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Students Win at Investing With the Old College Try

By Rick Brooks, The Wall Street Journal, 1816 words
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ATLANTA – Crowded around two tables shoved together at the Fellini's pizza joint on a Friday night, eight college students are slowly unwinding from another helter-skelter week.

But these collegiates aren't frazzled over tests or even graduation next month. Instead, they're telling war stories about the stock market.

Just hours earlier, the Dow Jones Industrial Average closed the day down a nerve-racking 139 points, its 12th-worst one-day decline ever. Now, over pizzas and pitchers of Samuel Adams, it's time for the students to renew their collective faith that investing in stocks is the key to wealth – and that they're one of the best young stock-picking teams around. As Greg Sitkiewicz, a 21-year-old industrial-engineering major from Chicago and the group's chairman, sees it, "We don't worry about anything anymore."

The students from Georgia Tech, barely old enough to drink beer legally, are unusual players in the grown-up investment world, and not just because of their youthful confidence. They control almost \$500,000 as leaders of a student-run endowment called the Georgia Tech Student Foundation, which funds student-activity projects. They buy and sell stocks with almost no coaching or interference from school administrators, building a portfolio of 20 issues ranging from household names like Coca-Cola to some that are barely followed by Wall Street.

And it works. Despite their youth and the grind of their studies, the group's ability to pick stocks places them far ahead of lots of seasoned pros. In 1996, the value of their tiny investment fund soared 26%, beating the money managers who handle Georgia Tech's overall endowment of \$450 million, which climbed about 22% last year. While the students' return slightly outpaced the Dow, it beat all but one of 195 mutual funds with similar investment goals, according to Morningstar Inc., a Chicago investment-research firm.

The returns achieved by the student investors are even more impressive given the conservative nature of their portfolio: Because they don't want to risk wiping out a big chunk of the endowment all at once, they limit their exposure to some of the hottest trends on Wall Street, such as technology stocks. A third of the funds are out of the market altogether, stashed safely in Treasury bonds and cash.

"Those guys and gals really get down into those companies," says Patrick McKenna, secretary of the Georgia Tech Foundation, the endowment fund of the 13,000-student school in downtown Atlanta.

And no wonder the grown-ups are such fans: At least one endowment trustee, Milton Stewart, made a \$66,000 profit last year by buying one of the students' favorite stocks, Employee Solutions, for his own account on the recommendation of one of the group's past leaders.

That's not to say it's all easy, as the students are finding out. Their portfolio is about flat so far this year, lagging a 13% gain by the Dow because of the group's recent focus on small stocks and a steep tumble by Employee Solutions.

And the Tech students aren't alone in their opportunity to test their investment ideas in the real world. According to the American Assembly of Collegiate Schools of Business, dozens of schools either run investment clubs or allow students to invest a portion of their college's endowment.

At the University of Tennessee in Knoxville, for example, students in a special finance class handle a \$250,000 brokerage account, with all profits and losses going to the outside donor who opened the student-run account.

But perhaps no other school gives its stock-picking students as much autonomy as Georgia Tech, says Charles Hickman of the St. Louis-based business-school group. About the only rule: Most of the group's stock selections must be tracked by Merrill Lynch & Co., the brokerage firm that processes its trades, leaving thousands of stocks to choose from.

"We just make sure they haven't done anything scary," says Mr. McKenna, the endowment secretary.

There's been little to fear from the returns so far. Since 1986, when the student endowment was founded with an initial gift of \$100,000 from Georgia Tech graduate J. Erskine Love, the value of the portfolio has quadrupled.

All of the portfolio's gains stay within the pool, allowing the students to make additional investments.

And things at the fund weren't always this active. Until late 1993, the endowment invested only in stocks chosen from a narrow list of fewer than 100 companies. But then students got permission to move their account from the trust department at a local bank to Merrill Lynch, and to start aggressively selecting their own stocks.

That new freedom prompted the group to start recruiting others with posters in large letters trumpeting: "Apply what you learn and become independently wealthy." One result: A skimpy membership of about 15 students has jumped to more than 200.

Today, the group, which shoehorns its twice-a-week meetings between homework assignments and fraternity parties, boasts students from all walks of life on campus. There are engineering, computer-science and management majors. Some students wear ties and starched white shirts to every meeting; others talk about price/earnings ratios and debt-to-equity ratios while wearing shorts and sunglasses.

All newcomers must take a 25-question quiz on investment basics, called "The Shaft," a term Georgia Tech students regularly use to describe mind-bending tests that seem impossible to pass, no matter how long anyone studies.

Leading the group are about a dozen students who do everything from researching stocks to recruiting new members. Each has a distinct role: For instance, Abby Register, an international-affairs major from North Carolina, is a contrarian, urging caution when everyone seems to be going in the same direction, and a mini-expert on technical stock analysis. Dan Tancredi, who came to Georgia Tech to become a "genetic engineer [and] mad scientist" but switched to economics after earning a D in biology, says his specialty is spotting new consumer trends at the shopping mall.

John Akridge, the group's former chairman and a senior just 17 days away from graduation, is the relentless optimist. Prone to sweeping hand gestures and mile-a-minute talk, Mr. Akridge is known as the "used-car salesman," which the other students intend as a teasing compliment.

"Let me rebut here," he says, momentarily embarrassed. "Everything is about selling yourself."

The investment ideas can come from anywhere. Because of his technology bent, 23-year-old management major Michael Landry scans computer journals. Not long ago, a new member recommended buying shares of Gillette Co., which appealed to the new member because of its clever marketing. This point was made clear with a simple exercise: How many guys in the room, sometime near their 18th birthday, got a free razor from Gillette and a letter announcing, "Welcome to manhood"? Almost every hand went up. (They ended up not buying the stock because their portfolio already had enough consumer stocks.)

The team has no money to spend on research. So they scrape and scrounge for company info anywhere they can think of: The Georgia Tech library keeps a dog-eared version of Value Line Investment Survey, a popular stock-reference guide, but a section always seems to be missing; the Internet is a great source of free stock charts, news articles and securities filings; and the companies themselves get plenty of requests for annual reports to be sent to a dorm room.

Like other investment pools, some stocks have turned out to be losers, like Digital Solutions Corp., a high-tech stock sold this month at a 40% loss. And the students sometimes get too fancy for their own good. Last week, a numbers-laden discussion of whether to dump their 200 money-losing shares of U.S. Steel Corp. convertible preferred stock came to a sudden halt because of confusion over the stock's conversion rate into common shares. "We bought it almost four years ago, and I don't think anyone remembers" the rate, says Jamie Green, a 22-year-old industrial-engineering major from Manning, S.C. (The next day, Mr. Sitkiewicz got the answer from his stockbroker.)

Then there is the age factor. After all, none of them had even attended a high-school prom before Black Monday. And they are sometimes taken less seriously than professionals. As part of his due diligence on World Access Inc., 22-year-old Brian Ranck, a management major from Atlanta, got the company's CEO on the phone. But the brief conversation was like pulling teeth. "He thought this was some kind of game we play at Georgia Tech," Mr. Ranck recalls.

Steven Odom, chief executive of the Atlanta networking-products maker, acknowledges, "I didn't treat him the same as an analyst, because I didn't know what he was doing."

But later, after seeing a copy of Mr. Ranck's three-page write-up on his company, Mr. Odom complimented the student's research skills.

"There are a lot of stockbrokers and analysts on a first-pass telephone call who don't come anywhere close to understanding what we do," he says. "He did a real good job." (Of course, it doesn't hurt that, based on Mr. Ranck's recommendation, the Georgia Tech group last week bought 1,000 shares of World Access for \$14.50 each, instantly making it one of the fund's 10 largest holdings.)

Success has given this group lots of confidence, which they routinely demonstrate. Right now, they're hoping to outmuscle mutual-fund managers and brokerage houses for a piece of the coming Polo Ralph Lauren Corp. initial public offering. To accomplish this tough task, Mr. Tancredi, the consumer guru, and Mr. Ranck just had lunch with a retired partner of Goldman Sachs & Co., the IPO's lead underwriter. "We made contact," Mr. Tancredi says proudly, conceding that getting even 500 shares will be tough.

The goal: to build the endowment tenfold to \$5 million, through gifts and astute investing. At that point, some of the funds are likely to go into the bank or other investments that would produce a safer, if less thrilling, income stream that group members could apportion for school needs.

As the school's graduation approaches in less than three weeks, some students are looking to get into the financial world. But for the ones still in school, they have to remember the stock-market lessons as top students leave. Younger students will move up into leadership slots. And a paper trail has been laid to explain everything to students left behind.

But despite the impressive returns, the students know how tough times may get moving forward. Says Mr. Landry: "You have to start over every quarter."

[Table] Classwork

Top stock holdings of the Georgia Tech Student Foundation (as of May 20)

[Table]
Top Southeastern Holdings
% PRICE
% OF CHANGE
COMPANY ASSETS SINCE 12/31
Intel 6.7% 7.6%*
Citicorp 5.0 14.4*
Microsoft 5.0 44.2
Coca-Cola 4.3 29.9
Newfield Exploration 4.0 0.0*
% PRICE
% OF CHANGE
COMPANY ASSETS SINCE 12/31
Coca-Cola 4.3% 29.9%
Post Properties 2.5 - 1.6
Lowe's 2.4 8.8
Int'l Speedway 1.7 - 2.4
Southern Co. 0.9 - 5.5
*Price change is from the date in 1997 when shares were bought

Source: Georgia Tech

Credit: Staff Reporter of The Wall Street Journal

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