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Crummer Graduate School Of Business Portfolio 1999-2000

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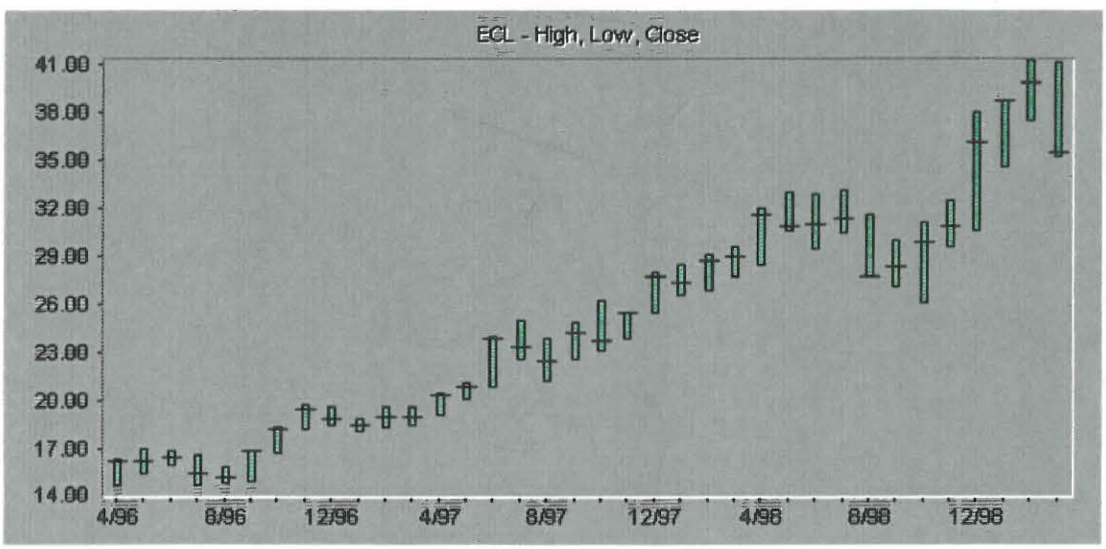

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Introduction

SunTrust Banks of Central Florida Foundation announced a gift of $1,000,000 to Rollins College in 1998. A portion of this gift, $500,000, has been designated for the Crummer SunTrust Investment Portfolio to be directed by Crummer students taking the Portfolio Management / Theory and Applications course. The $500,000 will be given to the school in five yearly increments of $100,000. This paper is a proposal for the investing of the first installment of $100,000.

Asset Allocation

The first criteria we examined in selecting our portfolio was asset allocation of the funds to be invested. We chose to concentrate primarily on equities. We did choose to include one fixed-income fund for diversification across asset classes and to provide a hedge against deflation.

Sectors

The next area we reviewed was the sectors in which we felt the best return could be achieved for the risk level we desired. We diversified across several sectors in order to reduce the overall risk of the combined portfolio. We chose the following sectors: technology, services, financial, consumer non-cyclical, healthcare, basic materials, and conglomerates. We believe that the companies in the technology sector will drive our earnings, although they do represent higher risk. This risk is offset by our investments in other less volatile sectors such as consumer non-cyclicals.

Industry Breakdown

Following is the breakdown of the industries within each sector that our investment choices represent.

Sector	Industry	Company
Technology	Semiconductors	Intel Corporation
	Computer Networks	Cisco
	Communications Equipment	Erricsson
Services	Communication Services	British Telecom
		NEXTLINK
	Waste Management Services	Waste Management, Inc.
Financial	Regional Banks	Firstar
	Insurance - Property and Casualty	The Progressive Corp.
Consumer Non-Cyclical	Beverages - Alcoholic	Anheuser-Busch Com.
	Personal and Household Products	EcoLabs, Inc.

Sector	Industry	Company
Health Care	Major Drugs	Johnson & Johnson
Basic Materials	Forestry and Wood Products	The Timber Group
Conglomerates	Conglomerates	Royal Philips Electronics

Company Selection

In choosing the actual companies within each Sector and Industry, we focused on the growth potential of future earnings. In most cases, we have chosen companies of Blue Chip stature with established earnings and market share, although we have included two companies that are more speculative. We feel that the earnings potential for these newer companies warrant the added risk to the portfolio. The speculative plays are NEXTLINK Communications in the services sector and Firststar Corporation in the financial sector.

Portfolio Construction

We recommend the portfolio be evenly weighted across the 13 stocks and the 1 bond income fund. This would indicate that a little over $7,000.00 be invested in each asset. We believe this is the most optimal allocation of the assets and the best way to maximize the diversification.

Performance Measures

We calculated the beta of our portfolio to be 1.003, which indicates that the portfolio has roughly the same risk level as the S&P 500, which we used as a proxy for the market. Our return for the last year, which was the longest period we were able to find data for all our securities, was 32% versus 15% for the S&P 500. We feel that this provides adequate return for an acceptable level of risk.

Beta	1.003
Sharpe's Index	0.309
Treynor's Index	0.023
Jensen's Alpha	0.024

Firstar Corporation (NYSE: FSR)

Company Overview:

Firstar is a bank-holding company located in Milwaukee, Wisconsin. It provides comprehensive banking services and other financial services. The bank operates 700 locations in 7 Midwestern states and in Arizona and Florida.

Firstar offers a large variety of consumer and commercial banking services. They also provide brokerage and investment services, trust services, mortgage banks and insurance sales.

The bank was founded in 1853. It became part of the national banking system in 1863 as the First National Bank of Milwaukee. Over the next 100 years, the bank grew through mergers and acquisitions. In the 1970's, Wisconsin began deregulation of the interstate banking. This led to rapid growth for the next 25 years.

The current management of Firstar is:

Chairman - Roger L. Fitzsimonds
Vice Chairman and Chief Operating Officer - John A. Becker
Vice Chairman and CFO - Richard K. Davis
President and CEO - Jerry A. Grundhofer

Rationale for Purchase:

- Firstar is one of the fastest growing bank holding companies in the United States. The recent merger with Star Banc gave the bank a critical mass that will allow it to compete with banks on the level of BankOne.

- In the financial industry, most banks have Betas between 1.15 and 1.35. Firstar has a Beta of 1.04. This indicates that the bank is less volatile than most banks. The company is well managed and has sound lending policies.

- The growth rates for Firstar are impressive. The revenue growth is predicted to be 32.3% over the next five years. More immediately, the net income growth rate in the next year is anticipated to be 120.8%

- The profitability ratios are equally as inspiring. The return on assets is 1.35%. The return on equity is 14.18% and the return on investment is 10.78%.

- Firstar was added to the portfolio for the purposes of diversification. It is a strong company in the financial sector. Its will help to offset some more volatile stocks in the portfolio.

Historical Stock Performance:

[redacted]

[redacted]

The Progressive Corporation (NYSE: PGR)

Company Overview:

The Progressive Corporation is an insurance holding company. The major line of business is automobile insurance. This represents 90% of the revenues of the sales of the corporation. The Progressive Corporation is located in Mayfield Village, Ohio. They specialize in high-risk nonstandard auto insurance. The other lines of business are standard and preferred auto insurance, collateral protection for automobile lenders, loan tracking for financial institutions, and director and officer liability and fidelity insurance for commercial banks.

As mentioned, the primary line of business is the high-risk nonstandard auto insurance. This is Progressive's competitive advantage. Progressive issues policies to many individuals that most insurance companies turn down. The company is also trying to increase the standard and preferred policyholders. These policyholders tend to renew their policies more frequently than the nonstandard policyholders. Renewals are more profitable than new policies. The company also has 24 hour claim service and has developed a Web site for direct sales and rate calculations.

Progressive Mutual Insurance was formed in 1937 in Cleveland, Ohio. The company grew slowly in the early years, but in the 1950's they started offering insurance to the high-risk drivers. The management is dedicated to making an underwriting profit. Most insurance companies rely on investment income to earn a profit. The company now operates in all 50 states and Canada.

The current management of The Progressive Corporation is as follows:

Chairman and CEO - Peter B. Lewis
CEO and Investments and Capital management - Charles B. Chokel
CFO and Treasurer - W. Thomas Forrester II

Rationale for Purchase:

- The Progressive Corporation has 30,000 independent agents in the United States and Canada. In 1997, Florida and Texas comprised 25% of the premium of the company.

- Although there are many competitors in the insurance industry, there are few in the nonstandard market. And none of these companies specialize in the high-risk market.

- The growth rates are eye catching for The Progressive Corporation. The 1-year revenue and net income rates are 32.5% and 27.5% respectively. The 5-year sales growth rate is estimated to be 21.6%.

- The profitability ratios are also tremendous. The return on assets is 5.8%. The return on equity is 20%. These ratios indicate the company is well managed and growing.

- The Beta is higher than the industry, 1.4 as opposed to .95. However, this is to be expected considering that Progressive specializes in the high-risk, nonstandard driver. We feel this high Beta will not jeopardize the performance of the portfolio. There are other assets in the portfolio that will offset the risk of this stock. Progressive has the potential to be an extremely high earner for the portfolio.

Historical Stock Performance:

Anheuser-Busch Companies, Inc. (NYSE: BUD)

Company Overview:

Anheuser-Busch is the largest beer maker in the United States. Its market share in the US is 45%. The company manufactures over 40 brands of beer. The primary brands are Budweiser, Bud Light, Michelob, Busch, ZiegenBock Amber, Red Wolf Lager and O'Doul's. The company has joint ventures in China, Japan, Mexico, Latin America, and Europe.

Busch also operates theme parks such as Busch Gardens and Sea World, and water parks such as Water Country U.S.A. and Adventure Island.

Anheuser-Busch dates back to 1852. During the prohibition, the company sold yeast, refrigeration units, truck bodies, syrup, and soft drinks. The company also owned the St. Louis Cardinals from 1953 to 1995. They operated a snack food division until 1995. In 1995, these divisions were sold or closed in order to concentrate on their core competencies.

The current management of the company is as follows:

Chairman and President; Chairman and President - August A. Busch III
VP and Group Executive; President - Patrick T. Stokes
EVP and Group Executive; Chairman of International - John H. Purnell
VP and CFO - W. Randolph Baker

Rationale for Purchase:

- Anheuser-Busch Companies competes in the consumer - non-cyclical - sector and in the alcoholic beverage industry. This market is a mature one. Busch is the leader in the United States market with 45% of the market. Although there will be little growth in the market, it is also not subject to inflation or depressed times by a significant amount. In fact the company can be expected to do well in recessionary environments because the worse economic conditions get the more people can be expected to drink.

- Busch was added to the portfolio because it is a very stable company. Its lack of volatility is represented by a low Beta of 0.69.

- The growth rates for revenue and net income are 1.6% and 5.5% respectively for the coming year. The sales growth rate for the next five years is estimated to be 3.45%.

- The profitability ratios are impressive. The return on assets is 9.73%. The return on equity is 29.62%. And the return on investment is 11.20%

- Anheuser Busch is a stable company and was put in the portfolio to increase the earnings potential of the portfolio. It will offset some of the risk of the more volatile stocks and increase the efficiency of the portfolio.

Historical Stock Performance:

Ecolabs Inc. (NYSE: ECL)

Company overview

Ecolab is the global leader in cleaning and sanitation. They provide service and products to the hospitality, institutional and industrial markets. They have a strong worldwide sales-and-service force of more than 8,600. Their corporate strategy, "Circle The Customer - Circle The Globe", demonstrates a commitment to customers. Ecolab reaches customers around the world through direct subsidiaries, a network of distributors and licensees, and an extensive export operation. In Europe, Ecolab operates as Henkel-Ecolab, a joint venture headquartered in Düsseldorf, Germany. Ecolab's focus is on a total solution approach to customer problems. They combine a superior performing product and dispensing or application method, fully supported by service and expertise. This gives Ecolab a competitive advantage that clearly differentiates it from the competition.

Rationale for Purchase:

- **P/E Ratio;** This stock has a P/E ratio of 34.73 versus 41.34 for the industry.

- **Institutional Investors;** Institutional investors own 54.59% which we see as a sign of stability.

- **Beta:** The risk level of this company is 0.81 while for the industry is 1.00. This indicates that the company is less risky than the industry as a whole.

- **Earnings Per Share;** The growth rate for earning per share last year was 17.47%, while the industry had negative growth at –0.54%. The sector's growth rate was only 2.19%. This is an indicator of management's dedication in providing high returns to its investors.

- **Sales Growth;** The company's current sales growth of 15.11% is well above the industry average of 4.69%. The company sales are increased at a 9.19% rate over the last five years.

- **Quick Ratio;** The quick ratio for the company is 0.68 while for the industry it is 0.61.

- **Debt to Equity Ratio;** Long term debt to equity ratio for this company is 0.29 while for the industry is 0.62. This shows the company is not as highly leveraged as the industry average.

- **ROI:** This company delivered an ROI of 14.35%.

- **Analyst Recommendation;** Out of seven analysts, 4 of them recommended buy/hold, 2 recommended a hold strategy, and one analyst recommended a buy strategy for this stock.

- On January 12, 1999, Ecolab agreed to purchase the assets of Blue Coral Systems a subsidiary of Pennzoil-Quaker State Company of Houston, Texas. Blue Coral Systems is a leading marketer of a broad line of branded vehicle cleaning and specialty products to the commercial vehicle industry. This acquisition will complement Ecolab's existing vehicle cleaning business.

- On October 1, 1998, the company divested some non-core businesses, which analysts interpreted as a sign of improving efficiency. Ecolab sold Peterson chemicals adhesive business to a New Zealand subsidiary of H.B. Fuller company of St. Paul, Minnesota. This business came to Ecolab when it acquired Gibson Inc.

[redacted]

Royal Philips Electronics (NYSE: PHG)

Company overview

Royal Philips Electronics ranks as eighth among the top 30 electronics corporations in the world. They operate in about 80 businesses. These business units include consumer electronics, domestic appliances, security systems, and semiconductors. They have a commanding lead in digital technologies for television, display screens, wireless communications, speech recognition, storage and optical products. They provide unique solutions in lighting, medical systems, and personal and domestic appliances.

Philips incandescent lamp production is over 2.4 billion every year, and picture tube production is over 30 million. Philips Lighting is used in 30% of offices around the world. About 65 percent of the world's top airports, 55 percent of soccer stadiums, and 30 per cent of hospitals are lit by Philips Lighting systems.

Rationale for Purchase:

- **P/E Ratio;** This stock has a P/E ratio of 9.14 which is on the low side in this current market for a healthy company.

- **Institutional Investors;** Institutional investors own 61.28% of the company's stock and it can be assumed that this is a preferred stock for mutual funds companies and other institutional investors.

- **Earnings Per Share;** The 5-year growth rate for earning per share is 75.65% while the industry's growth rate is only 14.12% and for the sector is 14.12%. We consider this an indicator of management's dedication to providing high returns to its investors.

- **Sales Growth;** The company's current sales growth of 10.49% is above the industry average of 9.9%. The company's sales increased at a 5.49% growth rate over the past five years.

- **Debt to Equity Ratio;** Long term debt to equity ratio for this company is 0.38 while for the industry is 1.17. This shows the company is not highly leveraged.

- **ROA;** Return on Assets for this company is 9.99% while for the industry is only 4.22%.

- **ROI:** This company delivered an ROI of 17.47% while the industry result was only 10.30%.

- **Asset Turnover Ratio;** The asset turnover ratio for the company is 1.34 while for the industry is 0.56. This shows that the company is efficiently using its assets to create value for its investors.

- **Analyst Recommendation;** Out of five analysts, 3 of them recommended buy/hold while 2 recommended a hold strategy for this stock.

Historical Stock Performance:

[redacted]

[redacted]

The Timber Company (NYSE: TGP)

Company Overview:

Engaged primarily in the growing and selling of timber. One of the world's leading manufacturers and distributors of building products and a leading producer of pulp and paper, with operating facilities in more than 400 locations in the United States and Canada.

Rationale for Purchase:

- Economy is good and the company is a leader
- Future is brighter
- Growth rapidly
- Financial strong

- The company is the largest producer of structural wood panels in the United States, with approximately 20 percent of total U.S. market; second largest producer of gypsum products in North America. The Timber Company is also the second largest producer of lumber in the United States, with approximately 5 percent of total U.S. production; the industry's leading supplier of wood resins, adhesives and specialty chemicals. It is the second largest producer of container board and largest supplier of container board to independent converters in the United States; the world's second largest producer of market pulp, with approximately 18 percent of U.S. capacity. The company is the second largest producer of communication papers in the United States, with approximately 15 percent of the total U.S. market; a leading producer of tissue products, with approximately 10 percent of the total U.S. market.

- The company said profit in the first quarter could exceed $1 a share, higher than the most optimistic analyst estimates, mostly because of strong prices for building products and rising shipments.

- The company cited strong shipments and prices during January and February for construction materials such as plywood and gypsum wallboard, a material used in walls. The company also said lumber prices are improving, after being held down for more than a year by slack demand in Asia.

- The company also said its businesses that makes pulp and paper for offices and cardboard boxes have made "nominal improvements," thanks to rising demand around the world. Prices have also been rising for some of these products.

- The Timber Company has a strong financial position in market. The stock's P/E ratio is even lower than industry average. DPR is greater than sector's and that is very good news for investors. EPS vs. Qtr. 1 Yr. Ago (70.89%) is much better than sector's (28.30%), and company is very much more profitable (33.33%) than sector's (4.67%).

Returns on equity and asset both are very good (15% for the company and 5% for sector). Management is very efficient and reliable based on inventory turnover ratio.

Historical Stock Performance:

Johnson & Johnson (NYSE: JNJ)

Company Overview:

Johnson & Johnson, with approximately 93,100 employees, is the world's most comprehensive and broadly-based manufacturer of health care products, as well as a provider of related services, for the consumer, pharmaceutical and professional markets. Company's primary interest, both historically and currently, has been in products related to health and well being. JNJ has more than 180 operating companies in 51 countries around the world, selling products in more than 175 countries.

Rationale for Purchase:

- Healthcare Industry is better than other industries and JNJ is a leader
- Stable Growth Business
- Better Financial Position

- Johnson & Johnson, as an international leader in healthcare and drugs, announced sales for the fourth quarter of $6.4 billion, an increase of 13.1% over sales of the $5.6 billion for the same period last year. Domestic sales were up 14.2% while international sales increased 11.8%.

- The company continued to improve operating margins in 1998. Gross profit margin, excluding special charges, improved from 68.4% to 68.6%; while selling, marketing and administrative expenses, as a percent of sales, dropped from 38.5% to 37.7%.

- In 1998, investments in research and development reached $2.3 billion, or 9.6% of sales, an increase of $129 million over 1997. "Our commitment to research and development has never been stronger," said Mr. Larsen. "One of the keys to our growth in the next century is investing in new opportunities."

- The company increased its quarterly dividend in 1998 for the 36th consecutive year, from $.22 per quarter in 1997 to $.25 per quarter, an increase of 13.6%.

- Johnson & Johnson has a very strong financial position. The stock's P/E ratio is lower than the industry and its beta is lower than sector. Those indicate the stock is not high value and is less risky. The DPR is greater than the sector's and that is very good news for investors. EPS-5 year growth rate (14.37%) is a little higher than sector's (13.27%), and company's debt is at much safer position than sectors (D/E ratio is 12% for the company and 43% for sector). The company's profitability is better the sector. Returns on equity and asset are close to sector. Management is efficient and reliable based on asset turnover ratio.

Historical Stock Performance:

[redacted]

Waste Management, Inc. (NYSE: WMI)

Company overview

In July 1998, Waste Services, Inc. merged with Waste Management, Inc. and the combination of these two companies formed Waste Management. The firm had 1998 revenues of more than $12 billion. Waste Management is the largest solid waste company in the world, providing collection, transfer, landfill, recycling and waste-to-energy services to residential, commercial and industrial customers throughout the United States, Canada, Mexico, Puerto Rico and 13 foreign countries.

Waste Management has got the largest network of landfills in the industry. They maintain centralized control of landfill operations at the corporate level and ensure adherence to proper procedures in permit processes, regulatory compliance, construction and ongoing operations. They work toward taking environmental initiatives today that will have the most positive future impact on the communities, in which their landfills are located.

For nine months ended 9/30/1998 revenues rose 5% to $9.24 Billion. The company employs 70,000 people and has a market capitalization of $28,144,080,000.

Rationale for Purchase:

- **Institutional Investors;** Institutional investors own 88.41% of the company stock.

- **Beta:** The risk level of this company is 0.92 while for the industry is 1.06. This indicates that the company is less risky than the industry.

- **Earnings Per Share;** The earning per share growth rate last year was 29.75%, while the industry was 25.68% and the sector was 24.18%.

- **Net Profit Margin;** The net profit margin for the company is 5.37% on a five-year average basis while for the industry it is 3.99%. This high profit margin is a clear indication of its operating efficiency.

- **ROA;** Return on Assets on a five year average basis for this company is 7.63% while for the industry it is only 5.72%. The company is delivering above average performance among its competitors.

- **ROI:** This company delivered an ROI of 8.54% on a five-year average basis, while the industry result was only 6.70%.

- **Analyst Recommendations;** Out of 17 analysts, 1 recommended buy/hold, 3 recommended a hold strategy and 13 recommended a buy strategy for this stock.

Historical Stock Performance:

[redacted]

British Telecom (NYSE: BTY)

Company Overview:

British Telecom is the United Kingdom's dominant telephone company. The company provides local, long-distance, mobile, and international phone service. The company was formed by the British Post Office in 1979 as a governmental agency. A 1981 law split the Telephone Company from the Post Office. The law also permitted competition for the first time. The Office of Telecommunications was established under this law to regulate British Telecom and any competing companies. The British government sold most of the shares in British Telecom in 1993. The company then purchased a 20% interest in MCI. They also have interests in many telecommunications companies in Europe and Canada. In 1997, WorldCom purchased the 20% of MCI from BT for $465 million. In 1999, British telecom is moving into Latin American by purchasing a 20% interest in ImpSat, a regional telecom carrier that serves commercial customers in several cities over satellite and fiber-optic networks.

The current management of British Telecom is as follows:

Chairman - Sir Iain Vallance
Deputy Chairman - Sir Colin Marshall
CEO - Sir Peter Bonfield
Group Director Finance (CFO) - Robert P. Brace

Rationale for Purchase:

- British Telecom has no significant competition in the United Kingdom. Deregulation has just began in England and although there will be future competition, British Telecom will have a significant advantage for many years to come.

- Also, the growth of the Internet will substantially increase revenues. The Internet is in its infancy in the United Kingdom. There is predicted to be a rapid increase in Internet use in the next 3 years, as it was in the United States in the early to mid 1990s. In addition, the cell telephone and pager markets will grow tremendously in the near future. These are also markets in which British Telecom is essentially the only company offering the services.

- British Telecom is a very stable company, with an individual stock beta of .40. It's anticipated to have a growth rate of 8.90% for the next five years. The current P/E ratio for British Telecom is 30.1. The firm's debt/equity ratio is 0.20%. The return on assets is 7.6% while the return on equity is 13.9%.

- British Telecom was added to our portfolio to offset some of the riskier equities in the portfolio. It is a stable company in a growing industry. The performance of the stock is expected to be strong. Nine out of ten brokers recommend the stock for either a buy position or a strong hold position.

Historical Stock Performance:

[redacted]

NEXTLINK Communications, Inc. (NASDAQ: NXLK)

Company Overview:

NEXTLINK Communications, Inc. provides local, long distance, and enhanced communications services to commercial customers and is one of the fastest growing telecommunications companies in the nation. NEXTLINK was founded by Craig McCaw in 1994 after he sold Cellular One to AT&T for $11 billion dollars.

NEXTLINK operates 23 facilities based networks that provide switched local and long distance services in 38 markets in 14 states. They have the exclusive right to use a 16,000-mile inter-city long-haul fiber network to connect its local fiber networks in the United States and Canada. Additionally, NEXTLINK is the largest owner of LMDS (local multipoint distribution service) frequencies, with licenses that serve 82 urban markets that have a total population of 200 million people. This includes 95% of the population in the US's top 30 markets.

Rationale for Purchase:

- The importance of LMDS licenses is that their microwave frequencies and new technology is the key to breaking the monopolies of local telephone service that were deregulated by Congress in 1996. So far no one has seriously challenged the local phone service monopolies due to the extremely high barriers to entry from huge investments in countless miles of copper lines and billions of dollars of switching equipment.

- Currently, NEXTLINK is concentrating its efforts in spreading LMDS technology to the commercial market, but as prices drop from increased economies of scale, the company will be able to offer this service to homes as well. Industry sources say that it costs about $300,000 to link an office building to a fiber hum in a major U.S. city, but NEXTLINK can do it for about $5,000 using its LMDS spectrum network.

- Last year NEXTLINK's growth rate from its subscriber base was 109% to a current level of 174,000 local access subscribers. Analysts expect triple digit subscriber growth for the next three years. Sales in 1998 were $139.7 million for a 142.5% increase from the prior year.

- On the downside NEXTLINK in 1998 had losses of $139.6 million or $4.18 per fully diluted share. A large portion of this loss is due to increases in SG&A expenses from more than doubling the work force. Employee growth was 133.6% in 1998.

- Additionally, the company has a total debt/equity ratio of 3.76 however they also have cash and short-term investments of $1.22 billion. Total debt is $1.52 billion. Incidentally, the company's market cap is $1.12 billion which less than the cash they have on hand.

NEXTLINK is definitely the most speculative security we have in our portfolio, however we feel that the upside potential is worth the downside risk. Volatility in NEXTLINK's returns will be offset by the more conservative securities held in the portfolio.

Historical Stock Performance:

Intel Corporation (NASDAQ: INTC)

Company Overview:

Intel Corporation's PC microprocessors have about 85% of the world market. Fifty-five percent of its sales come from outside of the U.S. In addition to its PC chips, Intel also makes other chips (including microcontrollers, flash memory, graphics chips), networking hardware, digital imaging, and videoconferencing products. Intel is the leading semiconductor manufacturer in the world and is considered a bellwether of the high-tech sector. In 1998, Intel had a ROE of 26%, ROIC was 25.2%, and the after tax profit margin was 23.1%.

Rationale for Purchase:

- Intel's alliance with Microsoft in the "Wintel" platform shows no signs of coming to an end any time soon.

- Intel's management has shown strong leadership historically and can reasonably be expected to do so on into the near future.

- Intel continually invests in capital improvements and research and development to maintain their position of leadership in the industry. In 1998, they spent $4 billion on capital additions and $2.7 billion on R&D.

- On March 8th of this year, Intel and the Federal Trade Commission reached a settlement in the antitrust case that had been brought against the company. The settlement with the FTC forces Intel to tone down some competitive practices, but doesn't label the company a monopoly.

- First Call Earnings Estimates for 1999 are $4.68 per share and are $5.46 per share in 2000. The five-year consensus growth rate is projected to be 20%.

Historical Stock Performance:

[redacted]

Telefonaktiebolaget LM Ericsson (NASDAQ: ERICY)

Company Overview:

Ericsson, an international leader in telecommunications, is recognized for its advanced systems and products for wired and mobile communications in public and private networks. It is also a leading supplier of electronic defense systems. The company claims to have more than 40% of the world's mobile phone subscribers connected to its systems.

Rationale for Purchase:

- The Telecommunication Industry is prospective and ERICY is a key player
- Better Strategy
- Stronger Financial Ratio

- The competition in telecommunication industry is increasing globally. Companies are competing not only in their domestic markets, but also in the emerging markets. Despite the harsh competition, the most important issues are the role of wireless in the era of telecom reform and convergence; the evolution toward third generation wireless networks and fixed wireless becoming an economic alternative.

- There are some pieces of good news. Asian and Latin American economies are getting strong and providing more opportunities for expansion. China puts more emphasis on joining World Trade Organization. Telecommunication is one of the industries being opened to the foreign enterprises in near future. This could award many telecommunication manufacturers, like Ericsson, billions of dollars in new contracts.

- Technology awards more to the company today than it did in the past. Mobile phones and e-commerce brings new business to the company so the company can expand its product line and services to cross-sell to existing customers. The company's technological leadership in 3G, which is the first generation of a true mobile Internet, is unchallenged. The company has led in this development. It involves the mobile Internet, an area in which Ericsson has unique strength. The company already had 6 test systems in operation and received the first order in the world for a so-called packet-data GPRS. The long-term goal in this 3G market is to post higher growth than the market as a whole.

- Ericsson is in an exciting period. But 1999 is not a harvest year. As company said 1999 is a year in which they are preparing themselves for the future. Accordingly, the objective is to grow by at least 20 percent which is much slower than the past five years. The company is well positioned for the next phase of development. Recently, Ericsson presented an entirely new portfolio of mobile telephones in order to equip itself to strengthen our position. In connection with the annual results, Ericsson announced an expectation of lower results for the first six months of 1999. The increase in sales has slowed at the same time as costs for restructuring have appeared.

At the same time, it is important to note that the first quarter is often a poor indicator for the balance of the year.

- Ericsson has a strong financial position. The stock's P/E ratio is not higher and its beta is lower than sector. Those indicate the stock is not high value while it is less risky. The DPR is much greater than sector's and that is very good news for investors. EPS (52.72%) grows faster than sector's (36.28%), and company's debt is at safer position than its sector. While the company's profitability is a little below the industry sector but higher than the average. Return on equity is very good, but the return on asset is not so good. Management is efficient and reliable based on asset turnover

Historical Stock Performance:

Cisco Systems (NASDAQ: CSCO)

Company overview

Cisco's hardware and software solutions are used to establish communication between computers and computer networks. Cisco's products provide networking solutions for the more efficient exchange of information. Cisco solutions are the basic networking foundation for many corporations, universities, utilities, and government agencies through out the world.

Cisco serves customers in three target markets
1. Enterprises:
Cisco provides support for large organizations with complex networking needs. This support usually spans multiple locations and various types of computer systems.
2. Service Providers:
Cisco provides information services to telecommunication carriers, Internet Service Providers, cable companies, and wireless communication providers.
3. Small/Medium Business:
Cisco serves companies with a need for data networks of their own. They also provide connections to the Internet and/or to business partners.

The company shipped its first product in 1986. The company has grown into a global market leader that holds No. 1 or No. 2 position in virtually every market segment in which it competes. Cisco's annual revenues have increased from $69 million in 1980 to $8.46 billion in fiscal 1998. As measured by market capitalization, Cisco is the third largest company on NASDAQ and among the top 10 in the world.

Rationale for Purchase:

- **Institutional Investors;** Institutional investors own 64.96% of the company's stock.

- **Beta:** The beta of this company is 1.35 while the industry is 1.46. This indicates that the company is less risky than the industry.

- **Earnings Per Share;** Earning per share had a 5-year growth rate of 41.52%, while the industry's growth rate was only 38.93% and for the sector was 36.28%.

- **Sales Growth;** The company's 5 year sales growth rate of 41.52% is well above the industry average of 38.93%.

- **Net Profit Margin;** The net profit margin for the company is 13.64% while for the industry it is 10.01%. This high profit margin is a clear indication of its operating efficiency.

- **ROA;** Return on Assets for this company is 28.71% while for the industry it is only 23.45%. The company is delivering above average performance among its competitors.

- **ROI:** This company delivered an ROI of 35.93% while the industry average was only 29.60%.
- **Net Income Per Employee:** The net income per employee for the company is $90,817 and for the industry is $79,071. This shows that the company is efficiently using its assets and creates value for its investors.

- **Analyst Recommendation;** Out of 33 analysts, 14 of them recommended buy/hold, 2 recommended a hold strategy, and 17 recommended a buy strategy for this stock.

- On April 5, 1999, Cisco Systems announced a comprehensive strategy called Cisco Unified Communications. These service enables service providers to offer their customers consolidated voice, fax, and email services on a single IP network, independent of location, time or device. Cisco's strategy allows service providers to develop and market highly profitable, cost-effective services that build brand identity and increase customer loyalty.

Templeton Global Governments Income Fund (NYSE: TGG)

Company Overview:

This fund is a closed end, non-diversified fund that invests in a portfolio of debt securities of governments and government agencies throughout the world. The top holdings are the U.S. – 20%, Germany – 15%, Canada – 8%, and Spain – 8%. For the fiscal year ended 8/31/98, this fund had investment income of $14.4 million and net investment income of $12.6 million. For the same period, the net asset value per share totaled $7.25. The fund yields 8.89%.

Rationale for Purchase:

- We chose to include some debt in the portfolio to provide a hedge against a deflationary environment.
- This fund's beta is only 0.39, which indicates a very low amount of volatility. In other words the fund has very low risk for a reasonable return of 8.89%.
- The cash dividends from this fund can be used in future years to fund a portion of the scholarship disbursements without having to actually sell any holdings.

Historical Stock Performance: