University of Northern Colorado

SAFF Informer

Letter From The Editors

As managers of the Spring 2010 semester, we have set an optimistic outlook of the current economy. Compared to the negative economic outlook forecasted by management of the prior semester, we had to work exceptionally hard to change and alter the portfolio to reach our positive economic stance.

Throughout this semester, the 14 of us have learned a great deal concerning day to day duties, and more importantly responsibilities, of a portfolio manager. We've had the opportunity to put forth the knowledge we have gained throughout our years at the Monfort School of Business to make informed, sound decisions in a unique, real-world portfolio management environment.

SPRING 2010

Name	***Title***
Jake Fells	Portfolio Manager
Austin Elm	Portfolio Manager
Ashley Malsalm	Equity Manager
Caleb Westmore	Equity Manager
Josh Daugherty	Fixed Income Manager
Andrew Ibarra	Fixed Income Manager
Brent Erickson	Webmaster
Corey Sheesley	Webmaster
Reynaldo Mendez	Newsletter Editor
Darrell Lomelino	Newsletter Editor
Erica Ferge	Special Projects Manager
Abraham Jauregui	Special Projects Manager
Donald Green	Special Projects Manager
Ryan Roggow	Special Projects Manager

This is an amazing program, which most undergraduate finance students never have an opportunity to experience, and for this we are tremendously grateful. We would like to thank you for taking the time to read about the status of our portfolio, as well as what we have accomplished as a team throughout this semester.

- Darrell Lomelino & Reynaldo Mendez

Letter From The Portfolio Managers

The portfolio managers in the SAFF class returned a 0.52% gain over the benchmark's return of 3.57%. In other words, the total Quarter 1 return was 4.09%. This semester's team forecasted a continuing recovery both domestically and internationally, thus allocating 60% to equity, 35% to fixed income, and 5% to cash. Moreover, this is slightly more aggressive than the previous semester's asset allocation of 55% equity, 40% fixed income, and 5% cash.

Large decisions had to be set as governmental and political reforms impacted securities' returns, some being: healthcare reform, governmental spending, and struggling economies such as Greece and Spain. In addition to the readjustment of equities, fixed income strategies needed to be redefined. With short-term interest rates remaining at historical lows, the team had to adjust the fixed income portfolio to account for future interest rate fluctuations. With this we forecasted a flattening of the yield-curve.

- Jake Fells

Monfort College of Business
University of Northern Colorado

Inside The Issue

ABOUT SAFF

The "Student and Foundation Fund", a real world investment class here at the Monfort College of Business, is commonly referred to in its abbreviated form simply as "SAFF". SAFF provides students the opportunity to actively manage a portfolio of real assets comprised of an ever changing balance of equities, bonds, and cash reserves. The first class was allotted $200,000 by the UNC Foundation to oversee, when the program was established in 1992. After additional donations and sound management decisions over the past 18 years, the fund currently stands at just over $1 million.

Following an application and interview process, a team of portfolio managers are selected each semester and guided by Dr. John Clinebell, the founder and head advisor of the class. The spring managing team of 2010 is made up of 14 members.

Each new team begins by forecasting the state of the economy over the upcoming six, twelve, and thirty-six months. Based upon the forecast, the team determines the balances allocated to equity, fixed income, and cash reserves. Equity is then allocated amongst: growth, value, and income sectors, in addition to the appropriate sector weightings against the benchmarks. A strategy is then set for fixed income, in respect to the forecasted yield curve.

With these targets and guidelines set by the foundation, individual stocks are carefully screened and selected to construct the portfolio. Performance is tracked on a quarterly basis by comparing the returns of the SAFF portfolio against established benchmarks, the S&P 500 and the Barclays Aggregate Bond Index.

- Corey Sheesley

ECONOMIC FORECAST

A fundamental element of the Student and Foundation Fund class is to prepare an economic forecast for the upcoming 6 months, 1 year, and 3 years. After weeks of discussion, we have reached our conclusion on the economic state of the world. Our outlook is positive, in general, but there are negative aspects as well. Before conducting an economic forecast we had to consider: energy prices, money supply, the value of the dollar, individual taxes and company taxes.

Energy prices have been known to consistently increase in the past with some decrease due to lack of demand. Over the next three years we believe energy prices will continue to increase; economic prices, after a six month period of stability, will also begin to increase along with the economy. Next, the money supply has been greatly increased this year because of TARP funds and a large amount of that money still has not been spent. Therefore, the certain outcome is the increase of the money supply in the short-run, as the U.S. Government spends the rest of the TARP funds. To counteract this increase, in the long-run the Federal Reserve will have to restrict the money supply to help reduce the risk of hyperinflation. Furthermore, the large amount of U.S. Dollars in circulation decreases the value of the currency because it increases the supply and makes it less valuable. However, as the money supply decreases we should also see a strengthening of the dollar relative to other currencies. The decrease in value of the dollar is also backed by the speculation that Moody's will re-evaluate the T-Bonds ratings. The last major input that we focused on was taxes for both individuals and companies. For individuals we see taxes remaining stable with some cuts coming with certain tax credits but increases coming from new legislation. We then see the taxes increasing in the future as a way to cover the debt that the United States Government has created. On the other hand, we predict that small business will see tax breaks in the future to help stimulate growth; however, there is legislation (i.e. healthcare, cap and trade) in the work that could have large tax affects on major corporations in the long-run.

Since the economy is a combination of these traits it is important that we place them together to get a view of the economies' future. The predicted outcomes from economic factors are an improving economy that will continue with economic growth. The impact of spending, reduction in taxes, and increasing energy prices will result in a growth of GDP over the next 6 months and three years, 1% and 3%, respectively. This follows the 2009 3rd quarter GDP growth of 2.2%. However, with the large amount of money being pushed into the economy there is bound to be inflation, after very little inflation over the last year. Inflation of 3% is likely for 6 months and 3.8% is our educated figure for 3 years. Another economic indicator that we see improving is the return on U.S. Treasuries; we see the T-Bill going from .4 to .85 in 6 months while the T-Note goes from 3.66 to 3.8 and the T-Bond goes from 4.54 to 4.65. As for in one year we see the rates for T-Bills, T-Notes, and T-Bonds being 1.2, 4.05, and 2.8, respectively. And in three years the rates will be 3.2 for the bills, 4.25 for the notes, and 5 for the bonds.

One of the most widely used economic indicators other than GDP, is the stock market. As a group, we see indications amongst the economic factors that make us believe that the stock market will bring higher returns than we have seen lately. For the Dow Jones Industrial Average, we forecast the average growing from 10603.15 to 11,000 in 6 months, 11,500 in one year and 12,500 in three years. As for the Standards and Poor's 500, we see it increasing from 1138 to 1188 in 6 months, to 1240 in one year to 1360 in three years.

These indicators make us believe that we will come out of the recession with a strong market with a slight possibility of a 'double dip'. Therefore, we have used this information in creating our asset allocation strategy and sector rotation strategy.

- Brent Erickson

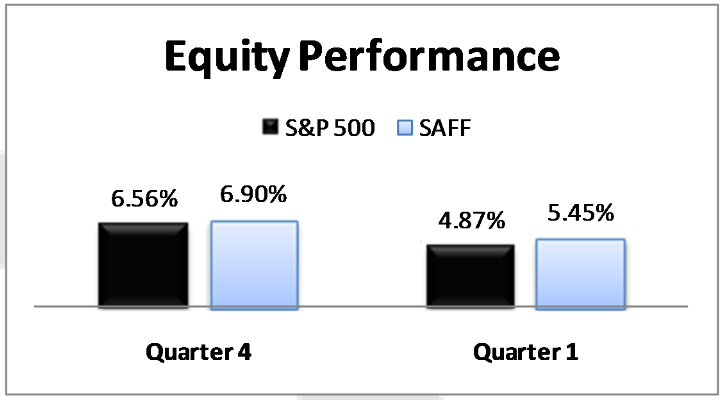
EQUITY

This semester, we had a positive return in our equity portfolio. The S&P 500 has increased over the last couple of quarters, which has improved our overall performance. Equity returns for the fourth quarter of 2009 were .58% and .34% for the first quarter in 2010 over the benchmark, the S&P 500. Our total equity performance for the fourth quarter of 2009 and the first quarter of 2010 were 6.90% and 5.45%, respectively.

Over the last two quarters, it has been difficult to assess the economic situation due to uncertainty in government policies. This includes healthcare reform and new regulations within the financial sector. We believe that the economic situation will be improving over the next year.

Next to our own domestic market, we have considered international impacts as well. With approximately 40% of the portfolio's revenues derived from foreign countries, economic uncertainty exists. For example, insecurity in European countries can cause uncertainty in exchange rates thus directly affecting the reporting of revenues. Due to these major changes in the investing environment, we have made what we feel are the appropriate adjustments to the equity portfolio in order to surpass our client's expectations and goals.

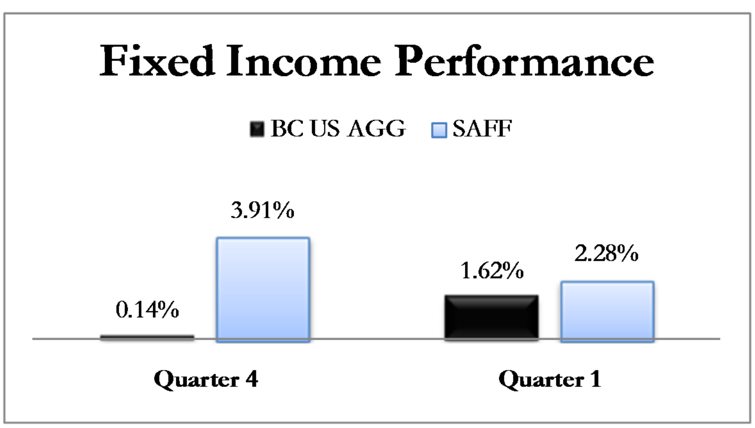
- Ashley Malsam & Caleb Westmore



FIXED INCOME

The fixed income portion of our portfolio outperformed our benchmark, the Barclays US AGG Index, in both the fourth quarter of 2009 and the first quarter of 2010. In the fourth quarter of 2009, our return was 3.91% compared to Barclays' 0.14%, while the first quarter 2010 return was 2.28% compared to our benchmark's return of 1.62%. For these two quarters, we have earned a total of 6.28% return on our fixed income investment compared to the 1.76% yield of Barclays.

The success can be attributed to the excellent bond selections by last semester's SAFF management team. After creating our economic forecast, we realized that in order to take advantage of a recovering economy, it was important to slightly decrease the fixed income weighting to 35% so we could invest more in the potential upside of individual equities. Believing that interest rates will increase in the next couple of years, we decided to modify our previous ladder strategy and increase our duration to 4.50 years. We decided to transition into more long-term bonds with the anticipation of a higher increase in short-term interest rates. Our strategy is to have 40% in 8+ year maturities and 15% in each of the four shorter maturity categories (0-2, 2-4, 4-6, 6-8). With the decision to increase the total equity investment, fixed income would need to decrease by $30,000.



After setting a target strategy and duration, we then allocated our fixed income between government, mortgage-backed, and corporate issued securities. In order to obtain an excess return, we decided to perform a spread analysis between these three types of bonds.

From the analysis we noticed that corporate bond rates would most likely increase the least in comparison to the others, and provide the best return, we decided to weigh our holdings in government at 40%, mortgage-backed at 30%, and corporate holdings at 30%.

- Josh Daugherty

Best & Worst Performing Stocks

Our **five best performers (YTD return):**
1. Netflix (79.52%)...Cyclical
2. Chipotle Mexican Grill (53.03%)...Cyclical
3. General Electric (25.31%)...Industrials
4. Apple (23.9%)...Technology
5. Caterpillar (20.95%)...Industrials

Our **five worst performers (YTD return):**
1. Flir Systems (-11.67%)...Technology
2. Qualcomm (-8.83%)...Technology
3. Devron Energy (-8.49%)...Energy
4. Total (-6.61%)...Energy
5. AT&T (-5.67%)...Telecom

Largest Holdings

Our **five largest holdings (of equity):**
1. Apple (5%)...Technology
2. Netflix (4.07%)...Cyclical
3. Caterpillar (3.91%)...Industrial
4. Peabody Energy Company (3.88%)...Healthcare
5. Chipotle Mexican Grill (3.58%)...Cyclical

- Andrew Ibarra

Equity Purchases & Liquidations

Our economic forecast and sector allocation strategy for this semester led us to many sell proposals in the healthcare sector: we sold all 1000 shares of MannKind Corporation due to the reoccurring postponement of patent approvals. We also made some changes to our staples sector in which we sold 29 percent of Phillip Morris to diversify the sector. Due to the changes in our sector weightings, we were faced with the challenge of finding new stocks to purchase. We have purchased Google and Research in Motion to meet our sector allocation for the technology sector. Below is a snapshot of what transactions occurred throughout the semester:

Sells:
- Diageo (DEO) all 100 shares
- International Business Machines (IBM) all 40 shares
- AstraZeneca (AZN) partial 150 shares
- MannKind Corporation (MNKD) all 1000 shares
- Pinnacle West Capital (PNW) all 300 shares
- Sysco Corporation (SYY) all 550 shares
- Phillip Morris (PM) partial 100 shares
- Disney (DIS) all 300 shares
- Apple (AAPL) partial 20 shares

Buys:
- Urban Outfitters (URBN) 220 shares
- Research in Motion (RIMM) 200 shares
- Google (GOOG) 25 shares
- Green Mountain Coffee (GMCR) 100 shares
- Eli Lilly & Co (LLY) 300 shares
- Strayer (STRA) 60 shares
- Potash (POT) 130 shares
- Orion Marine Group (ORN) 700 shares

- Donald Green

EQUITY SECTOR OVERWEIGHTS

Based on our expectations of recovery in the economy as well as energy prices increasing within the next three years, we selected to overweight technology, energy, materials and cyclical sectors.

Technology, cyclical, and materials go hand in hand in reaping the benefits from GDP growth, typically seen during an economic recovery. Materials will be experiencing increased demand. This will lead to higher production, which will satisfy demands in the technology and cyclical sectors. We have seen the market rebound within the last year and we are starting to see positive signals. Based on our economic forecast, we project a 3% increase in GDP growth; in addition, we predict the S&P to reach 1400 by the end of the three year term. With that said, our sector weight in technology is now 20% compared to our original weight of 17%. As for the cyclical sector, we chose to change the weight to 12% of the equity portfolio, from its original 8.9%. Our materials sector currently holds a 4.5% weighting compared to our original weight of 4.04%, which is not a large adjustment. We chose to overweight energy; based on expectations for the next six months, we decided to weight the energy sector to 12.5% from 12.27%. We believe that energy prices will stay relatively stable for the next 6 months and gradually increase over the next 3 years as the economy stabilizes.

We have set forth these weightings based on what we expect will occur in the next three years and we believe that the allocations made will benefit our portfolio and provide positive returns.

- Abraham Jauregui

EQUITY SECTOR UNDERWEIGHTS

Given our expected recovery in the economy, we have decided that the following sectors should be underweighted: financial services, staples, and utilities. The companies that fall under the financial sector are still under a great deal of scrutiny by the government. Several investment firms, such as Bear Stearns, made unethical decisions, which lead the economy into a recession. We believe that both public and private views of this industry will take a long time to recover; therefore, we have given the sector a weight of 11.5% compared to the S&P 500's weight of 14.59%.

Companies in the staples sector are largely involved in the production and distribution of consumer goods which are typically purchased with non-discretionary income. We believe that discretionary spending is correlated with economic recovery and have underweighted the staples sector by 13.6% relative to the S&P 500.

The companies in the utilities sector have been known to have strong defensive characteristics. Given our economic forecast of a recovery in the market, we believe that these securities will not provide us with a substantial returns as would those sectors which are more cyclical in nature. With this reasoning we have decided on an underweight of 18.3% relative to the benchmark.

By underweighting these particular sectors, we believe that our portfolio will be given the greatest potential opportunity for positive returns while simultaneously maintaining diversity during this economical recovery.

- Ryan Roggow

Sector Allocation

	Financial Services	Healthcare	Tech	Utilities	Industrials	Energy	Cyclical	Telecom	Staples	Materials
S&P 500	14.59	13.05	18.87	3.67	10.59	11.54	9.72	2.94	11.58	3.44
SAFF TGT	11.5	13	20	3	10.5	12.5	12	3	10	4.5
Weight	UW	EW	OW	UW	EW	OW	OW	EW	UW	OW

SPECIAL PROJECTS

THE CFA INSTITUTE GLOBAL INVESTMENT RESEARCH CHALLENGE

The CFA Challenge was explained in detail in last semester's newsletter. As a refresher, the challenge is a global competition sponsored by The CFA Institute that provides students the opportunity to compete with other schools in equity research and company analysis based on a company, chosen by The CFA Institute. The company chosen for the competition was Chipotle. The competition consisted of both a written analysis and an oral presentation given to esteemed members of the finance field. Unfortunately, SAFF students lost to the University of Denver's graduate program students who proposed that Chipotle should be sold with a fair value of $**70.** SAFF students, who proposed Chipotle's valuation to be at $121, were told their valuation was too optimistic and that the stock would never reach its proposed price. However, two months later, Chipotle reached the $121 valuation.

SAFF STUDENTS PLACE IN FMA NATIONAL QUIZ BOWL

Three members of SAFF placed 2nd in the National Quiz Bowl at the 2010 Finance Leaders' Conference in Chicago, Illinois: **Jay Fells**, **Ashley Malsam**, and **Erica Ferge**. The competition was divided into two sections: a 50 question multiple choice quiz proceeded by a round of jeopardy for the three highest scoring teams. In addition to the competition, members were able to tour the Chicago Mercantile Exchange and the Chicago Board of Trade. The conference also enabled attendees to interact with financial professionals through various workshops and seminars.

- Erica Ferge

CAPITAL IQ

Information is useful only if it is understandable and easy to access. As a way of improving the comprehension and ease-of-access to financial information the Monfort College of Business (MCB) purchased Capital IQ, a division of Standard and Poor's business. All upper-classmen with an emphasis in finance have a personal log-in which allows them to track specific companies pertaining to personal interest and class assignments. Any student may access this new program in the Finance Trading Center on several computers with constant access. This acquisition has been most beneficial for the Student and Foundation Fund (SAFF).

SAFF managers currently have access to financial information and analytical tools provided by Standards and Poor's through Research Insight, Charles Schwab, Morning Star, and Bloomberg. Each service provider has its special advantages pertaining to investments, but Capital IQ combines all of these qualities into one, making it more convenient. Though useful, Research Insight and Bloomberg both take a lot of time to become accustomed to and are only available within the MCB building. However, Capital IQ is web-based so any student with a personal log-in may have immediate access.

One helpful feature is that Capital IQ shows the source and calculations of any provided ratio. In addition, all of the financial information provided by Capital IQ can be quickly downloaded into Excel which eliminates the necessity of tedious manual data entries. Graphs can also be created instantly.

A particular tool that Capital IQ provides and has been very beneficial to SAFF is the screening and analytics tab which allows the user to screen companies and fixed income easily. Users can search for companies in different sectors and industries with specified historical growth rates, ratios, estimates, and many other characteristics that a portfolio manager may look for.

Capital IQ is now a valuable asset to SAFF and allows its managers to acquire easier and more understandable information, ultimately helping maintain the SAFF portfolio.

- Andrew Ibarra

R.I.S.E. X

The Redefining Investment Strategy Education (RISE) Conference is an international event that brings together students, faculty, and investment professionals to share knowledge at the largest student investment forum in the world. This conference allowed members of the SAFF class to experience one of the most knowledgeable and informative symposiums available to young business professionals. The RISE conference is held at the University of Dayton and has been a continuing tradition for the past ten years.

The convention lasted for three days and consisted of various discussion panels on the first day and specialized break-out sessions the following two days. Topics discussed in different panels ranged from current market conditions, corporate governance, risk management, and energy and sustainability. The speakers on these panels were business professionals, economists, and leading directors from different companies in the business community.

These panel discussions were very informative and allowed for members of the SAFF class to learn first-hand current topics regularly discussed by various companies. It was a general consensus by the students who attended that these panel discussions were most enlightening into our current economic times.

The following days consisted of specialized break-out sessions, in which individual speakers would discuss various topics ranging from risk management, equity analysis, portfolio management, credit default swaps, and various other select categories within the financial realm. In addition to these sessions, The SAFF team participated in a portfolio competition. Attending members presented our current portfolio and strategy to a panel of judges. Results proved that judges were very impressed with our knowledge and strategy investment of our portfolio. The team received superb reviews from the judges.

The RISE conference was extremely beneficial to all of the SAFF members who attended. RISE X attendees learned a tremendous amount of new information, and the experience was one that will never be forgotten.

- Austin Elm

PORTFOLIO SNAPSHOT (AS OF MAY 3, 2010)

Current Holdings		
Equity	$	522,068
Fixed Income	$	373,723
Cash	$	135,246
Total	$	1,031,037

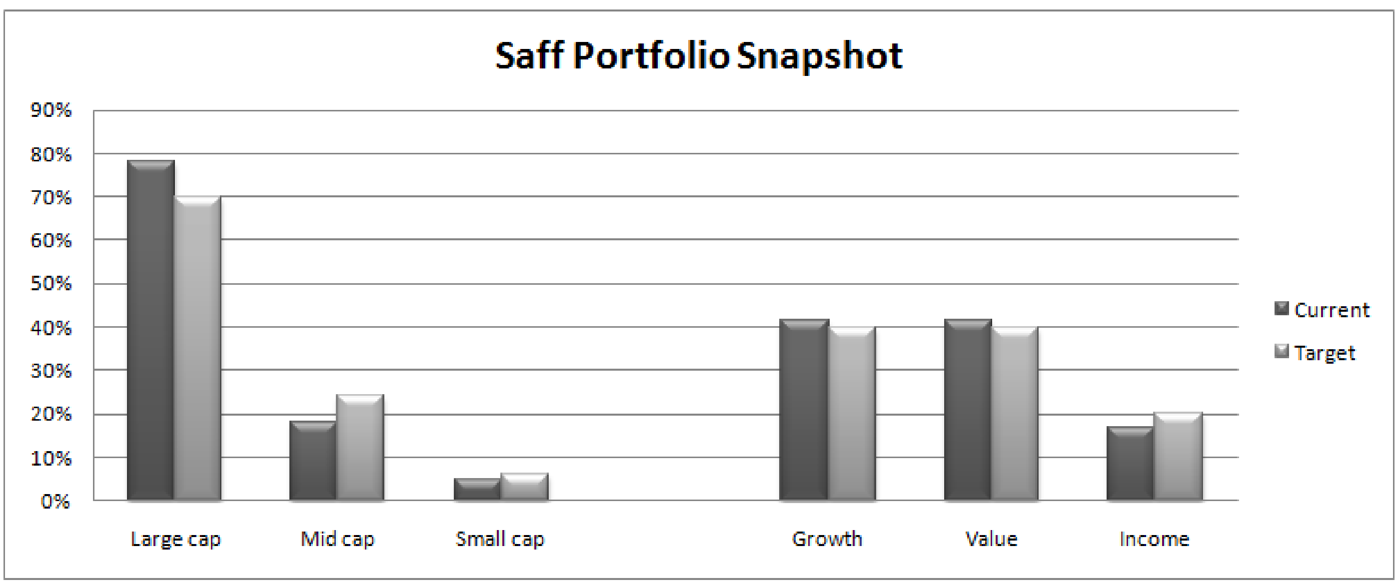
Key statistics for Overall Portfolio		
	SAFF	Relative to S&P 500
Price/Book Ratio	2.53	1.20
Return on Assets (ROA)	9.34%	1.61
Return on Equity (ROE)	24.49%	1.67
Projected EPS Growth - 5 yr	12.38%	1.31
Dividend Yield	2.67%	1.43
Average Market Cap ($million)	30,981.76	0.71

Target Holdings		
Equity	$	618,622
Fixed Income	$	360,863
Cash	$	51,552
Total	$	1,031,037

5 Best Performers YTD	
Netflix, Inc	79.52%
Chipotle Mexican Grill,	53.03%
General Electric Company (GE)	25.31%
Apple, Inc.	23.90%
Caterpillar Inc.	20.95%

Sector Allocations			
	S&P 500	SAFF Porfolio	Projected Goal
Financials	14.6%	11.7%	11.5%
Health Care	13.1%	14.2%	13.0%
Tech	18.9%	22.7%	20.0%
Utilities	3.7%	3.1%	3.0%
Industrials	10.6%	7.7%	10.5%
Energy	11.5%	12.5%	12.5%
Cyclicals	9.7%	11.3%	12.0%
Telecomm	2.9%	3.6%	3.0%
Staples	11.6%	11.0%	10.0%
Materials	3.4%	2.2%	4.5%

5 Largest Equity Holdings		
Apple, Inc.	$	26,109
Netflix, Inc.	$	21,263
Caterpillar Inc.	$	20,427
Chipotle Mexican Grill,	$	20,236
Peabody Energy Corporation	$	18,688



SPECIAL THANKS

The 2010 SAFF class would like to recognize those who made SAFF possible this semester:

Thank you Dr. Clinebell for all of your hard work and determination; without a strong Portfolio Advisor we could not have made this a successful semester. With such a friendly and welcoming attitude you have truly made this an enjoyable experience. We would also like to thank Kristi Cozbey, our Administrative Assistant; her strong work ethic and open willingness to help are much appreciated. Our Bloomberg expert, Chris Vegter, who is always willing to assist with technological issues and Matthew Blair, our CFA Advisor, who made our CFA challenge experience a great memory. Another special thanks goes out to Christine McClatchey and her fiancé Shane Wagner, thank you for your generous contribution to SAFF and continued support with the RISE project.

There are numerous people to which we owe our many thanks. This was a great opportunity and we are thankful that the UNC foundation continues to trust its students by providing them with real life exposure to portfolio management.

Thank You!

- Reynaldo Mendez & Darrell Lomelino

SPRING 2010 SAFF TEAM

(Left to Right)

Front Row:
Brent Erickson, Reynaldo Mendez, Darrell Lomelino, Ryan Roggow, Abraham Jauregui, Caleb Westmore, Erica Ferge, Jake Fells, Donald Green, Andrew Ibarra, Josh Daugherty, John Clinebell.

Back Row:
Corey Sheesley, Ashley Malsam, Austin Elm

PROFOUND QUOTES FROM THE ELITE SPRING 2010 SAFF CLASS

"Have chair will travel." - *Dr. John Clinebell*

"This isn't research, it's leisure. I love reading annual reports." - *Jake Fells*

"You can tell them to leave, but they are going to come right back in." - *Monique*

"I don't care what you decide, you're going to be so far off anyway." - *Dr. John Clinebell*

"Finally, an Accounting major makes himself useful." - *Ashley Malsam*

"If only I could buy puts on my grade in this class." - *Jake Fells*

"Investing is like cutting grass." - *Ashley Malsam*

"It's not Debby Downer. It is Negative Nancy." - *Brent Erickson*

"Don't buy something you don't understand." - *RISE Speaker*

"One drop of vinegar ruins a glass of wine." - *RISE Speaker*

"Good research pays off." - *Matthew Blair*

SAFE INFORMER

SPRING 2010

MONFORT COLLEGE OF BUSINESS

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