



# AIM Quarterly



AIM XXIII

*aim.nd.edu*

November 29, 2006

---

## **AIM XXIII Update**

*By: Brian Lasky*

The end of the semester is quickly approaching as the class has completed their second valuations and made final portfolio decisions. The final trades are done and we are in the process of preparing our board presentation (12/4) and the eventual handover to AIM XXIV (12/6). This will mark the end of a semester consisting of many long hours of hard work and dedication. When we inherited the portfolio in May, we were overwhelmed by the prospective task ahead of us. With only a few weeks left in the semester, we have accomplished a tremendous amount, are starting to realize the benefits we will reap from the class for years to come, and are proud to have been associated with the rich heritage of AIM. Additionally, we formed friendships and made connections that will remain for our lifetimes. Moving ahead, we are excited to enter the ranks of AIM alumni and look forward to continued correspondence with the class and other alumni.

AIM XXIII would like to thank Prof. Langley, Malpass, Reilly and Trubac for the knowledge they bestowed on us and the tools they provided us with, which will prove invaluable as we embark on a career in finance. Additionally, we thank the Investment office for helping us evaluate our portfolio's performance and execute trades. Finally, we would like to thank those responsible for making the NYC and Chicago trips a reality, helping us connect the classroom to the real world. This includes the professors, investment office, investment partners, and AIM alumni. We wish AIM alumni well in their future endeavors and AIM XXIV best of luck as we hand over the portfolio into their trusted hands. We are confident that AIM XXIV will carry forward the AIM tradition. We invite them to contact us regarding questions about the portfolio. Good luck!

---

## **New York City Trip**

*By: Chris Tarnacki*

The AIM class spent the weekend in New York City from November 9<sup>th</sup> through the 12<sup>th</sup>. While in the city, the class visited some of the leading financial firms as well as enjoyed all the fun things the city has to offer. On Friday, the class was given a presentation by S-Squared Technology early that morning. Then, we had the opportunity to watch the opening bell at the Nasdaq market site in Times Square. The class also spent time at Sterling Stamos, a hedge fund that also focuses on philanthropic initiatives. The AIM class then visited ND alumni at Blackstone and at Goldman Sachs. The planned activities then ended with a fantastic dinner at Smith & Wollensky. After a Saturday morning meeting with Mason Capital, an event driven hedge fund, the class took in the Rockettes at Radio City Music Hall. Most students tried to find a place to watch Notre Dame beat Air Force before heading to St. Patrick's for Mass. The day ended at the Marriott Marquis for the AIM dinner with alumni. All in all, it was a busy, insightful and enjoyable trip.

---

## **AIM Alumni Update**

*By: Andrew Winslow*

### **Ryan Varavadekar**

Ryan was a member of AIM VIII, and he covered Panera Bread and Steve Madden while in the class. He is currently an analyst at Lincoln International, a boutique investment bank focused on M&A and private

capital raising assignments in the middle market. He recently accepted a job offer with Prospect Partners in Chicago, a private equity firm focused on middle market transactions.

### **Lydia Coleman**

Lydia was a member of AIM XXI, and she covered eResearch Technologies and USA Truck while in the class. She is a first year consultant in the CPC division at McKinsey in New York City. Lydia attended the annual AIM dinner in New York City and provided her career search advice to AIM students at her table. She urged current students to let their careers fall into place instead of trying to plan every step along the way.

### **Aman Malik**

Aman was a member of AIM XVIII, and he covered Affiliated Computer while in the class. He is currently a second year analyst in the consumer retail division at Morgan Stanley. Next summer he plans to start working for a private equity firm based in New York City.

### **Kevin Ryan**

Kevin was a member of AIM XVII, and he covered LabCorp and Cognizant Technology while in the class. He is currently a third year analyst in the industrial and services division at Credit Suisse in New York City.

---

## **US Economic Outlook**

*By: Rodolfo Chiari*

The economy experienced slower growth during the 3<sup>rd</sup> quarter of 2006 as a result of the interest sensitive consumer sectors and the housing correction. Annualized GDP was up 1.6% compared to 2.6% and 5.6% during previous quarters. In conjunction, productivity growth for the quarter was flat, down from 1.2% and 4.3% during prior quarters.

On the other side of the equation, the inflation risks remain but the slowing economy should contribute to reduced pressures. Core PCE inflation was 2.4% YoY, down 0.1% from the 2nd quarter 2.5% 11-year high. Notably, this annual rate of inflation falls outside of the Fed's 1-2% comfort zone. Another indicator of inflation risk, Unit Labor Costs (ULC) rose by 3.8% YoY, and remain up 5.3% YoY, the fastest increase since 1990.

Going forward, a slow growth economy, the weaker housing market and the remaining inflation pressures will be the Fed's main concerns. Nonetheless, it appears that the Fed's theory of moderating consumer spending by restricting monetary policy to bring inflation down without halting the economy, provides evidence of credibility, which should comfort investors going forward.

---

## **Portfolio Performance Overview**

*By: Jonathon Brewis*

The AIM Portfolio has experienced a rate of return of 15.8% over the past year, compared to 16.2% by the benchmark S&P 500. Portfolio returns have been limited by underperformance from mid cap positions, which have generated only 6.46% yearly returns. The Consumer Discretionary segment has been a recent bright spot, which indicates superior stock selection by past AIM analysts. In contrast, the Healthcare and IT segments' recent struggles have been compounded by poor stock-specific performance. Since AIM XXIII took over the portfolio last May, the top five performing stocks have been: Coach (+35.0%), Morgan Stanley (+30.7%), Moody's (+30.1%), McDonald's (+28.2%), and Standard Parking (+26.9%). Alternatively, the bottom five performing stocks have been: Headwaters (-17.4%), BJ Services (-13.7%), Sanderson Farms (-12.2%), Ixia (-6.8%), and Citi Trends (-4.3%). The class decided to liquidate our positions in both Herman Miller and Sanderson Farms at mid-semester. Finally, the AIM portfolio has

managed to consistently identify strong companies, currently holding businesses that have averaged 25.7% earnings growth over the last five years, versus an S&P 500 average of 17.6%.

---

## Second Stocks

*By: Lataros Graves*

While second stocks were representative of every sector, 17 of 26 were from the services, consumer goods and technology sectors. Because two students dropped the class in the beginning of the semester, two stocks from the previous portfolio, Headwaters and Quicksilver, were uncovered. These stocks were subsequently covered by two students as their second stocks.

Student	Second Stock	Ticker	Student	Second Stock	Ticker
Brendan Barrett	Sykes	SYKE	Ted Lawless	Coeur D'Alene	CDE
Jonathon Brewis	Tootsie Roll	TR	Leigh Madeira	Cabelas	CAB
Matthew Byrnes	Cepheid	CPHD	Thomas Mahoney	Quicksilver	ZQK*
James Calderbank	OMI	OMM	Michael McInerney	Boston Beer	SAM
Viviana Castro	Gilead Sciences	GILD	Megan Regan	Sothebys	BID
Rodolfo Chiari	Research in Motion	RIMM	Andrew Sheedy	Western Union	WU
Ryan Curley	Headwaters	HW*	Patrick Sullivan	Apple Computer	AAPL
Trent DeBruin	Getty Images	GYI	Chris Tarnacki	Symantec	SYMC
Lataros Graves	DSW	DSW	Shelton Tsui	Huron Consulting Group	HURN
Matthew Haggerty	Whirlpool	WHR	Rachel Warford	Jabil	JBL
Kevin Johnson	McCormick	MKC	Andrew Wiechkoske	Reliance Steel	RS
Katie Lacz	UPS	UPS	Andrew Winslow	USEC	USU
Brian Lasky	XTO	XTO	David Zychinski	Build a Bear	BBW

\* Denotes stock in previous portfolio.

---

## AIM Portfolio Update

*By: Lataros Graves & Brian Lasky*

AIM XXIII completed their valuations and made their buy/sell recommendations to their fellow portfolio managers on November 15, 2006. Subsequently, the portfolio was reconfigured on November 20 to reflect the portfolio that AIM XXIV will take over on December 6<sup>th</sup>. The class decided to sell eight stocks in the portfolio and add nine new stocks to the portfolio. Additionally, both Herman Miller and Sanderson Farms were sold earlier this semester.

### Securities Sold

Stock	Symbol	Shares	Stock Price	Total Price
Anheuser Busch	BUD	3000	\$46.36	\$139,080
Bluegreen	BXG	11000	\$13.78	\$151,580
Citi Trends	CTRN	3400	\$45.06	\$153,204
Headwaters	HW	4500	\$23.16	\$104,220
Herman Miller	MLHR	4500	\$33.85	\$152,325
International Speedway	ISCA	2250	\$53.51	\$120,398
Quicksilver	ZQK	11000	\$14.37	\$158,070
Sanderson Farms	SAFM	3400	\$31.99	\$108,766
Standard Parking	STAN	5200	\$37.92	\$197,184
Websense	WBSN	5600	\$26.96	\$150,976
<b>Total Value</b>				<b>\$1,435,803</b>

### Securities Purchased

Stock	Symbol	Shares	Stock Price	Total Price
Cabela's Inc	CAB	6500	\$24.63	\$160,095
Getty Images	GYI	3500	\$45.89	\$160,598
Gilead Sciences	GILD	2000	\$67.89	\$135,780
McGraw-Hill Companies	MHP	1500	\$65.67	\$98,505
Sotheby's	BID	5000	\$30.23	\$151,150
Symantec Corp.	SYMC	7500	\$20.57	\$154,269
Western Union	WU	8000	\$22.67	\$181,360
Whirlpool Corp.	WHR	1800	\$86.30	\$155,340
XTO Energy	XTO	3000	\$47.63	\$142,890
<b>Total Value</b>				<b>\$ 1,339,987</b>

#### NEW STOCKS:

##### **Cabela's Inc. (CAB)**

Cabela's Incorporated operates a chain of large retail stores containing hunting, fishing, camping, and related outdoor merchandise. Its products include hunting, fishing, marine, and camping merchandise; casual and outdoor apparel and footwear; optics; taxidermy products; vehicle accessories; and gifts and home furnishings. The company also markets its products through catalog mailings and the Internet.

##### **Getty Images (GYI)**

Getty Images(GYI): Getty Images, Inc. and its subsidiaries provide imagery and related services to businesses worldwide. It offers a range of visual content, including creative or stock imagery that include still and moving images; editorial photography, which comprises news, sports, entertainment, and archival imagery; illustrations; and related services. The company also provides assignment services, such as photographing executives for an annual report, producing product shots for a brochure, and documenting a news event.

##### **Gilead Sciences Inc. (GILD)**

Gilead Sciences, Inc., a biopharmaceutical company, engages in the discovery, development, and commercialization of therapeutics to patients suffering from life-threatening diseases primarily in the

United States. Its products include Viread, Emtriva, and Truvada for the treatment of human immunodeficiency virus infection; Hepsera for the treatment of chronic hepatitis B infection; AmBisome for the treatment of fungal infection; Vistide for the treatment of cytomegalovirus infection; and DaunoXome, a liposomal formulation of the anticancer agent daunorubicin for the treatment of AIDS-related Kaposi's sarcoma.

**McGraw-Hill Companies (MHP):**

The McGraw-Hill Companies, Inc. provides information services and products to the education, financial services, and business information markets worldwide. The McGraw-Hill Financial Services segment, operating under the Standard & Poor's brand, provides independent credit ratings covering corporate and government entities, infrastructure projects, and structured finance transactions; data and information services offering financial information on companies, securities, indices, and funds; equity research; portfolio services developing global indices and investable products; and risk management delivering quantitative tools and analytics, and credit risk training.

**Sotheby's (BID)**

Sotheby's, together with its subsidiaries, operates as an auctioneer of authenticated fine art, decorative arts, and collectibles.

**Symantec Corp. (SYMC)**

Symantec Corporation provides software and solutions to help individuals and enterprises assure the security, availability, and integrity of their information technology (IT) and infrastructure worldwide. It operates in five segments: Consumer Products, Enterprise Security, Data Protection, Storage and Server Management, and Services.

**Western Union (WU)**

The Western Union Company provides money transfer services worldwide. The company provides consumer-to-consumer money transfer services, primarily through a network of third-party agents using multi-currency and real-time money transfer processing systems. It also offers consumer-to-business payment services, which allow consumers to send funds to businesses and government agencies that receive consumer payments through its network of third-party agents and various electronic channels.

**Whirlpool Corp. (WHR)**

Whirlpool Corporation engages in the manufacture and marketing of home appliances. The company's products include laundry appliances, refrigerators and freezers, cooking appliances, dishwashers, room air-conditioning equipment, mixers, and other small household appliances.

**XTO Energy (XTO)**

XTO Energy, Inc., and its subsidiaries, engages in the acquisition, development, exploitation, and exploration of producing oil and gas properties in the United States. The company also produces, processes, markets, and transports oil and natural gas. Its proved reserves are principally located in the Eastern Region, including the East Texas Basin and northwestern Louisiana; Barnett Shale of North Texas; San Juan and Raton Basins of New Mexico and Colorado; Permian and South Texas Region; Mid-Continent and Rocky Mountain Region in Wyoming, Kansas, Oklahoma, and Arkansas; and Middle Ground Shoal Field of Alaska's Cook Inlet.

Source: Yahoo

<b>New Portfolio Composition</b>					
<b>Stock</b>	<b>Symbol</b>	<b>Shares</b>	<b>Current Price</b>	<b>Total Value</b>	<b>Weight</b>
Amgen	AMGN	2100	\$72.50	\$152,250.00	4.02%
Barrick Gold	ABX	5700	\$29.75	\$169,575.00	4.47%
BJ Services	BJS	4800	\$31.98	\$153,504.00	4.05%
Cabela's Inc	CAB	6500	\$24.99	\$162,435.00	4.28%
Citigroup	C	2840	\$50.31	\$142,880.40	3.77%
Coach	COH	4000	\$42.78	\$171,120.00	4.51%
Dell	DELL	6000	\$27.33	\$163,980.00	4.32%
Exxon Mobil	XOM	2450	\$72.38	\$177,331.00	4.68%
Getty Images	GYI	3500	\$44.95	\$157,325.00	4.15%
Gilead Sciences	GILD	2000	\$66.15	\$132,300.00	3.49%
Ixia	XXIA	10400	\$9.94	\$103,376.00	2.73%
McDonald's	MCD	3400	\$41.88	\$142,392.00	3.76%
Medtronic	MDT	3000	\$53.45	\$160,350.00	4.23%
Moody's Corp	MCO	2200	\$69.73	\$153,406.00	4.05%
Morgan Stanley	MS	2000	\$78.95	\$157,900.00	4.16%
Petsmart	PETM	5600	\$29.14	\$163,184.00	4.30%
Sotheby's	BID	5000	\$32.15	\$160,750.00	4.24%
Symantec Corp.	SYMC	7500	\$20.93	\$156,975.00	4.14%
Sysco	SYU	4100	\$35.54	\$145,714.00	3.84%
The McGraw-Hill Companies	MHP	1500	\$65.53	\$98,295.00	2.59%
The Western Union	WU	8000	\$22.36	\$178,880.00	4.72%
Tupperware Brands	TUP	5555	\$21.56	\$119,765.80	3.16%
United Health	UNH	3700	\$46.71	\$172,827.00	4.56%
Whirlpool Corp.	WHR	1800	\$85.75	\$154,350.00	4.07%
XTO Energy	XTO	3000	\$46.93	\$140,790.00	3.71%
Sector SPDR – Energy	XLE	60	\$57.54	\$3,452.40	0.01%
<b>Total Equity Value</b>				<b>\$3,795,107.60</b>	<b>100.00%</b>
<b>Cash Position</b>				<b>\$5,954.06</b>	
<b>Total Investment</b>				<b>\$3,801,061.66</b>	
<b>Short Equity</b>				<b>(\$2,656.50)</b>	
<b>Total Net Investment</b>				<b>\$3,798,405.16</b>	

Note: Data as of November 26, 2006.

Source: MSN Money.