NYU STERN
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AT THE NYU STERN SCHOOL OF BUSINESS

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Strategy Timing

A look at Value versus Growth in recent years

By Ben Macdonald
MPSIF Value Analyst

Investing is a challenging exercise. Every strategy can be right some of the time. There are ongoing debates about everything from the merits of active versus passive investing to small cap versus large cap stocks. The superiority of Growth or Value is another of these eternal debates. This article will compare the historical performance of Growth and Value benchmarks.

MPSIF has a neutral allocation of 25% in each of Growth, Value, Small Cap and Fixed Income. Depending on sub-fund performance, our percentages drift away from these allocations (rebalancing to a neutral stance is done on an infrequent basis). However, our philosophy remains that of remaining invested in all areas, and not to place a conscious bet on one strategy or another. Through a look a historical performance of Growth and Value indexes, this article seeks to see whether our equal weighting stance makes sense – would it instead be better to overweight particular investment strategies some of the time?

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Pegged for Success

How do we determine the right price to pay for growth?

By Robert Peruzzi
MPSIF Growth Analyst

Our goal at the MPSIF Growth Fund is to identify and invest in companies possessing substantial growth opportunities. For the purposes of our fund, we define "growth" companies as those that are likely to generate earnings expansion in excess of 15% annually for at least the next five years. While earnings expansion certainly plays a role in any company's success, by no means does growth, in and of itself, ensure superior investment returns. This is especially true if the market has already recognized, and rewarded, a company's future growth potential. A factor critical to successful growth investing, equal in importance to identifying rapidly growing companies, is paying a reasonable price for them.

One of the simplest, and most useful, metrics for assessing the value underlying growth stocks is the Price/Earnings-to-Growth ratio. More commonly referred to as the PEG ratio, it's calculated by dividing forward P/E ratio by its expected annual earnings growth rate. In essence, the lower a stock's PEG ratio, the less expensive it is relative to its growth prospects. A popular rule of thumb in picking growth stocks is to consider a stock underpriced if its PEG falls much below 1, and overpriced if the PEG is much greater than 1.

So where do we stand at the Michael Price Growth Fund? A quick examination of our holdings reveals a wide-range of PEGs. Tempur-Pedic (TPX) and Deckers Outdoor (DECK), with PEG ratios of 0.66 and 0.76, respectively, come in at the low-end of the range, while RightNow Technologies (RNOW), with a PEG of 3.1, appears to offer more expensive growth prospects. Overall, the fund's PEG ratio currently stands at around 1.3. While this appears expensive relative to the rule of thumb of 1.0 described above, it's worth noting that our PEG is below that of our benchmark, the Russell 1000 Growth Index, which currently has a PEG of about 1.5.

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MPSIF Members Attend Hedge Fund Conference

By Donald Sauber
MPSIF Small Cap Portfolio Manager

The first Salomon Center conference of the 2005-2006 academic year was held September 30th, 2005. The topic was hedge funds and the list of speakers included several current and former hedge fund managers, as well as several academics. The speakers and panels focused on issues like risk management and the lack of volatility in the financial markets today.

The event kicked off with a speech from Michael Steinhardt, a hedge fund manager from 1967 to 1995. Steinhardt, a self described dinosaur, expressed his disapproval with the way the modern hedge fund industry works. He was particularly critical of how institutions have used style boxes to segment the funds into categories like long/short equity, merger arbitrage, etc... While this prevents style drift, it also makes it more difficult for talented managers to exploit opportunities outside their core strategy. Steinhardt claimed that some of his best results were achieved from changing his strategy and 'betting the ranch'. Steinhardt stated without any shame that he was a bad businessman and his fund was not run very well. He just loved the business and did whatever he could to make money for his investors.

The contrast between the past and the future of the industry could be seen by the speakers that followed Steinhardt. These academics and fund managers talked on panels where the subjects included risk management, volatility, and several others that Steinhardt derided in his opening remarks. One panel of professionals talked about the need for a fund to have a good Chief Financial Officer and risk management team. While start ups could be excused from not having all of these things in place, everyone agreed that fund managers needed business plans that included necessary back office investments.

Myron Scholes, one of the authors of the Black Scholes option pricing model and winner of the Nobel Prize, was probably the most anticipated speaker of the day. Scholes' speech centered around risk and the effects of current Federal Reserve policy. According to Scholes, current monetary policy has dampened volatility in the economy and made investors less risk averse. He likened the modern economy to a forest in the national parks. Federal authorities prevented small forest fires for years and allowed significant amounts of brush to build up, which eventually fueled even larger fires. Scholes reasoned that the low level of volatility in the economy is the reason behind the current housing bubble and large current account deficit, and that current fed policy will lead to much larger economic problems in the years ahead. His advice to investors was to shift assets to strategies that exploit relative price inefficiencies. In a low volatility environment, it takes longer to make money through outright speculation on a one way move in asset prices. ❖

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There are a number of screening tools available to help investors identify undervalued growth stocks. One of the more popular, easier to use tools is the YAHOO! Finance Stock Screener, which can be found at http://screen.finance.yahoo.com/stocks.html. This tool allows even novice investors to screen stocks by a variety of characteristics, including a company's PEG ratio and expected growth rate.

To examine whether there are currently any low PEG, high growth investment opportunities that merit consideration for our fund, I ran a simple screen in which I identified companies with a market capitalization in excess of $1 billion and a PEG of under 0.5. This query returned a total of 41 investment prospects, of which more than half (22) are expected to grow earnings at more than 20% annually over the next five years. Interestingly, several themes emerge when we examine these companies in more detail.

- **Despite its strong run over the last year, value still exists within the energy sector:** Of the twenty-two stocks identified by my screen, eight are energy plays. Five of these eight, including Patterson-UTI (PTEN), Atwood Oceanics (ATW), Helmerich & Payne (HP), Unit (UNT), and Nabors Industries (NBR), are involved in activities related to oil and gas drilling and exploration, an industry that seems poised to benefit from high energy prices going forward.
- **Strong growth, attractive valuations exist overseas:** Ten of the companies that passed my screen are international. Three of these, Companhia de Saneamento Basico do Estado de Sao Paulo (SBS), Korea Electric (KEP), and CPFL Energia S.A. (CPL), are involved in foreign utilities. Another three, China Petroleum and Chemical (SNP), PetroChina (PTR), and CNOOC (CEO) are Asian energy plays. Some of the other industries represented include foreign telecom, banking, and materials.
- **Analysts favor many of these stocks.** As of December 8th, the average upside potential on the stocks identified by my screen stood at over 13%, based on the mean one-year target price for each of the twenty-two companies. Nearly two-thirds (14 of 22) of the companies have an upside of 10% or greater. The most upside, according to Street analysts, appears to exist in the foreign telecom sector, with Compania Anonima Nacional Telefonos de Venezuela (VNT) and France Telecom (FTE) trading more than 30% below Wall Street's target price.

Investors, of course, should look beyond the PEG before jumping into any of these stocks. Screens like the one I employed usually fail to account for various differential advantages and investment risks that may or may not make a company an attractive investment. That said, seeking out companies with low PEGs is a logical place to start when looking for reasonably priced companies with attractive growth prospects. ❖

Why Small Caps?

A smaller firm may offer a big opportunity for an analyst to add value

By David Hoberman
MPSIF Small Cap Analyst

The proliferation of free and easily-accessible information about companies has been a crucial development to individual and small institutional investors. From online SEC filings, to informative corporate web pages, to conference calls and presentations accessible to the public, information is no longer only in reach to sell-side research analysts and large funds. However, sell-side research is still the most trusted source of stock projections and analysis, as research analysts have intimate knowledge of the industry, company, management and drivers going forward. In the small cap universe, there are many companies that fall below the radar and are not covered by any analysts. These stocks provide opportunities and challenges for investors who look to do all the research on their own to uncover hidden value.

The onus is on the analyst to gain a very strong working knowledge of the industry and its drivers. Sell-side reports on larger players in the industry, as well as periodic industry updates, are rich resources. But in many cases, the small cap stock is a niche player and its business is equivalent only to a segment of the larger company's business. Corporate websites have evolved tremendously in recent years, as many provide a solid backdrop on their specific business (whether in investor relations sections or pages focused on educating customers). Management can also be a tremendous resource as many of these companies are regional players with little large institutional holdings, and would welcome interest from interested investors.

Challenges arise as well. Many smaller players do not devote a lot of resources and dedicated staff to investor relations. Further, the founders or founding family of many of these companies are still major shareholders, so there may be reluctance to share information with outsiders. SEC filings tend to be less detailed than those of larger players and there are fewer press releases, as information may only be shared during the quarterly earnings conference call. Transparency can be at a minimum, and analysts must make significant assumptions based on macro-trends to make projections on the future of these companies.

Where there is challenge, there is opportunity. With these stocks not being widely covered, they do not necessarily move in line with their larger peers in response to changes in raw materials, exchange rates, or other macroeconomic events which will play into future earnings and share performance. Assets are taken at face value by the market, so a resourceful analyst can dig deeper into the financial statements and assess the value of what the company actually owns. With these companies having small capitalizations, even the discovery that a single real asset, through its geographic or idiosyncratic properties, is significantly more valuable than book value can lead to a much higher valuation. A forthcoming management can look to forge a symbiotic relationship with the analyst, exchanging education on the industry and company for analyst's suggestions on steps to take to maximize shareholder value, allowing the analyst to gain early insight into a company that may be on a path to larger coverage and a higher valuation.

A small market capitalization can provide challenges to recognizing and monetizing investment gains. With trading volume generally low, bid-ask spreads tend to be fairly wide, eroding gains on buying and selling of the securities. Additionally, the stock may only move significantly with the announcement of earnings, so it is very difficult to effectively trade these stocks in a very short timeframe. This does have its advantages, as it provides a known timeframe of when gains (or losses if the analyst is wrong) will be recognized. In a large, widely covered company, news is announced throughout the quarter and the stock price can gradually adjust to reflect all of these issues. This is not necessarily the case with small, less followed companies that do not make frequent announcements. In some cases, the stock price will be a seemingly binomial payoff when earnings are announced that relies on the difference between actual results and the analyst's projections.

As technology continues to evolve, publicly traded companies will have fewer obstacles to communicate to a broad range of stakeholders in an easy and cost-effective manner. As their transparency increases, the opportunity for analysts is even greater. While it may be difficult for investors to trump sell-side analysts in uncovering information about many companies, these opportunities in the small cap universe stand out as ways investors can marry in-depth analysis with sleuthing to unlock hidden value and capture significant investment gains. ❖

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The Growth Philosophy…

Valuation of a stock is strongly influenced by the earnings of that company. Much of a growing company's stock value comes from an embedded expectation of future earnings, and while expectations of strong growth can mean high price to earnings and a vulnerability to missed earnings estimates, a company that can consistently grow earnings at an above average rate will produce commensurate capital appreciation. Peter Lynch is a well known proponent of the Growth philosophy, and various investment houses such as Janus Funds did very well in growth technology stocks in the late 1990s.

Now for Value…

Benjamin Graham is known as the father of Value investing and Warren Buffett (he of the $90,000 Berkshire Hathaway shares) learnt under Graham's tutelage. The Value philosophy revolves around the fact that it is hard to go wrong buying a dollar for 40 cents. Of course, measuring can be an issue - if that apparent dollar is only worth 20 cents, we may move from Value play to a bankruptcy situation.

Investor sentiment plays a part in the success of these two philosophies as well. At times the market is paying a premium for Growth, and at other more risk-averse times, Value stocks (often including solid dividend streams) are more in demand.

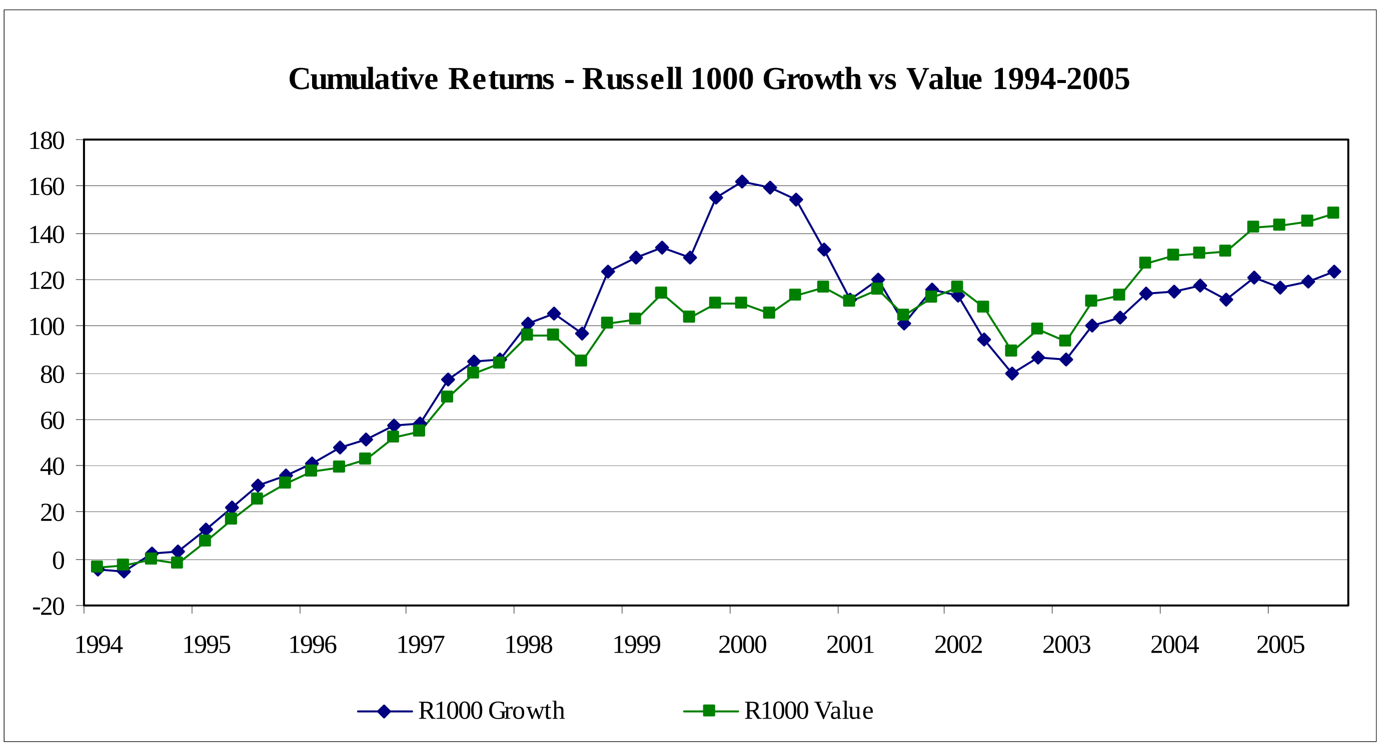
In the Michael Price Fund we have two goals – we seek absolute performance that allows capital growth and covers our 5% distribution mandate, and we also seek relative performance – aiming to beat our chosen index. For the MPSIF Value fund, our chosen index is the Russell 1000 Value Index. This index measures aggregate performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth rates. The Russell 1000 Growth Index by comparison measures performance for higher price-to-book and higher forecasted growth values.

So how does this value philosophy hold up over time? To answer that question, we can look at the relative performance of the Russell 1000 Value and Russell 1000 Growth indexes. Looking at quarterly performance of these two indices since 1994 (the beginning of available data), we see a certain amount of correlation.

If we look at cumulative returns, we can see that Growth stocks performed particularly well in the 1990s, but since 2000, we have seen Value outperform.

In terms of relative performance (Russell 1000 Growth – Russell 1000 Value), there was a clear run-up in growth stocks in 1999/2000, and a reversal in 2000 at the end of the dot-com bubble. There also appears to be a regular cycle between growth and value out-performance. Looking at the data from a cumulative relative performance position, we again see the terrific performance of the Growth index in the late 1990s, with a hangover relative to Value stocks in the subsequent 5 years. However, except for the period of the tech boom and its aftermath, Growth and Value regularly alternated in outperforming each other.

The two different philosophies alternately outperform. Predicting which of the two will perform best in the future is a difficult task. Thus the MPSIF philosophy is to not overweight a particular investment strategy. Instead we try to have each fund outperform its own index, with the knowledge that these indexes move above and below each other regularly. ❖



MPSIF Brokerage Initiative

By Brijesh Gulati
MPSIF Treasurer

One of the major initiatives undertaken by MPSIF this past semester was to reduce our trading costs. It was our belief that the fees we were paying on our current brokerage accounts were excessive for our purposes, and were eroding our returns too much. As a result, we have estimated that MPSIF can save around $8,000 per annum in fees, and earn extra interest of around $1,500 if we transfer our account to another financial institution and changed our fee structure to a "per trade" fee rather than a "wrap fee."

At present, MPSIF pays a hefty amount for maintaining its current full-service brokerage accounts. MPSIF is not able to utilize all the services offered through our current accounts because there are several restrictions in the way the accounts are structured. The "Brokerage Initiative" began with objective of lowering our account maintenance cost. In our preliminary search, the Executive Committee short-listed Fidelity and Charles Schwab based on their reputation and high rating of their brokerage services. Ultimately, we voted in favor of recommending a switch to an account with Fidelity. Benefits include:

- ***Better Money Market Rates:*** The Money Market rates offered in our current accounts are quite low, approximately 100 bps less, compared to what other institutions offer. Based on our average cash balance, we will be able to earn an additional $1,500 per annum.

- ***Ability to buy individual bonds:*** MPSIF does not have ability to buy individual bonds through our current arrangements. A new account with Fidelity will give us this capability.

- ***Fee on Fixed Income bonds:*** The transaction cost charged by our broker is hidden in the bid-ask spread of the bond. Generally speaking, the transaction fee is much higher than what is offered by Fidelity.

- ***Access to Research Resources*:** Although our broker offers good research, MPSIF analysts cannot easily utilize the research resources because analysts do not have separate login IDs with limited access. Again, a new account will resolve this issue.

- ***Separate Growth and Fixed Income:*** At present, growth and fixed income share one brokerage account because our existing contract does not allow us to create a new account. This requires monthly cash balance reconciliation. A new account will eliminate this problem, as we will be able to have separate accounts for Growth and Fixed Income.

The switch is now dependant on approval from the Administration of Stern and New York University. ❖

Features Offered by Fidelity:

Research

Feature	
Independent Sources	Prudential, Lehman Brothers, Reuters, S&P, Argus and Thomas White International.
Daily stock ideas and commentary	From Lehman Brothers, Prudential Equity Group, and Standard & Poor's.
In-house	Fidelity rates analysts and consolidate their research
Stock Screening	Available
Fixed Income Analytical Tools	A specialist is available. Website is slightly friendlier for comparing similar bonds.
Investment Choices	Stocks, bonds, mutual funds, options, cash management accounts, CDs

Note: All the research resources will be available to all the MPSIF analysts. Our accounts do not allow this feature at this moment.

Reporting Tools / Other

Criteria	**Fidelity**
Alerts	Via emails (including daily account value)
Customizable Reports	Yes, can be customized and exported to Excel.
Level II quotes	Offered
Money Market Rates	More than the average offered by other brokerages
Trading platform	Internet, touch tone, live broker (24x7), branch office, Active Trader

Note: All these reporting tools are not available with our current broker. These tools help us manage risks and monitor portfolio in a much better way compared to what is currently available.

Fee and Yield Comparison:

Account Value	$1,871,781
Current Wrap Fee (Annual)	$9,926
Interest Earnings (Annual)	$2,579
Average Cash Balance	$150,000
Yield (Interest/Cash Balance)	1.72%

Wrap Fee ≈ 53 bps
Yield = 1.72% (on average 100 bps less than money market rates)

Average number of trades in one year (approx.) = 150
Cost of 150 trades with Fidelity at $8/trade = $1,200
Net savings = $9,926 - $1,200 = $8,726

Based on our average cash balance, we may also earn incremental interest of around $1,500.

A Message from the President

2005 marked several key initiatives for MPSIF

After more than five years of operations, the Michael Price Student Investment Fund continues to improve. The experience of conducting fundamental research and presenting it to classmates is cited by almost all members as the most valuable part of being in the Fund. The last several months have seen several firsts for MPSIF:

- We filed claims as part of two securities class action lawsuits: for WorldCom (owned by the Value Fund from November 2000 - April 2003) and for Concord EFS (owned by the Growth Fund from March 2002 - May 2003). We expect to see cash from settlements within the next twelve months.
- We published seven "Summer Updates" for continuing and incoming analysts during Summer 2005, to share portfolio news and trades with Fund members.
- Our website received a major overhaul and now has the same look and feel as other parts of the Stern website.
- We now make extensive use of a Blackboard site for posting documents, as do other Stern courses.
- We created a VP of Marketing position for first year MBA students interested in financial services marketing, to tap into Stern talent and raise the Fund's profile.
- Also on the marketing front, we attended AIM's kickoff meeting this fall and briefly explained the Fund to incoming MBA students.
- Finally, we offered students in AIM's Research Report Competition the option of covering one of our names and potentially doing a guest stock pitch to the Fund (three teams wrote about Small Cap names and one actually did a guest pitch on Ruby Tuesday).

Our Executive Committee has voted to move our brokerage accounts to Fidelity, a move that we anticipate will save the Fund thousands of dollars a year in transaction costs (see related article on page 5). In addition, Fund analysts will have access to many additional research resources and a sophisticated trading platform.

This Fall, we hosted a number of guest speakers, some as joint events with other Stern clubs like AIM (Association of Investment Management) and FEA (Financial Engineering Association). These included: Tiger Williams of Williams Trading; Andrew Cash, Special Situations Analyst at UBS; Phil Eagan, COO of Viking Global Investors; William Richards, Hedge Fund Sales at UBS; Perry Boyle, Director of Research at SAC Capital Advisors; and Arthur Ainsberg, board member of National Financial Partners, a Small Cap Fund holding since February 2005.

Participating in the Fund has been an incredible learning experience, and I for one am grateful for having had the opportunity.

Sincerely,

Stephanie Lee
President, Michael Price Student Investment Fund

Find Current Fund Holdings and Updated Performance Figures at:
http://pages.stern.nyu.edu/~mpsif/

MPSIF at a Glance

Web Page: http://pages.stern.nyu.edu/~mpsif/

As of 11/30/05
Assets Under Management: $1.91 million
Cumulative Mandated Distributions: $461,120
Cumulative Time-Weighted Return Since 3/00: 37.1%
Total Fund Portfolio Allocation:

Fixed Income:	23.6%	Small-Cap:	28.1%
Value:	24.8%	Growth:	23.5%

Executive Committee:
President: Stephanie Lee (stephanie.lee@stern.nyu.edu)
Treasurer: Brijesh Gulati (brijesh.gulati@stern.nyu.edu)
Faculty Advisor: Richard Levich (rlevich@stern.nyu.edu)
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Growth: Polly Sung (polly_sung@stern.nyu.edu)
Value: Michael Stohler (michael.stohler@stern.nyu.edu)
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MPSIF Fund Holdings

As of November 30, 2005

MP Growth Fund

Advance America, Cash Advance Centers	AEA
Amgen, Inc.	AMGN
BYD Co Ltd H Shs	BYDDF
Cisco Systems, Inc.	CSCO
Cytyc Corporation	CYTC
Deckers Outdoor Corporation	DECK
Dell Inc.	DELL
FARO Technologies, Inc.	FARO
First Data Corporation	FDC
GFI Group Inc.	GFIG
Harley-Davidson, Inc.	HDI
ITT Educational Services	ESI
Jabil Circuit, Inc.	JBL
Martek Biosciences Corp.	MATK
Maxim Integrated Products Inc.	MXIM
Medicis Pharmaceutical Corporation	MRX
MGi Pharma, Inc.	MOGN
RightNow Technologies	RNOW
SINA Corporation	SINA
Starwood Hotels & Resorts Worldwide	HOT
Telik, Inc.	TELK
Tempur-Pedic International Inc.	TPX
Transocean Inc.	RIG
Varian Medical Systems, Inc.	VAR
Walgreen Company	WAG
Weatherford International LTD.	WFT
XM Satellite Radio Holdings Inc.	XMSR

MP Value Fund

Alderwoods Group, Inc.	AWGI
Altria Group	MO
Amphenol Corporation	APH
Apache Corporation	APA
Bank of America Corporation	BAC
Boston Communications Group Inc	BCGI
Boston Scientific Corp.	BSX
Cimarex Energy Co.	XEC
Dow Chemical	DOW
Engelhard Corporation	EC
Freescale Semiconductor Inc	FSL
Helen of Troy Limited	HELE
Illinois Tool Works Inc.	ITW
Pogo Producing Company	PPP
Radian Group Inc.	RDN
Russell Corporation	RML
Sanderson Farms, Inc.	SAFM
Seagate Technology	STX

MP Small-Cap Fund

Amedisys, Inc.	AMED
Assured Guaranty Ltd.	AGO
Bill Barrett Corporation	BBG
Comstock Resources, Inc.	CRK
Diodes Incorporated	DIOD
EGL, Inc.	EAGL
Furniture Brands International, Inc.	FBN
Gibraltar Industries, Inc.	ROCK
Life Time Fitness, Inc.	LTM
MGi Pharma, Inc.	MOGN
MIPS Technologies, Inc.	MIPS
National Financial Partners Corp.	NFP
New Century Financial (REIT)	NEW
Open Solutions Inc.	OPEN
PHH Corporation	PHH
ProCentury Corporation	PROS
RARE Hospitality International, Inc.	RARE
Ruby Tuesday, Inc.	RI
Seacor Holdings, Inc.	CKH
Tsakos Energy Navigation Ltd.	TNP
WD-40 Company	WDFC

MP Fixed-Income Fund

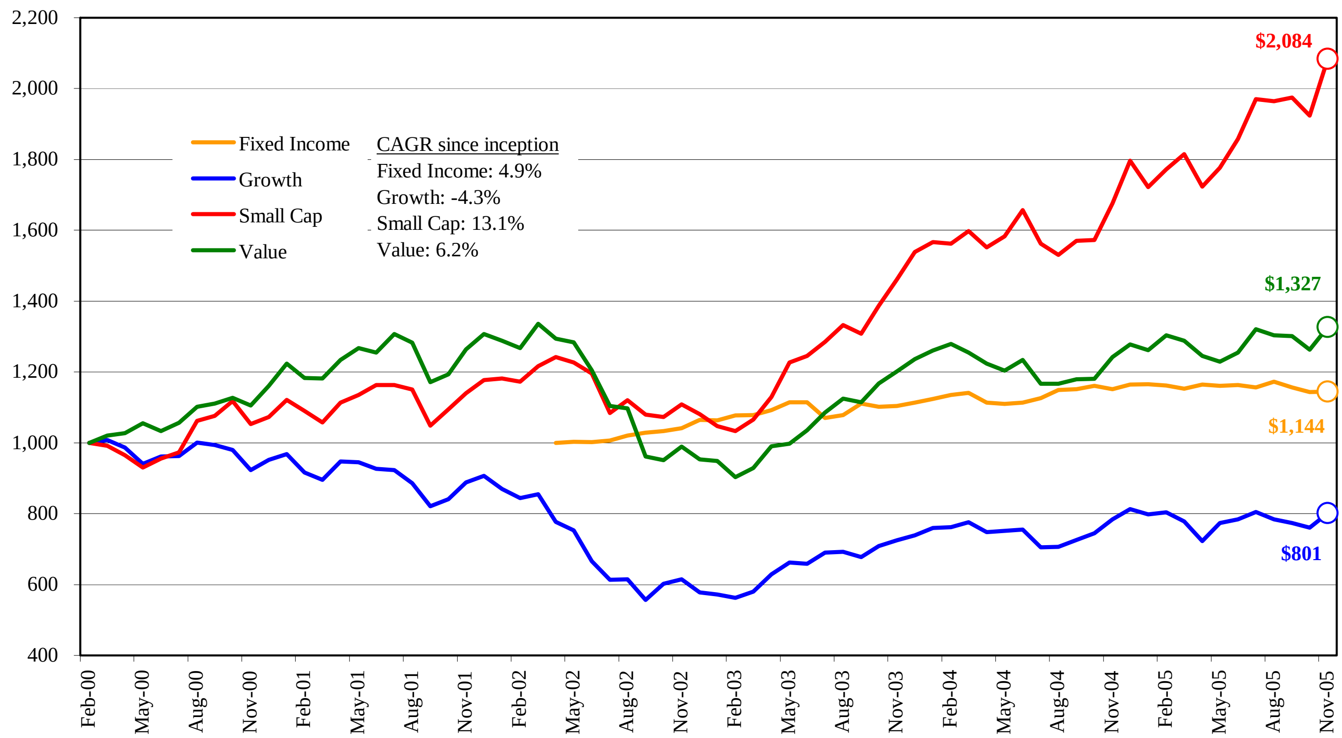
American Century Int'l Bond Fund	BEGBX
Barclays iShares GS InvesTop Corporate	LQD
Barclays iShares Lehman 1-3 Treasury	SHY
PIMCO Total Return Mortgage Fund	PMRAX
Templeton Global Bond	TPINX

Disclaimer: *Holdings in the Michael Price Student Investment Funds may have changed since November 30, 2005, and may change at any time. Holdings are not intended as buy or sell recommendations for independent investors.*

The Michael Price
Student Investment Fund

The Funds
Growth
Small Cap
Value
Fixed Income

The Michael Price Student Investment Fund
Performance of $1000 Investment since Inception (March 1, 2000)



Monthly returns are time-weighted and thus exclude effects of the Fund's annual 5% distribution.
The Fixed Income Fund was created on May 10, 2002 with transfers from each of the stock funds.

The Michael Price
Student Investment Fund
44 West Fourth Street
New York, NY 10012
http://pages.stern.nyu.edu/~mpsif/