



# Applied Investment Management

UNIVERSITY OF NOTRE DAME • MENDOZA COLLEGE OF BUSINESS

## AIM Quarterly 3<sup>rd</sup> Quarter 2007 by the AIM XXV Class

### WELCOME TO AIM XXV

AIM XXV has just completed the first round of reports on our assigned stocks. When we return from Fall Break, we will begin covering a second stock of our choice. It has been a difficult but rewarding semester so far, as we have had to balance the demands of AIM with the all-important career search. Two highlights of the class have been the trips to Chicago and New York, where we met with several companies in a variety of different fields. We look forward to another great half of the semester when we return with our new stocks.

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### PROFILE OF AIM XXV

*By Dominic DeBonis*

Student	Hometown	E-mail	Company	Ticker
Alexander, Alicia	St. Louis, MO	aalexan4@nd.edu	Northrop Grumman	NOC
Carroll, Joseph	Charlotte, NC	jcarrol2@nd.edu	Dell Inc	DELL
Chambers, Nicholas	Sugar Land, TX	nchamber@nd.edu	Medtronic Inc	MDT
Cremieux, Timothy	La Grange, IL	tcremieu@nd.edu	PPL Corp	PPL
Davis, Anna	Colorado Springs, CO	adavis6@nd.edu	McGraw Hill	MHP
DeBonis, Dominic	Tempe, AZ	ddeboni1@nd.edu	Cheesecake Factory	CAKE
Doolin, Christopher	Chicago, IL	cdoolin@nd.edu	Apple Computer*	AAPL
Eggert, Andrew	Livonia, MI	aeggert@nd.edu	Dentsply	XRAY
Feeney, Jared	Naperville, IL	jfeeney2@nd.edu	Barrick Gold Corp	ABX
Fitzpatrick, Molly	LaCrosse, WI	mfitzp10@nd.edu	Getty Images	GYI
Geaney, Kevin	East Lyme, CT	kgeaney@nd.edu	United Health Group	WNH
Gibney, Brendan	Waco, TX	bgibney@nd.edu	Morgan Stanley	MS
Godlasky, Lauren	Des Moines, IA	lgodlask@nd.edu	Zimmer Holdings*	ZMH
Kelly, Andrew	Mechanicsburg, PA	akelly17@nd.edu	BJ Services	BJS
Kempf, Joshua	Castroville, TX	jkempf1@nd.edu	Symantec Corp	SYMC
Liedl, Christopher	Breezy Point, MN	cliedl@nd.edu	Tupperware Brands	TUP
Lund, Christopher	Cincinnati, OH	clund@nd.edu	Huron Consulting	HURN
McCartin, Philip	Pearl River, NY	pmccarti@nd.edu	Amgen Inc	AMGN

McQuillan, Colleen	Dover, OH	cmcquill@nd.edu	Loopnet Inc	LOOP
Metschl, Michael	Buffalo, NY	mmetschl@nd.edu	Cabelas Inc	CAB
Patel, Vijen	Barrington, IL	vpatel@nd.edu	Exxon Mobil	XOM
Penn, Jonathon	Thousand Oaks, CA	jpenn1@nd.edu	Whirlpool Corp	WHR
Platek, Joshua	Arlington Heights, IL	jplatek@nd.edu	Pepsico Inc	PEP
Preuss, Edward	South Bend, IN	epreuss@nd.edu	Sysco Corp	SYU
Schroeder, Jonathon	Lake Bluff, IL	jschroe2@nd.edu	Pharmaceutical Prod Dev	PPDI
Turner, Eric	Paoli, PA	eturner4@nd.edu	Petsmart	PETM
VanDeventer, Peter	Eoutontown, NJ	pvandeve@nd.edu	Google*	GOOG
Ward, James	Evanston, IL	jward5@nd.edu	Vaalco Energy	EGY
N/A	N/A	N/A	Nutri Systems	NTRI
N/A	N/A	N/A	Discover Financial Services	DFS

## ALUMNI UPDATES

*By Lauren Godlasky*

### Pat Sullivan

Pat is an Analyst for McKinsey & Company's Corporate Performance Center, which specializes in helping clients translate strategy into capital markets performance. Pat began working for McKinsey after his graduation in May of 2007. He is currently located in New York City.

### Josh Brumm

After leaving Morgan Stanley's West Coast Life Science Investment Banking team in 2003, Josh got married and moved to Memphis to start Agridigm and Nu-Ag Distributing, two agri-business based sales and production/finance consulting companies. He recently sold the businesses and headed back to the west coast with his wife, Tissha, and two children, Jayci Kate and Jayden, to join Citi's Life Sciences IB team.

### Steve Wang

Steve is an analyst in the Financial Advisory Services Group at Houlihan Lokey in Chicago, where he performs fairness opinions, solvency opinions, ESOP planning, and general business valuations for tax reporting purposes, purchase price allocations, and goodwill analyses. Steve has been with Houlihan Lokey since he graduated from Notre Dame in 2006 and was in AIM XXI.

## Chicago Trip

*By: James Ward*

On September 5<sup>th</sup> and 6<sup>th</sup>, AIM XXV traveled to Chicago to visit AIM alumni and other professionals from the city. We arrived in Chicago Wednesday night and dined at Maggiano's Little Italy with over 50 alumni from other AIM classes dating all the way back to AIM I. Following dinner, the class heard a presentation by Michael Zinser regarding opportunities at the Boston Consulting Group. The following

day, we visited four firms. During breakfast at the Palmer House, we met with Dan Connelly and David George from the William Blair & Company investment banking division. Next, we traveled to Bain & Co.'s offices where Jed Buchanan, Keith Bevans, and Aaron Mann led a team of several Bain executives who gave an overview of strategic consulting and helped walk the class through a recent case at Bain. For lunch, we met at the offices of Madison Dearborn Partners. Chris McGowan helped explain the basics of a private equity firm while providing insight into the strategy and mentality that has contributed to Madison Dearborn's success. Our final stop was Alliance Capital, a global investment management firm. We were greeted by James Reilly and engaged in an informative conversation about portfolio management. We also received helpful insights for managing our own portfolio. All of the company presentations were very informative and provided AIM XXV with a broad view of various money management organizations.

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## **NEW YORK TRIP**

*By Mike Metschl*

AIM XXV traveled to New York from September 27<sup>th</sup>-30<sup>th</sup> to visit alumni and other professionals at some of the most distinguished firms in the city. We arrived late Thursday night and checked in at the Hilton New York on 6<sup>th</sup> Avenue in midtown. The next day, we joined Credit Suisse for breakfast, where we met with Kristin Boyd (AIM XIX), Heath Terry from equity research and Tim Scanlon from the equity derivatives hedge fund sales desk. After breakfast, we traveled to Maverick Capital, where we met with Andrew Warford to discuss key aspects to examine for stock selection, followed by lunch and an overview of private equity with Sean Klimczak and Jamie O'Connell at Blackstone. Following lunch, we met Roberto Mignone at Bridger Capital to learn about criteria for selecting stocks to short. Our last presentation for the day, with Chad Cascarilla, Greg Regan and Emil Woods at Cedar Hill Capital Management, focused on the intricacies of the credit crisis and its effect on financial services firms. The analysts and our professors met together for dinner and a bit of celebrating at Smith and Wollensky soon after. Mike Martino and Hugh Lust from Mason Capital joined us for breakfast at the Hilton on Saturday morning and gave a great presentation on event driven arbitrage. Scott Malpass entertained us all for lunch and a gamewatch in the America Suite at the hotel. After an afternoon to ourselves, the analysts all reconvened at the Marriott Marquis Hotel in Times Square for a dinner with alumni across many AIM classes. We all came away with some great ideas to consider for picking a second stock to cover, as well as added insight into how to better examine our first stocks.

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## **CURRENT PORTFOLIO OVERVIEW:**

*By Christopher Lund*

With a total return of 22.47% in the trailing twelve months of August 31, 2007, the portfolio has outperformed all major indices including the S&P 500, which has seen returns of 16.13% in this period. Since the start of AIM I, the portfolio has seen annualized returns of 13.03% compared with the S&P 500's returns of 9.5% and the DJIA's of 10.73%. AIM XXV is looking to build on this solid track record of success. Over the past year, AIM has greatly benefited from overweighting in the Consumer Discretionary sector (33% of the portfolio) which has seen gains of 33.64% in this period. The top five value gainers YTD have been Huron Consulting Group (61.79%), Loopnet Inc. (58.28%), Tupperware Brands (54.31%), Barrick Gold Corp (46.81%), and Dentsply (43.31%). The bottom five performers YTD have been NutriSystems (-50.99%), Getty Images (-34.89%), Vaalco Energy (-29.17%), McGraw Hill (-19.92%), and Morgan Stanley (-16.82%).

Top 5 Individual Performers	
Stock	HPR
LoopNet, Inc	46.66%
Barrick Gold Corp	45.95%
Tupperware Brands	34.56%
Dentsply Inc	29.83%
Symantec Corp	19.06%

Bottom 5 Individual Performers	
Stock	HPR
Getty Images	-44.56%
NutriSystem Inc	-39.67%
Morgan Stanley	-18.45%
Vaalco Energy	-16.37%
PetSmart Inc	-7.80%

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## ECONOMIC REPORT

*By Ed Preuss*

At present, the economy appears to be healthy, having weathered the recent turbulence in the capital markets and a persisting slide in the housing market. In the past few months, the markets were extremely turbulent as investors re-priced risk and reduced their exposure to sub-prime mortgages, resulting in tighter credit and a shortage of liquidity. These circumstances, combined with a weakening housing market, threatened to slow the economy, with the possibility of pushing into a recession. On September 18, the Federal Reserve lowered its target rate 50 bps to 4.75% and the discount rate 50 bps to 5.25%. It cited concerns that illiquidity in the debt markets would worsen the housing correction and slow business activity in general. Although inflation figures have been modest in 2007 and it still intends to monitor these closely, the minutes from the FOMC meeting on September 18 demonstrate that the Fed believed "...inflation no longer posed a significant threat..." and that the decline in inflation throughout 2007 could be sustained. The 50 bps cut in both rates was greater than anticipated by most investors. Over the past few weeks, the market has changed its mind about the future of interest rates.

Other economic indicators gave mixed signals about the state of the economy. Consumer sentiment was up slightly in July but down in August according to a University of Michigan index, possibly due to the turbulence in the credit markets. Employment estimates for August were recently revised upward from a loss of 4 thousand jobs to a gain of 89 thousand jobs. September saw a gain of 110 thousand jobs, however there is a downward trend in non-farm payroll which could continue if the housing industry continues to suffer. Sales of existing homes fell 4.3% and sales of new homes fell 8.3% in August. Manufacturing output fell in August, held down by a decrease in production of motor vehicles. These indicators do not give a consistent outlook for the economy, although the general consensus and GDP estimates suggest that the economy activity will be slower in 2008 and higher than previously expected in 2009.

The outlook for the current portfolio is mixed. Consumer discretionary stocks may lag behind the overall market in the coming months if GDP grows at its estimated levels and housing continues to suffer. Financial stocks have fallen significantly in the last few months but may recover quickly with the markets stabilizing. However, slower economic growth may cause these to lag behind other industries. The outlook for technology stocks is particularly good, as business demand for high-tech goods has grown. Consumers staples, energy, and healthcare industries look stable, although a fall in oil prices from record highs may hurt some energy stocks.

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## CURRENT PORTFOLIO

By Jared Feeney

### AIM Portfolio Holdings as of 9/17/07

Company Name	Ticker	# of Shares	Value	Weight	Analyst
AMGEN	AMGN	2100	\$116,466	2.90%	Philip McCartin
BJ SERVICES	BJS	4800	127,440	3.17%	Andrew Kelly
BARRICK GOLD	ABX	5700	213,579	5.31%	Jared Feeney
CABELAS	CAB	5000	120,650	3.00%	Michael Metschl
CHEESECAKE FACTORY	CAKE	6200	148,056	3.68%	Dominic DeBonis
DELL	DELL	6000	157,800	3.92%	Joseph Carroll
DENTSPLY	XRAY	4200	169,638	4.22%	Andrew Eggert
DISCOVER	DFS	1000	21,320	0.53%	N/A
EXXON MOBIL	XOM	2450	218,687	5.44%	Vijen Patel
GETTY IMAGES	GYI	3500	99,575	2.48%	Molly Fitzpatrick
HURON CONSULTING	HURN	2500	161,250	4.01%	Christopher Lund
LOOPNET	LOOP	8000	135,040	3.36%	Colleen McQuillan
MCGRAW HILL	MHP	2500	119,525	2.97%	Anna Davis
MEDTRONIC	MDT	3000	162,630	4.04%	Nicholas Chambers
MORGAN STANLEY	MS	2000	129,820	3.23%	Brendan Gibney
NORTHROP GRUMMAN	NOC	1800	140,994	3.50%	Alicia Alexander
NUTRISYSTEMS	NTRI	2800	159,936	3.98%	N/A
PPL	PPL	3200	155,776	3.87%	Timothy Cremieux
PEPSICO	PEP	2400	167,520	4.16%	Joshua Platek
PETSMART	PETM	5600	184,800	4.59%	Eric Turner
PPDI	PPDI	4500	164,835	4.10%	Jonathon Schroeder
SYMANTEC	SYMC	7500	145,650	3.62%	Joshua Kempf
SYSCO	SYI	4100	136,120	3.38%	Edward Preuss
TUPPERWARE	TUP	5555	169,816	4.22%	Christopher Liedl
UNITED HEALTH	UNH	3700	184,815	4.59%	Kevin Geaney
VAALCO ENERGY	EGY	30000	131,700	3.27%	James Ward
WHIRLPOOL	WHR	1800	164,304	4.08%	Jonathon Penn
Proshares UltraShort Real Estate	SRS	19	1,857	0.05%	
Proshares Ultra Oil and Gas	DIG	19	1,992	0.05%	
Consumer Discretionary SPDR	XLY	-70	(2,549)	-0.06%	
Cash and Cash Equivalents			13,693	0.34%	
Total			\$4,022,735	100.00%	