied in the final quarter with the help of these sectors to earn positive returns for the year. Although the overall growth in 2005 was meager, the market finished 2005 with momentum that should carry into 2006.

## 2005 Economic Report

During 2005, the U.S. economy was marked by a period of growth that was carried over from 2004, despite the political turmoil and natural disasters that marred the year. Even though there was strong economic growth, the GDP grew by only 3.5% for the year, a slight decrease from 2004, which was some cause for alarm.

Another cause for alarm was the growing budget deficit, which grew to \$427 billion, up from \$412 billion in 2004. This level of spending, combined with the significant increase in the value of the dollar related to the euro, helped contribute to an increase of foreign cash flows into the United States.

The economy's recovery was hampered in part by the Federal Reserve's continued interest rate hikes. By the end of the fiscal year, the federal funds rate had risen to 4.25%. This was due to the rising threat of inflation that the economy experienced during the first half of 2005, which was brought down to 3.4% by the year's end.

Business investment, on the other hand, had fallen significantly from 2004, from 14% to 8% in software and equipment. This fall was a reflection of a softening of the economy, possibly indicating a bear market in future years.

On the positive side of 2005, the unemployment rate showed a net gain of 2 million jobs, or 4.9%. This net drop of 0.5% for the year, combined with the increase in productivity by workers of 3.4% for 2005, shows a strengthening of the workforce, and a possible need for decreased business investment in 2006.

## Portfolio Strategy

The Fund follows the investment guidelines of the equity funds in Southwestern University's Endowment Funds: to preserve and expand the purchasing power relative to inflation for the future of Southwestern University.

Additional objectives of this Fund are as follows:

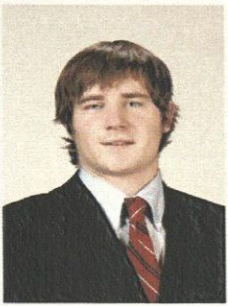
- The Fund attempts to assume risks similar to those of the Standard and Poor's 500 index (S&P 500). Meaning, the Fund strives for a high return correlation with its benchmark, the S&P 500. Thus, the Fund attempts to maintain a beta near 1.00.
- The Fund looks to realize the highest level of return, consistent with its benchmark's risk level.
- The Fund seeks a turnover rate of less than 100%. The Fund needs a healthy rate of turnover to achieve its goal of capital growth, but excessive turnover violates the Fund's long-term appreciation strategy as well as diminishes returns through transaction costs.
- The Fund also tries to achieve above average risk-adjusted returns based on the Sharpe and Treynor performance ratios. Positive risk-adjusted returns in both of these measures reflect superior results; therefore, the risk-adjusted returns of each measure should be higher than the S&P 500's risk-adjusted return.
- The Fund helps the Managers gain valuable experience in creating and maintaining a portfolio and developing financial analysis skills in a real world situation.
- An emphasis on buy and sell points to help cut losses by automatically selling portions of our position, or buying additional shares as the stocks cross certain price thresholds.

## Portfolio Objectives

The objectives of the Fund involve risk-exposure, capital growth, portfolio turnover, and managerial experience.

- The Fund purchases common stock issues of publicly-held corporations, with large market capitalizations.
- The most critical strategy is the fundamental analysis of potential stocks. The Managers examine the financial health of the company, looking for companies with growth potential, strong current liquidity, and undervaluation. Through these examinations the Managers find innovative business models that indicate exceptional growth potential.
- The investment strategy requires detailed economic analysis to identify investment opportunities based on the overall economy. This analysis leads to allocation decisions into cyclical industries or overall growth trends in the economy.
- Technical analysis plays an important role in the selection of equities as well. Fund managers study historical price patterns of stocks to determine buy and sell points.
- The Managers monitor currently held stocks and industries to avoid excessive losses and to identify opportunities to accumulate gains from positively performing industries. The Managers set sell points, which adjust to market conditions to help lock in profits on successful stocks and minimize losses





Travis Casner  
FAP Public Relations

## **Best Investments Idea: Carpenter Technology**

### **Carpenter Tech one of most profitable stocks in 2005**

Reflecting upon my first year in the Financial Analyst Program at Southwestern University, I feel that my best investment idea was to hold Carpenter Tech (CRS) back in mid September of 2005. Carpenter Tech is a manufacturer of specialty metals, primarily steel. Carpenter Tech's products are used in a wide variety of fields including medical devices, aircraft, sports equipment and chemical and petroleum processing.

When we started the academic year in early September, Carpenter Tech had a huge sell off dropping nearly 20% within a two-week period. While there was a lot of pressure to sell the stock at that point, we decided that we would give it a chance to turnaround and set a hard sell point to sell the entire position at \$50 per share. This sell point represented the bullish support line at the time, according to our Dorsey Wright Point and Figure Chart, and was just a few dollars below where the stock currently stood.

The reasoning for our decision was that even though Carpenter Tech had missed its most recent earnings estimate, the earnings announcement forecasted higher steel prices as well as very strong demand in the aerospace division. This had been one of the most profitable sectors in Carpenter's Operations.

Carpenter made a rebound shortly thereafter and never reached the sell point we had set. It continued to climb throughout the fall, beating its earnings estimates. Analysis for the positive earnings reports from October 2005 and January 2006 attributed growth to high volume of sales in the aerospace division. The aerospace division consists of the high-margined premium alloys and titanium. The dynamet segment of the Aerospace sector was especially strong in 2005 with sales growth over 60%. CRS received higher demand from Boeing and Airbus and was able to double prices on many of the steels in the aerospace division.

Carpenter Technology has been one of our most profitable stocks this year, and we expect it to continue to perform well through 2006.

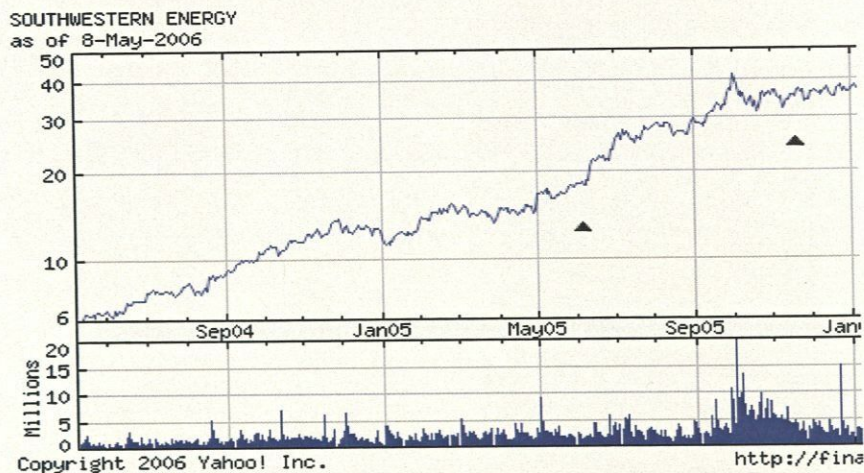
Craig Snoddy  
FAP Portfolio Manager

### Best Investments Idea: Southwestern Energy

One of our best investment ideas was the purchase of Southwestern Energy (SWN) in December of 2004. We held this stock throughout 2005, during which time it tripled its stock price from the start of the year.

Southwestern Energy is in the natural gas industry and is involved in the exploration and production of oil and other natural gas. It is primarily located in Arkansas, Louisiana and Texas. While Southwestern Energy did experience substantial production growth in 2005, the driving force behind its revenue growth had to do with the rising natural gas prices in 2005. Crude oil prices rose to \$70 per barrel during the year. Southwestern Energy reported \$676 million in revenue in 2005 compared to \$477 million in 2004. During this same time period, earnings per share grew from 68 cents per share to 95 cents per share. During the year, Southwestern Energy had two 2-for-1 stock splits.

Southwestern Energy was our most profitable stock in 2005 as we earned almost 300% return during the year. We were able to secure some profits towards the end of the year, taking half of a position off of the table worth \$14,000. We were very pleased with the tremendous run up of Southwestern Energy in 2005 and consider it our best investment idea of the year.

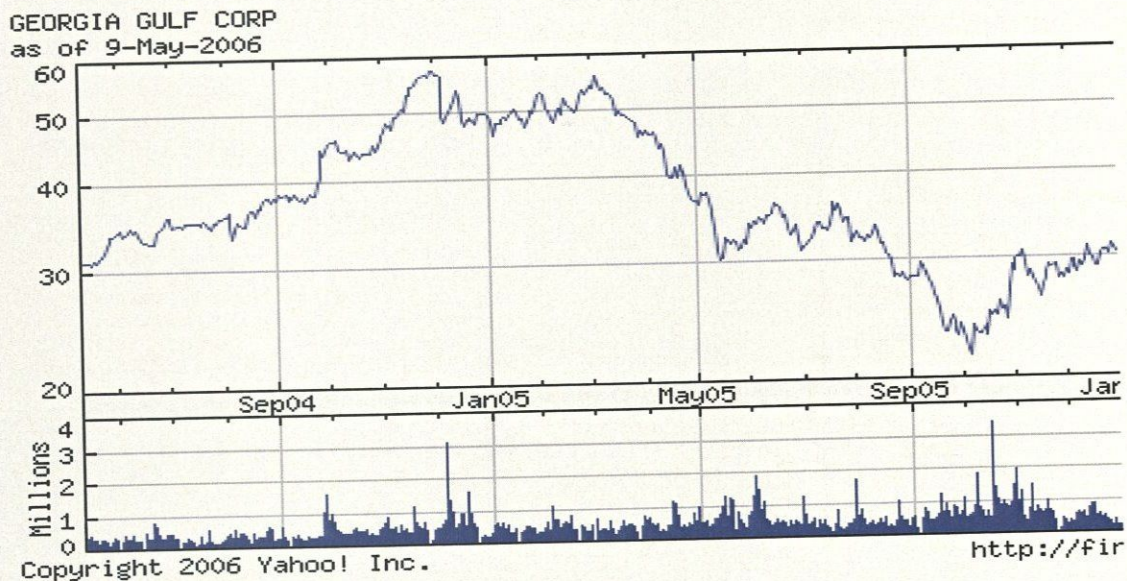


Bill McKnight  
FAP Accountant

### Worst Investment Idea: Georgia Gulf

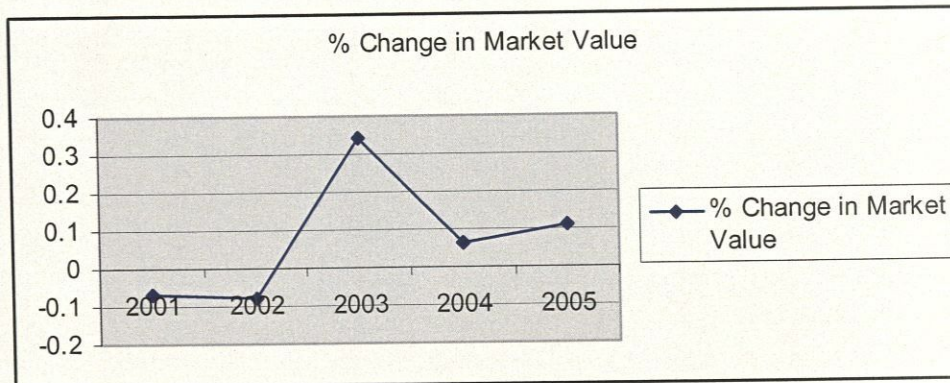
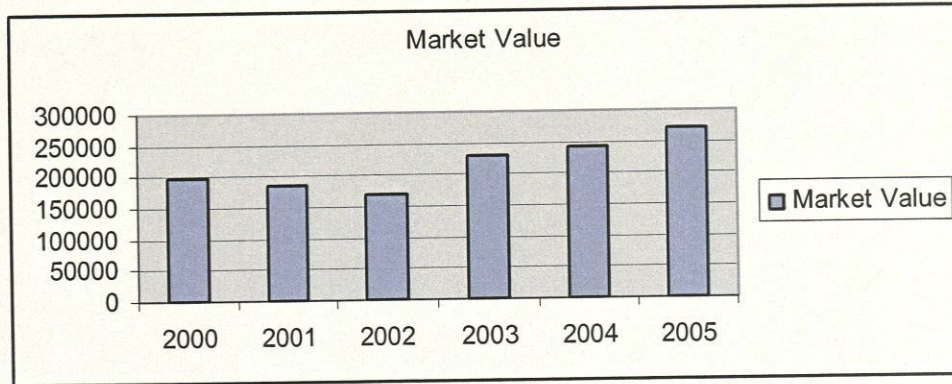
Holding Georgia Gulf was our worst investment idea in 2005. In 2004, Georgia Gulf had been one of the most successful stocks in our program's portfolio. As of December 2004, Georgia Gulf hit a peak and began a period of sharp decline throughout the year. Due to the stock's previous success, the program was highly reluctant to sell the stock, and decided to hold on to the stock, with the expectation that the stock would rebound.

Georgia Gulf is in the basic chemical industry, producing chemicals for housing and construction companies. One of the main reasons for their poor performance in 2005 was the low revenue generated from their Aromatics division. In 2005, this division faced increased competition from Asian competitors. The result of this competition was that Georgia Gulf had lower sales volume, and was unable to raise prices. This division posted a loss for the year, significantly hurting Georgia Gulf's overall performance.



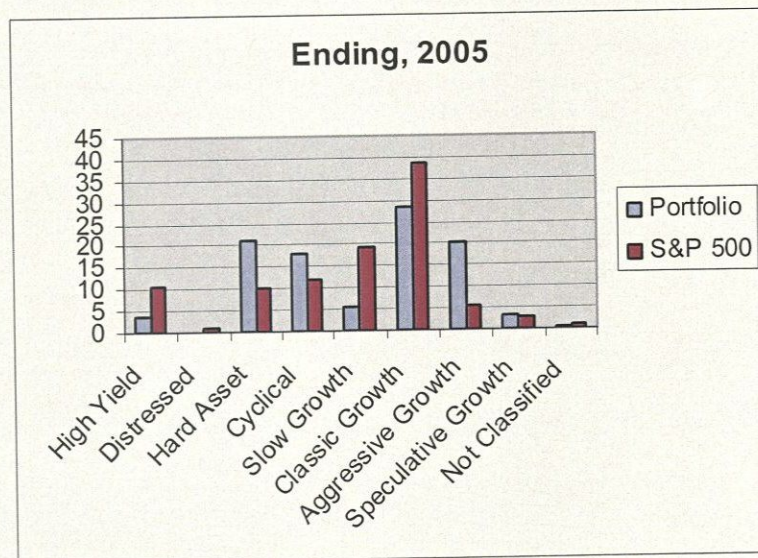
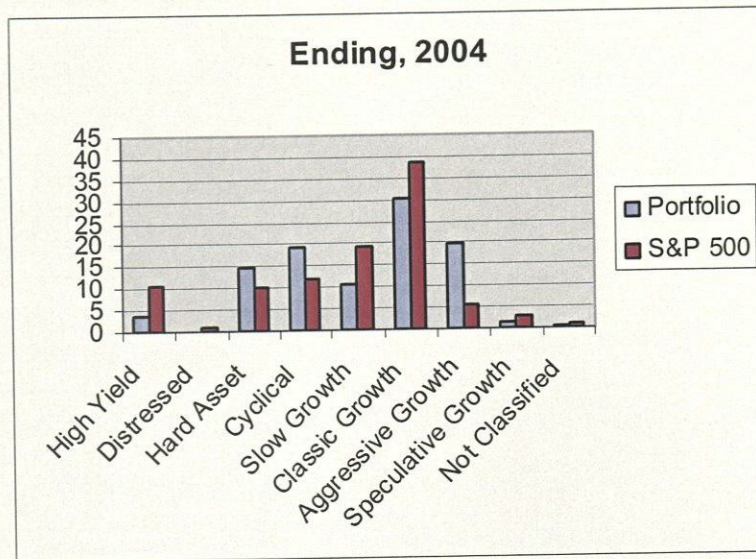
The reason that Georgia Gulf was our worst investment idea was that we were reluctant to sell the stock during the early stages of decline because of its past performance. Georgia Gulf had been one of the leading stocks in our portfolio in 2004, and we believed that the stock would rebound because of past history. This proved to be a bad decision, and we were later forced to sell the stock too late, at \$32 per share. Since this incident, the program has created a policy of establishing strict buy and sell points for all of the stocks in our portfolio. This will help us to avoid losses on stocks from historically based decisions and should improve the overall efficiency of our portfolio.

## Historical Portfolio Performance



Our portfolio achieved an 11.2% return in 2005, the 2<sup>nd</sup> best return year to date, showing the progress that the Financial Analyst Program has made over the past few years. When the program was founded in the fall of 1999, the portfolio started out with \$200,000. The bear market of 2001 was the driving factor behind the decline in portfolio value to almost \$170,000 by 2002. However, after this point the program's investing strategies became more refined, as the program's members began to learn from previous groups' successes and failures. As of December 31, 2005, the portfolio's market value had skyrocketed up to \$270,000. One major part of the portfolio's success is their branching out into new markets, such as our investment into Japanese stocks. Although this part of the investing strategy is in its infancy, we believe that through combining the high yields of foreign stocks with the relative security of the American stock market, the portfolio should be able to eclipse \$300,000, a 50% return on the original investment, by 2006.

## Portfolio Composition



These charts display the asset composition of our portfolio compared to the S&P 500, and the changes in our portfolio composition from 2004 to 2005. We have historically held a much higher percentage of aggressive growth stocks than the S&P 500 and a lesser percentage of classic growth and slow growth stocks. This indicates that we are also taking on more risk than the S&P, but should be able to achieve higher levels of return. The only significant change from 2004 to 2005 was a lesser percentage of slow growth stocks and a higher percentage of hard assets in 2005.

## 2005 Portfolio Activity

Purchases						
Company Name	TCK	Date	Shares	Price	Outlay	Com
Champion Enterprises	CHB	12/8/2005	400	\$14.10	\$5,804	\$164.00
Ishares Inc. MSCI Japan	EWJ	9/26/2005	1000	11.62	11,680	60
LIHIR Gold	LIHRY	11/18/2005	325	29.87	9,740	32.28
Motorola Inc	MOT	12/13/2005	200	23.29	4,678	20
Peabody Energy	BTU	11/18/2005	60	75.52	4,537	5.8
Penn VA Resources	PVR	11/9/2005	120	54.6	6,564	12
Thor Industries	THO	12/13/2005	100	38.58	3,868	10
Sales						
Company Name	TCK	Date	Shares	Price	Proceeds	
Southwestern Energy	SWN	10/7/2005	200	\$70.67	\$14,113	
Winnebago	WGO	2/25/2005	125	34.88	4,347	
Yahoo!	YHOO	3/2/2005	300	31.71	9,482	
Applebee's	APPB	9/23/2005	200	20.58	4,096	
Yellow Road	YELL	9/28/2005	100	40.16	4,006	
Anheuser-Busch	BUD	4/14/2005	200	46.21	9,222	
Georgia Gulf	GGC	8/3/2005	100	32.02	3,192	

## Stock Splits

Company Name	TCK	Date	Shares	Type of Split
Southwestern Energy	SWN	Jun 6	200	2-for-1
Southwestern Energy	SWN	Nov 18	200	2-for-1
UnitedHealth Group Inc.	UNH	May 31	100	2-for-1
Factset Research System	FDS	Feb 7	100	3-for-2
Coach	COH	Apr 5	100	2-for-1

## Cash Dividends

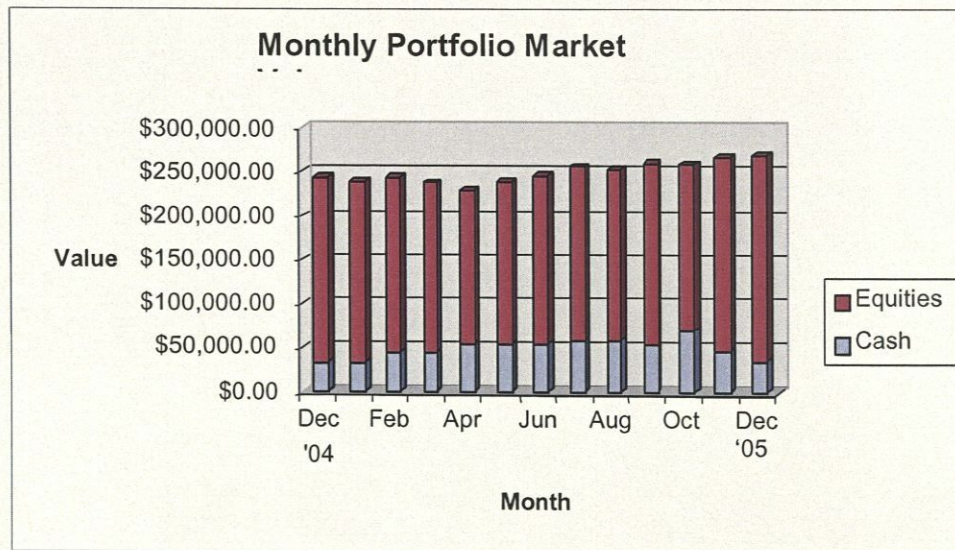
Company Name	TCK	Date	Shares	Cash	Per Share Basis
Applebee's	APPB	Jan 21	200	12	\$0.06 Dividend/share
Anheuser-Busch	BUD	Mar 9	200	49	0.245 Dividend/share
Carpenter Technology	CRS	Mar 3	200	20	0.1 Dividend/share
Carpenter Technology	CRS	Jun 2	200	20	0.125 Dividend/share
Carpenter Technology	CRS	Sep 2	200	20	0.15 Dividend/share
Carpenter Technology	CRS	Dec 1	200	20	0.15 Dividend/share
Exxon Mobil	XOM	Mar 10	200	54	.27 Dividend/share
Exxon Mobil	XOM	Jun 10	200	58	.29 Dividend/share
Exxon Mobil	XOM	Sep 9	200	58	.29 Dividend/share
Exxon Mobil	XOM	Dec 9	200	59	.29 Dividend/share
Factset Research System	FDS	Mar 21	300	15	0.05 Dividend/share
Factset Research System	FDS	Jun 17	300	15	0.05 Dividend/share
Factset Research System	FDS	Sep 21	300	15	0.05 Dividend/share
Factset Research System	FDS	Dec 21	300	15	0.05 Dividend/share
Federated Max Cap Inst Fund 39	FISPX	Apr 1	3798	312	0.082 Dividend/share
Federated Max Cap Inst Fund 39	FISPX	Jun 29	3812	328	0.082 Dividend/share
Federated Max Cap Inst Fund 39	FISPX	Sep 27	3825	3512	0.092 Dividend/share
Federated Max Cap Inst Fund 39	FISPX	Nov 30	3839	2008	0.523 Dividend/share
Federated Max Cap Inst Fund 39	FISPX	Dec 29	3919	443	0.113 Dividend/share
Federated Max Cap Inst Fund 39	FISPX		151	-3442	Dividend Reinvestment
Georgia Gulf	GGC	Apr 8	100	8	0.8 Dividend/share
Georgia Gulf	GGC	Jul 11	100	8	0.8 Dividend/share
Home Depot Inc	HD	Mar 24	125	13	0.1 Dividend/share
Home Depot Inc	HD	Jun 23	125	13	0.1 Dividend/share
Home Depot Inc	HD	Sep 15	125	13	0.1 Dividend/share
Home Depot Inc	HD	Dec 15	125	13	0.1 Dividend/share
International Game Tech	IGT	Jan 4	200	24	0.12 Dividend/share
International Game Tech	IGT	Mar 29	200	24	0.12 Dividend/share
International Game Tech	IGT	Jul 21	200	25	0.125 Dividend/share
International Game Tech	IGT	Oct 25	200	25	0.125 Dividend/share
ishares MSCI Japan	EWJ	Dec 30	1000	58	0.057 Dividend/share
Qualcomm	QCOM	Jan 5	150	11	0.07 Dividend/share
Qualcomm	QCOM	Mar 35	150	11	0.07 Dividend/share
Qualcomm	QCOM	Jun 24	150	14	0.09 Dividend/share
Qualcomm	QCOM	Sep 23	150	14	0.09 Dividend/share
UnitedHealth Group Inc.	UNH	Apr 18	100	3	0.03 Dividend/share

## Portfolio Performance

Month Ending	Cash	Equities	Portfolio Value	% Change Per Month
Dec '04	\$31,161	\$212,037	\$243,198	
Jan '05	\$31,256	\$206,866	\$238,122	(2.13%)
Feb	\$45,125	\$198,394	\$243,519	2.22%
Mar	\$45,345	\$192,061	\$237,407	(2.57%)
Apr	\$54,638	\$175,250	\$229,888	(3.27%)
May	\$54,710	\$183,356	\$238,067	3.44%
Jun	\$54,939	\$189,779	\$244,717	2.72%
Jul	\$58,274	\$197,988	\$256,262	4.51%
Aug	\$58,393	\$194,240	\$252,633	(1.44%)
Sep	\$55,082	\$206,557	\$261,639	3.44%
Oct	\$69,361	\$188,795	\$258,156	(1.35%)
Nov	\$48,691	\$219,259	\$267,951	3.66%
Dec	\$34,672	\$235,845	\$270,517	0.95%

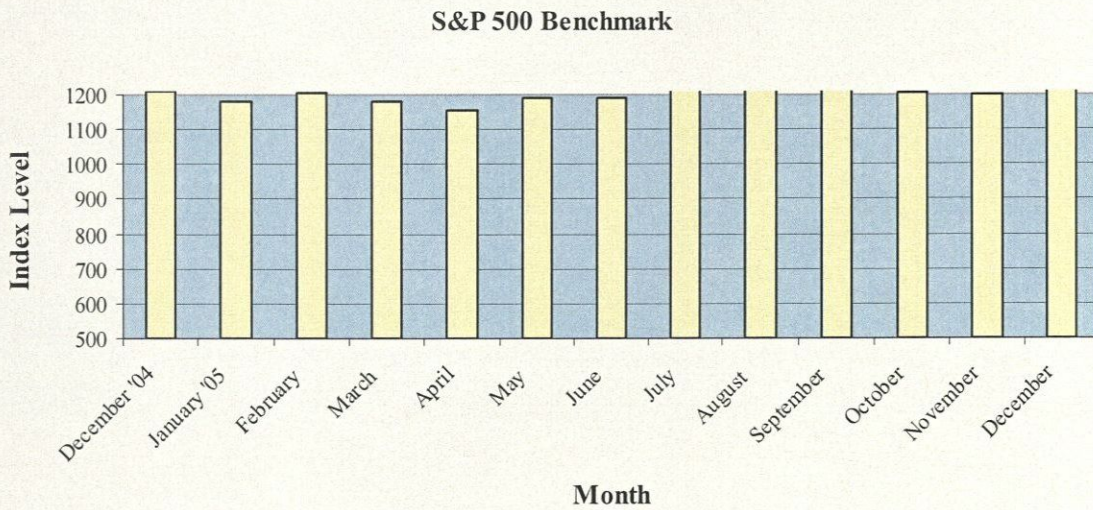
**Annual Return**

**11.23%**





Month Ending	S&P 500 Close	% Change per Month
December '04	1,211.92	-
January '05	1,181.27	(2.53%)
February	1,203.60	1.89%
March	1,180.59	(1.91%)
April	1,156.85	(2.01%)
May	1,191.50	3.00%
June	1,191.33	(0.01%)
July	1,234.18	3.60%
August	1,220.33	(1.12%)
September	1,228.81	0.69%
October	1,207.01	(1.77%)
November	1,201.07	(0.49%)
December	1,246.59	3.79%
<b>Monthly Average Return</b>	<b>1,203.59</b>	<b>0.26%</b>
<b>Annual Return</b>		<b>2.86%</b>



**1st Quarter 2005**  
**Ending Mar 31, 2005**

	Shares	Cost Per Share	Cost Basis	Price Per Share	Market Value	Dividends
<b>Cash and Cash Equivalents</b>			\$45,345.30		\$45,345.30	
<b>Equities:</b>						
Anheuser Busch	200	\$43.09	\$8,668	\$47.39	\$9,478	\$49
Applebee's Intl.	200	23.16	3,102	27.56	5,512	12
Carpenter Technology Corp	200	51.53	10,326	59.41	11,882	20
Coach Inc.	100	29.13	5,242	56.63	5,663	
Exxon Mobil Corp	200	50.40	10,100	59.60	11,920	54
Factset Research System	300	34.89	10,336	33.01	9,903	15
FISPX	3799		75,959	23.89	90,755	
Georgia Gulf Corp	100		5,134	45.98	4,598	8
Home Depot Inc.	125	39.38	4,935	38.24	4,780	13
International Gaming Tech	200	34.00	6,786	26.66	5,332	48
Qualcomm	150	34.00	5,028	36.63	5,495	11
Southwestern Energy	200	12.68	10,162	56.76	11,352	
UnitedHealth Group Inc.	100	63.00	6,326	95.38	9,538	
Yellow Roadway	100	46.93	4,703	58.54	5,854	
<b>Total Common Stock</b>			\$166,807		\$192,061	

<b>Total Assets</b>		\$212,152	\$237,407
---------------------	--	-----------	-----------

<b>Change in Portfolio Value</b>	
Beginning Portfolio Value (12/31/04)	\$237,908
Ending Portfolio Value (3/31/05)	237,407
<b>% Change from 4th Qtr 2004 to 1st Qtr 2005</b>	<b>(0.21%)</b>

<b>Transactions</b>			
Sold	Stock	Shares	Price
2/25/2005	WGO	125	34.88
3/2/2005	YHOO	300	31.71

**2<sup>nd</sup> Quarter 2005**  
**Ending Mar 31, 2005**

	Shares	Per Share Cost	Cost Basis	Per Share Market	Market	Dividend
<b>Cash and Cash Equivalents</b>			<b>\$54,938.67</b>		<b>\$54,938.67</b>	
<b>Equities:</b>						
Applebee's Intl.	200	23.16	3,102	26.49	5,298	\$12
Carpenter Technology Corp	200	51.53	10,326	51.8	10,360	25
Coach Inc.	200	29.13	5,242	33.57	6,714	
Exxon Mobil Corp	200	50.4	10,100	57.47	11,494	58
Factset Research System	300	34.89	10,336	35.84	10,752	15
FISPX	3826		76,598	24.13	92,312	
Georgia Gulf Corp	100		5,134	31.05	3,105	8
Home Depot Inc.	125	39.38	4,935	38.9	4,863	13
International Gaming Tech	200	34	6,786	28.15	5,630	0
Qualcomm	150	34	5,028	33.01	4,952	14
Southwestern Energy	400	12.68	10,162	46.98	18,792	
UnitedHealth Group Inc.	200	63	6,326	52.14	10,428	3
Yellow Roadway	100	46.93	4,703	50.8	5,080	
<b>Total Common Stock</b>			<b>\$158,778</b>		<b>\$189,779</b>	
<b>Total Assets</b>			<b>\$213,717</b>		<b>\$244,717</b>	

**Change in Portfolio Value**

Beginning Total Assets (3/31/05)	\$237,407
Ending Total Assets (6/31/05)	244,717
<b>% Change from 1st Qtr 2005 to 2nd Qtr 2005</b>	<b>3.08%</b>

**Transactions**

Sold	Stock	Shares	Price
4/14/2005	BUD	200	46.21

**3rd Quarter 2005**  
Ending Sept 31, 2005

	Shares	Per Share Cost	Cost Basis	Per Share Market	Market	Dividend
<b>Cash and Cash Equivalents</b>			<b>\$55,081.75</b>		<b>\$55,081.75</b>	
<b>Equities:</b>						
Carpenter Technology Corp	200	51.53	10,326	58.61	11,722	\$30
Coach Inc.	200	29.13	5,242	31.36	6,272	
Exxon Mobil Corp	200	50.40	10,100	63.54	12,708	58
Factset Research System	300	34.89	10,336	35.24	10,572	15
FISPX	3840		76,950	24.90	95,613	
Home Depot Inc.	125	39.38	4,935	38.14	4,768	13
International Gaming Tech	200	34.00	6,786	27.00	5,400	24
ishares MSCI Japan	1000	11.68	11,680	12.19	12,190	
Qualcomm	150	34.00	5,028	44.75	6,713	14
Southwestern Energy	400	12.68	10,162	73.40	29,360	
UnitedHealth Group Inc.	200	63.00	6,326	56.20	11,240	3
<b>Total Common Stock</b>			<b>\$157,871</b>		<b>\$206,557</b>	
<b>Total Assets</b>			<b>\$212,953</b>		<b>\$261,639</b>	

**Change in Portfolio Value**

Beginning Total Assets (6/31/05)	\$244,717
Ending Total Assets (9/31/05)	261,630
<b>% Change from 2nd Qtr 2005 to 3rd Qtr 2005</b>	<b>6.91%</b>

**Transactions**

<b>Sold</b>	<b>Stock</b>	<b>Shares</b>	<b>Price</b>
8/3/2005	GGC	100	32.02
9/28/2005	APPB	200	20.58
9/28/2005	YELL	100	40.16
<b>Purchased</b>	<b>Stock</b>	<b>Shares</b>	<b>Price</b>
9/26/2005	EWJ	1000	11.62

**4th Quarter 2005**  
**Ending Dec 31, 2005**

	Shares	Per Share Cost	Cost Basis	Per Share Market	Market	Dividend
<b>Cash and Cash Equivalents</b>			<b>\$34,671.63</b>		<b>\$34,671.63</b>	
<b>Equities:</b>						
Carpenter Technology Corp	200	51.53	10,326	70.47	14,094	\$30
Champion Enterprises Inc.	400	14.51	5,804	13.62	5,448	
Coach Inc.	200	29.13	5,242	33.34	6,668	
Exxon Mobil Corp	200	50.40	10,100	56.17	11,234	58
Factset Research System	300	34.89	10,336	41.16	12,348	15
FISPX	3937		79,401	24.76	97,490	
Home Depot Inc.	125	39.38	4,935	40.48	5,060	13
International Gaming Tech	200	34.00	6,786	30.78	6,156	25
ishares MSCI Japan	1000	11.68	11,680	13.52	13,520	58
LIHR	325	29.97	9,740	32.07	10,423	
Motorola	200	23.39	4,678	22.59	4,518	
Peabody Energy Corp	60	75.62	4,537	82.42	4,945	
Penn VA Resources Partners L Com	120	54.70	6,564	55.57	6,668	
Qualcomm	150	34.00	5,028	43.08	6,462	
Southwestern Energy	400	12.68	10,162	35.94	14,376	
Thor Industries	100	38.68	3,868	40.07	4,007	
UnitedHealth Group Inc.	200	63.00	6,326	62.14	12,428	
<b>Total Common Stock</b>			<b>\$195,514</b>		<b>235845</b>	
<b>Total Assets</b>			<b>\$230,185</b>		<b>\$270,517</b>	

**Change in Portfolio Value**

Beginning Total Assets (9/31/05)	\$261,639
Ending Total Assets (6/30/05)	270,517      9
% Change from 3rd Qtr 2005 to 4th Qtr 2005	3.39%

**Transactions**

<b>Sold</b>	<b>Stock</b>	<b>Shares</b>	<b>Price</b>
10/13/2005	SWN	200	70.67
9/28/2005	APPB	200	20.58
9/28/2005	YELL	100	40.16
<b>Purchased</b>	<b>Stock</b>	<b>Shares</b>	<b>Price</b>
11/9/2005	PVR	120	54.70
11/15/2005	LIHRY	325	29.97
11/18/2005	BTU	60	75.62
12/13/2005	CHB	400	14.51
12/13/2005	MOT	200	23.39
12/13/2005	THO	100	38.68

## Sharpe and Treynor Risk-Adjusted Performance

Month Ending	Portfolio Return Less	S&P 500 Return Less	Risk Free Rate	
	Risk Free Rate	Risk Free Rate	Month Ending	1-Month T-Bill Rate
January '05	-2.25%	-2.69%	January '05	0.17%
February	2.07%	1.70%	February	0.19%
March	-2.73%	-2.13%	March	0.22%
April	-3.38%	-2.23%	April	0.22%
May	3.34%	2.78%	May	0.22%
June	2.56%	-0.25%	June	0.23%
July	4.46%	3.34%	July	0.25%
August	-1.69%	-1.40%	August	0.27%
September	3.30%	0.43%	September	0.26%
October	-1.62%	-2.06%	October	0.29%
November	3.47%	-0.81%	November	0.32%
December	0.66%	3.49%	December	0.30%
<b>12 Month Average</b>	<b>0.68%</b>	<b>0.01%</b>	<b>12 Month Average</b>	<b>0.24%</b>

Standard Deviation	<b>FAP Portfolio</b> 2.74%	<b>S&amp;P 500</b> 2.2%	
Beta Risk	0.92	1.00	
Sharpe Risk-Adjusted Performance	<u>0.25</u>	<u>.01</u>	$\frac{\text{(Portfolio Return - Risk Free Rate)}}{\text{Standard Deviation of Returns}}$
Treynor Risk-Adjusted Performance	<u>0.75</u>	<u>0.01</u>	$\frac{\text{(Portfolio Return - Risk Free Rate)}}{\text{Beta Function}}$

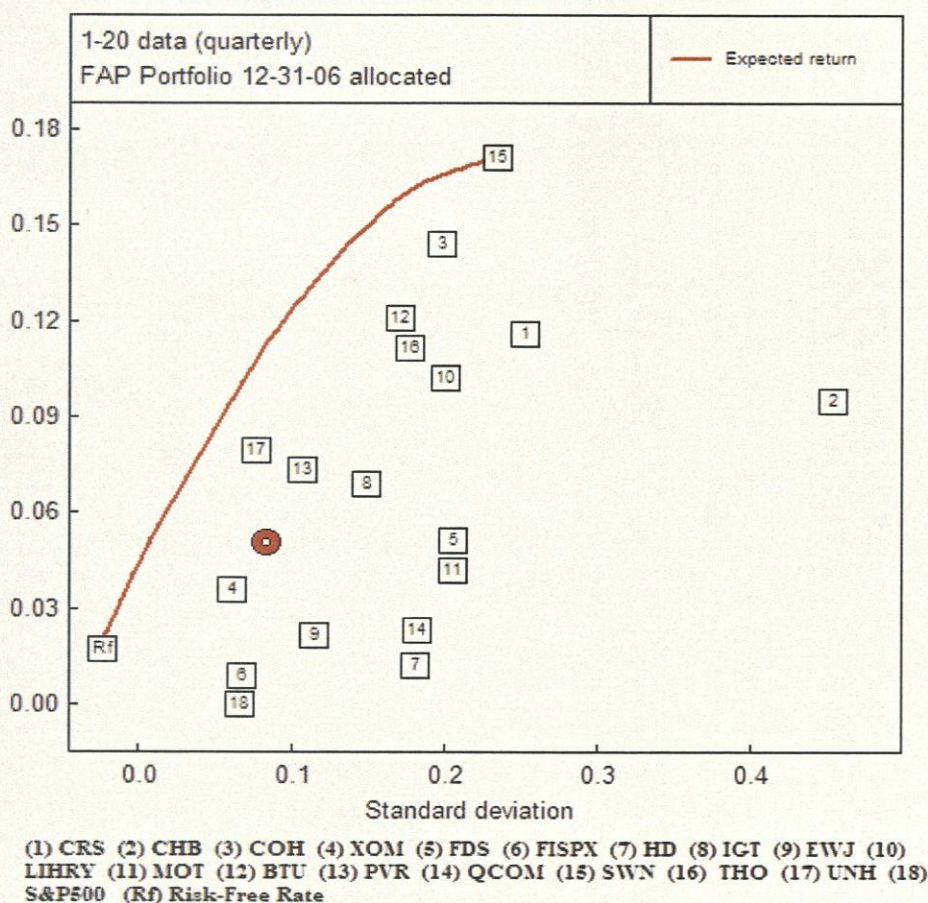
Our portfolio achieved Treynor and Sharpe ratios higher than those of the S&P 500, indicating that our portfolio was superior to the market. The Sharpe ratio is a measure of risk-adjusted return, and our 0.25, was higher than the S&P 500's 0.01. This indicates that our portfolio is receiving higher return for the portfolio's higher total risk compared to the S&P 500.

The Treynor ratio of our portfolio was 0.75, which was far greater than the Treynor ratio of our benchmark's, which was 0.01. This ratio measures the volatility of our investment in comparison to a risk-free asset. The higher Treynor ratio of the portfolio indicates that our return per unit of risk was far better than the S&P 500.

## Innovation in the FAP

The members of the FAP are always looking for new ways to ensure their success year over year. Membership in the FAP comes with the opportunity of enrollment in a portfolio management independent study where members work closely with Dr. Senchack to research a wide variety of topics. Two FAP members, Travis Casner and Craig Snoddy, focused their independent study on applying Markowitz's Modern Portfolio Theory to the FAP portfolio with the use of a new database. Currently, the group relies on four databases for the majority of their research: Value Line, Standard & Poors Net Advantage, Investors Business Daily, and Dorsey & Wright PnF charting. From Travis and Craig's research the FAP now has an additional database, Efficient Solutions VisualMVO (mean-variance optimizer), which allows the FAP to view where their portfolio sits relative to the efficient frontier. We look forward to the future use of this database and believe that it will benefit the FAP in choosing whether or not to add a new position.

Below is a rough depiction of where the FAP portfolio stands relative to the efficient frontier.



Our portfolio's position is marked by the red dot. As you can see, our portfolio might be taking on more risk than it actually should. However, it should be noted that no one asset may hold over 5% of the portfolio's value, making it tougher to place it along the efficient frontier.

## Portfolio Managers

**Craig Snoddy: Portfolio Manager**  
*Senior Business Major*

**Travis Casner: Public Relations**  
*Junior Business Major*

**Bill McKnight: Accountant**  
*Senior Accounting Major*

**Jessica Martinez: Trader**  
*Senior Business Major*



**Dr. A.J. Senchack: Director**  
*Professor of Business*

Dr. Senchack founded the Financial Analyst Program in 1998 when he joined Southwestern University. Before coming to Southwestern, Dr. Senchack taught at the University of Texas at Austin and was responsible for creating the Financial Analyst Program at UT. At Southwestern, he teaches Investments, Financial Statement Analysis and International Business. He has also coordinated two Brown Symposiums during his seven years at SU and currently holds the Lucy King Chair in International Business. His dedication to the program over the past seven years has allowed students to gain experience of the market and learn lifelong lessons about investing.



