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Bob Aaron
Illinois Wesleyan University

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CONTACT: Bob Aaron, 309/556-3181

IWU Student Stock Portfolio Tops \$1 Million

BLOOMINGTON, Ill.—A stock portfolio exclusively managed by 22 Illinois Wesleyan University students has crossed the \$1-million mark.

The portfolio, part of IWU's endowment, reached the million-dollar milestone on March 23 and recorded an all-time high of \$1,020,000 the next day.

The students—all seniors—are enrolled in IWU's Student-Managed Portfolio course, taught by Zhenhu Jin, an assistant professor of finance.

"The course," Jin said, "is a very hands-on experience. The students are investing real money—not Monopoly money.

"If the course was built around fake money," Jin explained, "students might be rewarded for taking great risk—for speculating—if the speculation paid off, but they wouldn't really be penalized if it didn't work out.

"Here," he added, "we can lose money."

Between December 31, 1999, and March 24, 2000, the value of the student-managed stock portfolio climbed 12 percent, compared to a 3-percent decline in the Dow Jones industrial average and a 4-percent gain for the Standard & Poor 500 index.

Strong Performance

Jin credits the student-investment portfolio's strong performance to two key factors. Initially, it was well set up, creating a very workable system, including a Client Board, which oversees investment decisions. And, the collective wisdom of IWU students has proven effective.

"Students," Jin explained, "have done a good job processing and analyzing information, and making good decisions in a group setting. This speaks well for a broad based liberal-arts education."

The students—typically business, accounting, and economics majors—manage 25 stocks spanning new economy computer and high-tech stocks to old economy retailers and pharmaceutical companies. Among stocks contained in the portfolio are Intel, Microsoft, Cisco Systems, Dell, Lucent Technologies, Nokia, MCI Worldcom, Target, Costco, General Electric, Pfizer, Abbott Laboratories, Colgate Palmolive, Coca-Cola, Disney, Marriott, and McDonald's.

Quality Stocks

Fortune magazine recently ran a cover story about the 10 most admired U.S. companies, Jin said, and eight of those firms are in the student-managed portfolio. In fact, three of the top four companies Fortune cited are in the IWU students' portfolio.

"We have no pure Internet stocks," Jin said, referring to the high-flying securities that fueled the recent surge in the Nasdaq. "They're too speculative. We're looking for companies with real earnings."

The course is pressure-filled, Jin concedes. "I and the students," he explained, "are almost always nervous about working with a large sum of real money. The students take this responsibility very seriously. Just this morning in class we were debating about what to do with the existing portfolio—buy or sell—and we haven't reached consensus yet."

Key Challenges

The greatest challenge facing Jin and the students is anticipating the scope of change. And, to gauge likely change the students need much more than knowledge of finance, he believes. They need to assess macroeconomics, interest rate changes by the Federal Reserve Board, products and services of individual companies, management teams, and corporate marketing strategies.

"The stock market is forward looking," Jin cautions. "We're trying to assess what will happen. Will companies meet the challenge of delivering products and services that society needs?"

The pace of change is another challenge facing student-portfolio managers.

"It's getting more and more difficult to do a good job analyzing the market," Jin said. "The lifecycles of products are getting shorter, change is more rapid. Investors can't afford to be complacent even for short periods of time—markets can change very quickly so investors have to be very alert, aware of what is really going on, and observant.

"An industry," he cautioned, "can get into and out of favor very quickly. It's the nature of the new, global, information economy."

Portfolio Background

The IWU student-investment fund began when C. Leroy Benner of Savannah, Ga., heard a radio program about such a fund at another college. At a weekly lunch with his friend, Jack Liston, a 1949 IWU graduate, Benner talked about the idea, triggering a discussion about launching such a fund at Illinois Wesleyan.

In September, 1992, Benner made a \$100,000 gift to start the program. Elmo Franklin, a longtime member of IWU's Board of Trustees, heard about the plans and added \$50,000 to fund in November, 1992, and another \$50,000 a year later. Benner contributed another \$50,000 to the fund in 1996. From these gifts of \$250,000, the fund has grown to more than \$1 million.

Students enrolled in the course begin each semester by looking at the overall U.S. economy and try to assess its future direction over the next year or two. They also look at particular industries or sectors, trying to gauge their likely performance. These assessments are made against a background of the portfolio's current holdings.

"We use companies as learning vehicles," Jin explained. "We do research on these companies and the students make presentations about their strengths and weaknesses. I provide the background about why we bought the stocks in the first place, providing continuity."

As each semester winds up, the students debate and decide which stocks to hold or sell and what securities to add to the portfolio. These decisions are presented to a Client Board, composed of university trustees and others, for final action.

The Student-Managed Portfolio provides cash support for scholarships.

The class first convened in the spring, 1993, semester.

IWU alumni who have served as student-portfolio managers have enrolled in some of the nation's best graduate business schools, including Columbia University, Vanderbilt University, the University of North Carolina, and the Thunderbird School of International Management. Some are employed as analysts or managers for major firms such as State Farm, Lexmark International, and KPMG Peat Marwick.

About IWU

IWU, founded in 1850, enrolls about 2,070 students in a College of Liberal Arts, and individual schools of Music, Theatre Arts, Art, and Nursing. Since 1994, these facilities have been added to the IWU campus: a \$15 million athletics and recreation center, a \$25 million science center, a \$6.8 million residence hall, a \$5.1 million Center for Liberal Arts, and a \$1.65 million baseball stadium. Construction is underway on a \$26-million library and a \$6-million student center. Kiplinger's Personal Finance Magazine ranks Illinois Wesleyan University 12th among the nation's top 1,600 private colleges in providing a top-quality education at an affordable cost. Also sharing IWU's rank are Princeton and Dartmouth.