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Crummer/Suntrust Portfolio: Analysis and Recommendations [2008]

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EXECUTIVE SUMMARY

Unfavorable economic conditions have prompted the investment team to meet a short-term goal: preserve the value of the portfolio by reducing overall risk. A top down analysis of the current portfolio resulted in recommendations to change the portfolio by eliminating funds, investing in long term government bonds, TIPS and large cap value type securities. Allocations of securities was performed by either overweighting or underweighting a particular sector, depending on its historical and expected return during a recession. Individual securities were analyzed by our sector analysts and recommendations of hold, buy or sell were made. The outcome.... a robust portfolio, that will preserve its value during the recession by reducing its overall risk by 25%.

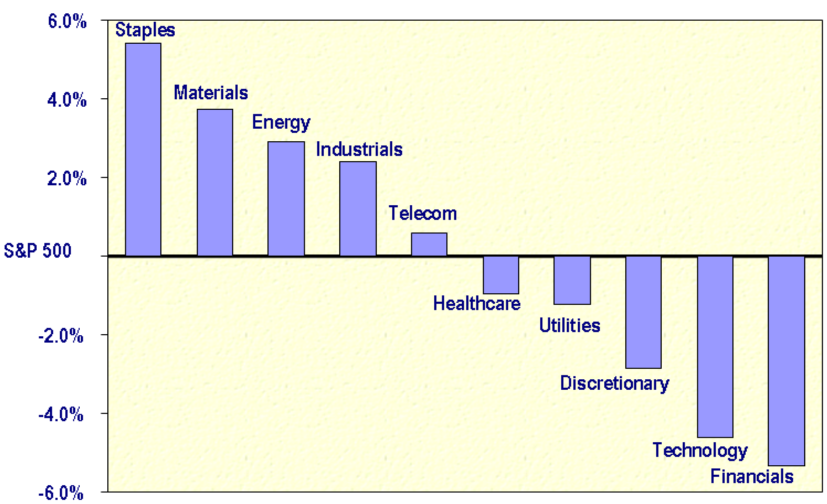
THE GOAL

The goal is to hold or increase the value of the Crummer Suntrust Portfolio. The organization needs to raise enough equity for administrative and trading expenses, allowance for inflation and distributions of approximately $25,000 for scholarships. Exceeding the goal next year would entail having positive real portfolio growth.

A revision of our Investment Policy Statement (IPS) was required to bridge the gap between asset class allocation and sector allocation method. It became clear that the two methods were best used for different time periods. Sector allocation helped manage our short term goals, while asset class allocation helped manage our long term goals. Meeting our tactical goal of 0 – 2 ¼% real growth we would be heading in the right direction to meet our 5 year strategic goal of 2-2 ¼%.

IPS is attached in the insert of this report.

PLAN TO MEET THE GOAL



Sectors that have historically performed well in a recession, or have a catalyst that may spurt growth next year were overweighted. These sectors include:

- Consumer Staples
- Materials
- Energy

Sectors that have historically performed in a recession, or are expected to contract next year were underweighted. These sectors include:

- Financials
- Consumer Discretionary
- Technology

Proposed addition of investment vehicles with less risk, such as long-term treasury notes and inflation-protected securities, will provide a stream of income and protection against inflation, respectively.

VALUE @ RISK: Risk vs Return Analysis

Value @ Risk was the method used to determine our overall current and proposed portfolio risk. Value @ Risk defines the worst expected loss with a 99% selected confidence level over a one month timeframe.

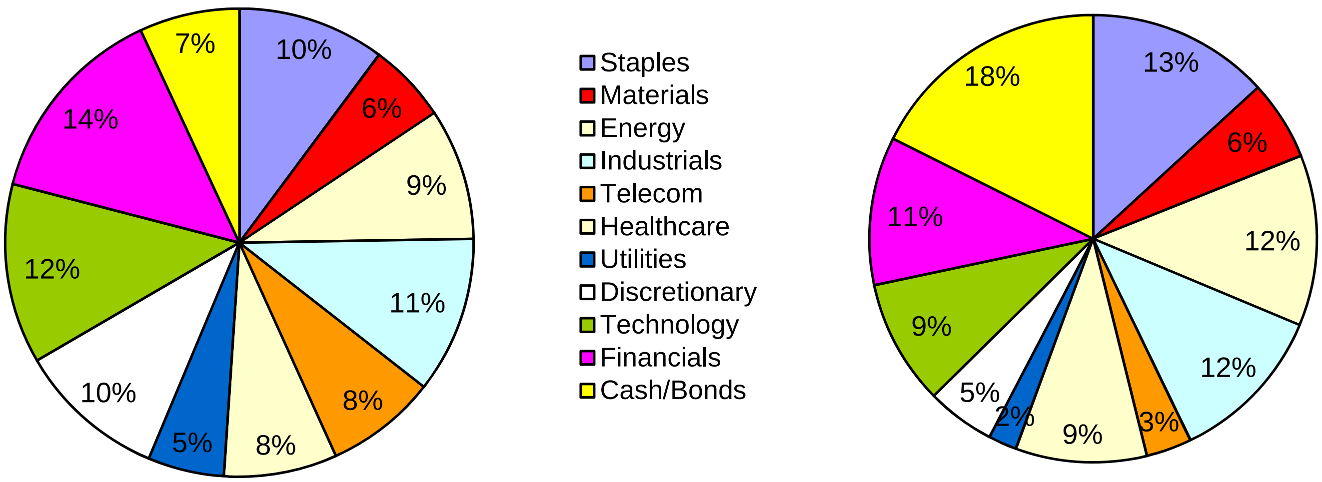
Results

Relative to the current portfolio, we are 99% confident that the Value @ Risk of the new portfolio is reduced by 25%.

Graph above confirms that the new portfolio is expected to produced virtually the same level of return at a considerably reduced level of risk.

SECTOR CLASS ALLOCATION

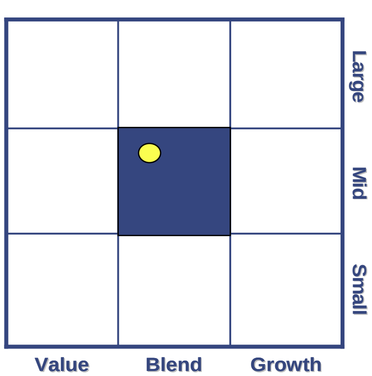
Current portfolio sector percentages and proposed portfolio sector percentages are shown below. Our defensive approach translates to a higher allocation in cash/bonds and changes to sector allocations in the range of +3 to -5%.



CURRENT PORTFOLIO	PROPOSED PORTFOLIO
The old portfolio reflects a holding o mutual funds and securities	The proposed portfolio eliminates mutual funds, but adds treasury inflation protected securities.

Relative to the current portfolio, the following summarizes the proposed changes:
Cash, Bonds: Increase 11%, This includes addition of TIPS.
Staples proposed increase of 3%
Materials proposed increase of 1%
Energy proposed increase of 3%
Industrials proposed increase of 1%
Telecom proposed decrease of 3%
Healthcare proposed increase of 3%
Utilities proposed decrease of 3%
Consumer Discretionary proposed increased of 3%
Technology proposed decrease of 5%
Financials proposed decrease of 3%

ASSET CLASS ALLOCATION

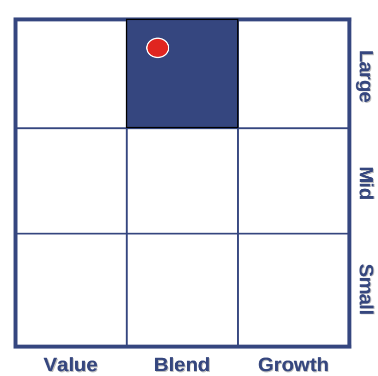


Current Portfolio

The Crummer/Suntrust current portfolio holdings (to the left) lean more towards value and are reflective more of mid cap companies.

The proposed portfolio maintains its tilt to value but is more reflective of a large cap company.

This change is reflective of our goal to reduce the risk of the portfolio in efforts to maintain its value.



Proposed Portfolio

Healthcare

Preservation of Value

Underweight, -1%

Industry Threats:

Patents are expiring in many drugs
Elections will have impact on healthcare

Industry Opportunities:

Demographic growth in the elderly

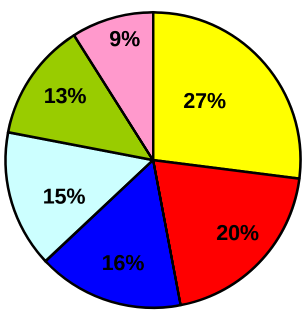
Characteristics of companies chosen:

- #1 firms in their specialty

Areas Explored:

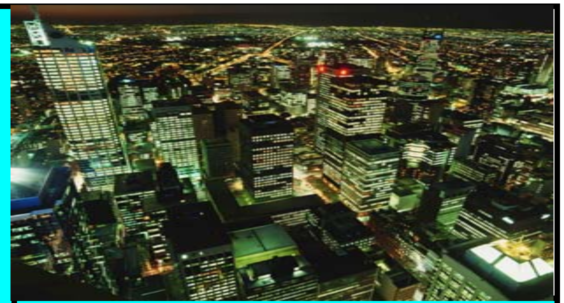
Pharmaceuticals, Medical Supplies, Services and Biotechnology.

Proposed Holdings



CVD, JNJ, PRGO, SYK, STJ, MRK

Utilities



Preservation of Value

Underweight, -1%

Industry Threats:

Reduced dividends & profits due to regulated pricing and high energy costs

Industry Opportunities:

Inelastic demand for goods
Steady Earnings Growth
Above average dividend yields

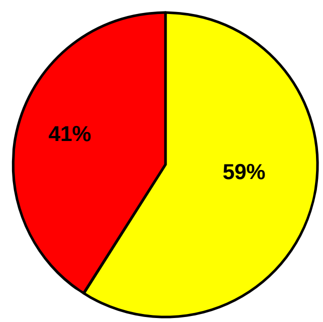
Characteristics of companies chosen:

- Large domestic corporations

Areas Explored:

Electric & Water Utilities.

Proposed Holdings



EXC, AWR

Technology

Discretionary Spending

Underweight, -5%

Industry Threats:

Postponable expense
Companies are looking abroad for sales

Industry Opportunities:

Foreign demand (China & India) rising

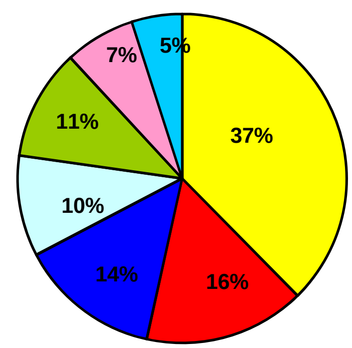
Characteristics of companies chosen:

- Large firms with healthy revenues

Areas Explored:

Software and Services, Technology Hardware and Equipment, Semi-Conductors.

Proposed Holdings



IBM, HPQ, MSFT, CAN, EMC, ADP, FLEX

Consumer Discretionary

Discretionary Spending

Underweight, -3%

Industry Threats:

Consumer cut-backs on luxuries
Tightening labor market
Increased energy costs

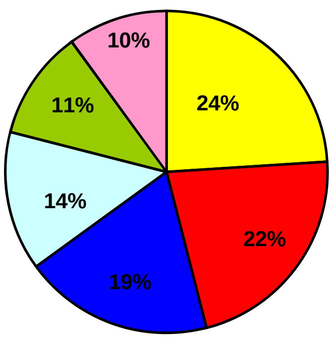
Characteristics of companies chosen:

- Firms with high credit quality
- Firms with strong balance sheets
- Firms with dividends

Areas Explored:

- Autos, Auto Parts, Apparel, Household Durables, Lodging, Gaming, Restaurants,

Proposed Holdings



KO, MCD, URBN, SPLS, ANF, DIS

Financials

Discretionary Spending

Underweight, -5%

Industry Threats:

Insolvency of insurers
Subprime mortgage meltdown
Consumer credit crunch

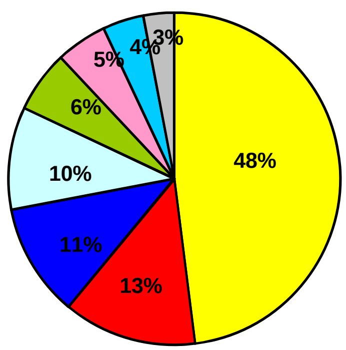
Characteristics of companies chosen:

- Firms with high credit quality
- Firms with strong balance sheets
- Firms with dividends

Areas Explored:

- Commercial Banking, Insurance, Asset Management, Investment Banking, REITs.

Proposed Holdings

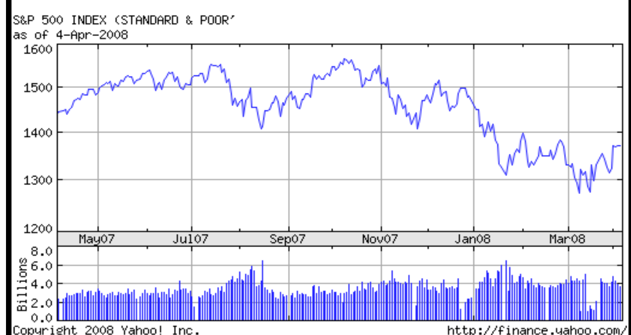


BAC, GS, NLY, USB, HIG, LYG, BR

ECONOMIC CONDITIONS

RECESSION

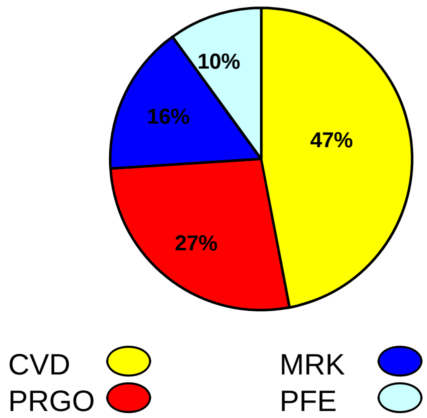
We are currently faced with what people were afraid to hear, see or taste….RECESSION. The economic outlook for the next year is bleak. In January 2008, John Silvia, leading economic advisor for Wachovia Securities, stated there was a 57% chance of a recession; in March 2008 he raised the figure to 100%. We are in a recession. Many economic events have triggered negativity in the marketplace. The #1 bandit was the financials sector; leading the decline on concerns regarding issuance of poor quality debt. The consumer discretionary sector followed the financial sector in the downhill race, as the tightening credit market left buyers without a source of capital for purchases.



The previous 2 recessions have lasted for a period of 2-3 quarters and this recession is expected to last until 3rd quarter 2008. Sectors that underperformed in previous recessions include: Technology, Telecommunications, Discretionary, and Energy . Sectors that held their value include consumer staples, utilities and materials. Buoyed by political instability energy is expected to do well over the next year, regardless of the economic situation. November 2008 will bring about Presidential elections; sectors that are most vulnerable in this year's elections are Energy and Health Care.

Inflation has been on the rise and is expected to continue to increase as Federal Reserve decreases its federal funds rate

Current Holdings



<u>Strategy</u>

> Invest in large international companies

> Remove securities that compete / are in the same segment

HOLD

CVD, Covance Inc:

Leading global contract research company
Sales are steady due to strength in testing

MRK, Merck:

Steady sales due to strong product demand

PRGO, Perrigo:

Over the counter prescription manufacturer will retain steady stream of revenue

ADD

JNJ, Johnson & Johnson:

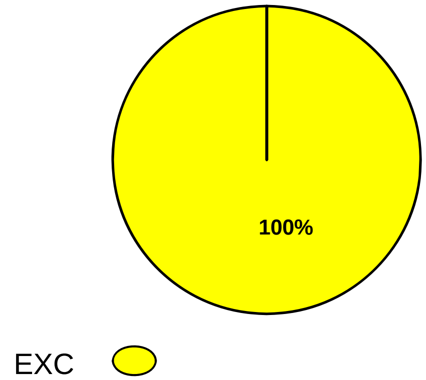
Diversified business with steady stream of revenue from over the counter prescriptions

STJ, St. Jude Medical:

Positive outlook for medical supplies. St. Jude poised to benefit due to realized R&D

SYK, Stryker Corp:

Current Holdings



<u>Strategy</u>

> Invest in domestic companies with strong balance sheets

> Preference given to companies with full scope services

HOLD

EXC,Exelon:

Large customer base with a focus on clean electricity production utilizing nuclear and natural gas.

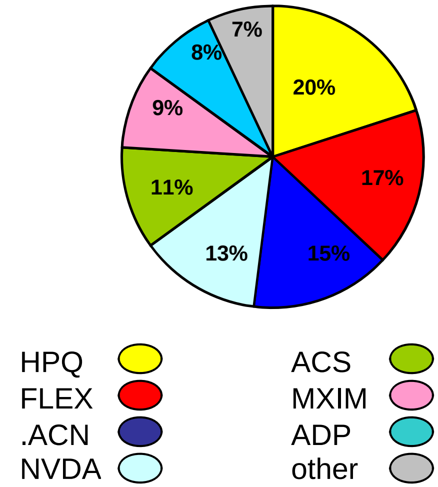
ADD

AWR, American States Water Company:

Provider of water services

Provider of electricity distribution services.

Current Holdings



<u>Strategy</u>

> Invest in services companies

> Invest in large global companies

> Focus on IT companies providing services to businesses and hardware companies

HOLD

HPQ, Hewlett Packard:

2/3 of revenue from international sales

FLEX, Flextronics International Ltd.:

Inorganic growth

ADP, Automatic Data Processing:

Client outsourcing yields more revenues

ACN, Accenture:

Increased client outsourcing yields more revenues from services

ADD

EMC, EMC Corp:

Global company with steady sales

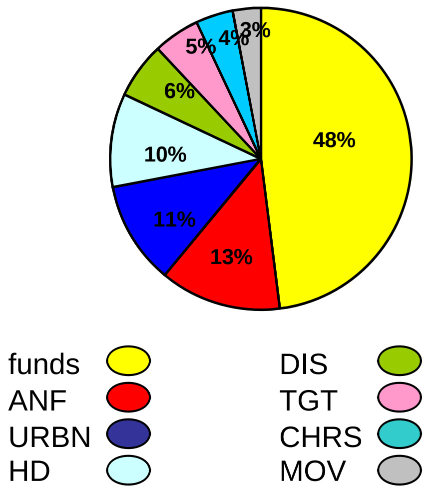
IBM, International Business Machines:

Services for leaner business processes

MSFT, Microsoft:

Large global company with steady sales, PE

Current Holdings



Strategy

> Remove Funds

> Reallocate capital amongst high quality firms

> Remove securities tied to housing, autos, restaurants & high end clothing

HOLD

ANF, Abercrombie & Fitch:

Positive outlook for double digit growth,

DIS, Disney:

Weak dollar will stimulate revenues from international customers

URBN, Urban Outfitters Inc:

Increases in same store sales, goods demand

ADD

MCD, McDonalds Corp:

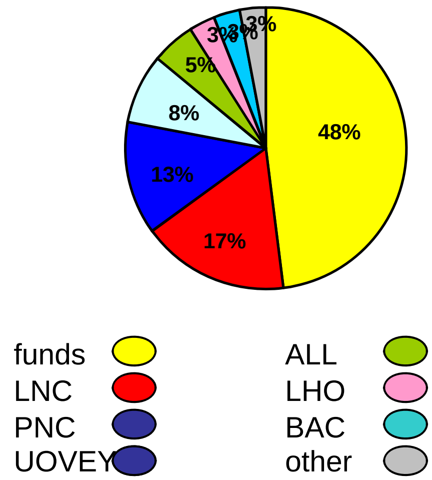
Same store sales increasing - credit crunch may increase sales even more.

KO, Coca Cola Co.:

Targeting healthy drink sector. Coke Zero was a hit & increased company revenues

SPLS, Staples:

Current Holdings



Strategy

> Remove Funds

> Reallocate funds amongst high quality firms

> Remove securities that have an unfavorable outlook

Individual Securities

HOLD

BAC, Bank Of America

ADD

BR, Broadridge:

Diverse Clientele / Tech Edge

GS, Goldman Sachs:

Best in Sector, Large Value, Low PE

HIG, Hartford Financial Services:

Diversified Insurance, Large Cap Value, Low Volatility

USB, US Bancorp:

Financial Services, Low Volatility

NLY, Annaly:

REIT, Mid Cap Value, High Dividend

LYG, Lloyds TBS Group:

Impact To Current Portfolio

The recession will have a large negative impact on our current portfolio if we continue to hold as is. We are in a defensive mode that requires re-allocation of current assets based on next year's economic outlook.

To maintain the value of our portfolio, the Target Total Return will need to satisfy the following items:

> Administrative and trading expenses will be reduced to a minimum

> Expected inflation greater than 3%, will be recovered by using TIPS

> The disbursement of 20,000 USD will be replenished through interest earned on bonds and dividends received from several securities.

> Real Growth Rate will be greater than or equal to 0%

A top down analysis of the market was performed to recommend changes to the portfolio. Sectors were reviewed individually against the S&P sectors, and were either overweighted or underweighted depending on the economic outlook for the coming year. Each sectors were grouped into the following themes:

The Underweights: Credit & Discretionary Spending.

These sectors underperformed in the last two recessions:

- Financials
- Technology
- Consumer Discretionary
- Energy

The Neutrals: Preservation Of Value

These sectors have relatively inelastic demand:

- Telecommunications
- Industrials
- Healthcare
- Utilities

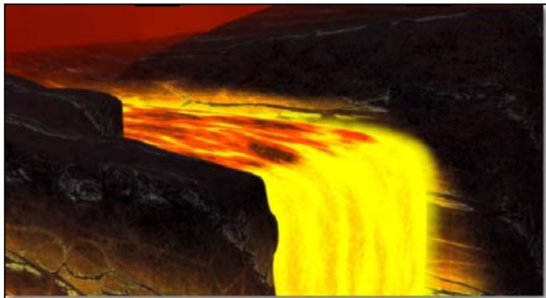
The Overweights: Counter-Cyclical

These sectors overperformed in the last two recessions:

- Materials
- Consumer Staples

For the current year, energy was also classified as an over performer due to the rapid expansion both globally & domestically

Materials



Counter Cyclical, Over 4%

Overweight, 5%

Industry Opportunities:

Best performing sector in last 2 recessions
China & India expansion
Non-residential construction

Industry Threats:

Domestic Auto Industry Struggles

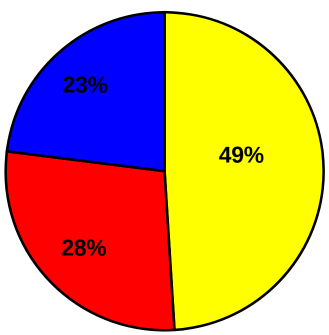
Characteristics of companies chosen:

-International firms specializing in metals

Areas Explored:

Chemicals, Specialty Chemicals, Industrial Metals, Precious Metals, Paper and Forest Products, Home Building.

Proposed Holdings



FCX
RIO
DOW

Consumer Staples

Counter Cyclical

Overweight, 5%

Industry Opportunities:

Inelastic demand for goods.
Outperforming sector in last 2 recessions

Industry Threats:

Lower profits due to higher energy costs

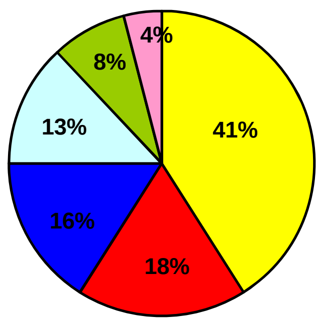
Characteristics of companies chosen:

-Firms that increase revenue in recessions

Areas Explored:

Agricultural Products, Brewers, Distillers, Vintners, Drug Retail, Food Distributors, Food Retail, Household Products, Tobacco.

Proposed Holdings



PG
CL
SYY
CVS
BUD
AVP

Energy

Counter Cyclical

Overweight, 3%

Industry Opportunities:

Increasing demand globally through emerging markets

Increasing domestic demand for alternative energy

Disruptions of supply

Rising Energy Prices

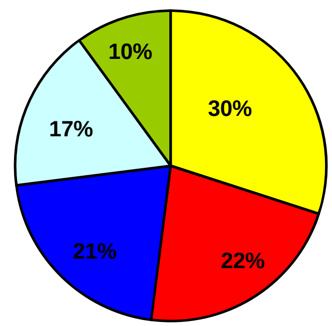
Characteristics of companies chosen:

-Diversified firms with global market demand

Areas Explored:

Energy Equipment and Services Industry & Oil, Gas and Consumable Fuels Industry.

Proposed Holdings



SU
CVX
XOM
VLO
CLNE

Industrials

Preservation of Value

Overweight, 2%

Industry Threats:

Financing sector may impact spending

Industry Opportunities:

Energy infrastructure expansion
Expansion in emerging markets

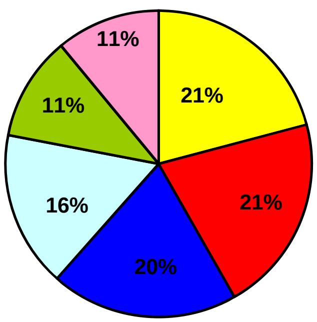
Characteristics of companies chosen:

-Firms involved in China & India expansion

Areas Explored:

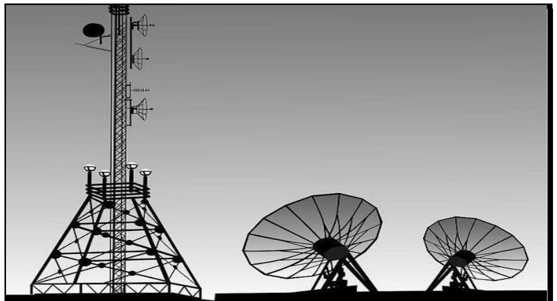
Building Products, Airlines, Construction and Engineering, Electrical Equipment, Marine, Transportation, Industrial Conglomerates, Rail.

Proposed Holdings



JEC
GE
UTX

MMM
DHR
HEI



Telecom

Preservation of Value

Overweight, 1%

Industry Threats:

Revenue reductions due to consumer cut-backs on luxuries (credit crunch US)

Industry Opportunities:

International expansion of wireless services

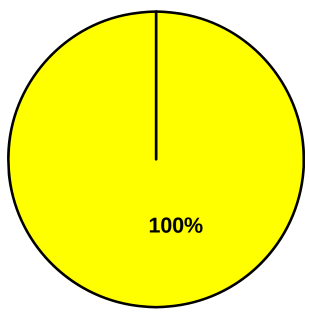
Characteristics of companies chosen:

- Large firm with wireless product

Areas Explored:

Integrated Telecommunications Services & Wireless Telecommunications Services.

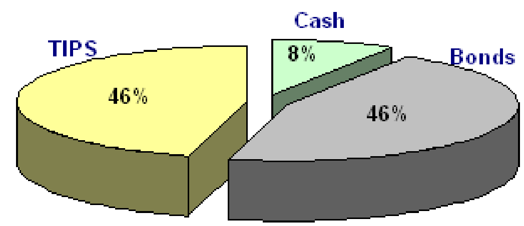
Proposed Holdings



IXP

Cash, Bonds and TIPS

Cash, Bonds and Tips comprise approximately 20% of the entire Crummer/Suntrust Portfolio. The team utilized bonds to provide interest income for the purpose of funding scholarships and TIPS in an effort to reduce the negative effects of inflation. The picture below illustrates the allocation of these three categories:



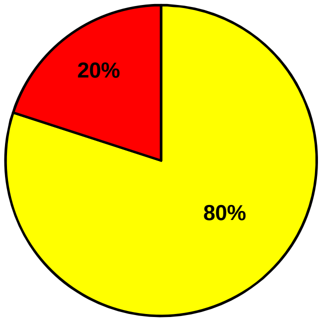
CASH

Cash will be used to pay administrative and trading expenses. Excess cash will be invested in the money market.

BONDS

Bonds were used to provide a source of steady income to fund the scholarship disbursements from the portfolio. We chose the 30 year bond because it provides a good return while interest rates are low. Given the current economic conditions we foresee a fed fun rate reduction and although we do not anticipate any fed fund rate increases, we are poised to benefit off any reductions with this long term bond.

Current Holdings



DOW
CASH

<u>Strategy</u>

> Invest in large global companies

> Favor firms with commodities that are required for global expansion in energy

HOLD

DOW, DOW Chemical Company:

International sales account for 50%+ revenue

ADD

FCX, Freeport-McMoRan Copper & Gold Inc.

China growth supports copper prices - 80% FCX revenue generated from copper.

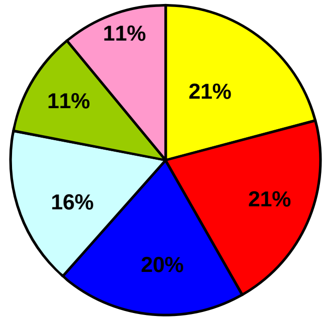
RIO, Companhia Vale do Rio Doce

International growth supports iron demand - 63% RIO revenue generated from iron.

Large amount of product is exported to China

Large player in iron ore trade.

Current Holdings



PG
SYY
STZ
BUD
CVS
AVP

<u>Strategy</u>

> Invest in large global companies

> Favor firms that are inelastic in demand

HOLD

PG, Proctor & Gamble:

Steady sales and cost reductions

Increasing presence in developing countries

SYY, Sysco Corp:

Steady sales in wholesale food.

BUD, Anheuser-Busch Companies Inc :

Sales increase expected.

Globally expanding

CVS, CVS Caremark Corp.:

Accelerated growth due to acquisition

Increased sales of high margin generic drugs

AVP, Avon Products

China & Eastern Europe growth in revenues

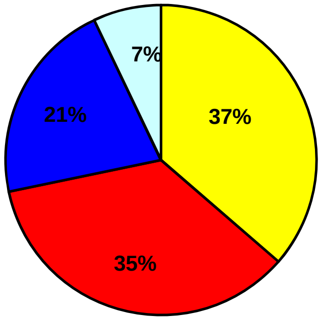
Cost reduction efforts being realized

ADD

CL, Colgate-Palmolive Co.:

In pursuit of business in high growth areas of the world

Current Holdings



HP
MRO
XOM
CVX

<u>Strategy</u>

> Invest in firms specializing in renewables

> Invest in firms specializing in oil exploration, production, and sale.

> Invest in firms with focus on natural gas

HOLD

CVX, Chevron Corp.:

International firm specializing in exploration, production & sale of crude oil & natural gas.

XOM, Exxon Mobil Corporation:

Interests in renewable energy

International firm specializing in exploration, production & sale of crude oil and natural gas.

ADD

CLNE, Clean Energy Fuels Corp.:

CLNE's product is considered a solution to greenhouse gas effects.

VLO, Valero Energy Corp.

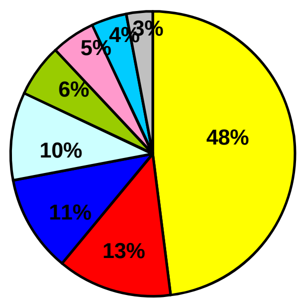
Main business is refining oil. Expected profits to increase with high oil prices.

SU, Suncor Energy:

International sale of fuels.

Invested in oil sands project.

Current Holdings



RHI
CAT
MMM
GE

DHR
JEC
CBI
HEI

Strategy

> Invest in large global firms

> Invest in firms providing product to non-US customers

> Invest in firms with backlogs

HOLD

JEC, Jacobs Engineering Group :

International technical & engineering services focusing on environmental and defense fields

MMM, 3M Corporation:

Diversified products & international customers

HEI, Heiko:

3rd party provider to parts for airline industry

DHR, Danaher Corporation:

Recession proof company

50% international sales

GE, General Electric:

Growth through organic and inorganic means

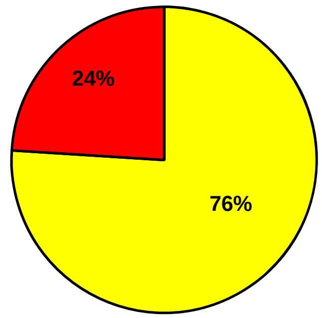
Supplies diverse products internationally

ADD

UTX, United Technologies:

Diversified company with international sales

Current Holdings



CHL
NZT

Strategy

> Create a diversified sector

> Invest in a large diversified company with that has capital and is ready to pick up smaller companies

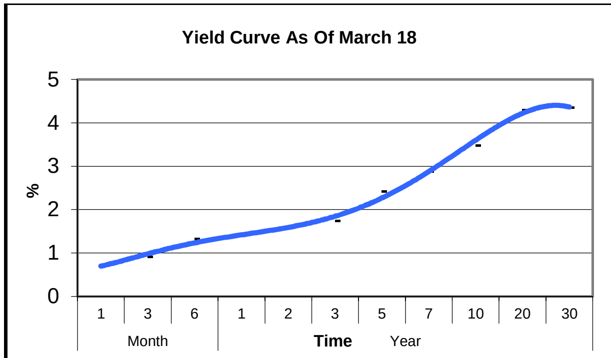
> Choose a global company to offset the US credit crunch

ADD

IXC, ishares:

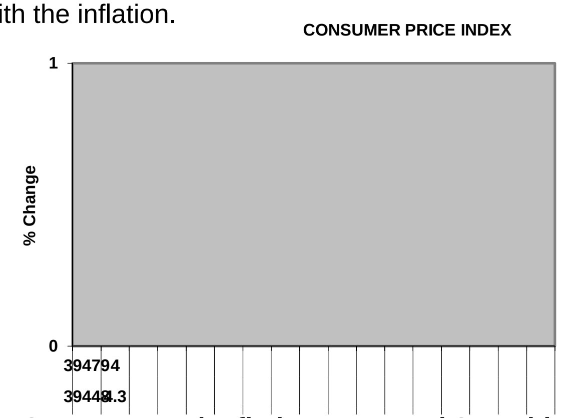
Diversification strategy is implemented with the purchase of global ishares

Any mergers or acquisitions of firms in the industry will increase the value of ishares



TIPS: Treasury Inflation Protected Securities

Inflation is a problem. 2008 has started off with an inflation rate of about 4%, which is expected to rise with decreases in the federal funds rate. We will need to produce enough capital to overcome the negative effects of inflation; thus increasing our target for real growth rate. In a recessionary period it is already difficult to have real growth so we plan to reduce the effects of inflation by choosing a treasury inflation-protected security (TIPS). The purpose of a TIPS fund is to take advantage of economic conditions with moderate to high inflation. It helps our portfolio by reducing the risk associated with the inflation.



VIPSX - Vanguard Inflation Protected Securities

This fund was chosen because of its above average return from year to year compared to similar funds in the category. VIPSX has a low expense ratio, it invests only in AAA rated bonds and it is comprised of 99.75% TIPS only. Additionally, both managers had exposure to the last recession which positions us for above average returns..

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