

# The Educated Investor

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## Letter from the Editor

by John Sheehy

November represented the close of our first fiscal quarter of the 2006/2007 fund year. It also represented the first month that MPSIF outperformed its benchmark, earning a return of 2.2% against a blended benchmark return of 2.0%. This excess return was sparked by the strong performing Growth and Fixed Income funds, both of which beat their benchmarks for the month.

For the first fiscal quarter, the fund underperformed its blended benchmark by approximately 200 basis points with a return of approximately 5.1%. While we strive to beat our benchmark, we are pleased that our first quarter performance already has provided returns that are sufficient to cover our mandatory 5% distribution to the University of Oklahoma later in the fiscal year.

Looking forward to next semester, we are excited about how the overall fund is positioned. The new semester also brings new fund leadership. Incoming President, Veersen Ghatge, and the incoming portfolio managers are eager for their opportunity to lead the fund in 2007.

As for *The Educated Investor*, after a brief hiatus in December and January for Winter Break, we will return with a January edition that will showcase our performance over the break and provide a more in-depth look at our new fund management. Steve Poleskey is taking over as Editor for the spring semester and has great ideas for future editions.

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## PM Spotlight – Fixed Income Fund

***We recently sat down with MPSIF Fixed Income Fund Portfolio Manager Mike Flood to find out how he and his team have approached the semester: what worked, what didn't and what we can expect moving forward.***

*Can you walk our readers through the idea generation process employed by the fixed income fund?*

Unlike the funds within the Michael Price fund, our idea generation comes from a top down approach to the market as a whole. Our group will think about what is currently taking place in the markets as well as what we think will take place in the next 6 months and we then create our sector allocations accordingly. We are also very conscious of the data that the Economics team collects and presents.

*What have been some of your best and worst ideas of the semester?*

To be honest, so far this semester we have had more good ideas than bad ideas. One of the good ideas I would like to highlight has been our position in the Foreign sector. In the beginning of the semester the group decided that it would be best to overweight this sector in relation to our benchmark and I feel this decision has been a real driver of our strong semester results.

*What changes have you tried to make to the fund in your role as Portfolio Manager?*

Basically I have tried to make the same changes that last year's Portfolio Manager attempted to make - specifically to find a way for our fund to trade in specific bond issuances. As of right now the fund is limited in scope because as a fund we are only able to invest in either bond focused mutual funds or



ETFs. With the ability to invest in individual bonds, we would then be able to behave more like the other Michael Price funds and begin to shift towards a more bottom up style of investing. Unfortunately, I must report that this endeavor was unsuccessful.

*What were some of the biggest challenges you faced when you took over the role of Portfolio Manager of MPF?*

I think the biggest challenge of being Portfolio Manager is motivating members of the fund to actively participate in MPF. This is not a knock against the members of the fund, but a reality of the fund set up. As stated before, we cannot invest in individual bonds and therefore take a top down approach. In doing so, we usually take our positions early in the semester and then sit back and wait and see how they do – we are not active investors in and out of positions all semester long. As a class, the Michael Price fund is very demanding of one's time and to convince members to take on a second role that can be less rewarding for some is difficult.

*What is your outlook for the fixed income market for the year? How has the fund tried to position itself to take advantage of opportunities based on your outlook?*

Right now I am bearish on the dollar and I think it will continue to weaken in relation to foreign investment. I think the Fed will continue to keep rates as they are, but if there is any indication that inflation is starting to come down, the Fed may start to decrease short-term rates which could cause the dollar to dip further. In regards to our fund, we have currently positioned ourselves to take advantage of stronger foreign investments relative to our US dollar fixed income benchmark.

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## More than Just a Fund; Reflections from a year on MPSIF

by Jeremy Roethel

As one of my last remaining acts as President of MPSIF, I wanted to offer a bit of perspective on what makes the Fund such a great experience for its members and a valuable asset for the Stern community. Like many other professional and student organizations, progress of the Michael Price Student Investment Fund can be aptly viewed in the context of our evolution– as asset managers, as a learning experience, and obviously as a student organization.

As asset managers, our overriding responsibility is the prudent management of the \$1.8 million endowed to our care. While we do measure ourselves against various equity and fixed-income benchmarks, we ensure that members understand that the primacy of our goals is to preserve and grow our capital. At the end of November our assets under management were just shy of \$2 million, which we have accomplished while distributing approximately \$563,000 to the University of Oklahoma Price School of Business (our beneficiary). I am also delighted to report that for the first quarter of our fiscal year the Fund is up 5.24%, already enough to cover our annual distribution requirements.

The most appropriate characterization of MPSIF may be as a “practicum course” where we teach our members the importance of following a sound process and maintaining a consistent investment philosophy. The collaborative nature of our meetings allows analysts to learn from others while applying classroom knowledge from other finance and valuation classes. Providing students with the opportunity to do hands-on research and discuss the merits of a buy or sell decision gives them a unique experience that a traditional class simply cannot compete with.

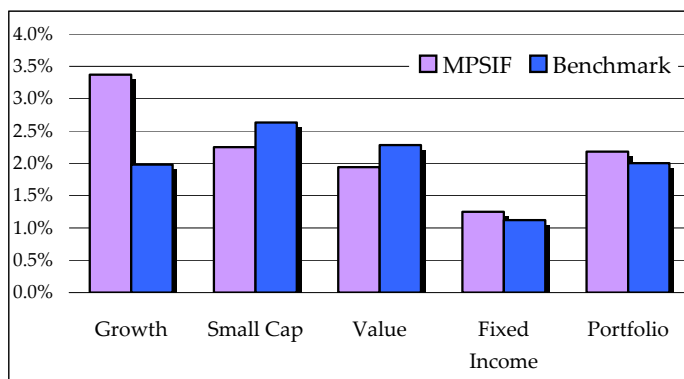
Ultimately I am grateful for the tremendous work and effort that members of the Fund give throughout their two semester commitment. Despite the absence of midterm and final exams, I believe that the 3 credits received for participation come at a much higher time cost than any other class at Stern. It is certainly the case that our members get a far greater return on their personal investment relative to the effort they put forth. In addition to our portfolio activities, we also spend a great deal of time on activities that support the fund, much like any other student organizations must do.

We hope that the continued success of the Michael Price Fund will offer greater opportunities for our members in the asset management industry. As our reputation grows, as our alumni base expands, as we produce better potential research analysts we expect the industry to take greater notice of NYU Stern as a viable source of professional talent. The effort and time is put in because we believe it will happen. So far the signs are encouraging, and it will be the task of the forthcoming leadership and analysts in the Fund to continue this momentum.

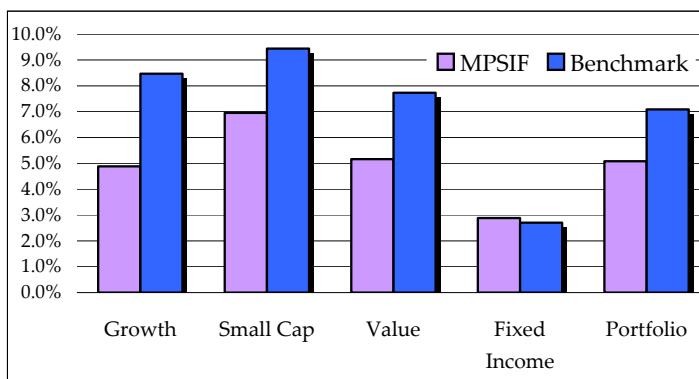
It has been an incredible experience and pleasure for me to serve as President over the past seven months. I wish incoming President Veersen Ghatge and the rest of the Executive Committee the greatest success in the upcoming term, and I look forward to remaining involved with the Fund for years to come.



## Fund Performance vs. Benchmark ...in November



## ...Year to Date



### Best Returns of November

Fund	Ticker	Company	Price	Returns
MPS	BBI	Blockbuster Inc.	\$5.26	34.2%
<i>Comment: Strong Q3, insider purchases, potential asset sales</i>				
MPS	SEB	Seaboard Corp.	\$1,678.00	18.8%
<i>Comment: Better than expected Q3 earnings on higher sales</i>				
MPS	MIPS	MIPS Techs, Inc.	\$8.55	16.0%
<i>Comment: Rising expectations about growth in semiconductor industry</i>				
MPV	STX	Seagate Tech	\$25.76	14.1%
<i>Comment: Vista launch expected to increase demand for hard drives</i>				
MPS	BRY	Berry Petroleum	\$32.75	9.7%
<i>Comment: Higher energy prices increasing top line growth potential</i>				

### Worst Returns of November

Fund	Ticker	Company	Price	Returns
MPG	WFMI	Whole Foods Market	\$48.28	(21.9%)
<i>Comment: Cut 2007 sales forecast, incr'd competition, higher costs</i>				
MPS	BEBE	bebe stores, inc.	\$19.91	(15.6%)
<i>Comment: Downgraded; revised earnings est. to low end of target</i>				
MPV	CVS	CVS Corporation	\$28.77	(8.3%)
<i>Comment: Announced a merger with Caremark &amp; incr'd press. from WMT</i>				
MPV	WMT	Wal-Mart Stores, Inc.	\$46.10	(6.5%)
<i>Comment: Same stores sales declined for the first time in 10 years</i>				
MPG	SBUX	Starbucks Corp.	\$35.20	(6.0%)
<i>Comment: Reported a decline in earnings for the first time since 02Q2</i>				

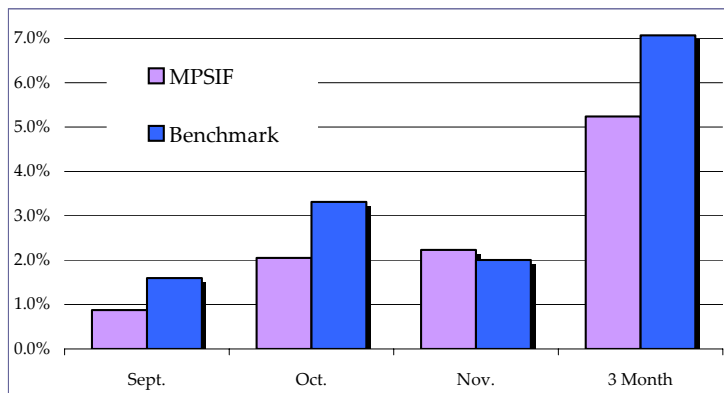
### Purchases

Fund	Ticker	Company	Price	#Shares	Value
MPG	CRDN	Ceradyne, Inc.	52.52	381	\$20,010.12
MPG	CTSH	Cognizant Tech.	76.96	260	\$20,009.60
MPG	DVSA	Diversa Corp	10.62	1885	\$20,011.88
MPG	HANS	Hansen Natural	28.26	709	\$20,038.43
MPG	LFL	Lan Airlines S.A.	49.72	402	\$19,987.44
MPG	NTRI	NutriSystem Inc.	64.39	310	\$19,960.00
MPG	SONC	Sonic Corp.	23.03	870	\$20,032.10
MPG	SBUX	Starbucks Corp.	37.43	535	\$20,025.05
MPG	STP	Suntech Power	28.71	697	\$20,010.87
MPG	WFMI	Whole Foods	48.93	205	\$10,030.65
MPS	BEBE	Bebe stores, inc.	23.59	420	\$9,907.80
MPS	CRI	Carter's, Inc.	28.77	668	\$19,216.21
MPS	CHB	Champion	9.00	1110	\$9,990.00
MPS	QSII	Quality Systems	40.09	250	\$10,022.50
MPS	KNOT	The Knot, Inc.	25.80	775	\$19,991.75
MPS	WGII	Washington Group	57.82	348	\$20,122.32
MPV	AFL	AFLAC Inc.	44.40	360	\$15,984.00
MPV	COP	ConocoPhillips	61.36	260	\$15,953.60
MPV	GLW	Corning Inc.	20.56	780	\$16,036.80
MPV	DUK	Duke Energy Corp	31.50	510	\$16,065.00
MPV	BID	Sotheby's	30.06	530	\$15,931.80
MPV	TRN	Trinity Industries	38.09	420	\$15,997.80
MPV	WU	Western Union	\$21.96	730	\$16,030.80

### Liquidations

Fund	Ticker	Company	Price	Value	%Change
MPG	MA	MasterCard Incorporated	90.00	\$26,909.17	34.8%
MPG	MOGN	MGi Pharma, Inc.	18.99	\$17,927.00	(10.1%)
MPS	ARO	Aeropostale, Inc.	29.86	\$12,302.32	23.2%
MPV	JNJ	Johnson & Johnson	67.00	\$18,090.00	15.8%
MPV	SAFM	Sanderson Farms, Inc.	26.96	\$18,467.60	(26.2%)
MPV	STA	St. Paul Travelers Co's	\$51.03	\$19,136.25	17.7%

### 3-Month Performance Comparison



## November "Pitch of the Month"

### The Knot, Inc. (KNOT)

This installment of MPSIF's "Pitch of the Month" features the recent pitch of The Knot, Inc. (KNOT) made by Helena Leung on November 20 for the MPSIF Small Cap Fund. The purpose of the "Pitch of the Month" is to credit MPSIF analysts who have generated ideas over the past month that have already resulted in significant capital gains for their particular fund. Below, Ms. Leung summarizes her investment thesis for this security, the key questions brought up during her pitch presentations, and important developments that have occurred since her pitch.

**Stock Pitched:** The Knot, Inc.

**Date of Pitch:** 11/20/2006

**Ticker:** KNOT

**Sector:** Consumer Discretionary

**Analyst:** Helena Leung

**Fund:** Small Cap

**Original target price:** \$29.00

**Purchase Price:** \$25.80

**Current Price (12/11):** \$27.45

**% Appreciation:** 6.4%

#### Company Background:

Founded in May 1996 by four friends (three of whom are NYU alums), the Knot provides products and services to couples planning their weddings and future lives together. Their website, [www.theknot.com](http://www.theknot.com), is the most-trafficked wedding destination online. The Company also publishes The Knot Wedding Magazine and The Knot Weddings regional magazines. Diversification into serving customers at alternative stages in their lives is under way, with the launch of The Nest website and magazine, targeted at newly married couples, and the acquisition of parental guidebooks Lilaguides, targeted at first-time parents. In September 2006 the company acquired WeddingChannel.com, its largest online competitor. WeddingChannel's patented registry system searches registries from retailers including Macy's, Bloomingdale's, Tiffany & Co., Crate and Barrel, Neiman Marcus, The Home Depot and others.

#### Summary of Analyst's Investment Thesis:

- 1) The Knot is a dominant leader in an attractive niche. The Knot and WeddingChannel's combined Internet traffic of 3.7 million unique visitors each month is 6x that of the next most-visited site, Brides.com. The majority of couples marrying become members of either sites but advertising dollars spent on the two sites are only a fraction of the dollars spent on established wedding magazines. Annual revenues of the wedding industry are \$74 billion, with over \$1 billion spent by local wedding vendors on advertising. National advertising revenues of the three top wedding magazines in 2005 were \$375 million. The Knot's total online and publishing revenues combined were just \$39 million in 2005, leaving ample room to grow.
- 2) WeddingChannel.com acquisition drives multiple revenue and cost synergies. Wedding Channel's registry services business is an attractive complement to the Knot's existing online advertising, publishing and merchandising businesses. The overlap between the two audience bases is less than 20%. Synergies include decreasing overhead by streamlining operations and increasing advertising effectiveness.
- 3) The Company is looking to expand into other life events such as newlywed and childbirth/babies life events, by leveraging its highly engaged wedding user base, and offering content and advertising opportunities to them.
- 4) While the Knot's management does not have any plans of selling the company in the near future, the Knot could be considered an acquisition candidate over the long-term. The company could fit into the portfolio of large publishing companies targeting women and aiming to strengthen their online presence.

#### Discussion points considered during pitch:

- 1) The growth potential of this niche will attract new entrants and increasing competition. I believe that there is enough unexploited potential in the market to go around.
- 2) The potential that the acquisition will encounter problems and synergies are not realized. However to date the integration process is proceeding smoothly and most cost synergies have been realized.

#### Developments since purchase:

On November 30, The Knot announced an extensive programming and marketing agreement with Style Network. The partnership features multiple programming components including specials and stunts. Both Style and The Knot will co-promote all aspects of this extensive partnership on air, online via [Stylenetwork.com](http://Stylenetwork.com), [Eonline.com](http://Eonline.com), [TheKnot.com](http://TheKnot.com), [TheNest.com](http://TheNest.com), [WeddingChannel.com](http://WeddingChannel.com) and in print with "THE KNOT Weddings" magazine and The Nest magazine. This was an unexpected announcement and management had not mentioned it in their 3Q earnings call.

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