

The Educated Investor

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Randall Haase Speaks to the MPSIF Class

by Lucy Wei Ye

Randall Haase (Stern MBA 1989), Portfolio Manager of Baron Fifth Avenue Growth Fund, recently returned to Stern and shared his equity investment strategies and specific stock ideas with MPSIF students. Mr. Haase is a member of MPSIF's Management Advisory Council for the academic year 2006-07.

Stretching over an 80 minute class period, Mr. Haase offered his insights about stock market investing and portfolio management. He talked about his investment strategy: to invest in large-cap growth companies that have long-term, sustainable competitive advantages and can be purchased at attractive prices. He focuses on the long-term fundamental prospects of the business, as well as the capability of company executives. Mr. Haase is a bottom-up fundamental investor who constantly looks for ideas, and tries to identify strong trends and themes across the economy to determine which companies will benefit over an extended period of time. He also shared his perspective on specific stocks, such as P&G, Microsoft, American Express, PepsiCo, Whole Foods, Marriot, Coach, and Tiffany, and answered students' questions regarding the use of a stock watch list, and investing in emerging markets, as well as stock market efficiency.

Mr. Haase 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. Prior to joining Baron Funds, Mr. Haase spent five years at Duquesne Capital Management, a leading hedge fund run by Stanley Druckenmiller previously of Soros Fund Management.

Unfolding of a Prophecy From MPSIF Advisors

by Mayank Mohan

On February 26, we were delighted to have Nomi Ghez (NYU PhD 1976) and Christopher Long (Stern MBA 1988) engage the MPSIF class in a lively discussion that spanned the global financial markets, the shape of the US economy, the strength of emerging markets, and strategies and techniques for the current investment climate.

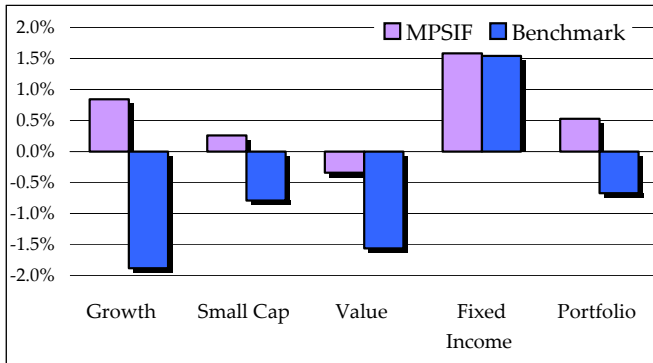
Dr. Ghez focused on the shift in the global balance of power from the West to the East. She remarked that the current rapid pace of GDP growth in some of the Eastern economies, notably China and India, is only the tip of the iceberg. She spoke about her recent trip to India and about the fact that the current GDP growth is not only sustainable, but could also explode once the infrastructure in the country improves. The Indian market has over 8,000 listed stocks. She believes that while some of the more well-known names may be overpriced, there are a large number of promising stocks that lack adequate analyst coverage, making them attractive investment propositions. She acknowledged, however, that identification of and research on these "gems" is challenging, and a suitable strategy might hence be in making investments in domestic companies that leverage the explosive growth in these emerging markets.

Mr. Long began by expressing his concern that risk was priced very cheaply and as a consequence stock markets were vulnerable. Taking a bearish view, Mr. Long observed that the low risk premiums and historically low volatility did not seem sustainable. His words could not have been timelier. The next day we witnessed a dramatic slide in stock markets around the world, beginning in Asia, fueled by weak US durable goods orders, and Freddie Mac tightening lending to sub-prime borrowers – all leading to a sudden change in the risk appetite of investors worldwide.

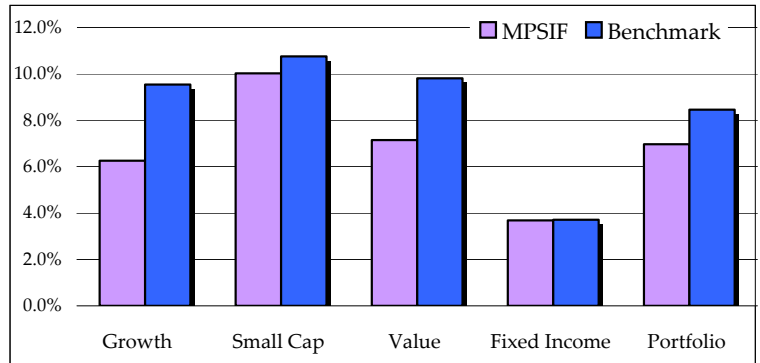
Nomi Ghez is the Co-Founding partner of Circle Financial Group, and a retired Partner and Managing Director at Goldman Sachs. She has been active with the NYU Women's Initiative, and recently became a member of the NYU Stern Board of Overseers. Christopher Long is the Director of the North American Financing Desk, Tudor Investment Corporation. Both Dr. Ghez and Mr. Long are member of the Management Advisory Council for MPSIF.

Fund Performance vs. Benchmark

...in February



...Year to Date



Best Returns of February

Fund	Ticker	Company	Price	Returns
MPG	CTSH	Cognizant Tech Sol	\$90.20	16.7%
<i>Comment: Better than expected 06 results and increased 07 guidance</i>				
MPG	AEA	Advance America Inc.	\$13.58	14.6%
<i>Comment: Sold due to high relative valuation & risky growth strategy</i>				
MPS	WLDA	World Air Holdings, Inc.	\$10.15	13.4%
<i>Comment: Increased military troop movements due to war in Iraq</i>				
MPG	LCAV	LCA-Vision Inc.	\$43.60	12.6%
<i>Comment: Better than expected guidance & market share growth</i>				
MPS	BBBB	Blackboard Inc.	\$33.36	11.9%
<i>Comment: Reported earnings beat analyst estimates</i>				

Worst Returns of February

Fund	Ticker	Company	Price	Returns
MPG	DVSA	Diversa Corp.	\$7.51	(32.7%)
<i>Comment: Stock got hit due to announced merger with Celunol</i>				
MPS	KNOT	Knot, Inc.	\$23.64	(22.7%)
<i>Comment: Reported in-line earnings but missed revenue estimates</i>				
MPG	SBUX	Starbucks	\$30.90	(17.0%)
<i>Comment: Questioned on the long-term EPS growth by some investors</i>				
MPS	RURL	Rural/Metro Corporation	\$7.57	(7.8%)
<i>Comment: Delayed in filings due to internal accounting review and risks delisting</i>				
MPV	PFE	Pfizer	\$31.42	(6.6%)
<i>Comment: Bad month for pharmaceuticals</i>				

Purchases

Fund	Ticker	Company	Price	#Shares	Value
MPS	DAKT	Daktronics, Inc.	26.84	373	\$10,011.32
MPS	KNOT	Knot, Inc.	23.44	430	\$10,079.20
MPV	AFL	Aflac	47.26	105	\$4,962.30
MPV	AMAT	Applied Materials	18.61	268	\$4,987.48
MPV	BAC	Bank of America	50.82	98	\$4,980.36
MPV	DUK	Duke Energy	19.80	252	\$4,989.60
MPV	GLW	Corning	20.71	241	\$4,991.11
MPV	JOSB	Jos. A. Banks	31.25	545	\$17,030.16
MPV	MO	Altria	84.27	59	\$4,971.93
MPV	THO	Thor Industries	42.10	119	\$5,009.90
MPV	WMT	Wal-Mart	48.25	103	\$4,969.75

Liquidations

Fund	Ticker	Company	Price	Value	%Change
MPG	AEA	Advance America Inc.	14.49	\$23,183.28	14.6%
MPG	CTSH	Cognizant Technologies	92.37	\$24,015.44	16.7%
MPG	DVSA	Diversa Corp	8.00	\$15,080.00	(32.7%)
MPG	SBUX	Starbucks	32.00	\$17,120.00	(17.0%)
MPS	CRI	Carter's, Inc.	21.00	\$14,028.00	(26.9%)
MPS	KNOT	Knot, Inc.	25.23	\$19,547.00	(2.3%)
MPS	YCC	Yankee Candle	34.75	\$25,715.00	28.1%
MPV	FPL	FPL Group	\$58.52	\$20,189.40	26.0%
MPV	SRE	Sempra Energy	\$60.07	\$10,091.76	29.2%

PM Spotlight - Growth Fund

by Aaron Trent

Elizabeth Boylan and Kaimon Chung are leading the Growth Fund as Co-PMs this term. We asked them to discuss what they're learning and their goals as PMs:

EB: As a PM in the Growth Fund, I am learning a great deal about how to manage and motivate a diverse group of people. I am constantly looking for opportunities to effectively support and encourage the analysts in order to build team spirit and create a cohesive atmosphere among the group. On a more technical level, I am learning a lot about how to manage an entire portfolio and to rely on the long-term investment theses of our analysts, even if short-term volatility movements cause a temporary dip in our performance. In essence, it's a great lesson on the importance of having conviction and taking risks. In the long run, I believe this approach will prove much more rewarding for our Fund than playing it safe.

One of the most important agenda items this semester has been to create a consistent and comprehensive view of how our analysts should identify stock opportunities, value companies and present the information to the group. I believe this is a difficult task for MPSIF in general given the high degree of turnover from semester to semester. In response, Kai and I devoted our first few classes of the semester to lessons on stock selection and valuation. We have already seen positive results as everyone is on the same page when an analyst presents his/her analysis on a certain company and understands the approach he/she used to arrive at the conclusion. Overall, this allows us more time to discuss the overall growth thesis rather than procedural details.

KC: My role as a co-portfolio manager of MPSIF Growth has given me a great opportunity to apply leadership skills and foster a productive team-oriented environment. I am learning how to motivate a group of talented Sternies to perform at a high level and leverage off each other's skills and expertise. Each analyst has added value such as unique insights to global markets, accounting and finance experience, or savvy stock picking. I have learned a lot from our collaborations.

The greatest challenge for me is staying on top of everything such as our portfolio positions, trade activity, price targets and stop losses, and the markets events while conducting other coursework and recruiting. My time management skills have improved significantly.

One of the main things Beth and I are trying to improve is our investment process and continuity. We are trying to develop a well-defined investment process that consists of stock screening, modeling and valuation, portfolio management, and research report writing and presentation. The challenge is to find the best practices, implement them, and ensure that they will be passed on to future classes. Our goals are to enrich the MPSIF learning experience and produce strong performance for the beneficiaries of the fund.

February's "Pitch of the Month" – Itron, Inc. (ITRI)

This installment of MPSIF's "Pitch of the Month" features Itron, Inc pitched by Ronny Eisemann on February 21 for the 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, Mr. Eisemann summarizes his investment thesis for this security, the key questions brought up during her pitch presentations, and the key developments that have occurred since his pitch.

Stock Pitched: Itron, Inc.
Date of Pitch: 2/21/2007
Ticker: ITRI
Sector: Industrial Equipment
Analyst: Ronny Eisemann

Fund: Small Cap
Original target price: \$70.00
Purchase Price: \$61.37
Current Price(2/28/07): 64.62
% Appreciation since purchase: 5.30%

Company Background: Itron, Inc. (Itron) provides solutions to electric, gas and water utilities worldwide to enable them to optimize the delivery and use of energy and water. It operates in three segments: Electricity Metering, Meter Data Collection and Software Solutions. Electricity Metering includes residential meters, commercial and industrial meters, generation, transmission and distribution meters, international meters and an advanced metering infrastructure. Meter Data Collection products include automated meter reading (AMR) modules, handheld meter reading and handheld AMR, mobile AMR, fixed-network AMR and leak detection. The Software Solutions segment include data collection and workforce management, meter date management, knowledge applications, distribution system design and asset management, and consulting and analysis.

Summary of Analyst's Investment Thesis:

1. Market penetration of the technology is approaching 30% of the 300mm meters in the US and Canada, of which ITRI provides the technology for 50% of that segment. Globally the market penetration is only 2% of the 1.9b meters. The annual growth has been about 15%, but should increase due to additional capabilities, such as real-time dynamic pricing, theft reduction, enhanced grid reliability and environmental/political concerns. Market size is estimated to be approximately \$23B in the US and Canada.
2. Less than 5% of consumers currently utilize a time-of-use (TOU) pricing system, which charges consumers based on the time of day for electricity use. This is expected to increase as advanced AMR meters replace older generation meters and improved technology allows for better electricity usage monitoring. The Energy Policy Act 2005 mandated that utilities provide customers the choice of time-based rates and evaluation of methods to implement demand response pricing. Initial studies have shown customers benefit from lower pricing, many utilities benefit from lower costs and consumption is smoothed and reduced – benefiting the environment.
3. On a consensus based forward looking P/E of 22.7, ITRI is trading cheap compared to its closest peers, which are trading at 25x and 28x. Additionally, ITRI's expected 5-yr growth rate at 20% is the highest among its peers. This gives ITRI the most attractive PEG (1.13) in this segment.

Discussion points considered during pitch:

1. The likelihood of utilities to adopt the technology to allow for time-of-use pricing. The worry is that the technology might cut into the utilities profit margins, since the price paid by consumers would decrease at non-peak power times. In response, the technology allows for utilities to lock in a gross margin for electricity and end the practice of selling electricity at a loss during peak times.
2. Potential for competitors to enter the market. However, Itron is consistently the market leader in this industry and has developed excellent strategic partnerships and supplies technology to many of its competitors.

Developments since purchase: A number of key elements have changed. Within 1 week of our purchase, Itron announced the acquisition of Actaris, a private European company, in the same line of business for \$1.6B (including debt). Actaris's revenue is approximately 60% greater than Itron, and it operates primarily in Europe, Asia, Australia, and Latin America. This complements Itron's strong position in North America, allowing the new company to sell Itron's advanced technology to other markets. Itron will be the #1 in AMR in North America, and globally #1 in electric metering, #2 in gas metering, and #4 in water metering. The market warmly received the news, lifting the stock nearly 9% until 2/27. During the market decline in the last week in February, Itron gave back most of those gains, yet is still above our cost.

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Editor: Stephen Poleskey
Staff: Jeff Agne
Mayank Mohan
Aaron Trent
Lucy Wei Ye

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