NYU STERN
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MPSIF Announces New Management Advisory Council

By Maggie Arvedlund
MPSIF Small Cap Analyst

The Michael Price Student Investment Fund is pleased to announce the formation of a new Management Advisory Council for the 2005-2006 fiscal year. This year's Advisory Council is composed of Nomi Ghez, Randall Haase, Christopher Long, Ruchi Madan and Kevin Parker. This incoming Advisory Council is especially notable because all of the members are Stern alumni with significant experience in the investment management business. Our new MAC members have a wide range of backgrounds and impressive investment management experience. Here are some highlights on each of our distinguished alumni.

Nomi Ghez is the Co-founding partner of Circle Financial Group and a retired Partner and Managing Director at Goldman Sachs (Ph.D., NYU). Dr. Ghez retired from Goldman Sachs at the end of 2003, after 21 years with the firm. She is currently consulting in her areas of expertise, consumer product companies, as well as serving on a number of not-for-profit boards. In addition, she has been active with NYU's

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Using Benchmarks in Portfolio Sector Allocation

Disciplined investing approach or closet indexing?

By Milin Rao
MPSIF Value Fund Analyst

Over this past semester, the MPSIF Value Fund was experiencing an identity crisis. Although the fund should allocate its capital towards stocks considered value plays, its holdings increasingly included small-cap and growth-related stocks. Traditionally, value stocks tend to trade at lower price multiples than their industry peers, are typically established large-cap companies, and they may pay cash dividends. These companies may have temporarily fallen on hard times, resulting in diminished market value, and perhaps losing favor with Wall Street analysts and the investment community.

Here lies the issue at hand. Some holdings in the Value Fund would not be classified as value stocks or companies, per se. Yet, in a classroom setting where the analyst's meet twice-weekly, how does one instill the discipline to carry out a fund transformation? This spring's Portfolio Managers, Chao Mui and Benjamin MacDonald, introduced several concepts aimed at steering the fund back towards its original mission. The first facet of their plan was to instill a minimum market cap for fund purchases, preventing investments in small-cap companies. Not only did MPSIF already have a small-cap portfolio, there was a general consensus that large-cap securities were poised to outperform small-caps over the foreseeable future.

One of the other measures was aimed at over or under-weighting the Value Fund based on the sector percentages in the benchmark Russell 1000 Value Index. Relative to the benchmark weights, the fund analysts voted at the beginning of the semester to overweight technology, energy, consumer staples, and healthcare; underweight financials, consumer discretionary, industrials, and utilities; and equal-weight materials. Once the targets were established, new pitch ideas focused on adding names in industries where our desired target had not yet been reached.

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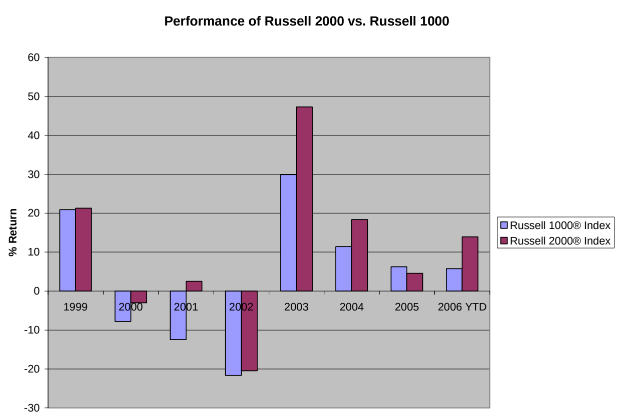
Hedge Fund Affect on Small Cap Performance

Small Cap Outperformance can partly be attributed to Hedge Funds

By Steven Fu
MPSIF Small Cap Analyst

The current period of small-cap outperformance continues to be widely discussed amongst investors. Small-cap stocks have produced superior returns compared to large-cap stocks since April 1999, putting this cycle's age at over seven years (see Figure 1). Historically, periods of small-cap outperformance have lasted an average of five to six years. However, from December 1973 to July 1983, small-caps enjoyed nearly a decade of outperformance. The length of this cycle has many investors wondering when this period of superior small-cap returns will end. In fact, many investors expect the outperformance to end during 2006 and cite the high relative valuations of small-cap stocks and the length of this current cycle as the primary reasons.

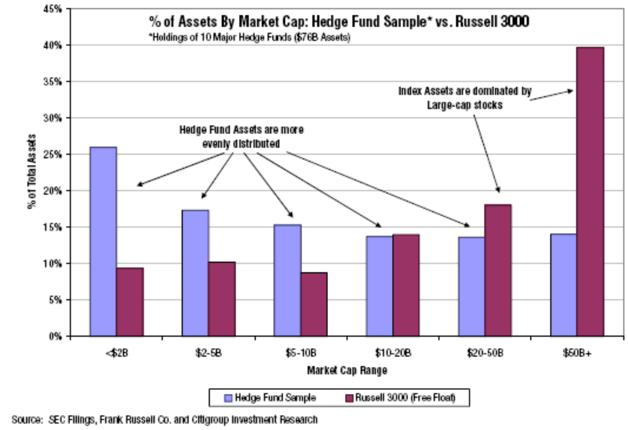
Figure 1: Seven Years of Small-Cap Outperformance



Source: Frank Russell Co.; 2006 YTD through 4/28/06

However, the continued growth in assets under management at hedge funds may lead to a persistence of small-cap outperformance and higher valuations beyond what many investors expect. Research has shown that hedge fund assets are more evenly distributed amongst various tiers of market capitalizations (see Figure 2).

Figure 2: Hedge Fund Holdings by Market Cap Range vs. Russell 3000



This suggests that as long as asset flows into hedge funds remain strong, their bias towards small-cap stocks (over 25% of hedge fund assets) can lead to a sustained period of higher relative valuation for small-cap companies. It is important to note that although actual dollar inflows into equity hedge fund strategies may be smaller than asset flows into mutual funds, hedge funds frequently utilize leverage in their portfolios. This gives them greater market influence than what would be expected by looking at their nominal asset flows.

The hedge fund bias towards companies with smaller market capitalizations is likely to be structural in nature and therefore unlikely to change over the near term. There are a couple of reasons to believe that this is the case. As hedge fund managers are actively seeking opportunities to generate alpha, it is natural that they would find more opportunities in the small-cap area where there are a greater number of stocks. Furthermore, there is significantly less analyst coverage in the lower tiers of market capitalization. For example, the average number of analysts for companies with a market cap below $2.5 billion is approximately five. This pales in comparison to the 17 analysts, on average, who cover companies that have a market cap greater than $10 billion. This suggests that the small-cap market is more inefficient than the large-cap market and that there are more opportunities to generate alpha for hedge fund managers.

Clearly, the growing influence of hedge funds has impacted the market for small-cap stocks. It is likely that their quest for alpha and the numerous opportunities to exploit market inefficiencies in the lower tiers of market capitalizations have been a driving force behind this seven year period of small-cap outperformance. These are structural facets of hedge fund investing and are not likely to change over the near-term. As a result, despite the age of the current cycle and the high relative valuations, as long as equity hedge fund inflows remain strong, it is possible that small-caps will continue their winning streak. ❖

Building the MPSIF Alumni Network

By Swaroopa Reddy
MPSIF Growth Analyst

The Michael Price Student Investment Fund at Stern hosted its first annual alumni mixer in March 2006. The event was well attended and connected graduates of MPSIF with students currently participating in the course. The alumni mixer demonstrated that the pride behind participating in MPSIF does not dissipate upon graduation from Stern. In fact, the gathering underscored that current students have a responsibility to carry on the legacy of former fund members. The event offered current and former MPSIF students an opportunity to extol the merits of their respective funds – Growth, Small Cap and Value – and compare notes on strategies and stock holdings, now and in past years.

Besides actively managing part of the overall fund, MPSIF affords students an opportunity to debate their investment philosophies and ideas with fellow students. Immersed in a course with other budding analysts and portfolio managers, MPSIF students continuously test their judgments against other students and the market. The constant feedback from other students and the market enhances the MPSIF experience and differentiates it from a traditional course.

The alumni mixer showed, not surprisingly, that our passion for analyzing stocks and markets transcends graduation from Stern. MPSIF alumni are pursuing careers in investment management at numerous high profile firms (e.g. Deutsche Bank, Lehman Brothers, and Bear Stearns, among others) as well as specialized hedge funds and boutique firms. With these credentials, the MPSIF alumni network can be a powerful force for our current students.

Our goal is to enhance the learning experience for current members of the MPSIF class through greater involvement of MPSIF alumni. In the last few years, MPSIF alumni have returned to Stern for panel discussions and presentations aimed at current students. These sessions allow MPSIF alumni to offer their insights about stock market investing and portfolio management. As important, these return visits allow current students to question alumni about alternative career paths –sell-side, buy-side, hedge funds, and so on.

Unlike these classroom visits, the first annual mixer allowed us to reach out to the entire MPSIF alumni network that now totals more than 250. The mixer offered an ideal informal social setting for discussing markets and building a network among Stern graduates who share the MPSIF experience. With that being said, we look forward to seeing you at the 2nd Annual MPSIF Alumni Mixer and hope that you are ready to challenge and be challenged by the next generation of MPSIF students. ❖

Group photo of the mixer held at NYU Torch Club

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Women's Initiative, and recently became a member of the NYU Stern Board of Overseers.

Randall Haase recently joined Baron Fifth Avenue Growth Fund as its Portfolio Manager and has spent the past 17 years working in portfolio management within the investment field. From 1989 through 2000, Mr. Haase worked for Alliance Capital Management L.P., a global investment advisor with over $600 billion in assets. More recently, he spent the last five years working at Duquesne Capital Management, a leading hedge fund run by Stanley Druckenmiller previously of Soros Fund Management.

Christopher Long is currently serving as Director of the North American Financing Desk at Tudor Investment Corporation where he has worked since 1996. Tudor is a leading alternative asset management firm managing more that $14 billion of assets. Previously, Mr. Long spent eight years at Fischer Francis Trees & Watts Inc., where he held both proprietary trading and portfolio management roles.

Ruchi Madan is a Managing Director in the financial services group at Citigroup Investment Research. An analyst since 1995, Ms. Madan specializes in the coverage of major banks and brokers and has been ranked on Institutional Investors' All-American Research Team in each of the previous 7 years. Prior to joining Citigroup, she was an analyst with PaineWebber, covering major banks and financial institutions.

Kevin Parker is the Global Head of Asset Management at Deutsche Bank. Previously, from 2000 until October 2004, he served as Global Head of Institutional Equity. Mr. Parker joined Deutsche Bank in 1997 from Morgan Stanley where he served as Managing Director and Chief Information Officer.

Members of the Advisory Council have already taken an active role in the MPSIF funds, having participated in our annual report meeting, as well as classroom visits with students this spring. Remarking on the new line-up, Professor Richard Levich, Deputy Chair of the Finance Department and MPSIF Faculty Advisor, commented that the "Advisory Council takes its participation seriously and has offered many useful suggestions regarding our stock selection and portfolio monitoring process."

We are thrilled to have these MAC members as part of our organization and believe our MPSIF members will greatly benefit from the Advisory Council's professional insights and industry expertise. By including Stern alumni on our Advisory Council, we feel strongly they will take an active role in portfolio discussions with MPSIF students and we welcome them back to Stern! ❖

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To that end, another practice that was initiated was designed to equitize the fund's rather large cash balance (nearly 20% of the fund's value). It involved purchasing sector ETFs as a temporary placeholder investment until new holdings were added to hit sector targets. For example, the fund was well below its target in healthcare stocks at the beginning of the semester, so the iShares Healthcare Sector ETF was added to the fund. Then, throughout the semester, as the fund added names such as Pfizer, Johnson & Johnson, and Zimmer Holdings, the amount of iShares steadily decreased.

The implementation of these new rules created a more disciplined approach for adding securities to the fund, diversifying the fund's holdings amongst sectors, and making bets on sectors. Including the healthcare names mentioned above, the fund added some stellar names to the portfolio, including 3M, Halliburton, and CVS Corporation, all of which are up at least 5% since being added to the fund. In addition, the average market cap of fund holdings has risen from $27.8 billion to $41.7 billion, signifying a move towards more large-cap value stocks.

The addition of the new policies has been met with some criticism, however. If two portfolio managers and team of analysts are given the responsibility to actively manage a portfolio and maximize risk-adjusted returns, does allocating positions based on benchmark sector weights qualify as index-hugging? If a fund enacted the same principles as the Value Fund, are they assumed to be more concerned with relative outperformance rather than absolute capital appreciation?

The disciplined approach to sector allocation and portfolio selection, in my opinion, do not qualify as closet indexing- but only in special circumstances. In the case of MPSIF, which is a business school class that meets twice weekly during the semester in 1.5 hour sessions, I believe that the new rules are beneficial. Generally speaking, the busiest weeks will have three or four pitches. Furthermore, some class sessions are devoted to advisory board meetings, guest speakers, general housekeeping, and of course updates of current fund holdings. Add to that the fact that very few pitches are done in initial few weeks of the semester, and you have a situation where it may take considerable time to substantially change the composition of the fund.

In conclusion, a professional portfolio manager who dedicates his working hours to managing money, and is compensated based on his or her results should not focus on outperformance relative to a benchmark index. However, when dealing with a student-run endowment fund, disciplined investing and strict guidelines help steer the ship in the right direction.

Is there a better way to instill discipline? Perhaps, and we will continue to refine the process established by Chao and Ben. For now, I can say with confidence that the new policies are a step in the right direction, and the fund's operating guidelines remain a work in progress. ❖

Anticipated Changes Give Way to Increased Risk

The MPSIF Fixed Income Fund is on the verge of a major fundamental shift in philosophy.

By Marc Straus
MPSIF Fixed Income Portfolio Manager

Over the course of the summer months, MPSIF is anticipating a major change that will significantly enhance the flexibility of investment opportunities afforded to the Fixed Income Fund. The expected shift in brokerage accounts will facilitate cash reconciliation and trading services by creating a separate account for the fund, as opposed to sharing a joint account with the Growth Fund which is currently the case. More importantly, the change will broaden the scope of "investable" assets (currently the fund is limited to investing in mutual funds and ETFs) by enabling the fund to buy individual bonds across four segments of the fixed income market: U.S. Treasuries, MBS/ABS, Corporates, and Foreign Sovereign debt. While Treasuries and Mortgage and Asset-backed securities are usually backed by entities with extreme strong credit quality, (Treasuries are in fact riskless) investing in corporate bonds will highlight the importance of introducing prudent corporate credit analysis guidelines for analysts to implement into the investment analysis process. Several factors are discussed in the "Analysis of Corporate Credit" segment.

Because the process of incorporating thorough corporate credit analysis into the fund's investment procedures will be something new, the fund will most likely start off slow, leaving most of its assets in mutual and ETFs until analysts feel comfortable using the analytic tools provided to them. Over time, as the level of comfort rises, the fund should be able to benefit from the favorable characteristics of corporate bonds such as providing the ability to target specific weighted average maturities and durations, streams of steady income and yield enhancements above mutual funds. Furthermore, the fund will be able to diversify across multiple industries or simply target a specific industry that is outperforming given its timing within its business cycle and various macroeconomic conditions. ❖

Analysis of Corporate Credit

Qualitative Factors

Industry Risk and Operating Environment: Industries that are in decline, highly competitive, capital intensive, cyclical or volatile are inherently riskier than stable industries with oligopolistic structures, high barriers to entry, national rather than international competition and predictable demand levels. Major industry developments are considered in relation to their likely effect on future performance. The inherent riskiness and/or cyclicality of an industry may result in an absolute ceiling for ratings within that industry.

Market Position: Several factors determine a company's ability to withstand competitive pressures, including its share in key markets, product dominance and the ability to influence price. Maintaining a high level of operating performance depends largely on product diversity, geographic spread of sales, diversification of major customers and suppliers, and comparative cost position.

Management: Assessment of management focuses on corporate strategy, risk tolerance and funding policies.

Accounting: The overall aim is to judge the aggressiveness of the accounting practices and restate figures, where necessary, to make the company's financials comparable to those of its peers.

Quantitative Factors

Cash Flow Focus: Emphasizes cash flow measures of earnings, coverage and leverage. Cash flow from operations provides a company with more secure credit protection than dependence on external sources of capital.

Capital Structure: Analyzes capital structure to determine a company's reliance on external financing. To assess the credit implications of a company's leverage, several factors are considered, including the nature of its business environment and the principal funds flows from operations. Because industries differ significantly in their need for capital and capacity to support high debt levels, the assessment of leverage in the capital structure is based on industry norms.

Financial Flexibility: Having financial flexibility affords a company the latitude to meet its debt service and manage stress without eroding credit quality. In terms of debt, the more conservatively capitalized a company, the greater its flexibility. In addition, a commitment to maintaining debt within a certain range allows a company to cope with the impact of unexpected events on the balance sheet.

A Message from the President

MPSIF experience continues to evolve in 2006

With more than 6 years of performance history, the Michael Price Student Investment Fund continues to expand its resources and serve as a beneficial experience for NYU Stern Students who seek to gain genuine investment management experience. The Fund continues to attract talented and experienced Stern students, who are arguably responsible for the Fund's continued ability to beat its benchmark. The Fund, which underperformed its blended benchmark by almost 140 bps for fiscal 2005, started off strong in fiscal 2006, beating its blended benchmark by 177 bps, as reported in the 2006 MPSIF semi-annual report. This positive performance, coupled with three straight years of returns in excess of our mandated 5% distribution, has enabled MPSIF to grow its assets under management to $2.01 million, the highest total in our six-year history. In addition, the following has helped to improve the MPSIF experience:

- Recruited the guidance of five leading Stern alumni to serve year-long tenures on a newly formed Management Advisory Council. The MAC critiqued our performance at our Fall meeting, attended classes in the Spring and reviewed the 2006 semi-annual report.

- Held MPSIF's first Alumni/Student Reception on March 2, 2006 at the NYU Torch Club for alumni and current MPSIF analysts to meet and network.

- Created a one-page MPSIF overview that provides a quick and easy picture of the Fund and its performance record to increase awareness throughout the Stern Community.

- Presented to incoming students an overview of MPSIF and sample stock pitches during Spring Preview.

- Established an official process by which proxy voting is executed.

- Developed a position on the Executive Board for a Vice President of Training and Development.

- Began implementation of Wilshire Analytic's software to help track performance, style and risk exposure.

- Hosted guest speaker Ted Tabasso, Managing Director of Deutsche Bank North American Product Research.

- Developed consistent stop loss trading procedures.

The past semester has been a positive learning experience for the members of the MPSIF Executive Committee. I am confident that Jeremy Roethel, the Fall 2006 MPSIF President, will provide the Fund with invigorating leadership and will also be successful in implementing more analytical tools to benefit current and future MPSIF analysts.

Sincerely,
Deborah Jones
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 04/30/06
Assets Under Management: $2.05 million
Cumulative Mandated Distributions: $461,120
Cumulative Time-Weighted Return Since 3/00 (thru 2/06): 44.4%
Total Fund Portfolio Allocation:

Fixed Income:	22.0%	Small-Cap:	29.4%
Value:	25.3%	Growth:	23.3%

Executive Committee:
President: Deborah Jones (deborah.jones@stern.nyu.edu)
Faculty Advisor: Richard Levich (rlevich@stern.nyu.edu)
Portfolio Managers:
Growth: Nelson Shim (nelson.shim@stern.nyu.edu)
Growth: Rafael Tejada (rafael.tejada@stern.nyu.edu)
Value: Benjamin Macdonald (benjamin.macdonald@stern.nyu.edu)
Value: Chao W. Mui (chao.mui@stern.nyu.edu)
Small-Cap: Lei Mu (lei.mu@stern.nyu.edu)
Small-Cap: Shivanker Saxena (shivanker.saxena@stern.nyu.edu)
Fixed Income: Marc Strauss (mas735@stern.nyu.edu)
Newsletter Editors: Milin Rao (milin.rao@stern.nyu.edu)
Steven Fu (steven.fu@stern.nyu.edu)
Newsletter Staff: Swaroopa Reddy (sr1454@stern.nyu.edu)
Maggie Arvedlund (ma1479@stern.nyu.edu)
Marc Strauss (mas735@stern.nyu.edu)

MPSIF Fund Holdings

As of April 30, 2006

MP Small-Cap Fund

Alliance Resource Partners, L.P.	ARLP
Aeropostale, Inc.	ARO
American Axel & Manufacturing	AXL
Blackboard, Inc.	BBBB
Blockbuster Inc.	BBI
Comtech Group Inc.	COGO
Diodes Incorporated	DIOD
Earthlink, Inc.	ELNK
Five Star Quality Care, Inc.	FVE
FreightCar America, Inc.	RAIL
iShares Russell 2000	IWM
Life Time Fitness, Inc.	LTM
MIPS Technologies, Inc.	MIPS
Open Solutions Inc.	OPEN
PHH Corporation	PHH
Pope Talbot, Inc.	POP
ProCentury Corporation	PROS
RARE Hospitality International, Inc.	RARE
Rural/Metro Corporation	RURL
Seacor Holdings, Inc.	CKH
Texas Industries, Inc.	TXI
USANA Health Sciences	USNA
WD-40 Company	WDFC
World Air Holdings	WLDA

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 April 30, 2006, and may change at any time. Holdings are not intended as buy or sell recommendations for independent investors.*

MP Growth Fund

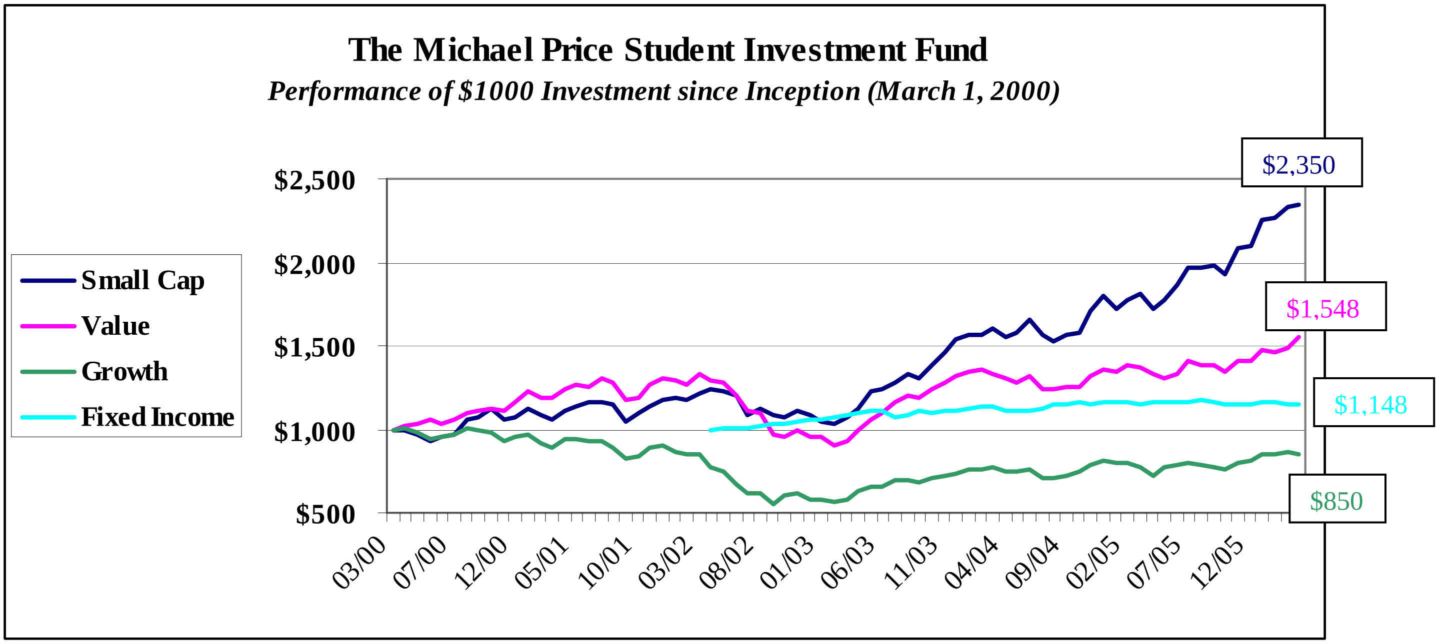
Advance America, Cash Advance Centers	AEA
Applied Materials, Inc.	AMAT
Benchmark Electronics	BHE
Ceradyne, Inc.	CRDN
Cisco Systems, Inc.	CSCO
DOV Pharmaceutical, Inc.	DOVP
First Data Corporation	FDC
Fording Inc.	FDG
GFI Group Inc.	GFIG
Host Hotels & Resorts	HST
Medicis Pharmaceutical Corporation	MRX
MGi Pharma, Inc.	MOGN
Microsemi Corporation	MSCC
Maxim Integrated Products	MXIM
PETsMART, Inc.	PETM
PRA International	PRAI
SMART Modular Technologies	SMOD
Starwood Hotels & Resorts Worldwide	HOT
Tempur-Pedic International Inc.	TPX
Transocean Inc.	RIG
Walgreen Company	WAG
Weatherford International LTD.	WFT
XM Satellite Radio Holdings Inc.	XMSR

MP Value Fund

3M Company	MMM
Altria Group	MO
Apache Corporation	APA
Bank of America Corporation	BAC
Boston Scientific Corp.	BSX
Cimarex Energy Co.	XEC
CVS Corporation	CVS
Dow Chemical	DOW
Freescale Semiconductor Inc	FSL
General Mills, Inc.	GIS
Halliburton Company	HAL
Illinois Tool Works Inc.	ITW
iShares DJ Financial	IYF
iShares DJ Healthcare	IYH
iShares DJ Utilities	IDU
Johnson & Johnson	JNJ
McDonald's Corporation	MCD
Pfizer Inc.	PFE
Pogo Producing Company	PPP
Quiksilver, Inc.	ZQK
Radian Group Inc.	RDN
Russell Corporation	RML
Sanderson Farms, Inc.	SAFM
Seagate Technology	STX
Sempra Energy	SRE
The St. Paul Travelers Companies	STA
UnumProvident Corporation	UNM
Zimmer Holdings, Inc.	ZMH

The Michael Price
Student Investment Fund

The Funds
Growth
Small Cap
Value
Fixed Income



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/