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Portfolio Investment Strategy 1999

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PORTFOLIO INVESTMENT STRATEGY

FIN 609

Portfolio Management / Theory and Applications

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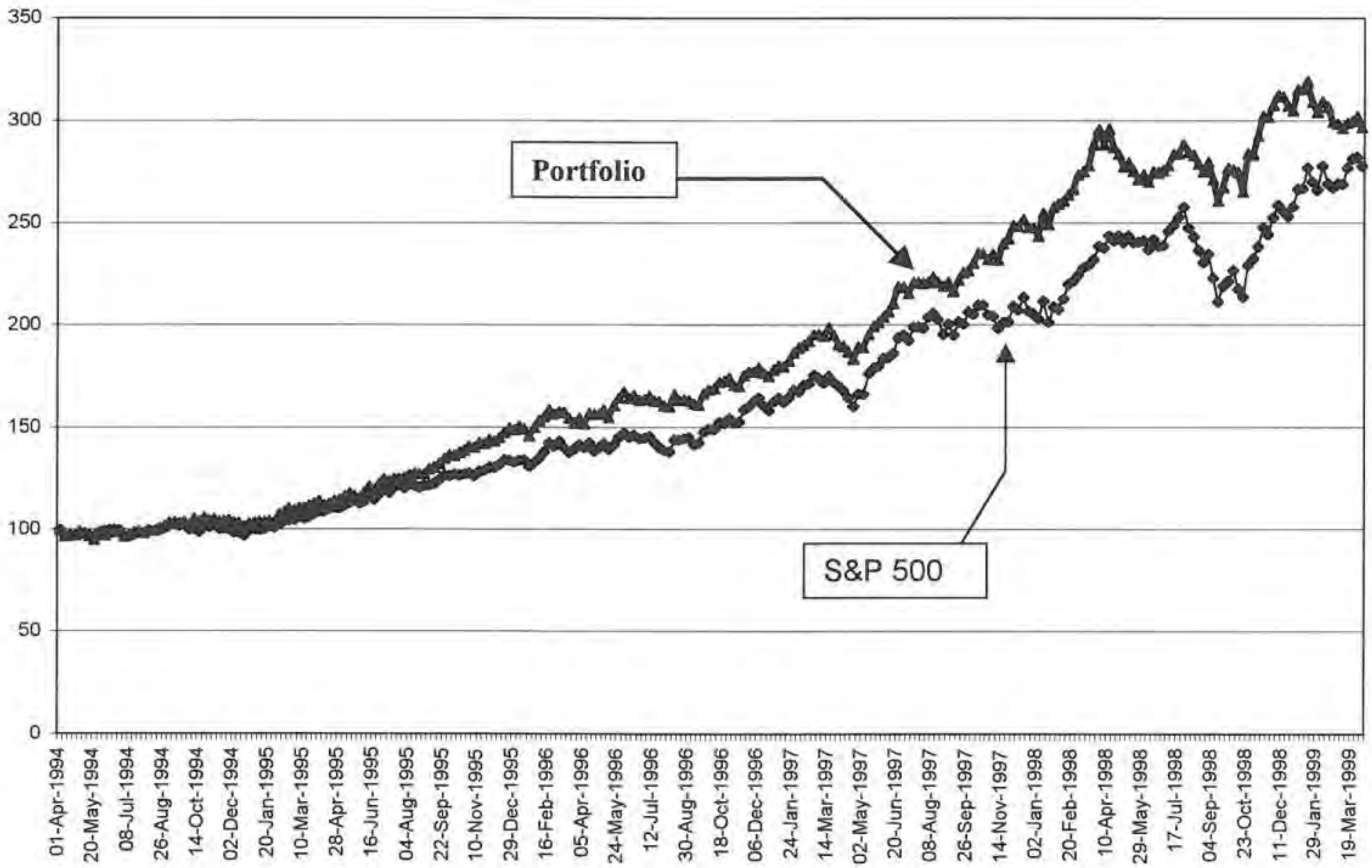
EXECUTIVE SUMMARY

Based on our Fundamental and Technical Analysis of the selected portfolio, the expected return is approximately 1.0% above the S&P 500. In addition, the risk factor (Beta) associated with the portfolio is predicted to be 0.7.

The fundamental analysis included a top-down approach to selecting the desired industries and specific equities and bond funds. The portfolio was based on U.S. securities only, as the U.S. market is currently the strongest in the world and is expected to remain so for many years into the future. The analysis included the collection of 5 years of historical weekly data for both the portfolio and the S&P 500. The calculated portfolio risk and return was based on this information. The following chart identifies the performance return to date of $100,000 invested in 1994.



The fundamental analysis also included projected EPS for the years 1999 and 2000 for the portfolio. The total expected return based on industry projections for EPS was approximately 44% for the years 1999 and 2000.

The technical analysis included the creation of Candle Charts for our portfolio and for the S&P 500. The pricing data used was based on bi-weekly high, low, open, and close data for all portfolio securities. These charts clearly showed that the price volatility for the selected portfolio was less than the S&P 500 portfolio, based on historical data.

In conclusion, the portfolio is expected to provide a sufficient return to meet the scholarship fund requirements, while minimizing the associated risk.

OBJECTIVE

To recommend an investment strategy for the SunTrust Investment Portfolio in order to provide for Crummer Graduate School student scholarships valued at 6% of the three-year moving average of the portfolio's market value. The initial investment of $100,000 will be allocated in a manner that will provide the desired return for the least amount of risk.

The objective will consist of identifying a portfolio with an annual real return 1-2% higher than that of the S&P 500. The beta of the portfolio should be less than 1.0 and the portfolio must be adequately diversified and include a selection of equities across several sectors.

RESEARCH STRATEGY

Top Down Analysis

The selection process involved the top down analysis approach. The first stage completed was to identify specific sectors / industries in the economy that have potential for future growth and opportunities. This resulted in a selection of the following industries: Tobacco, Food, Transportation, Retail, Telecommunications (Technology), Grocery and Food Distribution, and Pharmaceutical and Medical Equipment. A specific description of the industries can be found in the following section.

Within each industry, companies that met certain performance criteria were then identified. The selection criteria were as follows:

- Five year average ROE > 20%
- P/E ratio ≥ Sector average ≤ ?
- Market Capitalization ≥ $ 1.0 Billion
- Five year average EPS growth rate ≥ Sector average

These factors were used in the initial screening process. Selected companies were then analyzed to identify and understand their product segments and competition, their financial management, and their future growth in sales, income and earnings per share. A determination of the "fit" of the company into the portfolio was also done before it was considered a final candidate.

In addition to the equities, a bond fund was selected. The bond fund was selected based on its past performance record and on industry reports and recommendations. The bond fund carried a lower risk factor than the equities, and this was used to lower the overall risk of the portfolio and still maintain the desired return.

The final segment of the analysis involved identifying the risks and returns for each company and estimating the weighting of each equity and/or fund to achieve the desired risk and return. For specific details regarding the portfolio analysis, please see the "Performance Analysis" section of the report.

Description of Industries

Tobacco industry

The tobacco industry takes place in more than a hundred countries al over the world with a total volume of $275 billion with 1%-2% growth a year. About 1.1 billion people smoke which is about one third of the world's population 15 years of age or older. The consumption has been rising by 1.2%-1.5% per year. The recent data show that 25% of the Americans smokes, and the average smoker spends more than $260 per year on tobacco products and smoking supplies, more than each American spends on milk for instance. Today 95% of the US retail tobacco business is because of the cigarettes. Warren Buffet ironically describes the industry this way: "It costs a penny to make. Sell it for a dollar. It's addictive, and there's fantastic brand loyalty." The net margin of about 33% is desirable for any industry.

The industry as a whole is one of the biggest taxpayer in US. However, a part of tobacco's strategy requires a push into the bastions of heavy smoking. The future of the industry clearly rely on the developing world, where the consumption is rising along with incomes and the demonization of smoking is in its early stages.

Food Industry

This profusion is brought to us all by US manufacturers large and small, family-owned companies and mega-conglomerates, with annual earnings growth around 10%, sales growth around 6%, and revenues at $684 billion. The US is the largest food trader with annual exports of $28 billion and imports of about $23 billion. As the US food market has matured, many companies have expanded overseas with a few basic strategies. Some simply take existing products and set up shop in foreign countries. But most others must adjust their products to fit local palates, and many have found success by teaming up with or buying a local company already producing popular products.

However, the competition in this industry remains severe. As the next century rolls in, the world food industry will face many of the same challenges from one hundred years earlier. Getting food to new markets quickly and cheaply, converting to new packaging techniques and convincing consumers that new preservation methods are safe is a major target of today's food companies. Finding new ways to transform plain foods into elaborate yet convenient concoctions that will tool a few more pennies from the consumer.

Transportation Industry (Marine)

The $5.9 billion US maritime industry is anxious by aging fleets that must be replaced by double-hulled tankers in order to meet strict US environmental laws, worldwide over-capacity that is depressing rates, and degrading union strikes and slowdowns. US shipping lines hope that improved methods for container ships carrying cargo - standardized aluminum containers allow efficient packing -- and for tankers carrying petroleum will help them survive in a market based on volume shipping. To help US shipbuilders compete with the lower-cost Japanese and South Korean shipbuilders, the federal government gives the US companies aid that includes assistance with technology and process improvement; meanwhile, shipbuilders have streamlined construction by reassembling large sections of the ships, using new welding techniques. As of 1996, the US was exporting commercial vessels for the first time in 30 years, which might be a clear indicator that the industry had reached its bottom line, and the recovery process had begun.

Retail Industry

US retail cash registers ring up $2.4 trillion annually in sales, and of that, more than $727 billion comes from general merchandise, apparel, and furniture (GAF). The US retail market is maturing, according to industry analysts and retail sales, which have shown an average annual gain of 4% since 1992, are now slipping to 2% a year. Too many retailers trying to peddle too much merchandise are a part of the problem. Since 1986 US retail space has expanded by more than 30% to 19 sq. ft. per person.

At the same time, Americans are spending less time and money on shopping. To increase sales, large US companies are reaching abroad to the growing middle classes in Mexico, Brazil, and China. Meanwhile, some European retailers have mounted their own assault on the US pocketbook as their markets change.

Mass retailers are not the only ones to use price tags as customer lures. Offering a limited product selection and usually charging membership fees, wholesale clubs nonetheless create loyalty with deeply discounted prices.

Not all shoppers frequent the mall. With about $78.6 billion spent in 1997, up 6.6% from the year before, catalog sales are popular with those who live away from shopping areas, who are seeking the unusual or the obscure or who simply hate to shop. Mail order is the most popular

At the same time the Internet retail companies are increasing their volume and number with enormous speed. This fact would definitely increase the share of this industry over the total US output.

Telecommunications Industry

The industry, which today includes traditional telephone, wireless telephone, satellite paging services and the new applications made possible with data communication solutions, is expected to become a trillion-dollar industry by the beginning of the new millennium. Annual global spending on telecom services, already $726 billion, is expected to grow to $1 trillion by 2001. In the US, local calling revenue was at $92.6 billion in 1997 and long-distance revenue came to $92.7 billion in 1997 and is expected to rise almost 10% in 1998.

The defining feature of today's telecommunications market is change, spurred by technological advances and deregulation. For local telephone companies, deregulation finally arrived in the form of the Telecommunications Act of 1996. But the competition it was supposed to bring has been slow to materialize, mired in political and legal battles. Instead, mega-mergers have been the result ($77 billion worth in 1996) as telecom companies buy their customers rather than build new networks.

Grocery and Food Distribution Industry

Many of today's 127,000 grocer stores offer extended services from banking to driver's license tag renewal. The trend has been to extend product services and keep customers in the stores for the longest possible time. Retail sales of grocery stores accounted for $436 billion in 1997, an increase of 2.3% from 1996 and approximately 40% from 1987.

The dominant segment of the grocery industry is supermarkets, which represent 25% of all grocery stores but account for approximately 75% of total grocery sales. Of this, chains (11 or more locations) account for 60%. A supermarket is defined as a large self-service grocery store with at least $2 million in annual sales.

The rise of large national chains has absorbed or pushed out many smaller players in the industry. Since 1986, the number of independent supermarkets and smaller grocery stores has decreased by more than 35,000. To survive, many of the smaller stores have joined grocery cooperatives or associations. Some stores have specialized in specific areas like natural food stores or in bulk selling like warehouse clubs.

Grocery stores are also finding themselves competing with large retail chains like Wal-Mart as well. To counter the attack, grocers have built up the nonfood sections of their stores, adding housewares and other general merchandise. Electronic database management has also meant that stores can keep better inventory controls which in tern provides cost benefits.

Despite flat industry sales and low profit margins, many investment firms such as Kholberg Kravis Roberts and Yucaipa Companies own stakes in several grocery store chains. To these financiers, grocery stores offer stable real estate investments and lucrative consolidation opportunities.

Pharmaceuticals and Medical Equipment Industry

The over-65 age group is expected to expand by 17% over the next 12 years, and this segment uses three times as many prescription medicines as a younger patient. The annual expenditures on health products in the US are currently approximately $111 billion ($95 billion for drugs and $16 billion for medical equipment such as eyeglasses, wheelchairs, etc.) and this will notably increase.

Worldwide drug sales typically rise at a rate of 8% to 10% a year and medical device sales at 7% per year. Internationally, U.S. firms account for more than 40% of the $120 billion market for medical devices and more than 30% of the $265 billion pharmaceutical market. The market allowed large U.S. drug markers to be able to sustain 30% operating margins, which is twice tat of the average S&P 500 corporation. The ten biggest US pharmaceutical companies posted almost $22 billion in profits on $127 billion in sales for 1997.

The US pharmaceutical industry had been traditionally made up of medium-sized companies, but this is changing. In 1996, there were 27 mergers valued at $9.4 billion in the U and 16 US-International company mergers valued at $1.9 billion. In order to maintain drug sales as the companies lose patent protection, they merge or acquire competitors.

The key to success in this industry is to have several strong selling drugs on the market and in development at all times. The top pharmaceutical companies have at least five new successful drugs introduced annually. In addition, the FDA regulations have been streamlined since 1992, and the average review time in 1997 was 19 months, down from 35 months in 1996.

The biggest threat to the large drug manufacturers has been the introduction of many generic manufactures. They have combated this assault using many regulatory tactics to delay approval of cheaper generics, and by offering over-the-counter versions of their prescription drugs.

EQUITY OR FUND SELECTION AND DESCRIPTION

US West Inc.

Current Price	5 years Average ROE	1998 Annual Sales(M)	Market Val (M)	5 years Beta
55.563	52.8%	12,378	27,958	0.65
LTM P/E	P/Book	P/CF	P/Sales	Div Yield
18.3	37.0	7.0	2.3	3.9

Fundamental Highlights

	12/98	12/97	12/96	12/95	12/94
Net Sales	12378.0	10319.0	10079.0	9484.0	9176.0
Revenue Growth	20.0	2.4	6.3	3.4	-10.9
Total Assets	18407.0	17246.0	16915.0	16585.0	15944.0
EPS excl Extraordinary Items (Diluted)	3.0	2.4	2.6	2.5	2.5
EPS Growth	24.8	-5.1	1.2	-0.4	123.9
Current Ratio	0.5	0.5	0.6	0.6	0.5
Quick Ratio	0.5	0.5	0.6	0.6	0.5
EBIT / Interest	5.3	5.6	5.0	5.0	5.4
Total Assets/Equity	24.4	22.8	22.4	22.0	21.1
L-T Debt % Total Capitalization	92.0	86.9	88.2	88.3	85.7
Inventory Turnover	53.0	55.2	45.9	40.7	39.4
Accounts Receivable Turnover	7.2	6.2	6.2	6.1	6.0
Total Asset Turnover	0.7	0.6	0.6	0.6	0.5
Operating Margin	25.7	21.4	23.2	23.0	23.1
Return on Assets	8.5	6.9	7.3	7.3	6.3
Return on Equity	60.9	50.5	57.4	60.2	34.8

As seen above return on equity has been raised from 34.8% to 60.9 %. The company seems efficiently managed its equity. At the same time despite total asset increase from 15,944 millions to 18,407 millions, Return on assets increased from 6.3% to 8.5%. Comparing to industry average of current ratio, company's ratio is low. But operating income covers 5 times of interest expense. The company's capability related to repaying debts seems not a great concern for investors. As a result, Standard and Poor's has maintained "A-" rating for its senior debt. Operating Margin has been enhanced gradually from 23% to 25%.

Bell Atlantic Corp

Current Price	5 years Average ROE	1998 Annual Sales(M)	Market Val (M)	5 years Beta
54.313	21%	31,565	84,308	0.74
LTM P/E	P/Book	P/CF	P/Sales	Div Yield
29	6.8	8.3	2.7	2.8

Company Description

Bell Atlantic Corp. operates a diversified telecommunications concern that provides voice and data transport and calling services network access, directory publishing and public telephone services to customers in the mid-Atlantic and New England regions. Bell Atlantic Corp., a telecommunications services provider, announced on June 8, 1998 that it will begin work in July 1998 on a new long-distance data transmission network that it hopes will boost annual revenues by several billion dollars within the next five years. The network will initially be concentrated in major metropolitan hubs within the company's East Coast service area. The network, which will support services such as virtual private networks, work-at-home and audio and video streaming over the World Wide Web, could begin delivery of services as early as January 1, 1999. The company also provides systems integrated services, customer premise equipment distribution and video services. Through several joint ventures, the company also provides wireless communications services in the U.S. and has invested in wireless businesses in Mexico, Italy, Slovakia, and the Czech Republic. Bell Atlantic also holds an interest in Telecom Corp. of New Zealand Ltd., which provides a full range of telecommunications services. On August 14, 1997, Bell Atlantic acquired NYNEX Corp., which provides telecommunications products and services, information services, software and directory publishing primarily in New York, New England. During 1996, the company through its Bell Atlantic Internet Solutions subsidiary, began offering Internet access services to residential, business and institutional customers.

Fundamental Highlights

	12/98	12/97	12/96	12/95	12/94
EPS excl Extraordinary Items (Diluted)	1.88	1.57	1.98	2.13	1.61
EPS Growth Rate	20.2	-21.2	-6.8	32.4	-5.3
Current Ratio		.66	.69	.72	.68
Quick Ratio		.62	.67	.7	.63
EBIT / Interest	4.7	4.0	6.1	5.7	4.6
L-T Debt % Total Capitalization		50.9	31.8	33.4	34.7
Total Asset Turnover	0.7	0.6	0.6	0.6	0.5
Operating Margin	25	24.1	22.5	23.1	21.8
Return on Assets	8.5	6.2	7.1	7.7	5.2
Return on Equity	27	24.3	17.9	19.7	13.3

There is some volatility in E.P.S growth rate but its earning powers have been gradually improved. Since 1994, the company operating margin has been enhanced from 21.8% to 25 %, while return on equity has been doubled from 13.3% to 27%. The same as implication from US West, low current ratio doesn't hurt company's borrowing cost, thanks to high interest coverage. As for information, senior debt rating from Standard and Poor's is A+.

Peer Group Evaluation

2-Apr			Current			Consensus		ROE	Operating	Payout
COMPANY	Price	P/e	P/B	P/CF	Yield	P/e(99)	2000	3 year	Margin	Ratio
ALLTEL CORP	63.81	33.76	5.46	9.84	1.86	25.50	21.60	19.03	23.03	63.87
AMERITECH CORP.	60.25	18.54	6.18	13.99	2.05	23.40	21.30	31.11	25.05	38.84
AT&T CORP.	78.50	26.98	5.11	14.95	1.68	22.40	19.60	17.16	18.85	45.05
BELLSOUTH CORP	41.25	23.17	5.15	10.33	1.79	21.70	19.40	22.80	25.53	42.46
GTE CORP	60.75	23.64	6.76	8.58	3.09	17.30	15.40	35.15	23.91	72.59
NICOR INC.	36.00	14.88	2.26	6.38	4.17	12.50	11.80	16.49	14.24	59.54
SBC COMM.	49.75	24.27	7.78	10.35	1.90	21.30	19.00	27.24	24.84	46.88
SPRINT CORP (FON GP)	102.38	52.23	4.69	15.84	0.98	28.40	24.30	16.45	17.23	27.78
Average		**27.18**	**5.42**	**11.28**	**2.19**	**21.56**	**19.05**	**23.18**	**21.58**	**49.63**
U S WEST, INC.	**55.56**	**19.56**	**37.61**	**7.31**	**2.89**	**17.00**	**15.50**	**39.56**	**25.67**	**70.16**
BELL ATLANTIC CORP.	**51.75**	**27.82**	**6.14**	**9.05**	**2.98**	**17.20**	**15.20**	**25.57**	**25.04**	**80.63**

US West and Bell Atlantic look most attractive because of earning power of both company, excellent dividend yield, undervalued P/E ratio based on year 2000 consensus earning, lower price multiple over operating cash flow. US major telecommunication sector has higher dividend yield than market average, 1.28. Even in high dividend paying sector, both companies' current dividend yields are 32% and 40% higher than that of its peer group. Regarding earning powers, US West has the highest 3 year average ROE, 39.56%, and the highest operating margin of 25.67%. Bell Atlantic also have high ROE and above average operating margin. Considering the merger announcement between Bell Atlantic and GTE and also SBC and Ameritech, Bell Atlantic may hold the second place among its sectors in terms of earning power.

Both US West and Bell Atlantic traded at a deep discount compar~~ing~~ed to its peer group despite their high yields and earning powers. It is more apparent that both companies are undervalued when their market multiples are considered. Based on the consensus earning of the fiscal year 2000, US West is traded at 21% discount and Bell Atlantic 23%. Furthermore US west's price to cash flow is only 64% of the average of its peer group. The same ratio for Bell Atlantic is also discounted comparing to its peer group.

Ross Store Inc.

Current Price	5 Years Average ROE	1998 Annual Sales(M)	Market Val (M)	5 Year Beta
43.594	23.2%	2182.4	2009	1.58
LTM P/E	P/Book	P/CF	P/Sales	Div Yield
15.6	5.4	14.2	0.9	0.6

Company Description

Ross Stores, Inc. operates a chain of 325 retail stores in 17 states, which offer name-brand apparel, accessories and footwear for the entire family at discount prices. Ross Stores, Inc. operates a chain of 349 off-price retail apparel stores in 17 states which target value conscious men and women between the ages of 25 and 54 in white collar, middle-to-upper middle income households which the company believes to be the largest customer segment in the retailing industry. The decisions of the company, from merchandising, purchasing and pricing, to the location of its stores, are aimed at this customer base. The Company offers branded product at 20%-60% discount at its retail value

Fundamental Highlights

	1/99	1/98	1/97	1/96	1/95
Net Sales	2182.4	1988.7	1689.8	1426.4	1262.5
Revenue Growth Rate	9.7	17.7	18.5	13.0	12.5
Total Assets	870.3	738.0	659.5	541.2	506.2
EPS excl Extraordinary Items (Diluted)	2.80	2.35	1.57	0.87	0.75
EPS Growth Rate	19.1	49.7	81.5	16.1	30.7
Current Ratio	1.42	1.54	1.44	1.55	1.71
Quick Ratio	0.27	0.25	0.22	0.21	0.22
EBIT / Interest				27.4	18.4
Total Assets/Equity	2.0	1.9	1.7	1.4	1.3
L-T Debt % Total Capitalization	0.0	0.0	0.0	2.5	10.8
Inventory Turnover	3.5	3.6	3.7	3.7	3.7
Accounts Receivable Turnover	221.7	249.3	190.6	186.9	269.3
Total Asset Turnover	2.7	2.8	2.8	2.7	2.7
Operating Margin	10.2	9.8	8.0	5.2	4.3
Return on Assets	16.6	16.8	13.5	8.3	7.8
Return on Equity	33.2	33.1	24.1	13.6	12.1

As shown above, company's sales have been increased dramatically. The sales of fiscal year 1999 were about doubled comparing to the fiscal year 1995. At the same time its E.P.S has been quadrupled. The management targets its long-term growth rate at 10-15% annually. Inventory turnover has decreased from 3.7 to 3.5, showing little bit of inefficiency of inventory management. However accounts receivable turnover is high in an absolute term. The company takes only 1.4 days to collect account receivable; implying a large portion of sales is cash. Finally, company's earning power is outstanding. ROE has been increased form 12.1 to 33.2%. The company continuously paid debts and repurchased its shares. Currently company doesn't hold any debt at all. Operating margin also has been enhanced, thanks to increased sales per square foot and excellent store management.

Peer Group Evaluation

2-Apr			Current(1999)			Consensus		ROE	Operating	D/E
Company Name	Price	P/e	P/B	P/CF	Yield	P/e(00)	2001	3 year	Margin	Ratio
ABERCROMBIE & FITCH	91.25	47.53	30.10	66.18	-	36.50	28.20	138.04	16.13	85.07
AMERICAN EAGLE	73.38	32.47	12.06	28.67	-	27.00	22.30	17.13	13.93	-
CLAIRE'S STORES	29.31	20.94	4.74	16.00	0.55	24.60	20.70	25.79	16.97	0.28
GAP, INC. (THE)	67.25	49.09	16.24	37.65	0.20	18.00	15.10	37.56	13.08	37.31
INTIMATE BRANDS INC	46.50	29.25	14.34	23.15	1.20	40.90	34.10	68.49	15.82	62.41
LIMITED, INC. (THE)	38.75	26.54	4.00	14.90	1.39	24.70	21.20	18.22	7.69	27.12
NORDSTROM, INC.	40.81	28.95	4.45	16.74	0.76	23.40	20.40	11.58	7.49	46.41
PAYLESS SHOESOURCE	46.63	12.33	1.78	7.93	-	25.00	21.50	15.26	8.18	0.94
TJX COMPANIES, INC.	33.63	26.48	9.24	20.80	0.36	22.20	19.00	24.68	7.13	-
Average		**31.39**	**9.98**	**25.02**	**0.45**	**26.69**	**22.32**	**35.82**	**11.52**	**28.17**
ROSS STORES, INC.	**43.88**	**15.67**	**4.33**	**12.34**	**0.52**	**13.80**	**12.10**	**30.81**	**10.25**	-

The companies in the table are Ross store's peer group whose market capitalization is over 1000 billions and 5 years average ROE is over 15 %. As seen above, Ross Store Inc is traded at deep discount of its peer group, even though its earning power is superior at 3 years average of 30.81% with no debt in its balance sheet, which is the 3rd highest ROE among 11 companies above. In addition, the consensus estimated P/E ratio of year 2000 is 50% lower than the average estimated P/E of its peer group. Current Price to Book Ratio and Price to Cash flow are also about 50% lower than the averages of its peer group. In addition, assuming P/E of S&P 500 at about 28, Ross again is traded at deep discount.

Furthermore comparing to its main competitors in off-price market, the valuation of the company seems still cheap and has higher earning power. For example SteinMart, Burlington Coat, TJX Companies have higher P/E and Price to Cash flow than those of Ross, while 3 years average ROE is lower that that of Ross.

2-Apr			3yr Average	Operating	Market
Company	P/e	P/CF	ROE	Margin	Cap(M)
STEIN MART, INC.	22.63	15.41	19.16	6.18	454
BURLINGTON COAT	25.00	11.29	11.40	2.84	549
TJX COMPANIES, INC.	26.48	20.80	24.68	7.13	11008
ROSS STORES, INC.	15.67	12.34	30.81	10.25	1933

Investment rationale

Superior sales growth rate and E.P.S Growth rate

For the last 5 years, sales growth rate has been varied from 9.7% to 17.7%, average of 14.2%, and contemporarily growth rate for the E.P.S was at average of 39.4%. These growths come from store expansion and increased operating margin.

Superior earning Power

The company's return on equity has been continuously increased from 12.1% to 33.2% for the last 5 years. Its operating margin also has been continuously enhanced from 4.3% to 10.2% at the same period of time.

Strong balance sheet

The company currently hold no debt and has repurchased 1.9 millions and 1.4 million outstanding shares in 1998 and 1997, respectively with it huge free cash flow. Total liability accounts for 51%(445M) of total assets. 95% of them is account payable. Current ratio is 1.42. Even this rate is relatively small but since the company does not hold debt at all, there will be no liquidity problem.

Outlook

Management project long term growth rate at 12-15% annually. In order to accomplish this target growth rate, the company has strategies of increasing square footage, introduction of new merchandise categories, and additional increase in merchandise units (buyer). Merrill Lynch forecasts 28 new store adding in 1999 and 30 new store in year 2000. Company's target seems reasonable since it has its presence only in 17 states and it is solely operates in domestic market. Therefore there is lots of room to grow for Ross Store Inc. domestically and internationally. Strong financial position of the company may support its growth target properly.

Risk

There is some risk associated with competition. Recent introduction of Internet discounted retailers, i.e. "Cyborspace.Com" may cause significant competition. Because these cybershops have no physical facility except for the inventory warehouse, they have more flexibility in price-cutting, which may result in decrease of sales of existing off-price retailers. Another factors that affect profitability of the company is the price cut of department store and original brand retailers. Since off-price market attract customer through discounted price, price cut of department store and original brand retailers may induce reduction of sales of off-price market.

Harris Corporation

Current Price	5 Years Average ROE	1998 Annual Sales(M)	Market Val (M)	5 Year Beta
30.688	***23.2%***	3890.2	2,420	1.58
LTM P/E	P/Book	P/CF	P/Sales	Div Yield
20.7	1.5	5.9	0.6	3.1

Company Description

Harris Corp. researches, develops and produces high-technology systems for government and commercial organizations, makes semi-custom, custom and standard integrated circuits and discrete semiconductors; makes communication equipment; and sells office equipment and business communication products. Harris

Corporation is a worldwide company focuses on four core businesses; communications, semiconductors, office systems and equipment, and advanced electronic systems. The Electronic Systems Sector researches, develops, designs, and produces a broad range of high-technology systems for government and commercial organizations.

	6/98	6/97	6/96	6/95	6/94
Net Sales	3890.2	3797.2	3621.2	3444.1	3336.1
Revenue Growth Rate	2.4	4.9	5.1	3.2	7.6
Total Assets	3784.0	3637.9	3206.7	2836.0	2677.1
EPS excl Extraordinary Items (Diluted)	1.66	2.62	2.28	1.97	1.53
EPS Growth Rate	-36.6	14.9	16.0	28.9	8.9
Current Ratio	1.66	1.60	1.64	1.72	2.11
Quick Ratio	0.99	0.88	0.84	0.89	1.08
EBIT / Interest	3.5	5.5	5.3	4.6	4.3
Total Assets/Equity	2.4	2.3	2.0	1.8	1.7
L-T Debt % Total Capitalization	32.3	29.9	26.8	22.8	29.1
Inventory Turnover	2.9	2.7	2.7	2.7	2.8
Accounts Receivable Turnover	4.8	4.9	5.2	5.3	5.3
Total Asset Turnover	1.0	1.1	1.2	1.2	1.3
Operating Margin	8.4	8.3	8.4	8.1	6.9
Return on Assets	3.6	6.1	5.9	5.6	4.7
Return on Equity	8.3	13.9	12.5	11.0	8.9

Revenue growth has been moderate, as Harris has been affected by continuing deterioration in global economic conditions. The semiconductor's sector revenues have been negatively affected by pricing pressure and a downturn in worldwide demand. HRS has taken action to reduce its cost structure, including an 8% reduction in headcount. The company also recorded a $90 million charge in the fourth quarter FY98. Additionally, charges of $52 million were taken in the Lanier, Communications and Electronic Systems groups, representing one-time measures to reduce overhead and to exit non-strategic product lines.

Peer Group Evaluation

Company Name	Last Close	P/E	Yield	Return on Equity	Debt to Equity Ratio	% Chg EPS Last Qtr	Earn. Growth Rate	Market Value (MM)
ADC TELECOMMUNICATIONS	49.88	63.1	0	16	0	-100	26.2	6724
COMMSCOPE INC	20.25	25.6	0	19.2	0.9	333.3	NC	1023
CORNING INC	60.44	36.2	1.2	26.2	0.7	-4.3	NC	13996
ERICSSON LM TEL ADR	25	29.4	1	22.7	0.2	-26.7	34.3	48725
GENERAL MOTORS CORP CL H	51.94	85.1	0	5.7	0.01	-15.4	NC	5497
HARRIS CORP	**28**	**19**	**3.4**	**8.3**	**0.5**	**0**	7 **2**	**2209**
QUALCOMM INC	137	84.6	0	11.3	0	30	37.9	9786
RCN CORP	35.94	NE	0	NE	1.9	NC	NC	2343
RELTEC CORP	29.5	NE	0	7.3	0.7	NA	NC	1663
ROGERS COMMUN B NON-VOTG	18.31	8.4	0	NE	NS	NE	NC	5290
SCIENTIFIC-ATLANTA INC	27.13	25.6	0.2	12.8	0	31.6	NC	2048
TELLABS INC	98.56	47.6	0	28.9	0	47.6	58.1	19210

HRS offers the highest yield of the comparable companies in its sector. At the same time, HRS has an attractive P/E ratio, lower than that of the industry average. Harris has not created an ROE in the last year in the top of the sector, but has had a 5-year ROE greater than 20%. HRS stock price suffered in the last year, but top firms in the sector have suffered as well. HRS is attractive since its Beta is less than 1, at 0.95.

Investment Rationale

Harris has posted solid earnings gains since the economy emerged from a recession in the early 1990's. The diversified company operates four business segments, each with an optimistic and long term future.

Outlook

Long term, HRS will benefit from the emergence of digital television in the U.S., a potential $6 billion market. HRS will also introduce advanced communication chips for the telecommunications industry in 1999. The outlook is positive for companies having a strong presence in wireless and data communications equipment, and will eventually benefit from global deregulation. The reasons for optimism include accelerated spending by wireless services providers as cellular carriers move to upgrade their systems to digital technology and increased bandwidth.

Risk

Volatility has been low for Harris over time with a Beta < 1.00. As with all firms involved in the development of new technology, Harris' earning potential depends on the favorable market acceptance of new telecommunications technologies. Increased competition should force companies to increase their capital budgets in order to implement various strategies for entering new markets. This will continue to put a strain on Harris' balance sheet and need for long term debt financing.

Electronic Data Systems Corp

Current Price	5 Years Average ROE	1998 Annual Sales(M)	Market Val (M)	5 Year Beta
48.436	***23.2%***	15,235.6	23,868	0.76
LTM P/E	P/Book	P/CF	P/Sales	Div Yield
32.3	4.1	12.2	1.4	1.2

Company Description

Electronic Data Systems Corp. offers a full range of information technology services to enterprises, government entities and individuals worldwide. Services include management consulting, systems development, systems integration, systems management and process management. In June 1996, the company split-off from

General Motors Corp. Electronics Data Systems (EDS) offers its clients a continuum of services worldwide, including the management of computers, networks, information systems, information processing facilities, business operations and related personnel, providing to its clients advantages in cost-effectiveness and speed of implementation.

Fundamental Highlights

	12/97	12/96	12/95	12/94	12/93
Net Sales	15235.6	14441.3	12422.1	9960.1	8507.3
Revenue Growth Rate	5.5	16.3	24.7	17.1	4.3
Total Assets	11174.1	11192.9	10832.4	8786.5	6942.1
EPS excl Extraordinary Items (Diluted)	1.49	0.89	1.96	1.71	1.51
EPS Growth Rate	66.3	-54.6	14.6	13.2	13.5
Current Ratio	1.59	1.58	1.34	1.17	1.16
Quick Ratio	1.56	1.54	1.29	1.12	1.10
EBIT / Interest	7.5	5.4	13.1	25.3	29.4
Total Assets/Equity	2.11	2.1	2.0	1.7	1.3
L-T Debt % Total Capitalization	25.2	30.4	25.9	16.1	9.0
Inventory Turnover	100.3	70.6	60.2	56.1	58.3
Accounts Receivable Turnover	4.2	4.3	4.7	5.4	6.1
Total Asset Turnover	1.4	1.3	1.3	1.3	1.3
Operating Margin	10.1	11.4	12.3	12.5	13.1
Return on Assets	6.5	3.9	9.6	10.5	11.1
Return on Equity	14.5	8.4	19.7	18.4	17.3

EDS achieved 11% revenue growth in 1998, but lower GM revenues, which comprise about 25% of total revenues, have restricted growth. The company signed $11.8 billion of new business in 1998, versus $16.3 billion in 1997. Margins have dropped a bit, but still remain strong for the sector.

Peer Group Evaluation

Company Name	Last Close	P/E	Yield	Return on Equity	Debt to Equity Ratio	% Chg EPS Last Qtr	Earn. Growth Rate	Market Value (MM)
ACXIOM CORP	25.38	NE	0	17.8	0.5	-10.5	NC	1982
AFFILIATED COMPUTER SVC	45	30.4	0	10.8	0.5	233.3	NC	2211
CGI GROUP INC	21.88	109.4	0	7.4	0	NA	NC	2919
COMPUTER SCIENCES CORP	53.81	28.5	0	13	0.4	22.7	25.1	8546
ELECTRONIC DATA SYSTEMS	48.88	32.6	1.2	12.6	0.2	-50.9	-3.3	24035
NCR CORP	49.5	41.3	0	8.4	0	600	NC	4924
PEROT SYSTEMS CORP	25.38	60.4	0	NA	NA	NA	NC	2146
UNISYS CORP	29.81	28.1	0	399	11.4	NE	NC	7770

EDS has been in the middle of the pack in its sector in P/E and ROE. EPS were down because of one-time restructuring charges and write-downs in 1998. After a contract dispute with Xerox, revenue forecasts were adjusted downward for fourth quarter FY98. But the pipeline remains strong.

Investment Rationale

Outlook

The outlook for the computer services industry is favorable, since these services greatly increase productivity and can reduce costs. The strategic nature of EDS makes them particularly attractive in this industry. Changes in the delivery of health care services, including the rise of managed care and the vertical integration of services, will demand more complex and specific health care information systems. Sophisticated computer systems can also help organizations effectively manage the complexities of the insurance and financial services industries. EDS provides a consistent record of earnings and earning growth. Volatility is low at just 0.74. A solid performer long term.

Risk

Companies in the computer services business are attempting to parlay Y2K projects into extended service agreements. But beyond maintenance, the market may not provide new opportunities. EDS will have to find new markets for computer systems and information management. For improved financial performance in the next several quarters, GM must return to profitability.

Merck & Company Incorporated

Company Description

Merck & Co., Inc. is a global research-driven pharmaceutical company that discovers, develops, manufactures and markets a broad range of human and animal health products. The company achieves this directly and through joint ventures. Merck also provides pharmaceutical benefit services through Merck-Medco Managed Care ("Merck-Medco"). The company is divided into two basic operating segments: Merck Pharmaceutical which offers prescription drugs for the treatment of human disorders, and Merck-Medco which fills and manages prescriptions and health management programs. The total revenues in 1998 were $26,898 million. This was up from $23,637 million in 1997 and $19,829 million in 1996.

Current Price 82	5 Years Avg ROE 32.9%	1998 Annual Sales(M) 26,898	Market Val (M) 195,334	5 Year Beta 0.98
LTM P/E 38.1	P/Book 15.4	P/CF 32.5	P/Sales 7.3	Div Yield 1.3

Fundamental Highlights

	12/98	12/97	12/96	12/95	12/94
Net Sales	26,898	23,637	19,829	16,681	14,970
Revenue Growth Rate	13.8	19.2	18.9	11.4	42.6
Total Assets		25,812	24,293	23,832	21,857
EPS excl Extraordinary Items (Diluted)	2.15	1.87	1.57	1.32	1.18
EPS Growth Rate	15.3	19.5	18.6	12.3	26.3
Current Ratio		1.47	1.60	1.51	1.27
Quick Ratio		1.09	1.16	1.19	0.97
EBIT / Interest		51.9	42.0	50.5	37.2
Total Assets/Equity		2.0	1.9	1.9	1.7
L-T Debt % Total Capitalization		9.6	8.4	9.8	8.3
Inventory Turnover		5.6	4.7	4.3	3.7
Accounts Receivable Turnover		8.5	7.7	6.9	6.7
Total Asset Turnover		0.9	0.8	0.7	0.7
Operating Margin		24.0	25.1	26.4	29.4
Return on Assets		18.4	16.1	14.6	14.3
Return on Equity		37.5	31.9	28.1	26.5

The main revenue generating drugs in the pharmaceutical division includes those for the treatment of elevated cholesterol (Zocor and Mevacor), hypertension and heart failure (Vasotec, Cozaar, Hyzaar, Prinivil, and Vaseretic), and anti-ulcerants (Pepcid). These drugs accounted for approximately $10,000 million of total company revenues. The Merck-Medco division generated $11,600 million, which was the largest single contributor towards the company's total revenues.

Merck & Co. has a market capitalization of approximately $195,000 million, and a 5 year average ROE of 32.9%. The P/E ratio for 1998 was 34.4, and the company's 5 year average was 25.9%. The annual dividends per share have been steadily increasing over the past 8 years, from a low of $0.77 in 1991 to a high of $1.80 in 1998. The average EPS growth for the period between 1994 and 1998 was 18.4%. The projected EPS for the years 1999 and 2000 are $2.48 and $2.83 respectively.

Financial highlights include the successful introduction of many new drugs in many areas of the World and the U.S.A. since 1997. These included drugs for the treatment of male pattern hair loss and HIV, and a new oral anti-migraine treatment drug. Merck has also undergone a recent divestitures where it sold off its crop protection business to Novartis for $910 million in July 1997, and one-half interest in The Dupont Merck Pharmaceutical Company to Dupont for $2.6 billion in cash in July 1998. However, these businesses were not significant to the Company's financial position, and their sale had little effect on the liquidity or results of operation.

Peer Group Evaluation

Industry Comparison

Drugs - Drug Manufacturers - Major

Company Name	Last Close	P/E	Yield	Return on Equity	Debt to Equity Ratio	% Chg EPS Last Qtr	Earn. Growth Rate	Market Value (MM)
ABBOTT LABORATORIES	47.56	31.5	1.4	40.8	0.2	10.8	12.3	72156
AMERICAN HOME PRODUCTS	66.5	35.9	1.4	25.7	0.4	-39.5	9	87207
BRISTOL-MYERS SQUIBB CO	63.19	40.8	1.4	41.5	0.2	-46.2	13.8	125463
GLAXO WELLCOME PLC	69.94	41.1	1.1	100.4	1	23.7	14.9	125503
JOHNSON & JOHNSON	94.13	42.2	1.1	26.7	0.01	-86.7	11.9	126567
LILLY ELI & CO	86.88	46.2	1	47.5	0.5	15.9	NC	95672
MERCK & CO	79.94	37.2	1.4	41	0.3	13.7	17.9	188689
PFIZER INC	139.56	54.7	0.6	38	0.01	14	32.4	180479
SCHERING-PLOUGH CORP	55.31	46.9	0.8	43.9	0	21.7	17.9	81437
SMITHKLINE BEECHAM ADR	72.81	42.3	0.8	62.9	0	8.5	17.4	80103
WARNER LAMBERT CO	66	44.6	1.2	34.7	0.4	42.9	25.1	54258
ZENECA GROUP	48.38	17.6	1.6	33.8	0.3	2.6	NC	45857

Schering Plough Corporation

Current Price	5 Years Avg ROE	1998 Annual Sales(M)	Market Val (M)	5 Year Beta
55.125	42.6%	8,077	81,161	0.98
LTM P/E	P/Book	P/CF	P/Sales	Div Yield
46.7	20.3	39.9	10	0.8

Company Description

Schering Plough is active in the discovery, development, manufacturing and marketing of pharmaceutical and health care products worldwide, including prescription drugs, animal health, over-the-counter, foot care, and sun care products. The total revenues in 1998 were up 19.2% for a total of $8,077 million. The revenues for 1997 and 1996 were $6,778 million and $5,656 million respectively.

The main revenue generating drug divisions are the Allergy/Respiratory and Anti-infection/Anticancer divisions. These divisions accounted for approximately $3,800 million of total revenues in 1998. The biggest selling prescription drugs include Claritin, Claritin-D, Proventil, and Vanceril in the allergy/respiratory division, and Dedax, Eulexin, Garamycin, Diprolene, Diprosone, Imdur, K-dur in the other divisions. Another active area for the company is in the animal health biological and pharmaceutical products, which generated $400 million in revenues in 1998.

Fundamental Highlights

	12/98	12/97	12/96	12/95	12/94
Net Sales	8,077	6,778	5,656	5,104	4,657
Revenue Growth Rate	19.2	19.8	10.8	9.6	7.3
Total Assets	7,840	6,507	5,398	4,664	4,325
EPS excl Extraordinary Items (Diluted)	1.18	0.98	0.82	0.71	0.60
EPS Growth Rate	21.0	19.6	14.4	19.5	12.8
Current Ratio	1.31	1.01	0.91	0.83	0.86
Quick Ratio	1.03	0.76	0.68	0.62	0.63
EBIT / Interest	84.1	35.8	29.6	21.2	18.9
Total Assets/Equity	2.0	1.6	1.3	1.2	1.1
L-T Debt % Total Capitalization	0.1	1.1	1.1	2.1	4.4
Inventory Turnover	2.1	2.0	2.0	2.1	2.2
Accounts Receivable Turnover	12.0	11.4	10.2	8.5	7.1
Total Asset Turnover	1.1	1.1	1.1	1.1	1.1
Operating Margin	28.8	28.9	29.1	28.5	26.8
Return on Assets	24.5	24.3	24.1	23.4	21.3
Return on Equity	51.5	47.6	43.1	37.8	33.0

Schlering-Plough has a market capitalization of approximately $81,000 million, and a 5 year average ROE of 42.6%. The P/E ratio was 47.8 in 1998 and the company's 5 year average was 27.3%. The annual dividends per share have been steadily increasing over the past 8 years, from a low of $0.16 in 1991 to a high of $0.42 in 1998.

In addition, the average EPS growth for the period between 1994 and 1998 was 17.5%. The projected EPS for the years 1999 and 2000 are $1.43 and $1.70 respectively. This equates to a 17.1% increase in 1999 and a 16.6% increase in 2000.

Peer Group Evaluation

Please see section under Merck & Company for peer group evaluation.

Safeway Incorporated

Current Price	5 Years Avg ROE	1998 Annual Sales(M)	Market Val (M)	5 Year Beta
52.625	28.0%	24,484	25,586	0.72
LTM P/E	P/Book	P/CF	P/Sales	Div Yield
33.1	9.2	17.8	1.0	0.0

Company Description

Safeway Inc. is engaged in the operation of retail supermarkets throughout North America. The company operates a chain of 1,493 food and drug stores as of 1998. Safeway is the second largest food and drug chain in North America with total revenues for 1998 of $24,484 million. The company's stores are designed to offer a wide selection of both food and general merchandise, and feature a variety of specialty departments such as a bakery, delicatessen, floral, and pharmacy.

Fundamental Highlights

	12/98	12/97	12/96	12/95	12/94
Net Sales	24,484	22,484	17,269	16,397	15,626
Revenue Growth Rate	8.9	30.2	5.3	4.9	2.7
Total Assets		8,494	5,545	5,194	5,022
EPS excl Extraordinary Items (Diluted)	1.59	1.25	0.96	0.68	0.51
EPS Growth Rate	26.2	29.5	43.0	33.7	102.0
Current Ratio		0.80	0.81	0.78	0.79
Quick Ratio		0.16	0.18	0.17	0.17
EBIT / Interest		5.4	5.2	3.7	2.9
Total Assets/Equity		4.0	2.6	2.4	2.3
L-T Debt % Total Capitalization		58.6	44.6	47.6	48.5
Inventory Turnover		11.1	10.1	10.3	10.0
Accounts Receivable Turnover		131.6	110.1	109.1	116.9
Total Asset Turnover		3.2	3.2	3.2	3.1
Operating Margin	6.5	5.7	5.2	4.4	3.9
Return on Assets		8.9	8.6	6.4	5.0
Return on Equity		37.3	31.3	23.5	19.8

The company instituted improved buying practices in 1998 and this has helped to increase earnings for this year. Safeway has a market capitalization of approximately

$27,300 million. The average EPS growth for the period between 1994 and 1998 was 46.9%, and the projected EPS for the years 1999 and 2000 are $1.85 and $2.17 respectively. This equates to a 14.2% increase in 1999 and a 17.7% increase in 2000.

The P/E ratio was 34.9 in 1998 and the company's 5 year average was 26.1%. The net income rose to $766 million in 1998 from $557 million in 1997. The increase was a result of increased sales, improved buying practices, and a lower interest expense associated with debt refinancing.

Peer Group Evaluation

Industry Comparison

Retail - Grocery Stores

Company Name	Last Close	P/E	Yield	Return on Equity	Debt to Equity Ratio	% Chg EPS Last Qtr	Earn. Growth Rate	Market Value (MM)
AHOLD N.V.	38.38	35.2	0	30.8	1.8	19.2	14.4	22079
ALBERTSON'S INC	53.06	23.1	1.4	21.4	0.5	8.5	10.4	13032
AMERICAN STORES CO	32.38	38.5	1.1	12.2	1.4	-100	-1.7	8901
DAIEI INC ADR	6.75	NE	0	NE	4.3	-100	NC	2409
FOOD LION INC CL A	9	15.8	1.9	12.9	0.8	0	81.4	2255
HANNAFORD BROTHERS CO	45.25	20.5	1.5	14.3	0.4	2100	6.7	1913
KROGER CO	59.75	35.1	0	NS	NS	21.4	16.6	15407
SAFEWAY INC	52	32.7	0	26.2	1.5	19	42.1	25771
WEIS MARKETS INC	36.5	18.3	2.7	9.4	0	0	3.3	1524
WINN-DIXIE STORES INC	37.88	35.1	2.7	14.5	0	-7.9	-4.6	5629

Claire's Stores Inc.

Current Price	ROE	1998 sales (M)	Mkt Value (M)	Beta
27.87	26.1	661.9	1.338	1.14
LT P/E	P/Book	P/CF	P/Sales	Dividend Yield
19.9	5	21.1	2	0.6

Company Description

The ticker symbol for the company is "CLE" and its SIC code is "5600". The Claire's Stores are one of the fastest growing retailing chain. It targets female teens with limited budget, which love to shop in malls - the retail preference for the company. The company sells jewelry and accessories through its Claire's Boutiques, Claire's Accessories, Dara Michelle, The Icing, Bijoux One, and Bow Bangles (in Europe) stores. It sells apparel and other items at Mr. Rags. In addition to locations in the US, Canada, and Europe, Claire's Stores has a handful of stores in the Caribbean and Japan. The number of the stores at the moment is 2000. Founder Rowland Schaefer owns 16% of the company.

For the first quarter of 1999 the company has sales of $660 million which represents a growth of 33% compared to the same period in 1998. The EPS had grown from $0.51 in 1995 to $1.21 in 1998. The estimate for the EPS for the year 2000 is 1,67 and for 2001 is 2.04. The Stockholders Equity was $112 million while in the end of 1998 it was double.

The current price of the Stock is $27. The Market value of the company is currently 1.338 billion. The net sales of the company had grown from $280 million in 1994 up to $662 million in 1998. The net income was $24 million in 1994 while in 1998 it was $72 million. For the same period of time the Current Ratio grew from 2.56 to 3.46 and the Quick Ratio - from 1.72 to 2.55. The ROA was 18 while currently it is 20.4. Currently the ROE is 25.3.

Fundamental Highlights

	1/99	1/98	1/97	1/96	1/95
Net Sales	661.9	500	440	345	301
Revenue Growth Rate	23.3	13.6	27.6	14	7
Total Liabilities	0.9	0	0	0	3
Total Assets	394	306.0	242	187	158
EPS excl Extraordinary Items (Diluted)	1.4	1.19	0.95	0.6	0.51
Inventory Turnover	6.2	5.5	5.9	6.1	6.5
Operating Margin	17	17.2	15.7	13.	12.5

Peer Group Evaluation

Company Name	Last close	Yield	ROE	Market value
ANN TAYLOR STORES CORP	44.81	0	3.10	1154
AMERICAN EAGLE OUTFITTER	73.38	0	21.5	1698
PAYLESS SHOE SOURCES	46	0	15.4	1568

Maritrans Inc.

Current Price	ROE	1998 sales (M)	Mkt Value (M)	Beta
6	13.2	151.9	72	0.62
LT P/E	P/Book	P/CF	P/Sales	Dividend Yield
23.1	0.8	4.7	0.5	6.7

Company Description

The ticker symbol for the company is "TUG" and its SIC code is "4400". The company's core business is providing marine transportation services along the East Coast and on the Gulf Coast of the US as well as the Caribbean area. Maritrans has historically served the Atlantic Coast oil business. It offers distribution, storage and transportation services to integrated oil companies, petroleum distributors and independent oil companies such as Marathon Oil, Star Enterprise and Sun Oil. From its two main terminal facilities in Philadelphia and Tampa, Maritrans operates a fleet of 29 tank barges and 23 tugboats that have a total capacity of approximately 4.9 million barrels and transport about 200 million barrels annually. The company's headquarter is in Philadelphia. For 1998 the company has reached $152 million sales.

In 1997 the company added three oil tankers to it's fleet and reached a significant expansion. Maritrans decided to seek market in the Caribbean area, which was the reason for the acquisition for two Puerto Rico based tug-barge units.

For the first quarter of 1999 the company has sales of $660 million which represents a growth of 33% compared to the same period in 1998. The EPS had grown from $0.52 in 1994 to $0.94 in 1997.

low

The current price of the Stock is $6. The Market value of the company is currently $72 million. The net sales of the company had grown from $124 million in 1994 up to

$152 million in 1998. For the same period of time the Current Ratio decreased from 2.56 to 1.27 and the Quick Ratio - from 2.43 to 1.14. The ROA was 2.6 while currently it is 4.7. The ROE was 7.9 in 1994 while in the end of 1998 it was 13.2.

Fundamental Highlights

	1/99	1/98	1/97	1/96	1/95
Net Sales	151.9	135	127	124	124
Revenue Growth Rate	11.8	6.96	2.01	-0.3	-5.8
Total Liabilities	85	89	113	120	117
Total Assets	251	235	252	257	253
EPS excl Extraordinary Items (Diluted)	0.26	0.94	0.44	0.41	0.51
Inventory Turnover	19.5	20	24	23	23.5
Operating Margin	7	16	11	12	15

Peer Group Evaluation

Company Name	Last close	Yield	ROE	Market value
ANANGEL-AMER SHIP HLDG	4	0	2	65
OGLEBAY NORTON CO	21	3.8	13.8	100
TIDEWATER INC	24.5	2.4	31	1372

Philip Morris

Current Price	ROE	1998 sales (M)	Mkt Value (M)	Beta
40.31	34.5	57813	97793	0.43
LT P/E	P/Book	P/CF	P/Sales	Dividend Yield
18.3	5.7	10.1	1.7	4.4

Company Description

The Ticker symbol for the company is "MO" and its SIC code is "2111". Philip Morris is a holding company whose principal subscribers, Philip Morris Inc., Philip Morris International Inc., Kraft Foods Inc. and Miller Brewing Company. The holding is the world's largest tobacco business. It controls about 45% of the US tobacco market, and its Marlboro is one of the world's two most valuable brands. Marlboro, the principal cigarette brand of the company, has been the world's largest selling cigarette brand since the early seventies. The company gets almost half of its revenues and one-third of its profits from food and beer subsidiaries. Kraft is the US's largest food company and marketer of such leading brands as Jell-O, Oscar Mayer, and Post Cereals. Miller Brewing is ranked #2 among the US beer makers. #1 is still Anheuser-Busch. Philip Morris also operates in some different industries. Philip Morris Capital Corporation is engaged in various financial services and real estate investment.

The current price of the stock at this moment is $40. The market value of the company is $98 billion. For the first quarter of 1999, the Earnings Per Share is $0.8. The estimates for the end of 1999 are that the EPS would be $3.33 while for the end of the year 2000, this number is expected to reach $0.79.

The revenue of the company was $57.8 billion for the fiscal 1998 - $1.7 billion growth. The growth for the last six years is 13% (2.16%/year). It is important to notice that the ROE had grown rapidly for the last six years - from 26 to 43. However, this ratio for

1997 and for 1998 is the same. For the same period of time, the ROA had grown from 7.1 to 11.4.

Fundamental Highlights

	1/99	1/98	1/97	1/96	1/95
Net Sales	57800	56110	54555	53140	53770
Revenue Growth Rate	3	3	2.7	-1.2	6.2
Total Liabilities		14100	15240	15830	16470
Total Assets	59920	59950	54800	53800	52650
EPS excl Extraordinary Items (Diluted)	2.2	2.6	2.6	2.2	1.8
Inventory Turnover		3	3.2	3.4	3.8
Operating Margin	23	24	21	20	17.5

Peer Group Evaluation

Company Name	Last close	Yield	ROE	Market value
BROOKE GROUP LTD	14.88	2	18.33	312
EMPRESAS LA MODERNA SA	23.75	0	33.22	2773

Schwab Investments

Fund Description

The investment fund selected is the Schwab Total Bond Market Index Fund. The Fund seeks to provide a high level of current income consistent with preservation of capital by investing primarily in securities issued or guaranteed by the US Government, its agencies or instrumentalities, and repurchase agreements covering these securities.

Fundamental Highlights

Top Sectors	Assets
Government / AAA	65.6%
BBB Rated	12.5%
A Rated	11.2%
AA Rated	10.1%
BB and B Rated	0.6%

Top Holdings	Assets
Treasury Notes / Bonds	50.5%
Corporate Notes / Bonds	26.5%
Asset Backed Securities	18.8%
Government Agency Securities	3.6%

Performance	Fund Return
1-Year	6.2%
3-Year (annualized)	7.8%
5-Year (annualized)	8.0%

Total Net Assets: $381.8 Million

PERFORMANCE ANALYSIS

Assumptions:

- Starting date of performance analysis is March 25 1994 and ending date is March 25 1999.
- Targeting Annual return for the Portfolio of 22.5% slightly over the return for S&P 500.
- Finding optimal weighting for each stocks in our Portfolio
- Starting value of S&P 500 and our portfolio are equally 100,000 at the date of March 25 1994
- Use arithmetic mean to calculate weekly returns for both S&P 500 and the Portfolio
- Assume the Risk free rate is 5.65% based on data from Wall Street Journal dated April 6, 1999

The performance of our Portfolio is superior to that of S&P 500. It has higher return and lower risk than those of S&P 500 do. Holding period return for 5years is 177.51% for S&P 500, while our Portfolio generated 196.46%. If investors invested each 100,000 in both S&P 500 and our Portfolio five years ago, investment in S&P 500 would turn out to be $ 277,507, for our Portfolio would be $ 296,459.

Standard Deviation for the Portfolio is lower than S&P 500, 1.67% Vs 1.90%. As a result, covariance, which implies that unit risk over the average return, of the Portfolio is significantly lower than that of S&P 500. The Beta of the Portfolio is 0.7017. It is less risk than the market (S&P 500).

The Sharpe index and the Treynor index also clearly indicate superiority of the Portfolio. The Sharpe index shows the return earned for bearing risk per unit of total risk. Return is adjusted by the risk free rate. Our Portfolio generated 19.32% over the risk free rate per one unit risk we have taken, comparing to 15.82% of S&P 500. According to the Treynor's index, it uses the beta of portfolio instead of risk free rate in order to incorporate diversifiable risk. It also shows better numbers than the S&P 500.

Performance Analysis for the Past five years ending March 1999		
Risk Free Rate	0.11% (weekly return of 30 years T Bond rate, 5.65% on April 6 1999)	
	S&P	***Porfolio***
Original Value (March 1994)	100,000	100,000
Ending Value(March 1999)	277,507	296,459
Holding Period Return	177.51%	196.46%
Average Weekly Return	0.41%	0.43%
Standard Deviation	1.90%	1.67%
Coefficient Variation	4.646	3.872
Beta	1.0000	0.7017
The Sharp's Index	15.82%	19.32%
The Treynor's Index	0.30%	0.46%
The Jensen Performance Index	Alpha	0.14%
	Beta	0.14%
Annual Return	21.39%	22.50%

Technical Analysis

Please see the Appendix for Candle Stick Charts for our portfolio and for the S&P 500. The Candle Stick Chart is an important tool for Technical Analyst. The chart shows the opening and closing price for the period as well as the highest and the lowest traded levels. The Candle is black if the closing price is lower than the opening one and it is white in the opposite case.

In our charts the period includes the last six months and the timing of the chart is two weeks. These charts confirm visually the difference in the volatility both within the two-week periods and in the six-month period. However, we did not include trading volumes in our analysis as this is normally only included if the analysis is used to forecast the price, and this was not the purpose of our Technical Analysis.

EPS PROJECTIONS TO YEAR 2000

	MO	TUG	ROST	MRK	SGP	SWY	EDS	HRS	CLE	BEL	USW	
Weight	9%	11%	3%	9%	10%	10%	4%	9%	3%	10%	12%	
EPS'2000	374%	54%	363%	278%	161%	214%	216%	295%	156%	334%	358%	
EPS'1998	288%	16%	388%	220%	112%	200%	212%	264%	123%	272%	284%	
Growth	30%	238%	-6%	26%	44%	7%	2%	12%	27%	23%	26%	
Weighted Growth	3%	26%	0%	2%	4%	1%	0%	1%	1%	2%	3%	**44%**

To evaluate the future performance of the portfolio we researched the Earnings Per Share forecasts for each stock in it. We used different sources like Merrill Lynch, Goldman Sachs and CME to obtain the expectations. Then we averaged the data and compared the results for the year 2000 with the Earnings Per Share for the fiscal 1998. The next step was to weight each growth with the same coefficient that we used to build the portfolio. Finally we summed those growth rates and the result was 44% growth for the period 12/31/98 - 12/31/00.

SUMMARY

Based on our Fundamental and Technical Analysis of the portfolio, the expected return is approximately 1.0% above the S&P 500. The anticipated real annual rate of return expected (allowing 4% for inflation) is 18.5%. In addition, the risk factor (Beta) associated with the portfolio is predicted to be 0.7. Therefore, this portfolio is expected to provide a sufficient return to meet the scholarship fund requirements, while minimizing the associated risk.

APPENDIX - Performance Analysis

Performance Analysis for the Past five years ending March 1999

Risk Free Rate 0.11% (weekly return of 30 years T Bond rate, 5.65% in April 6 1999)

	S&P	*Porfolio*
Original Value (March 1994)	100,000	100,000
Ending Value(March 1999)	277,507	296,459
Holding Period Return	177.51%	196.46%
Average Weekly Return	0.41%	0.43%
Standard Deviation	1.90%	1.67%
Coefficient Variation	4.646	3.872
Beta	1.0000	0.7017
The Sharp's Index	15.82%	19.32%
The Treyner's Index	0.30%	0.46%
The Jensen Perfomance Index	Alpha	0.14%
	Beta	0.14%
Annual Return	21.39%	22.50%

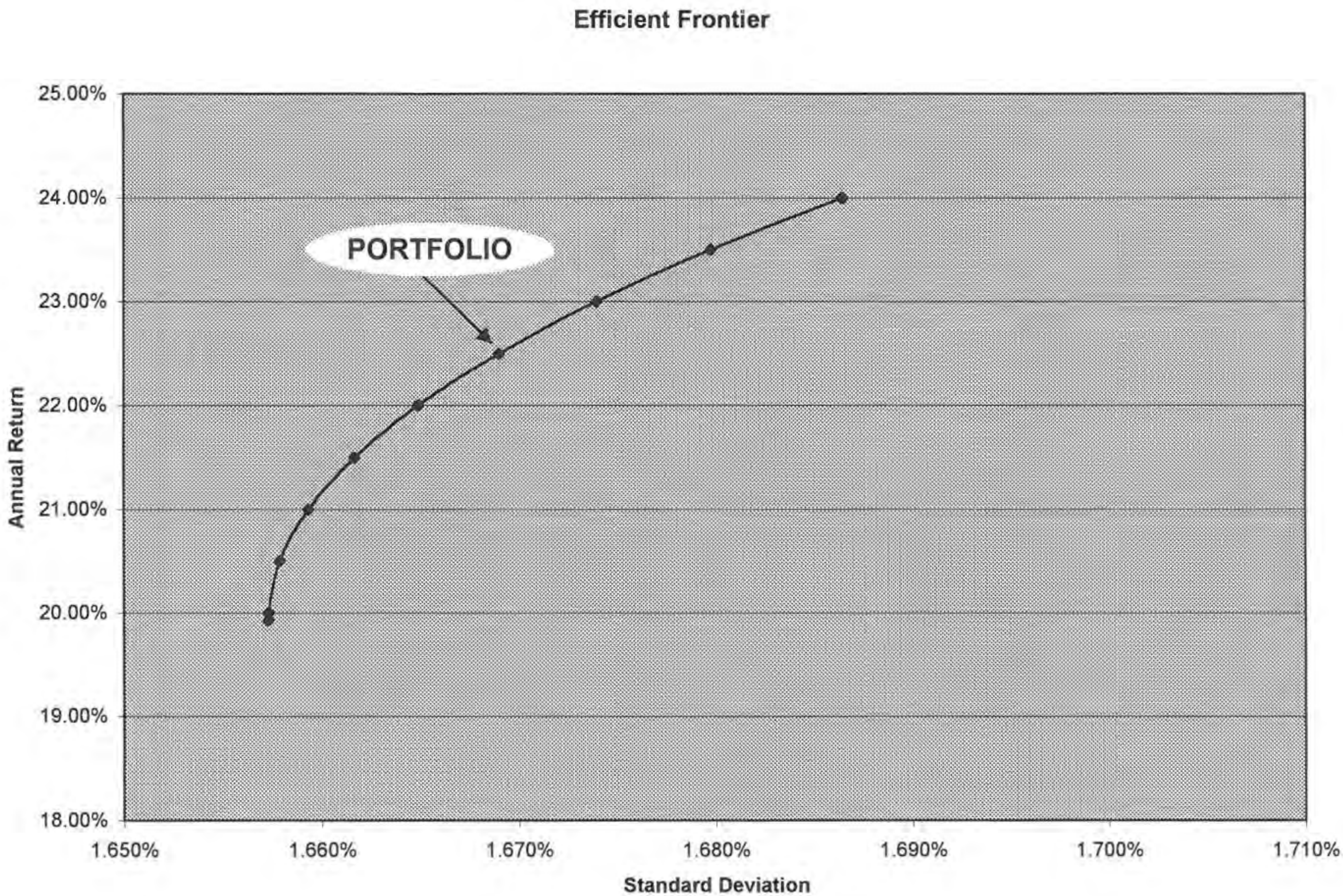
SUMMARY OUTPUT

Regression Statistics	
Multiple R	0.800509
R Square	0.640815
Adjusted	0.639428
Standard	0.010022
Observatio	261

ANOVA

	df	*SS*	*MS*	*F*	*ignificance F*
Regression	1	0.04641	0.0464102	462.0774	1.6005E-59
Residual	259	0.026013	0.00010044		
Total	260	0.072424			

	Coefficient	*ndard Err*	*t Stat*	*P-value*	*Lower 95%*	*pper 95%*
Intercept	0.001434	0.000635	2.2604086	0.024627	0.00018482	0.002684
Porfolio	0.701743	0.032645	21.4959846	1.6E-59	0.63745915	0.766027



Efficient Frontier
PORTFOLIO
Annual Return
25.00%
24.00%
23.00%
22.00%
21.00%
20.00%
19.00%
18.00%
1.650%
1.660%
1.670%
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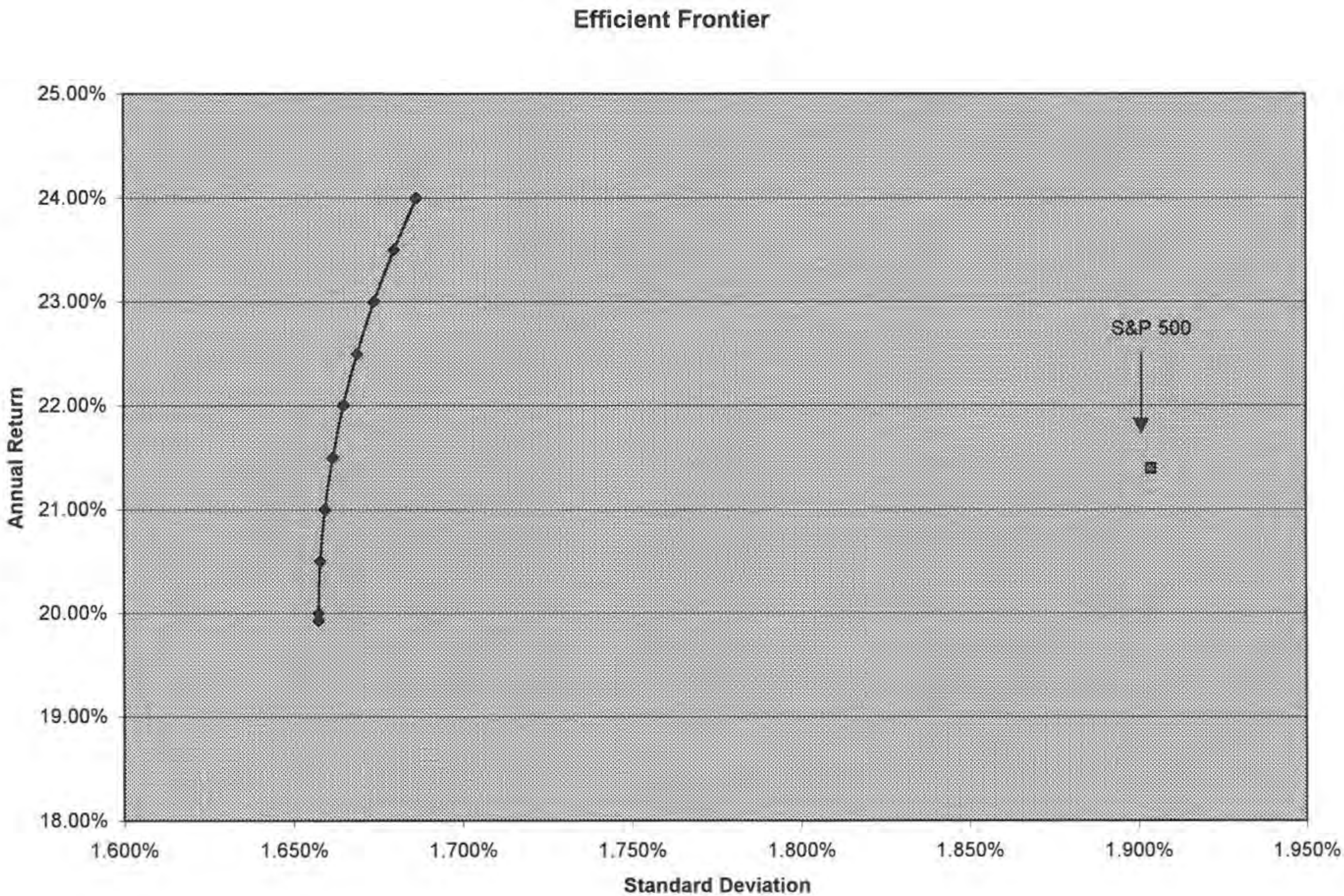
1.690%
1.700%
1.710%
Standard Deviation



Efficient Frontier
Annual Return
Standard Deviation
S&P 500
25.00%
24.00%
23.00%
22.00%
21.00%
20.00%
19.00%
18.00%
1.600%
1.650%
1.700%
1.750%
1.800%
1.850%
1.900%
1.950%

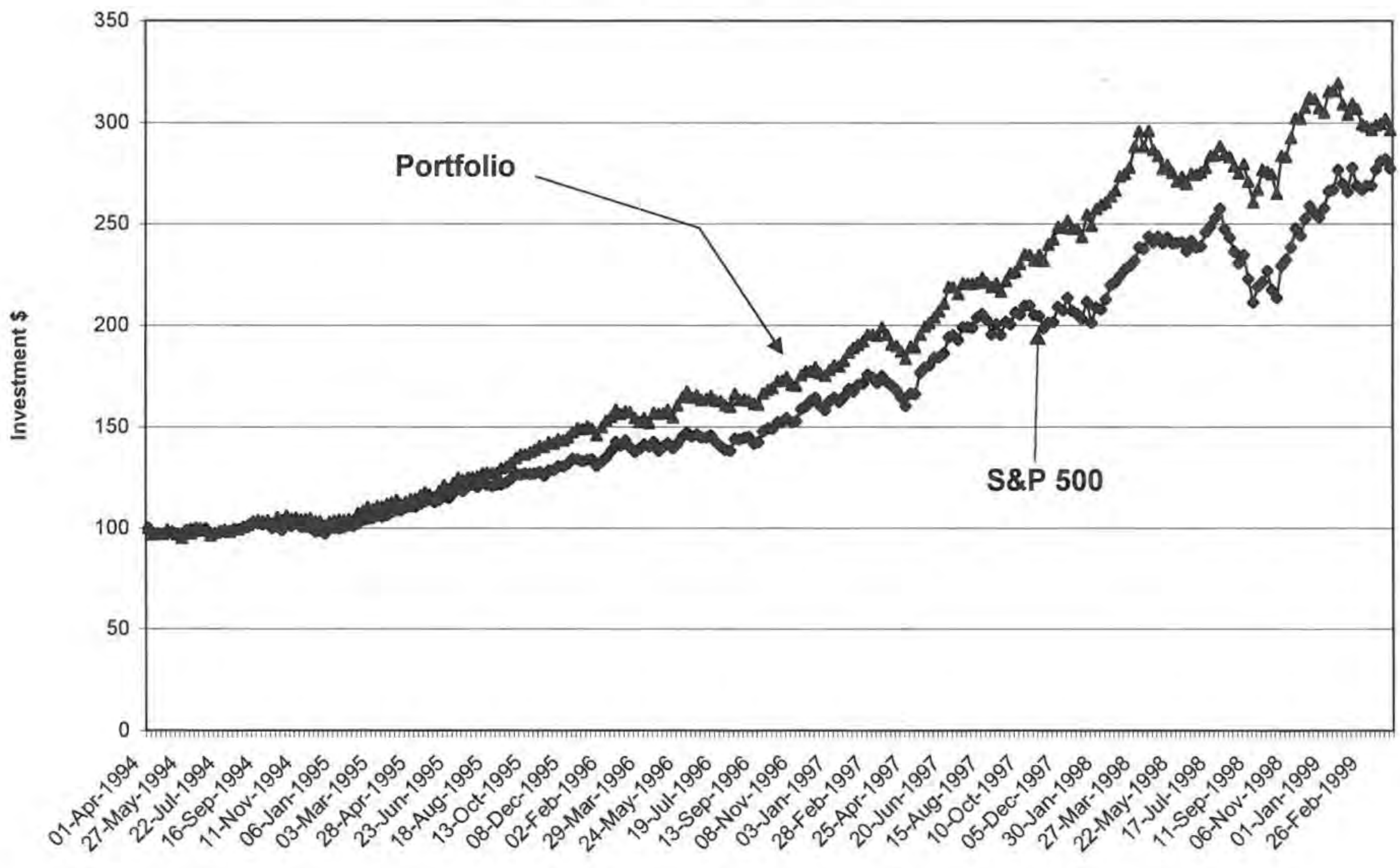
#1

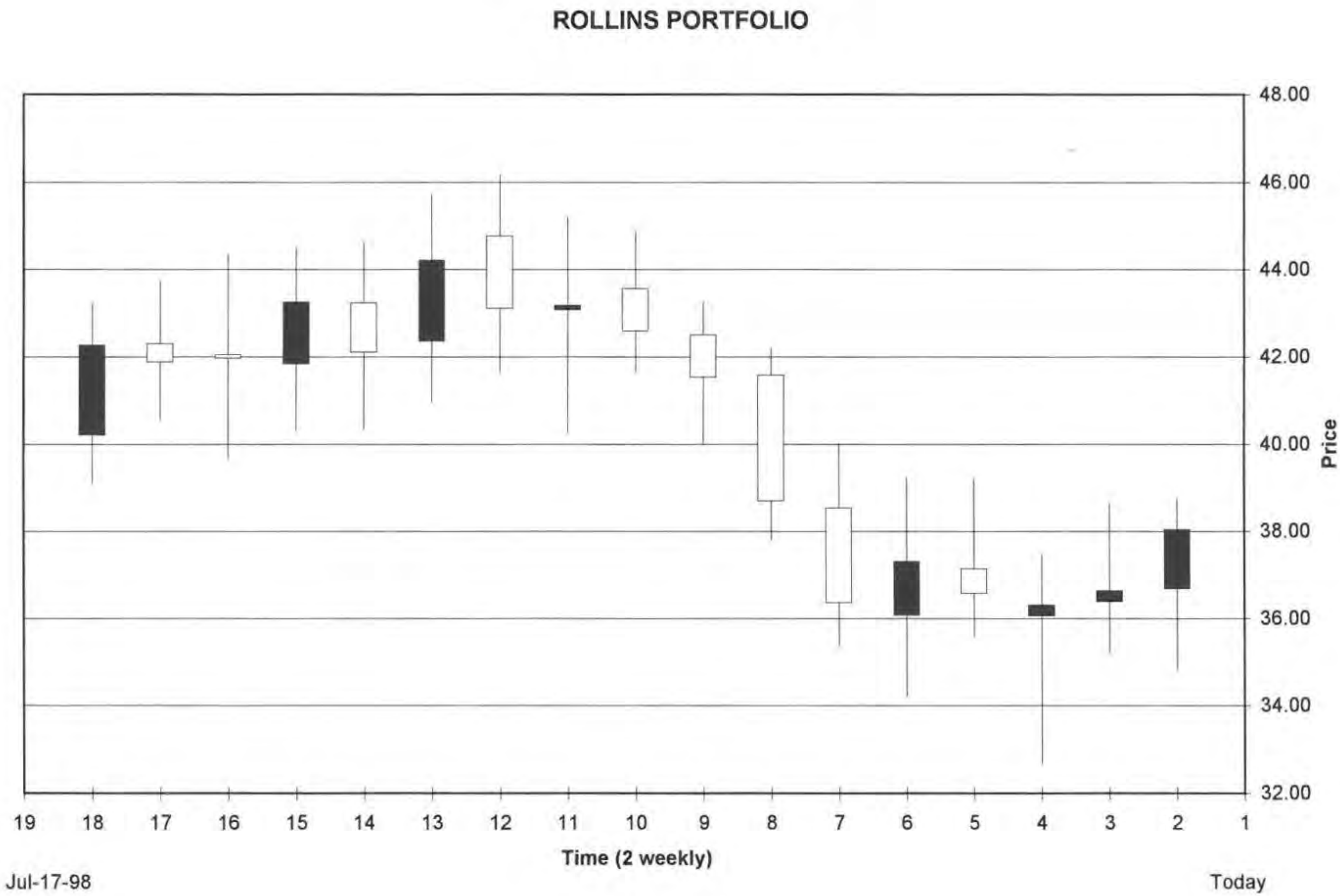
Portfolio Selections

		MO	TUG	ROST	MRK	SGP	SWY	EDS	HRS	CLE	BEL	USW	VULXT
		PHILIP M	MARITR	ROSS ST	MERCK	SCHERI	SAFEWA	ELECTR	HARRIS CO	CLAIRE'S	BELL AT	U S WEST INC NEW COM	
1	Weight	8.85%	12.89%	2.08%	7.29%	7.38%	7.34%	5.38%	11.36%	2.95%	11.57%	12.91%	10.00%
2	Weight	8.84%	12.84%	2.12%	7.36%	7.45%	7.41%	5.35%	11.29%	2.94%	11.52%	12.87%	10.00%
3	Weight	8.81%	12.47%	2.26%	7.64%	7.98%	7.99%	5.16%	10.78%	2.96%	11.16%	12.79%	10.00%
4	Weight	8.76%	12.16%	2.42%	7.95%	8.51%	8.55%	4.93%	10.27%	2.96%	10.84%	12.64%	10.00%
5	Weight	8.73%	11.83%	2.58%	8.25%	9.03%	9.13%	4.71%	9.76%	2.97%	10.51%	12.49%	10.00%
6	Weight	8.69%	11.49%	2.74%	8.56%	9.55%	9.70%	4.50%	9.25%	2.98%	10.19%	12.35%	10.00%
7	**Weight**	**8.65%**	**11.14%**	**2.91%**	**8.88%**	**10.07%**	**10.27%**	**4.29%**	**8.74%**	**2.98%**	**9.87%**	**12.21%**	**10.00%**
8	Weight	8.61%	10.80%	3.07%	9.19%	10.58%	10.84%	4.08%	8.23%	2.98%	9.55%	12.07%	10.00%
9	Weight	8.56%	10.46%	3.23%	9.50%	11.10%	11.41%	3.87%	7.72%	2.98%	9.23%	11.93%	10.00%
10	Weight	8.53%	10.12%	3.39%	9.81%	11.62%	11.98%	3.66%	7.21%	2.99%	8.90%	11.79%	10.00%

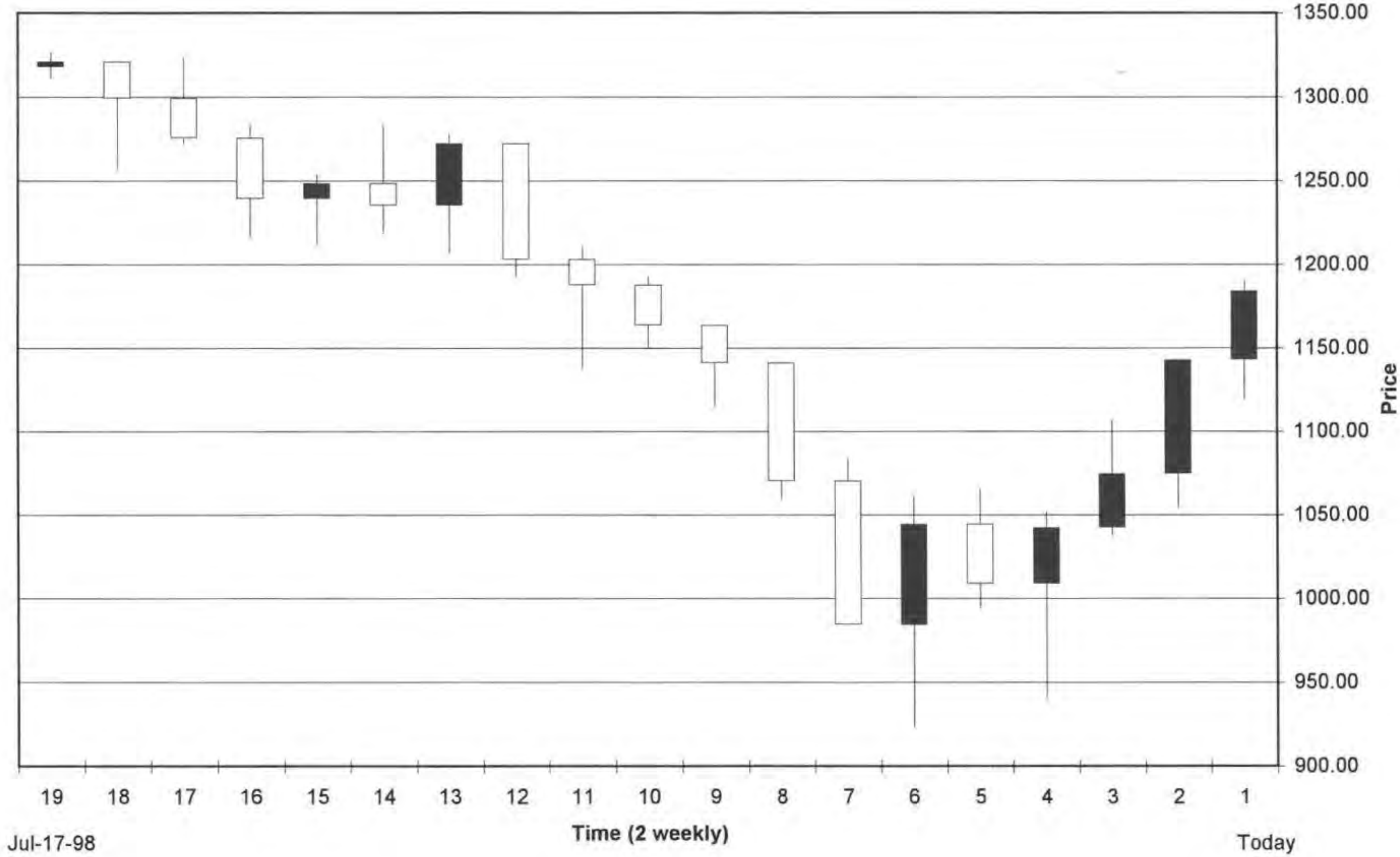
							Portfolio				**S & P 500**
Average Weekly	1	2	3	4	5	6	7	8	9	10	
Return	0.382%	0.383%	0.393%	0.402%	0.412%	0.421%	**0.431%**	0.441%	0.450%	0.460%	**0.41%**
Stdev	1.657%	1.657%	1.658%	1.659%	1.662%	1.665%	**1.669%**	1.674%	1.680%	1.686%	**0.0190**
CV	4.342	4.326	4.222	4.125	4.034	3.950	**3.872**	3.799	3.731	3.668	**4.646**
Beta	0.689	0.690	0.692	0.694	0.697	0.699	**0.702**	0.704	0.707	0.709	**1.00**
Annual Return	19.93%	20.00%	20.50%	21.00%	21.50%	22.0%	**22.5%**	23.00%	23.50%	24.0%	**21.39%**

5 Year Historical Performance




ROLLINS PORTFOLIO
48.00
46.00
44.00
42.00
40.00
38.00
36.00
34.00
32.00
Price
19 18 17 16 15 14 13 12 11 10 9 8 7 6 5 4 3 2 1
Time (2 weekly)
Jul-17-98
Today

S&P 500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Jul-17-98
Time (2 weekly)
Today