

STUDENT MANAGED FUND HANDBOOK: A COMPREHENSIVE OVERVIEW OF A STUDENT MANAGED FUND

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I. Overview & Goals

The Student Managed Fund at Roanoke College was first started in the spring of 2004 and has been an ongoing class since that time. The main objective of the course is to develop an in-depth understanding of the required research, analytical techniques, and report generation necessary to manage a portfolio of assets. The participants of this class actually make investment decisions and recommend a course of action for a managed portfolio. It is a very unique program that provides students with real life experience and also helps students to develop skills that will be essential in the business world. The main goals of the SMF are to assemble a group of interested and qualified students to successfully and actively manage the portfolio and to provide these students with a hands-on investment learning experience with actual dollars.

Because of the unique nature of the class and the fact that students manage an investment portfolio using \$500,000 of the college endowment, the SMF is one of the most innovative classes on the Roanoke College campus and fits with the aims of Roanoke College to produce knowledgeable, experienced citizens. In addition, the Student Managed Fund has helped to create a unique learning environment for business students. Through the class, students gain a real sense of ownership of their work because the class is student run. Finally, students feel a stronger connection and responsibility to the college because they are managing part of the endowment, enhancing the learning environment.

II. History

Dr. Larry Lynch and Mark Gobble are the original founders of the SMF. They came up with the idea of a Student Managed Fund a few years ago. Dr. Lynch created a proposal and petitioned for a portion of Roanoke College's endowment fund to set up a portfolio that will be actively managed by students under his supervision. Dr. Lynch went through a long process and engaged in many discussions with the board members in order to establish the program.

So far, the SMF has had the following student managers: Andrew Lyles (Spring 2004), Tomasz Jemczura (Fall 2004), Rick Boccard (Spring 2005), John Burkholder (Fall 2005), Keith Petrus (Spring 2006), Steven Costello (Fall 2006), Craig Ultsch (Spring 2007), Andy Gleason (Fall 2007) and Jonathan Herttua (Spring 2008).

The SMF also participated in the Virginia Conference of Student Investment Groups which took place on October 1, 2004 on the Virginia Tech campus. This conference brought together leading students, faculty, and investment professionals in a learning environment to discuss a

wide range of topics and issues facing investment professionals. Student Managed Fund delegated 4 students to represent Roanoke College at the conference.

III. SMF – Structure and Organization

The SMF offers portfolio management experience as a class with a ½ credit per semester on a pass/fail basis. Students may complete two units (four semesters) towards graduation requirements, including one unit toward a concentration in finance. After two full units are accomplished, one can continue with the fund but will not be able to receive credit for it.

The class is composed of primarily junior and senior Business and Economics students. Prerequisites for the SMF include Economics 122 and BUAD 225 (with BUAD 242 recommended), along with an application to the department faculty. The selection criteria for student participation include GPA, faculty references, and interviews. In addition, applicants may be asked to provide an analysis of an assigned company and to make a presentation of their analysis to the departmental faculty. The current members of the class have some input in the recruiting and selection process.

The class is managed by students, with the faculty advisor always present in the class to provide students with support. The faculty advisor is responsible for support, guidance and continuing the educational component for the class. However, all investment decisions are made solely by the students through a majority voting system (50% + 1). One student member serves as general manager of the group. The manager rotates every semester and is also elected by majority votes. Before one can serve as general manager, he or she must first serve as an assistant manager for the duration of one semester, helping the general manager with operations and management. In addition to general and assistant managers, sector managers are elected by compromise and are in charge of in-depth research and analysis of specific sectors.

IV. Course Policies and Student Responsibilities

The most basic course policies, as stated in the syllabus, include:

- Each student is required to complete an analysis of a company for consideration to buy/hold/sell on a regular basis.
- Attendance is mandatory. The **second unexcused absence** will result in a failing grade. Excused absences are solely the decision of the faculty advisor.
- Students will be ready each meeting to openly discuss the pros and cons of a recommended investment.
- Individuals will be called upon to lead discussions. Proposals will be discussed and participation is essential to your grade.

Because of the nature and great responsibility of the class, students are expected to treat membership in the SMF as a real job. Students should be always prepared for class and should be open to learning new strategies and ideas for portfolio management. Acceptance and consideration of others' ideas and thoughts is expected from each member in order to create the best learning environment possible.

The expected readings for the class include The Wall Street Journal and Barron's. Students are expected to read daily and be ready to discuss articles concerning the economy and finance. Students are also expected to read "A Random Walk Down Wall Street."

In addition to daily reading, students are expected to conduct extensive research before making a buy/sell decision using various tools such as Value Line, Bloomberg, S&P, WSJ, Smartmoney and other trade publications. During stock recommendations, members are encouraged to expand on different sources of financial data and should be able to interpret the data. The activity of stock recommendation, whether it is a buy, hold, or sell, is what SMF does for most of the time in class. The level of knowledge and expertise during class discussions is of greatest importance in the decision making process. That is why student analysts must back up their buy/hold/sell recommendations with the research they have done.

Twice a week new recommendations are given by the members of the SMF. These buy/hold/sell recommendations are placed on the 'watch list' and written on the blackboard every class. Before the end of the class period, every student is required to copy the watch list and conduct an analysis of recommended securities (stocks) for the next class period. Only through research and student commitment to the SMF is the group able to make educated decisions.

Finally, members of the SMF are required to provide written or oral reports to the faculty advisor and sometimes the Board of Trustees. At least one quarterly report is to be written by each sector, highlighting performance review and decision making over a defined period of time. The general manager is responsible for revisions of individual reports and the creation of an annual report. The manager might also be asked to present the performance of the fund in person to the faculty advisor and the Board of Trustees.

V. Benefits of the SMF

Since the course was introduced at Roanoke College, it has gained popularity, respect, and attention from students and faculty in the business department and others. It is becoming a prestigious and competitive course. Often, there are more students interested in becoming members of the fund than there are spaces available. Roanoke College is one of the few schools in the state that gives students the opportunity to invest part of the school's endowment.

There are widespread benefits of holding membership in the Student Managed Fund. The SMF provides invaluable experience in "real world" investing. Most students will manage their own investments one day and will have a 401k, IRA, or other accounts to manage, while others might continue their career in the field of finance and wealth management. Financial investment skills are of lifelong need and will be well utilized by the members once they develop those skills in the SMF. Additionally, students are also expected to gain a competitive advantage in the job market and internships because of their experience as portfolio managers.

During the class, members will conduct several presentations as well as participate in class discussions. By that, members of the SMF will have increased confidence in making professional group presentations. Also, the ability to use technical tools and a variety of sources for research will once again give participants greater perspectives. And finally, the SMF may

provide another connection to the college business department after members graduate and become benefactors.

VI. Investment Strategies and Policies

The group continuously utilizes a variety of investment tools and strategies. Up to date, the SMF is able to invest in individual domestic firms that are a part of S&P500 list, corporate bonds with ratings of BB and higher, municipal bonds, treasury stocks, mutual funds and ETF's. For the best educational value, the group is trying to focus on individual investments rather than managed portfolios such as mutual funds.

A summary of the most important and basic investment rules are stated below:

- The stock portion is a core portfolio of both growth and value stocks
- Students shall be limited to the S&P 500 and S&P ADR Index to ensure that they can find adequate information and for liquidity and comparative purposes
- Students may only invest in securities that meet the College's general investment policy restrictions
- The portfolio shall be regulated by the College's endowment investment policy
- Students are limited to invest up to 5% of investment assets in any one security
- Fundamental and Technical Analysis are of the priority in decision making process

As far as individual decision making in the fund, the majority of the decisions are to be made during class time. Extraordinary cases allow trades outside of the class with the assistance of the faculty advisor. The fund is an ongoing process which is why continuous observation and analysis is necessary. Decisions are taken through a majority vote of the group after in-depth analysis and discussion is conducted. The analysis is mostly based on fundamental and technical aspects of the analyzed security. Nonetheless, other aspects are taken into consideration, such as overall shape of the economy, investor sentiment, and news that might affect the company.

During the stock analysis, first the fundamental analysis is conducted. Members of the group present and discuss findings from the financial statements and also look at other ratios such as Price Earnings, Earnings Per Share (EPS), companies and industry ratios. All of the findings are prioritized on the Fundamental Informational Sheet. Technical analysis, on the other hand, is based more on historical data represented in a graphical format. While looking at charts, members of the fund analyze a variety of technical tools including moving averages (12, 50 and 200 day moving averages), MACD, Money Flow, Slow Stochastic, and Volume.

Currently the SMF is benchmarked and limited to the S&P 500 index on the US equity side with maximum investment up to sixty five percent in companies representing this index. Of that sixty five percent, fifteen percent of the portfolio can be invested internationally and benchmarked against MSCI EAFE Index®. It is important to recognize that this fifteen percent is included in the sixty-five percent equity stake and does result in actually reducing part of the domestic stock exposure. On the fixed income side, the Student Managed Fund is limited and benchmarked against the Lehman Brothers Bond Index, up to thirty five percent of the total value of the portfolio, creating a well balanced portfolio. Sector allocation closely follows the 'aggressive growth' model suggested by Merrill Lynch. Of course, individual stock allocations are made by the students.

Recently, the SMF has been granted permission to maximize both financial and educational returns by investing internationally. With the exposure to international markets, SMF is able to invest up to fifteen percent of the portfolio internationally using American Depositary Receipts and foreign Exchange Traded Funds. The guidelines for individual foreign security selection are companies that comprise the S&P ADR Index; however, the benchmark for the international investing is the MSCI EAFE Index®. The MSCI EAFE Index® is recognized as the pre-eminent benchmark in the United States against which to measure international equity performance. By limiting individual foreign holdings to companies from the S&P ADR index, SMF lowers some risks by focusing on some of the larger, more established in international companies.

American Depositary Receipts (ADRs) are foreign companies trading on the US exchanges and are issued by US depository banks. Each ADR represents one or more foreign shares or sometimes fractions of a share, making it very easy for US investors to invest in non-US securities in US dollars. Typically ADRs are listed and traded on US exchanges such as AMEX, NYSE, or NASDAQ. Usually, information and research about ADRs is available through the same sources as domestic companies. Exchange Traded Funds (ETFs) are the second form of international investing that the SMF utilizes to reach the goal of diversification in foreign markets. ETFs are ‘securities certificates that state legal right of ownership over part of a basket of individual stock certificates.’ After an ETF is established, cleared and authorized, shares of the ETF can be sold to the open market and can be traded by investors on most global stock exchanges. The reason why we favor ETFs over traditional open-end mutual funds is that ETFs trade continually like a stock intraday making them a more liquid asset. Usually they are linked to an index or sector rather than actively managed. Finally, fees on ETFs are typically lower than open-end mutual funds. These qualities provide ETFs with some significant advantages compared to traditional open-end mutual funds.

VII. Performance

Performance of the portfolio is benchmarked and tracked against appropriate indices, but student educational experience is a priority over performance. The ability to manage a portfolio at such significant value is a great opportunity for students to learn and manage risk as well as gain real world experience in securities evaluation. As far as an actual financial return, the SMF has had its ups and downs. From the historical point of view, the fund has closely followed benchmarks. However, there have been numerous quarters when the SMF outperformed its benchmarks.

One of the main goals beyond the educational value for students is for the fund to outperform its benchmark. It is especially challenging during summer and winter periods since there are fewer students available to track the fund and evaluate its holdings. Students have tried to place stop losses and use other tools in order to minimize the downside potential or to minimize the risk. Also, the recent addition of international exposure to the portfolio might make it challenging for the fund to outperform since the group is just starting to learn about international financial markets.

Part of the performance of the fund is limited since the SMF is required to return back to the Roanoke College operating budget five percent of the value of the fund on the three year average for the first three years and after that five percent every year. That is part of Roanoke College’s

investment policy that the SMF must follow. Since July 2007 the College has allowed this five percent to remain invested in the fund.

Student management and the faculty advisor closely follow the performance of the SMF. Monthly and quarterly reports are generated by Merrill Lynch and are used by SMF management for reference purposes. Nevertheless, the general manager is required to create a quarterly report about the SMF portfolio. This report is accessible for all members to review and is also used to present the performance of the fund to the business office and the Board of Trustees.

VIII. Outlook for the Future

Every semester, managers and members of the SMF continually press for improvement of the fund through implementation of investment strategies and improvement of existing policies. Recently, the group applied for permission to invest internationally, which is a significant addition to the existing strategy. This addition required the creation of a group that will be responsible for equity investments in international markets. The near future will show how effectively this group can manage international investing and what changes will be required.

There has been some discussion about the possibility of requesting permission to expand the list of stocks available for investment in the domestic market. Currently, US equity investment is limited to S&P500; however, at some point in the near future, the SMF may consider expanding the benchmark to broader indices such as Russell 1000. Some believe that this move will broaden student perspectives and could potentially be very beneficial both financially as well as educationally.

At the end of every semester, the general manager of the SMF usually asks students for confidential comments on the course as well as suggestions for improvement. Those comments are always taken into consideration by management and often appropriate actions are taken in order to implement new strategies and changes. That is what has been occurring since the start of the SMF and that is how most of the structural changes take place. The SMF thrives on the loyalty and commitment of its members and that is why student ideas are always taken into consideration when looking to the future of the SMF.

IX. Advice and Comments from SMF Members

Student Comments about SMF:

“At best SMF empowers students to become mutual fund managers with the opportunity to learn and invest, and prove that we can beat the "professionals." At worst, students make the same mistakes other traders make and that is to not research and make investment decisions on unsound investing principles. It is important to realize that we all make mistakes but let's use the class to educate us to not make the same mistakes other investors typically do.”

Justin Thomas '06

“I was privileged to be a part of the SMF since day one and I was able to watch it grow. Between my experiences as a general manager, energy sector manager, and leader with the technical and international sectors, I have learned more than I could ever imagine. SMF has

become a part of my life and has been a strong motivator to accomplish greater things. I know that all of the concepts and principles of investing which I have learned are thanks to the SMF. I believe that one day I will blame the SMF for future successes.”

Tomasz Jemczura '06

“This class is a great opportunity for students to get involved and learn concepts that will be valuable to them for the rest of their lives.”

Molly Festa '07

“I have learned a lot of valuable information that I see myself using in the real world. Also, it is nice not to have a professor lecturing the whole class, but rather interacting with and learning from other students.”

Anonymous

“Student Managed Funds gave me an opportunity to put my recently learned knowledge to work in a real world environment. It gave me a better understanding of how to invest money wisely and profitably. I had no experience with the Stock Market prior to Student Managed Fund, however, I now feel proficient in stock research, picking, and investing now. The Fund provided a great atmosphere where people of the same mindset can work together and see their progress in dollar signs. Many of the seasoned members are extremely knowledgeable and helpful in all aspects of learning the ins and outs of investing. I built many friendships from times in on out of the classroom with my fellow investors. I found that it provided great experience for personal investment and often became the topic of conversation with others outside of the classroom, with members and nonmembers.”

Adam Fariss '07

“The wealth of knowledge and real-world experience acquired from this course is hard to beat. I have been fortunate enough to have been a part of the fund for five semesters and I valued this course as having been the most helpful and informative part of my academic tenure here at Roanoke College. This course is the closest thing to a real-life position in the business world. It is treated like a job and each member is expected to be professional and have the appropriate research prepared and ready to discuss for each class. SMF is the ultimate preparation for your professional life after college. You are primarily there to learn and gain experience on investments and finance but don't feel like it's all work and no play. Enjoy and have fun with the class, keep the relaxed environment going and talk the faculty advisor into using some of those returns you are making to take you out somewhere nice at the end of the semester. I hope that you will enjoy the course as much as I have over the years and that it prepares you for the next level as it has for me.”

John Burkholder '06

- “Admit you don't know everything about investing
- Ask questions during class: learn passwords and how to access ML & Valueline account
- Use the resources available exclusively to SMF
- Learn what everything is and how to look up everything listed on the recommendation sheet”

Justin Thomas '06

“Really immerse yourselves in the course and you will get much more out of it.”

Molly Festa '07

“I would say to the manager and the older people to give the new people some more help or advice about researching and that sort of thing at the beginning.”

Anonymous

“Appreciate the PE. If you like a company, and want to get an idea of what it should be trading at 1 year from now: take the current PE (multiple) x the forward EPS and as long as the company continues to meet or exceed EPS expectations it should trade at that price one year from today.”

Keith Petrus '06

“Be sure to give it some time because the first few weeks are very challenging. Just stay with it, conduct research, and educate yourself. Always ask questions, for there are many people in the class that are probably wondering about the same thing as you are. Never stop learning about new strategies and tools; there is always something new you can gain knowledge of. After some time with the SMF you have to decide: you love it or you hate it. If you love it, go out there, make some money for Roanoke College and learn how to manage wealth. If SMF is not something you like, at least you now know what investing is like.”

Tomasz Jemczura '06

“Checks stock quotes frequently, research watch-list thoroughly to help stimulate discussion within class. Managers should lead the class discussions differently at times. Often the discussions seemed to mirror one another, which lacked the ability to keep members interested and active in discussion.”

Adam Fariss '07

“Find the best sectors, and then the best stocks. Try not to get emotionally attached to your stocks. Keep in mind we are trading without commissions, and have the flexibility of getting in and out of our positions without penalty.”

Keith Petrus '06

“Diversify, Diversify, Diversify: If you control the downside, the upside will take care of itself. I have always believed that to be the case. But controlling the downside means managing the risk.”

Keith Petrus '06