UNIVERSITY OF NORTHERN COLORADO

SAFF INFORMER

MONFORT COLLEGE of BUSINESS
University of Northern Colorado

LETTER FROM THE EDITORS

FALL 2010

Name	*Title*
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Jessica Warden	Portfolio Manager
Josh Boyer	Equity Manager
Devon Beitzel	Equity Manager
John Skoglund	Fixed Income Manager
Brent Erickson	Fixed Income Manager
Brian Wones	Webmaster
Austin Elm	Newsletter Editor
Dillon Sanders	Newsletter Editor
Andre Ibarra	Special Projects Manager
Bryan Spaeth	Special Projects Manager
Jeremy McNees	Special Projects Manager
Travis Werbelow	Special Projects Manager
Benjamin Morton	Special Projects Manager

As managers of the Fall 2010 SAFF class, we have a more pessimistic outlook of the economy compared to the positive economic outlook forecasted by management of the prior semester. After extensive research and due diligence, we have put in a lot of time, effort, and determination to shape up the portfolio to where we wanted it to be. Because of the different forecast of the previous semester, the allocations of our portfolio were allotted to many different changes.

During the semester, the 14 members of the SAFF class have had a lot of time to work with one another. We learned a lot about what makes each other tick, but more importantly, we learned how to become effective and efficient portfolio managers. We were given the opportunity to put forth the knowledge we have gained throughout our years here at the Monfort College of Business. We utilized this knowledge to make informed, thorough, and sound decisions in a real-world portfolio management environment. After extensive economic and company research, we have shaped our portfolio to provide our investors a maximum return. We would like to thank you all for taking the time to read about our portfolio management team. This newsletter is an overview of what we have accomplished over the semester.

- Austin Elm & Dillon Sanders

LETTER FROM THE PORTFOLIO MANAGERS

This semester, the portfolio managers helped the SAFF class reach and exceed our benchmarks of both the S&P 500 and the Barclay's US Aggregate Bond Index. During Quarter 3, the SAFF class's portfolio realized a gain of 9.51%, in comparison to the benchmark's 7.36%. SAFF class took a more defensive stance this semester, wherein we predicted a move in the markets back towards a more "normal" growth. With this in mind, we targeted allocations 55% equity, 45% fixed income, and 5% cash. In comparison with Spring 2010, we have reverted to a less aggressive allocation.

We had many tough decisions to make this semester due to the very uncertain pre-election economy. Legislative changes in the banking and healthcare industries weighed heavily on our minds. However, as a class, we stand by our decisions and have worked hard to reach our target allocation and our sector weights. We had a lot of cash to spend, and so we focused on purchasing bonds whose qualities fit the idea that the yield curve was going to flatten.. Additionally, we looked into equities that supported our defensive stance against the markets.

-Jessica Warden

INSIDE THE ISSUE

ABOUT SAFF

The 'Student and Foundation Fund', is a finance elective class that is actively manages a portfolio for the UNC Foundation. SAFF gives students the opportunity to actively manage a portfolio of real assets comprised of an ever changing balance of stocks, bonds and cash reserves. This fund is one of a kind in the state of Colorado and is one of the best performing student funds in the nation.

Started in the fall of 1992, the managing class was initially allotted $200,000 by the UNC Foundation to oversee. Over the next few years, the SAFF class received more donations, and as the size of the fund increased, proceeds from the SAFF portfolio were given back to the Foundation. These proceeds are used for scholarships throughout the University of Northern Colorado. Currently, the Fall 2010 class is managing a fund worth roughly 1.1 million dollars.

The class changes each semester and is selected by the Professor of the class, Dr. Clinebell. Each interested student applies for the SAFF position, and then has an interview with Professor Clinebell. After interviewing each prospective student, Dr. Clinebell chooses between 12 and 15 students. The Fall 2010 class is made up of 14 students which features three returning students and 11 new additions.

Next semester, Spring 2010, the SAFF class will have four returning members to carry on the traditions and rituals that classes over the years have had to endure. Good luck to all the future SAFF classes, may your days be filled with trades.

- Brent Erickson

ECONOMIC FORECAST

After much deliberation from the class, we came to a general consensus on our economic forecast. The class forecasted key economic measures including GPD, inflation, interest rates, and where specific stock markets will be for six months, one year and three years out. This is a very difficult thing to do because of the large amount of uncertainty that the overall economic picture contains. This is perhaps the most important task for SAFF, because all decisions as to what we will do with our entire portfolio are based on the economic forecast.

We predict real GDP growth will be 1.8% in six months, 2% in 12 months and 2.75% in 36 months all at annualized rates. We forecasted inflation to be 1.6% in six months, 2% in 1 year and 2.75% in 3 years. The yield curve on U.S. government debt (Treasuries) is currently very steep. We are forecasting that it will flatten over the next three years. We predict that the ten year note will yield 3 percent in six months, 3.50% in one year and 4.2% in three years. Currently the ten year T-Note is yielding 2.81%. We see the broader U.S. stock market as measured by the S&P 500 and the Dow Jones Industrial Average to move upwards at a modest pace over the next three years.

Overall we see the U.S. Economy improving gradually in the near future, following the very serious downturn of 2008. The dollar is still the reserve currency through much of the world, and as problems in Europe continue, we feel that people will once again turn to the dollar and drive up its price over the long term. In the short-term, due to the Federal Reserve increasing the money supply, we see the dollar becoming weak. Money supply increases will lead to inflationary pressures in the future.

We are in fact forecasting that real GDP will be less than the overall price level (as measured by the consumer price index). This is will give investors a negative real return and will be a serious problem for the U.S. economy.

Moving on to fiscal policy, we see the government having to increase taxes in the future to finance the current large deficit and national debt payments. The Bush era tax cuts are set to expire by the end of the year, and we don't see them being renewed to there current state. We believe that some form of the tax cuts will be reenacted, likely for earners under $250,000 per year. People earning more than this amount will likely see increased tax expenses.

In the business world, companies are currently reluctant to hire new employees and are hoarding record amounts of cash. There have been large gains in productivity, mostly from laying off staff and giving more work to existing workers. This along with decreased hours worked per week across many industries shows a serious problem. Businesses are worried about all of the uncertainty and the performance of the economy much like consumers. Fewer consumers will have less disposable income to spend, which will hurt economic growth. This will not work well for an economy that has depended so much on consumer spending in recent history. Unemployment is forecasted to not dip below 8.5 % within the next year.

Our economic forecast is one that is pessimistic to say the least. After conducting rigorous research on general economic trends, we allocate our assets according to these economic predictions. We have predicted the Dow Jones Industrial Average growing from 10,374 to 10800 in 6 months, 11,200 in one year, and 13,000 in three years. As for the Standard and Poor's 500, we predict that it will follow along the same growth as the DJIA.

Our current economy is filled with a lot of uncertainty at the moment, and this can be seen in the reaction of the markets. We do see the economy as a whole expanding at a rather slow rate in the near future. This will be followed by times of more normal economic growth in the distant future.

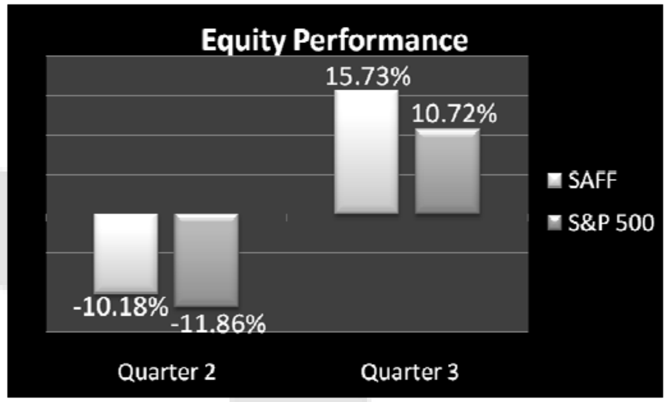
- Jeremy McNees

EQUITY

The SAFF equity portfolio has outperformed the S&P index during the past two quarters. Equity markets in quarter two experienced some downward strain on prices leading the S&P to fall 11.86%. The SAFF portfolio lost value as well, but only 10.18%. Even though we held Transocean stock in May when the oil spill occurred, we were still able to outperform the index. The market started to pick back up over the summer during quarter 3. The technology sector took a turn for the better, particularly Apple, Google, Cognizant Tech, and Texas Instruments. The SAFF equity portfolio earned a third quarter return of 15.73% while the S&P return was only 10.72%. At the end of the third quarter the SAFF equity had a year-to-date return of 9.61% compared to 2.34% for the S&P 500. So long as nothing bizarre happens, the SAFF equity portfolio looks to outperform the S&P 500 for yet another consecutive year.

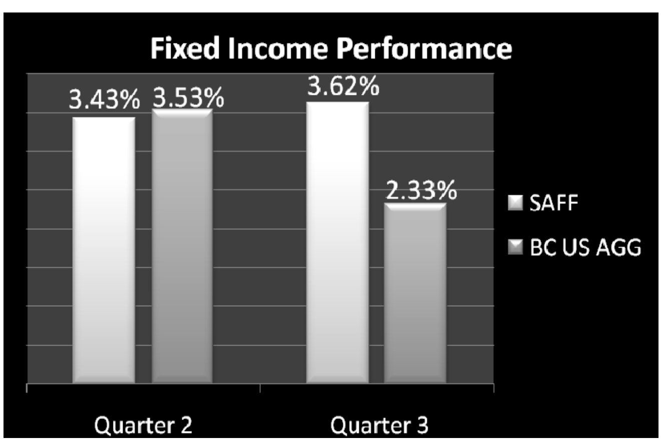
During our allocation, we discussed the possible environmental factors that may have an effect on the market. Some of those factors included the implications of the Frank-Dodd Bill, quantitative easing measures taken by the Fed, Bush's tax cuts, health care issues, and the November 2010 elections. Although, there has been a lot of talk about a possible 'double dip' in the markets, we still believe that the markets will improve modestly over time. 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.

-Josh Boyer



FIXED INCOME

The fixed income portion of the portfolio underperformed the Barclays Us AGG Index, our fixed income benchmark, in the second quarter of 2010. However, in the third quarter of 2010 our fixed income outperformed our benchmark. In the second quarter our return was 3.43% compared to Barclay's 3.53%. Looking at the third quarter our return was 3.62% while our benchmark's return was only 2.33%. Overall, for these two quarters our fixed income portion of the portfolio earned 7.05% compared to Barclay's return of 5.86%. The performance of our fixed income can be attributed to the spring 2010 SAFF class. Their selection of bond's helped us perform on par with the Barclays Index in the second quarter and outperform the index in the third quarter.



At the beginning of the semester, after creating our economic forecast, we decided to change the strategy that was employed last semester to a bar bell strategy. With our economic forecast, we feel that interest rates are going to rise, especially in the short term. Therefore, we feel that the yield curve will flatten. A bar bell strategy lets us own more short and long-term maturity bonds and fewer mid-term maturity bonds. As a result, our exposure to changes in interest rates is minimized. Our strategy is to have 27.5% in both 0 to 2 year bonds and 8+ year bonds with 15% in 2 to 4, 4 to 6, and 6 to 8 year bonds. We have also adjusted our duration to account for the anticipated increase in interest rates. We have shortened our duration to a target of 3.9 which is lower than the duration of the Barclays Us AGG Index. Additionally, as a result of our economic forecast we decided to increase the weighting of fixed income in our portfolio from 35% to 40% due to expected underperformance of equity.

Along with setting our strategy and target duration, we have also adjusted our weightings for mortgage-backed, government and corporate issue securities. To determine the appropriate allocation between the different bonds we conducted a spread analysis. Our analysis indicated that mortgage-back bonds will be less affected by the changes in interest rates. As a result, for our fixed income to earn an excess return we feel that it is beneficial for us to own more mortgage-backed bonds (40%) and less corporate (31%) and government bonds (29%).

- John Skoglund IV

BEST & WORST PERFORMING STOCKS

Our five best performers (Unrealized Gain):

1. Cognizant Tech (198.30%)…Technology
2. Caterpillar (117.70%)…Industrials
3. Texas Instruments (111.90%)…Technology
4. Peabody Energy (106.60%)…Energy
5. Apple Inc. (75.90%)…Technology

Our five worst performers (Unrealized Loss):

1. Bank of America (-61.60%)...Financial
2. General Electric (-51.80%)...Industrials
3. Transocean (-51.60%)...Energy
4. Strayer Education (-46.40%)...Cyclical
5. Medtronic...(-40.20%)

LARGEST HOLDINGS

Our five largest holdings (% of equity):

1. Caterpillar (4.68%)...Industrial
2. Apple (4.52%)...Technology
3. Peabody Energy (4.35%)...Energy
4. Qualcomm (3.42%)...Technology
5. Potash (3.36%)...Materials

- Travis Werbelow

EQUITY PURCHASES & LIQUIDATIONS

Our sector allocation strategy shifted based on our economic outlook. We decided to sell Cognizant Tech, Netflix and Chipotle following a gain of over 100% per stock. We sold Fluor, Charles Schwab and United Health due to poor performance and that they did not meet our portfolio criteria. Because of changes in our sector weightings, we were faced with the tough challenge of finding over performing cyclical stocks in the current recession. We purchased Berkshire, Emergency Medical, Werner Enterprises and Target in order to replace the underperforming equities that we sold earlier in the semester. By making these purchases and liquidations, we have moved towards our overall portfolio goals.

__Sells:__

- Cognizant Tech (CTSH) partial sell 150 shares
- Fluor Corporation (FLR) all 180 shares
- UnitedHealth Group (UNH) all 350 shares
- The Charles Schwab Group (SCHW) all 500 shares
- Netflix (NFLX) all 215 shares
- Chipotle Mexican Grill (CMG) - all 150 shares

__Buys:__

- Berkshire Hathaway Class B (BRK-B) 125 shares
- Emergency Medical Services Corp. (EMS) 170 shares
- Werner Enterprises (WERN) 400 shares
- Target (TGT) 180 shares

- Brian Wones

EQUITY SECTOR OVERWEIGHTS

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

Since we do not expect the economy to swell as it did earlier in the decade, we felt that overweighting these four sectors would be the most beneficial for the Student and Foundation Fund. These four sectors are known historically to perform best under current and expected market conditions as the economy continues to quiver back-and-forth from bull to bear markets, and as consumers' confidence follows likewise. Overall however, we still do expect the economy to grow in an upward fashion.

Our sector weight in utilities is now 4% when its original weight was 3.1%. The utilities sector should see better performance with the prices in energy expecting to rise. The energy sector should also outperform other sectors due to the predicted increase in energy prices. We have weighted the sector at 13%, while it's previous weight was11%. As for the staples sector, the new weight is 12.5%, as compare to its previous weight of 10.5%. We expect that the materials sector should experience slightly higher demands conditions, so the target has risen to 5%. Whereas compared last semester, it held a 4.5% weight of the equity portfolio.

Overall these sector over-weights should provide us with an optimal return. Since we use s sector rotation strategy, we feel that these target allocations in specific sectors should have a higher return than our benchmark. This strategy has proven successful for previous semester SAFF classes, and we expect our returns to follow in line with the returns of previous semesters' SAFF classes.

-Andrew Ibarra

EQUITY SECTOR UNDERWEIGHTS

For this semester, we the students of SAFF, decided to underweight financial services, industrials, and cyclical companies. Due to current and ongoing legislation in the financial industry, we are concerned with what will become of this new legislation. In addition, 2010 was an election year and we were unsure which party would have control of congress. The financial sector has endured a long, hard fall during the recent economic meltdown, and with new legislation occurring, we did not want to increase the risk of portfolio. Because of this, we feel that underweighting this sector would prove to be beneficial to our overall portfolio. We have set the current target of our financials at 10.5% of our portfolio. This allocation is lower than the spring semester's allocation, but considering all of the uncertain regulations, the financials are not forecasted to be a prominent performer in the market place.

We decided to slightly underweight industrials, mainly because of recessionary effects. We do not think we have reached the bottom of this recession and do not foresee this sector dramatically improving. Because of current economic conditions, the industrial sector has seen less demand as a whole. Reduced purchasing orders and an unstable housing market are the main cause of the decline in this market. We have weighted the industrials at 10% of our portfolio. This is slightly under the S&P weightings of 10.5%.

Lastly, we underweighted the cyclical sector because we still feel that discretionary income is being closely watched by consumers. Although this sector has yielded some of our portfolio's best performers, we were doubtful on the performance of some companies we explored. These cyclical stocks thrive during strong economic growth, and since we are not forecasting tremendous growth, we feel that underweighting this sector would be appropriate. We have weighted the cyclical sector at 9%. This is significantly lower than the SAFF class Spring 2010, as they were predicting stronger economic times. Overall, we feel that these sector underweights will provide our portfolio with the best return considering our economic predictions.

We have equally weighted our healthcare, technology, and telecom services sectors with the S&P 500. These target weights are at 13%, 19.5%, and 3% respectively. We feel that these sectors will remain relatively stable going into the future. Our technology sector has the heaviest weight in our portfolio. This is due to the fact that the technology sector has experienced tremendous growth over the past decade, and we feel that this growth is still sustainable within the sector. Overall, our sector allocations reduce the amount of risk within our portfolio, and this should translate to positive returns within the portfolio.

-Benjamin Morton

SPECIAL PROJECTS

THE CFA INSTITUTE GLOBAL INVESTMENT RESEARCH CHALLENGE

The SAFF class has the chance to promote the legacy of business excellence at the Monfort College of Business by competing in the CFA Global Insight Challenge. For the second year running, our team will compete against graduate students from the following surrounding universities: Wyoming, University of Colorado, Denver University, and Colorado State University.

This year we are required to complete an in depth analysis of Western Union by including economic, industry, and company factors. We also had a chance to personally meet with the investor relations officer at their corporate headquarters in the Denver Tech Center. The experience was invaluable because hearing an actual corporate insider's view of the opportunities and potential threats broadened our perspective of the operations of the company. The information he conveyed to us offered detailed information into the operations of Western Union, competitive advantages, industry factors, international diversification, political risk, and developing strategies to help the company prosper in the future. However, we managed to keep an objective viewpoint and tried to reconcile his statements with our previous research of industry and company specific factors.

Obviously, puffery is a part of his job, but still the information was invaluable to our research. We will continue to further analyze their earnings, growth in cash flows, financial position, position among competitors, business and financial risk, and an extensive overview of key ratios overtime and against an appropriate benchmark.

Our analysis should help us determine an intrinsic price for Western Union's stock and the overall value of the organization's future business prospects. Our proposal will outline our recommendations and be presented to a board of CFA judges and the investor relations officer of Western Union on January 28. The judges will look for a thorough analysis based on prudent assumptions.

During the presentation we will convey the general scope including the top factors that we feel will have the largest impact on Western Union's performance in the future. The winner will have a chance to compete in a regional competition hosted in Omaha, Nebraska.

- Zachary Crews

ANNUAL REPORT

This semester's SAFF class decided to create an annual report on the activities and performance of the portfolio. When the report is finished at year's end, it will be a small, professional looking booklet about ten to fifteen pages in length. The contents of the annual report will have information very similar to this newsletter, but go into much more depth.

The beginning of the annual report will include the history of SAFF, current operations, where the class is headed, and a letter from the class advisor Dr. Clinebell, with his remarks on the year.

The history of SAFF section will explain where SAFF has come from. For example, when the class was started, who started the class, where the money for the fund came from, and the starting value of the portfolio.

Moving on to the current operations of the class, we will discuss how many students are allowed into the class, and the procedures students have to go through to be accepted into SAFF. This includes things like filling out an application and having a one on one interview with Dr. Clinebell.

Also included in the annual report, we are going to discuss where the class is headed. Also, we will discuss the remodeling of the trading room. The renovation plans include significantly increasing the size of the room, adding a large conference table to discuss buy and sell proposals over, and increasing the number of Bloomberg terminals which will greatly enhance student's research capabilities.

The report will also give a brief description of every equity holding the portfolio currently contains, and how its individual performance was throughout the year. This will include recent events that occurred within the company that caused their stock price to increase or decrease.

We are also going to list all the holdings our portfolio contains to give people an idea of exactly how diversified we are. This will show that we are not only investing in well-known fortune 500 companies, but are also screening for and buying quality new up-and-coming companies that are going to play big part in the business community in the future.

The report will then go on to show the performance of fixed income. The fixed income section will include our forecast of the yield curve, and what bonds have performed the best. As well as, which bonds we feel will perform better in the near future.

Finally, the report will include the performance of the portfolio as a whole, and how it compared with our benchmarks. In addition to everything else, the annual report will include information on trips the SAFF class participates in like the Redefining Investment Strategy Education conference in Dayton, Ohio, along with the results of the CFA challenge. This annual report will give outsiders an inside view of what happens in the SAFF class. It will be presented in a very professional manner, and this will give investors an idea of the inter-workings of a student run portfolio.

- Bryan Spaeth

Portfolio Snapshot (As of December 1st, 2010)

Trailing Twelve-Month Averages

Key Statistics for Overall Portfolio		
	SAFF	S&P 500
Price/Book Ratio	2.42	2.1
Forward P/E	12.28	14.43
Return on Assets (ROA)	9.48%	8.55%
Return on Equity (ROE)	26.95%	21.15%
Projected EPS Growth – 5 yr.	12.28%	9.96%
Dividend Yield	2.56%	1.95%
Average Market Cap ($Million)	31,149.33	45,798.85
Total Return YTD	11.09%	8.63%

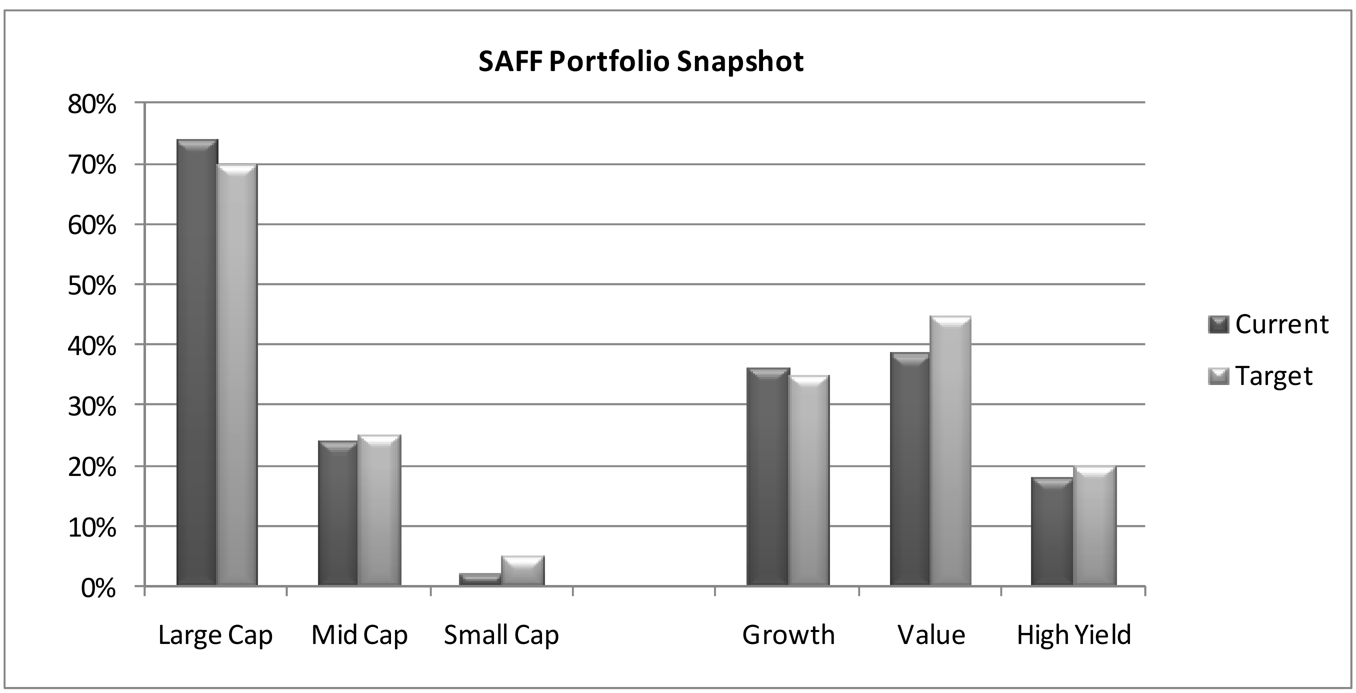
5 Largest Equity Holdings	
Company	Value
1) Caterpillar	$ 26,235
2) Apple	$ 25,312
3) Peabody Energy	$ 24,352
4) Qualcomm	$ 19,156
5) Potash	$ 18,841

5 Worst Performers	
Company	Unrealized Loss
1) Bank of America	-61.60%
2) General Electric	-51.80%
3) Transocean	-51.60%
4) Strayer Education	-46.40%
5) Medtronic	-40.20%

Current Holdings	
Equity	$ 560,221.95
Fixed Income	$ 392,754.42
Cash	$ 146,024.85
Total	$ 1,099,001.22

Target Holdings	
Equity	$ 604,450.67
Fixed Income	$ 439,600.49
Cash	$ 54,950.06
Total	$ 1,099,001.22

5 Best Performers	
Company	Unrealized Gain
1) Cognizant Tech	198.30%
2) Caterpillar	117.70%
3) Texas Instruments	111.90%
4) Peabody Energy	105.60%
5) Apple Inc.	75.90%



- Dillon Sanders

SPECIAL THANKS

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

We would like to say thank you to Dr. Clinebell for making this class possible. We would also like to say thanks for teaching us the fundamentals required to become effective portfolio managers. You have given all of us the opportunity to learn and grow with one another, as well as providing us with harsh criticism when it was required. We would also like to thank Kristi Cozbey, our Administrative Assistant. Her strong work ethic and devotion to the trading room are much appreciated by all the members of SAFF. A special thanks to our Bloomberg expert, Chris Vegter, who is always willing to assist with technological issues. We would also like to thank the UNC Foundation. Without the Foundation to provide us with the funds necessary to run a portfolio, this experience would have never happened.

There are numerous amounts of other individuals to which we owe our many thanks. This was a tremendous opportunity, and we are grateful to the UNC foundation for continuing to trust UNC's students by providing them with real life exposure in portfolio management.

Thank You!

-Austin Elm & Dillon Sanders

FALL 2010 SAFF TEAM

(Left to Right)

Devon Beitzel, Andrew Ibarra, Zachary Crews, Dillon Sanders, Austin Elm, Brent Erickson, John Skoglund, Benjamin Morton, Jessica Warden, Bryan Spaeth, Travis Werbelow, Jeremy McNees, Josh Boyer, Brian Wones, Dr. John Clinebell.

PROFOUND QUOTES FROM THE FALL 2010 SAFF CLASS

"My stock is a mutt, Clinebell only wants purebreds." - *Brent Erickson*

"It's a mutt in an un-mutty way." - *Jessica Warden*

"I'm so much better at real life." - *Jen Dezelick*

"One's cyclical and one's technology, that's a different gut." - *Josh Boyer*

"Zach was like Old School." - *Devon Beitzel*

"He's a nay-saying Nancy." - *Jessica Warden*

"What's a group-mater?" - *Austin Elm*

"It's a lot like a trading room buddy" - *Dillon Sanders*

"May your life be filled with taxes and sunshine." - *Jessica Warden*

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