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Buy Low, Sell High

**IWU Students Manage \$200,000 Stock Portfolio;
Earnings Earmarked for Student Financial Aid**

BLOOMINGTON, Ill.--If you were handed \$200,000 and told to dump it into Wall Street, which stocks would you buy?

And, just to up the ante a bit, what if you were trying to generate profits to fund university scholarships?

That's the scenario almost 50 Illinois Wesleyan University students have faced over the last five semesters.

These students--mostly business administration, accounting, and risk management majors--have taken IWU's Portfolio Management course.

As of Feb. 28, when the last portfolio status report was published, the 17 student-managed stocks were valued at \$202,028. The portfolio's bottom line--including cash, interest, and dividends--was \$209,409.

Portfolio Detailed

Current holdings include blue chips like American Telephone and Telegraph (AT&T), Coca-Cola, and Colgate-Palmolive; high-tech industry leaders Microsoft and Intel; fast-food giant McDonald's; Wal-Mart, the nation's No. 1 retailer; Bristol-Myers Squibb, a global pharmaceutical firm with \$12 billion in sales in 1994; and Chrysler, the highly profitable automaker that was the target of a much-publicized takeover bid in recent weeks.

The students have chalked up some solid gains. They bought 300 shares of Coca Cola for \$41.50 a share in June, 1993, and by the end of February, 1995, it had appreciated to \$55 a share. They bought 100 shares of Microsoft in December, 1993--adding to 230 shares already purchased--at \$40.63 per share, an investment that climbed to \$63 a share by the end of February, 1995.

However, they also have tallied losses. Two hundred shares of AT&T were purchased in June, 1993, for \$61.63 a share, but by the end of February, 1995, those shares were valued at \$51.63. Three hundred shares of Wal-Mart were purchased in June, 1993, for \$27.63 a share, but by the end of February, 1995, Wal-Mart was trading for \$23.75 a share.

Market Performance

"The market was horrible in the first year-and-a-half after we started the portfolio," said Mona J. Gardner, IWU's Adlai H. Rust Professor of Finance and Insurance and director of the

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Business and Economics Division. "However, the students still made some money, they covered their expenses, and they contributed to the university's financial aid budget for the past two years. With the upturn in the market since the beginning of 1995, the future looks hopeful."

The student investment class has contributed \$6,000-\$9,000 to IWU's student aid program, according to Gardner. It also has made back all of its expenses, including brokerage and custodial fees.

Gardner points out that 70 percent of stocks in the market lost money in 1994.

"We had losers," Gardner said, "but nothing like that. We did well in a bad market. It was a tough time to start a portfolio. We should have started in 1982!"

Gardner has taught the course four times since spring of 1993. This semester, it is taught by Robert S. Eckley, professor of economics and IWU's president from 1968-86.

Skills Honed

"There's no question that students are more serious about this course--and spend more time on it--since they're working with real money," explained Gardner, who again will teach the course next fall.

However, Gardner is quick to point out that the students hone much more than financial-management skills in Business 409.

"They have to make presentations to a very distinguished Client Board, a group of business and community leaders," Gardner said. "The students have to develop arguments for buying, selling, or holding stocks--and they have to defend their positions. It's completely different from getting up in class and making a report.

"There is a lot of value in traditional classroom work," Gardner added, "but in this course there is more accountability--there is no comparison to a traditional course."

Client Board

The six-member Client Board includes: Craig Hart, the retired chairman of Champion Federal Savings & Loan in Bloomington and president of IWU's Board of Trustees; Jean M. Anderson, an IWU trustee and a member of the Bloomington City Council; and Ellen Tate Dooley, a Bloomington businesswoman and university trustee. The Client Board is chaired by James Shirk, president of Beer Nuts, Inc., the Bloomington-based snack food company, and an IWU trustee.

"The Board," Shirk said, "plays the role of the client. It's as if it's our portfolio and we've entrusted it to these managers for them to take care of it as custodians."

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Student Reaction

Niveditha Hasthak, an economics major and finance minor from Madras, India, who will graduate next month, took the portfolio management course in the fall of 1994.

"It is excellent training for lots of useful skills in the real workplace," Hasthak explained. It required independent initiative, independent research, organization, the ability to decide what's important, teamwork, and judgment.

"Basically," Hasthak added, "we did what professionals do in the field--we just did it on a smaller scale. This course was the closest you can get to a real-life investment experience in a college setting."

Steve Barger, business administration major from Bloomington, who will graduate May 20, took the student-managed portfolio course based on his experience in another course with Gardner, who he characterizes as "a great teacher and a tough teacher." He also took the course because of his interest in the stock market and the rave reviews the course won from other students.

"The presentation experience helped me a lot," Barger said. "It was intimidating to make a presentation in front of Mr. Shirk and Mr. Hart, but Professor Gardner shows you how to do that in a professional manner--she leads you rather than telling you what to do.

"The presentations," Barger added, "are not just numbers like yield ratios. Making a presentation involves creative thinking."

Presentations to the Client Board typically involve the use of sophisticated computer software packages.

The biggest challenge in the course for Hasthak was absorbing all the information available and being up-to-date on their performance.

Course Outline

Students taking the course typically are divided into perhaps eight or nine teams, depending on class size. Generally, each team is given two stocks to watch. Students conduct intensive research on their companies' performance and present this information to their classmates. Teams also study particular industries. The performance of the existing portfolio also is constantly monitored. Additionally, the class studies economic trends, crafting a forecast. This information provides a foundation for buy, sell, or hold decisions made by each team, which are presented orally and in writing.

When Barger took the course, he followed AT&T and BellAtlantic. "We followed them daily in the *Wall Street Journal*," he recalled. "We researched them and watched for court cases affecting them."

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Buy-Sell Recommendations

Initially, Barger's class eyed the purchase of Brunswick stock. However, the class backed away from Brunswick, Barger said, because it is part of the leisure industry, a market subject to sharp ups-and-downs.

"We were assigned to watch the leisure industry," Barger said, "and within that industry we thought Brunswick was best. But the recreation industry wasn't a good investment--interest rates were up and people were spending less on leisure."

Finally, the class decided to buy McDonald's and Colgate-Palmolive.

Hasthak's team recommended the Colgate-Palmolive buy.

"Colgate is a global company," Hasthak said, explaining her team's reasoning. "It derives more than half its profits from sales abroad. We wanted an emphasis on an international company where there is greater growth potential since there was a feeling that the U.S. market was saturated.

"We also liked Colgate," she added, "because it is consumer oriented. Its products--like toothpaste and soap--meet basic needs. It doesn't produce luxury goods and satisfies basic demands that always will be there."

McDonald's won favor because the fast-food restaurant company, according to Hasthak, is a household name, it's doing well, and is expanding abroad.

However, some students were worried that foreign palates might not like McDonald's menu. These fears were put aside, according to Barger, when Anastasia Ukanov, an exchange student from the former Soviet Union, pointed out the popularity of McDonald's in Russia.

Hasthak characterized the students' portfolio decisions as conservative, noting, "We went the safe way and we were very much looking to the long term."

Selling Assets

To free up the cash to buy McDonald's and Colgate, the students had to sell assets.

There was a strong bias toward health care companies in the portfolio, Hasthak explained, at a time when the industry faced an uncertain future with the Clinton health-care plan on the drawing board. Consequently, the class opted to sell half of its shares in United Healthcare, a stock that had posted the portfolio's biggest gain. The students also unloaded their interest in Hasbro, the toy maker.

"The toy business was just too volatile to hold," Hasthak said.

Seed Money

IWU received two donations in 1992, providing \$150,000 in investment capital and seed money for the course. One donor, an octogenarian who has never stepped foot on the IWU

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campus, parlayed modest savings into substantial wealth by the time he retired. This former bookkeeper from Savannah, Ga., a friend and colleague of an IWU alumnus, wanted the students to learn about investments earlier in life than he did. In the fall of 1993, the portfolio received an additional \$50,000 from one of the original donors.

Gardner estimates that there maybe about 30 similar courses offered at colleges and universities nationwide. Among campuses with student investment portfolios are Bryn Mawr, Notre Dame, Ohio State, the University of Arkansas, and the University of California-Los Angeles.

Edward C. Lawrence, associate professor of banking and finance at the University of Missouri-St. Louis, reports that as of June, 1993, student-managed investment portfolios ranged from \$18,000 to \$8 million, with the average asset value pegged at just over \$600,000.

Some Course Requirements

A key course requirement calls for student portfolio managers to interview at least two professional mentors and write a summary of the discussion. Among the mentors are Rex J. Bates, retired portfolio manager of State Farm Insurance; Todd Sheridan of Caterpillar Investment Management Ltd.; and Brian Christensen of David Vaughan Investments, Inc.

The course outline makes clear the class goal: "The mission of the student-managed portfolio class at Illinois Wesleyan University is to provide an opportunity for interested students to gain hands-on experience as money managers and to generate sufficient returns on the portfolio to provide at least one scholarship for an IWU student each year."

Investment decisions must be consistent with the university's general investment policies. Students must place special emphasis on firms with high ethical standards and a strong sense of social responsibility.

Client Board Objectives

The Client Board has set 10 investment objectives, including:

- Investments should be selected for long-run potential. Speculation should be avoided.
- Student managers should avoid superfluous diversification and look for the best companies, regardless of industry.
- Investments should be common stocks of domestically chartered firms traded on the New York Stock Exchange, AMEX, or NASDAQ.
- Funds not invested in stock should be placed in highly liquid money market or intermediate-term instruments.
- The portfolio should be managed on a total-return basis. Investments can be selected for their dividends or for their capital gains potential.

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Course Evaluation

Kenneth Browning, IWU's vice president for business and finance, is a member of the Client Board. He sums up the students' experience in the portfolio management class this way: "The students learn that it's not easy to make money. They have had some good stocks and they have had their successes, but the market has gone through some difficult times.

"I think that our course is pretty realistic," Browning added. "Some schools would sell off the portfolio each term, but that's not how investment portfolios are managed. You usually come into managing an existing portfolio, so you have to sell something to buy something. However, our general approach is to buy a good stock and hold it--good stocks will perform over time."

Reflecting on the investment management course, Barger said: "It was the best course I've taken at IWU--hands down."

Hasthek echoed that sentiment, saying: "It was a great class--one of the best I had."

IWU Profile

IWU, founded in 1850, enrolls about 1,800 students in a College of Liberal Arts, College of Fine Arts, and a four-year professional School of Nursing. In recent years, the university's endowment has grown to more than \$92 million; a \$15 million athletics and recreation center opened in the fall of 1994; and a \$24 million science building will open in 1995. The Carnegie Commission for the Advancement of Teaching promoted Illinois Wesleyan to a "Baccalaureate I" institution in 1994, a classification that places it among 164 highly selective National Liberal Arts Colleges in the annual *U.S. News & World Report* rankings. *U.S. News* ranks IWU the second most efficient national liberal arts college--a key gauge of the campus' quality academic program and relatively reasonable cost. *Barron's Profiles of American Colleges*, another respected college guide, rated IWU "highly competitive (+)" in its latest edition. IWU's 1994 freshman class scored an average 27.9 on the ACT exam, compared to the national average of 20.7.