

HOW A STUDENT INVESTMENT FUND IS BESTING THE BIGS

by Anju Mary Paul / GSAS '06

IN LATE 2005, THE SHARE PRICE OF MIPS TECHNOLOGIES, A CALIFORNIA-BASED SEMICONDUCTOR COMPANY, WAS

flagging as a result of negative earnings predictions when it sparked the interest of Lei Mu (STERN '06), a Small Cap analyst with the Michael Price Student Investment Fund (MPSIF). Despite the grim forecasts, Lei Mu was confident the company's fundamentals—booming digital device sales and a cutting-edge product offering—“remained attractive.” He pitched the stock to the Michael Price fund, which bought it at \$5.82 a share. Soon afterward, the stock began rising; six months later its share price was \$7.47, an increase of 28 percent.

Not bad for a fund that doubles as an MBA finance class at NYU's Leonard N. Stern School of Business, whose presidents, managers and analysts are all students.

With its strong research backbone and focus on fundamentals, the MPSIF has done very well since launching in 2000. It boasts a cumulative performance of 44.3 percent as of February 2006. During the same six-year period, the Dow Jones Industrial Average went up by about two percent, the NASDAQ Composite Index dropped by 50 percent, and the Standard & Poor's 500 Index by about 15 percent. So successful has the fund's performance been that CNBC's popular stock market show *Closing Bell* even ran a fea-

ture on it, interviewing three of its portfolio managers to ask them for their stock picks.

Michael Price, investment guru and former chairman of Franklin Mutual Advisers, donated the \$2 million seed money for the fund with the express purpose of providing Stern students real-world investment experience. The 45 students enrolled in the two-semester class are responsible for screening stocks, pitching their buy/sell recommendations to classmates who vote on the pitches, monitoring trades and preparing regular reports for the fund's advisory board. Some traditional investment guidelines apply: no buying of futures, options or junk bonds. In other words, MPSIF is not a hedge fund.

Four sub-funds make up the student fund, each with its own investment focus. The Growth fund invests in rapidly expanding companies enjoying high earnings, such as PetSmart, a pet supply retailer. The Value fund looks for large companies that are underpriced by the market, such as McDonald's, which the fund's analysts believe will bounce back from its previous sluggish performance. The Small Cap fund focuses on smaller companies with strong fundamentals that are expected to outperform their industry. The Fixed Income

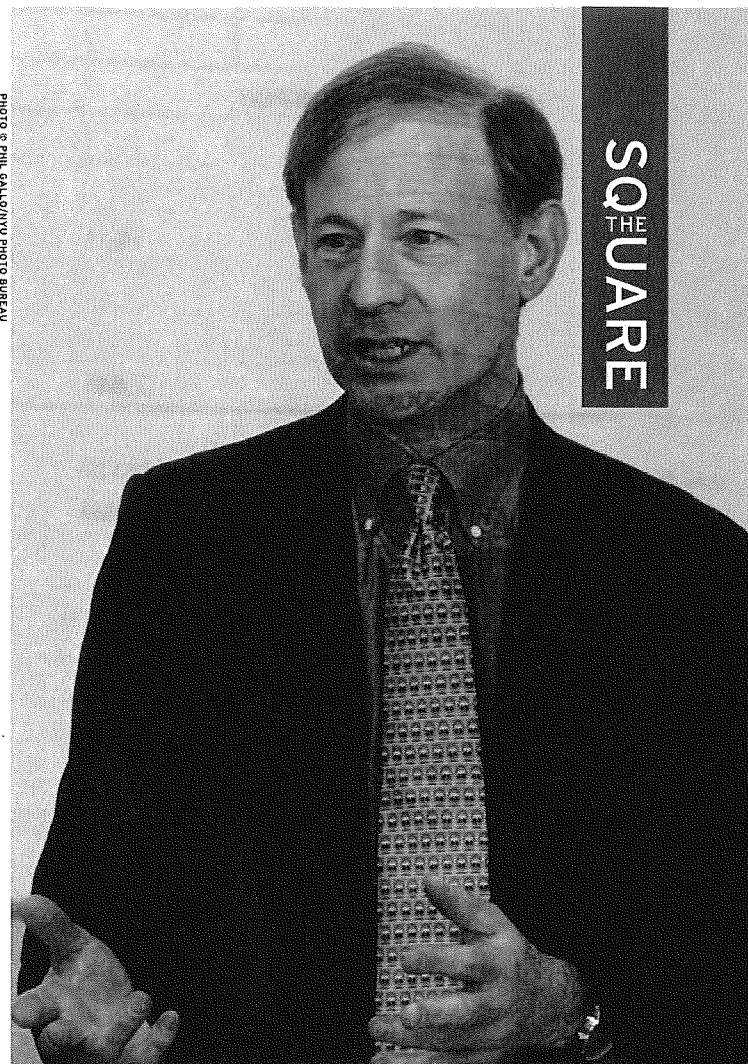


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THE STAKES ARE HIGH, BUT STERN PROFESSOR RICHARD M. LEVICH IS NO GAMBLE: UNDER HIS TUTELAGE, A STUDENT-RUN INVESTMENT FUND IS BESTING INDUSTRY GIANTS.

fund, started in 2002, invests in U.S. treasury bills, corporate bonds and mortgages.

All four funds work toward the same objectives: provide a net positive return and beat comparable funds that have been selected as benchmarks—the Russell 1000 Growth, Russell 1000 Value, Russell 2000 and the Vanguard Total Bond Market indices, respectively. To date, the combined Michael Price fund has managed to beat an equally weighted blend of these benchmarks by a total of 20 percentage points. Professor Richard M. Levich, the student fund's adviser, hopes that its success might attract more gifts.

With oil prices soaring and an unwieldy current account deficit, the student fund's analysts are concerned about the same economic

uncertainties that keep professional investors up at night. Leonard Rodman (STERN '06), a MPSIF Growth analyst, warns that the U.S. economy is being pulled in different directions. “Soaring commodity prices and a slowing housing market are both going to hinder economic growth,” he explains, and “the end of the Fed's rate-tightening cycle may stimulate growth.” In response, the Growth fund has decided to load up on commodity stocks like oil services (such as Weatherford International, which provides equipment and services for drilling oil and natural gas wells), while being more cautious with housing stocks.

It's always hard to predict the future. But given these students' track record, other investors should probably take heed. ■