

# AIM QUARTERLY



## Greetings from AIM XXXIV

Hello from a mild South Bend!

As the first quarter of 2012 begins winding down to a close, Professors Jerry Langley, Bill McDonald, and Frank Reilly continue to support a group of 23 MBA/MSA analysts in the endless pursuit of alpha.

First round valuations of securities were recently

completed and each analyst is now in the process of selecting a 2<sup>nd</sup> round security.

AIM XXXIV looks forward to its upcoming trip to Chicago in late March 2012.



### QUARTER 1, SPRING 2012

#### *In This Issue*



State of the Economy 2



Portfolio Performance 4



Alumni Updates 6



AIM XXXIV Class Profile 7

**“March: This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, October, June, December, August and February.” –Mark Twain**

# State of the Economy

---

## *GDP*

The Bureau of Economic Analysis recently released a Q4 GDP growth rate of 2.8%. The acceleration in real GDP in the fourth quarter primarily reflected an upturn in private inventory investment and accelerations in personal consumption expenditures (PCE) and residential fixed investment. These were partly offset by a deceleration in nonresidential fixed investment, an increase in imports, and a downturn in federal, state and local government spending. Overall for 2011, real GDP increased 1.7%, compared with an increase of 3.0% in 2010.

The latest Federal Reserve FOMC meeting projections for GDP were revised down slightly in the near term. This downward revision reflects a decrease in federal defense purchases and lower levels of consumer spending. In the medium term, GDP growth projections remain unchanged with an expectation that GDP growth will gradually accelerate in late 2012 through 2013. Even with a lack of a durable solution to the European debt crisis, market sentiment toward Europe appears to be brightening and a number of U.S. economic data releases have been better than expected over the last few months. A recent survey of economists with the NABE expects GDP growth of 2.4% in 2012, led primarily by business spending and a continued slow reduction in unemployment rates. Odds of a second recession are very low, with only 2 of 42 forecasters predicting a decline in GDP in the near term.

## *Employment*

The US Bureau of Labor Statistics reported the unemployment rate dropped by 20 basis points in January to 8.3%, and dropped by 80 basis points from August's rate of 9.1%. The increase since August represents a decrease in unemployment of 1.2 million. Nonfarm payroll employment increased by 243,000 and growth was widespread in the private sector driven mostly by professional and business services, leisure and hospitality, and manufacturing. Government employment has stayed flat since December and has lost 276,000 jobs over the last 12 months. The marginally attached workforce, those that wanted to, were available to work, and had searched for a job over the prior 12 months, was at 2.8 million. Of those, there were 1.1 million that comprised the discouraged workers, those who are not currently looking for work because they believe no jobs are available. Both the discouraged workers and the marginally attached workforce numbers were essentially unchanged from a year earlier. Overall, it appears as though the recovery is going to take a significant amount of time absent more stimuli and the level of structural unemployment has likely increased permanently.

## *Inflation*

Food and energy prices have leveled off since last year's highs, but still are up 4.4% and 6.1% over the last 12 months, respectively. The CPI indexes for food, energy and all items less food and energy all rose in January by 20 basis points. Over the last 12 months, the all items index increased by 2.9%, down from 3.0% in December. There has been some concern of

inflation looming in the long term, but Bernanke stated in early February that, ““The Committee anticipates that over coming quarters, inflation will run at levels at or below those consistent with the Committee's dual statutory mandate [of ~2%].” Rising commodity prices have caused global food prices to rise, and there still is concern over volatility in oil prices due to instability in Iran and the rest of the Middle East. Even though wage rate inflation has been showing signs of modest growth recently, it is still well below core CPI growth due to the extraordinary high level of unemployment which could cause low inflation levels to persist.

## *Housing*

The housing market continues its bounce along the bottom, although recent trends might be construed as positive. January housing starts rose to a 699,000 annual rate, higher than the 675,000 consensus, driven by an 8.5% monthly increase in multi-family starts. Single-family starts declined 1% to a 508,000 annual rate compared with December, when they jumped 12%. Single-family starts remain significantly below the historical median of 1.068M units. Meanwhile, existing home sales increased 4.3% in January to 4.57M units, coming in lower than consensus but up .7% from a year ago and at the highest levels since May 2010. The median price of existing homes fell to \$154,700 and continues its steady decline, down 2% YoY. The Case-Shiller index showed a 3.7% YoY decline in residential housing prices for November after decreasing 3.4% YoY in October. Foreclosures ticked up 3% in January from December and the upward trend is expected to continue with the

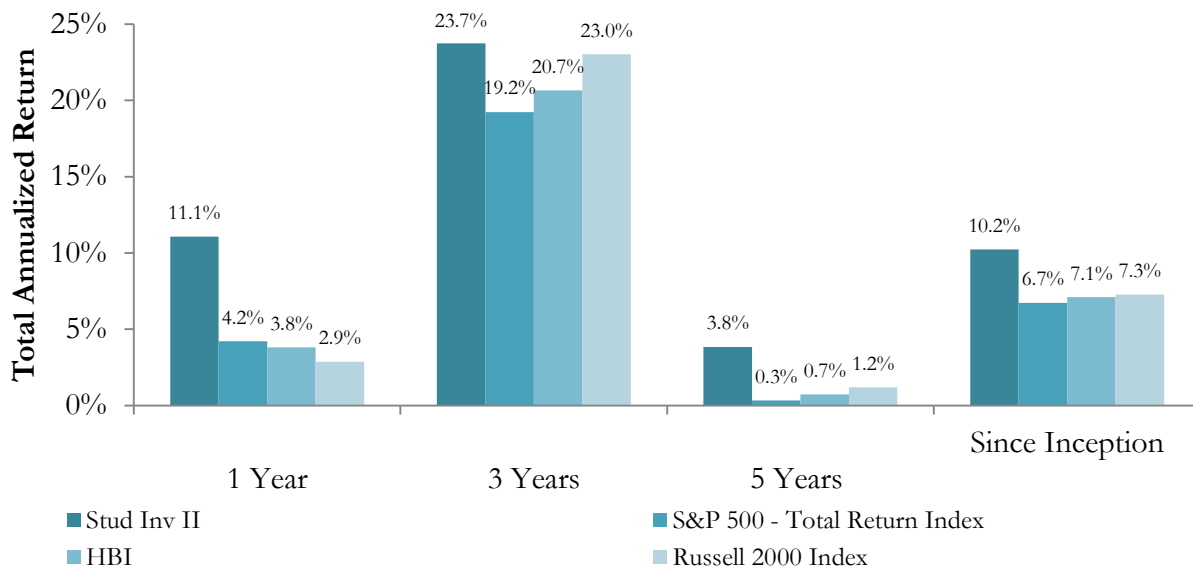


recent \$25B settlement between five of the nation's largest lenders and government authorities. On more positive notes, inventories are down 21% YoY and at the lowest levels since 2005. Home builder sentiment also increased to its highest level in nearly five years, as a reading of 29 in the NAHB index beat consensus estimates of 26.

## *Consumer*

The Thomson Reuters/University of Michigan index of consumer sentiment increased to 75.3 in February from 75 in January, beating the consensus estimate of 73. The survey's index of consumer expectations six months from now rose to a one-year high of 70.3, compared with a 69.1 reading in January. Meanwhile, the gauge of current conditions decreased to 83 from 84.2 in January. Consumer credit increased \$19.5B in December, beating the highest estimates of economists and representing a 9.3% increase. The increase was the largest sequentially since October-November of 2001, and was driven by demand for non-revolving debt in the form of educational and auto loans. Disposable personal income was up .4% in December and 2.3% YoY, while personal consumption was unchanged. Private sector wages are up 4.6% from a year ago. Overall, consumer spending is buoyed by expanded credit, marginal wage growth and decreased housing-related financial obligations, while still facing headwinds in the form of meager job growth short-term and, longer-term, the still unsettled debt/budget debate in Washington.

# Portfolio Performance: The AIM Advantage



## Benchmark Comparison

Since inception, the AIM portfolio has outperformed the S&P 500, the Russell 2000, and the Hank Blended Index (the HBI is comprised of 65% S&P 500 returns and 35% Russell 2000 returns). The portfolio performed very well in the past year as evidenced by the nearly three-fold out-performance against the benchmarks. Overall the portfolio has out-performed all benchmarks since inception and over the past one, three, and five-year periods.

## Portfolio Attribution Analysis

The AIM portfolio has outperformed the S&P 500 due to a combination of both the allocation effect and the selection effect. Over the past five years, the portfolio benefited from its differential sector weightings relative to the benchmark portfolios (the allocation effect). Over the past three years, however, our alpha is primarily attributable to picking good stocks (the selection effect). The Net Management Effect has continued to grow larger in recent years, another testament to the value created by AIM analysts and their valuations.

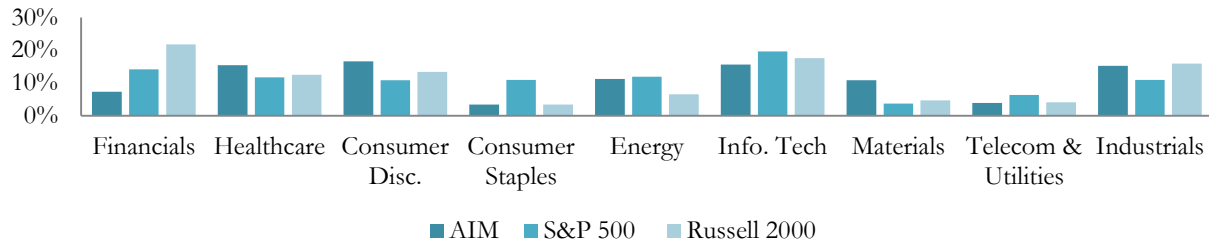
## Portfolio Positions

The composition of the AIM portfolio is listed on the following page. Not surprisingly, Apple is our largest position at 6.0% of the portfolio. Continental Resources is the second largest position at 4.6%, the sharp rise in crude prices has driven a nearly 52% gain in the last three months. Our other positions that benefit from higher crude prices, Chevron and Halliburton, have also seen strong gains over the same period.

## Sector Allocation

The sector weightings of the AIM portfolio are benchmarked against the S&P 500 and Russell 2000. As can be seen on the following page, we are below that target in financials and info tech and over target in the health care, consumer discretionary and materials. As we move into Q2, our goal is to re-evaluate the weightings, and re-distribute accordingly.

**Sector Weightings vs. S&P 500 and Russell 2000 (as of 2/24/2012)**



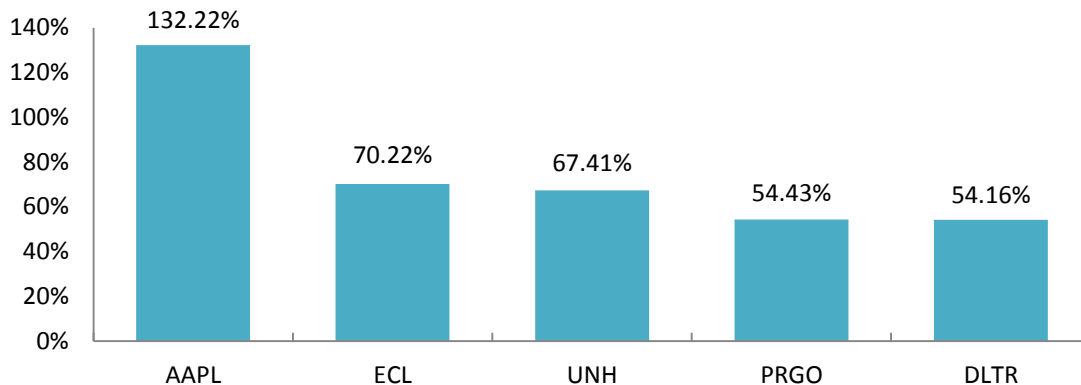
Group	Financials	Healthcare	Cons Disc.	Consumer Staples	Energy	Info. Tech	Materials	Telecom & Utilities	Industrials
AIM XXXIV	7.30%	15.45%	16.60%	3.38%	11.19%	15.66%	10.88%	3.90%	15.24%
S&P 500	14.12%	11.70%	10.82%	10.88%	11.91%	19.57%	3.73%	6.33%	10.94%
Russell 2000	21.81%	12.50%	13.37%	3.43%	6.53%	17.58%	4.71%	4.12%	15.95%

**Current Portfolio Positions (as of 2/24/2012)**

Stock	Ticker	% of Portfolio	Shares	Price (\$)	Mkt. Value
Apple	AAPL	6.0%	750	522.41	\$391,808
Amazon	AMZN	2.9%	1,050	179.13	\$188,087
Alliant Tech	ATK	3.1%	3,400	60.54	\$205,836
Caterpillar	CAT	4.4%	2,500	116.00	\$290,000
Continental Resources	CLR	4.6%	3,200	94.75	\$303,200
Cummins	CMI	4.5%	2,400	121.78	\$292,272
Chevron	CVX	3.7%	2,250	109.08	\$245,430
Discovery	DFS	4.0%	8,600	30.19	\$259,634
Dick's Sporting Goods	DKS	3.4%	4,900	45.07	\$220,843
Dollar Tree	DLTR	3.3%	2,500	87.82	\$219,550
EBay	EBAY	3.8%	6,800	36.36	\$247,248
EcoLab	ECL	3.8%	4,000	62.69	\$250,760
Gilead Sciences	GILD	3.8%	5,500	45.26	\$248,930
Google	GOOG	3.2%	340	609.90	\$207,366
Halliburton	HAL	3.2%	5,500	38.51	\$211,805
Starwood Hotels	HOT	3.4%	4,000	54.99	\$219,960
KeyCorp	KEY	3.4%	28,000	8.06	\$225,680
Coca-Cola	KO	3.3%	3,100	69.00	\$213,900
LabCorp	LH	3.4%	2,500	89.08	\$222,700
Newmont Mining	NEM	3.0%	3,200	62.51	\$200,032
PNQI	PNQI	0.0%	70	39.00	\$2,730
Potash Corp	POT	3.5%	5,000	46.53	\$232,650
Perrigo	PRGO	3.2%	2,200	96.24	\$211,728
Qualcomm	QCOM	4.0%	4,100	63.44	\$260,104
RBC Bearings	ROLL	3.4%	4,800	46.97	\$225,456
Sonic Corp	SONC	3.3%	4,000	53.83	\$215,320
SPY	SPY	0.3%	150	136.93	\$20,540
Teradata Corp	TDC	4.0%	4,000	65.48	\$261,920
United Health Group	UNH	4.1%	4,800	55.65	\$267,120
	Total				\$6,562,609



### Top 5 Stocks – Holding Period Returns



## Alumni Updates

### Molly Iarocci, AIM XXXII

Molly is in her first year as an Associate Research Analyst at Stifel Nicolaus in Denver, CO. She assists with the coverage of 17 Sports & Lifestyle Brands within the Consumer Sector. Responsibilities include financial modeling, report writing, analyzing industry trends and sector-wide performances, maintaining relationships with investors and management teams and performing retail channel checks. She is glad that her years of shopping are finally paying off.

### Gary Dages, AIM XXXII

After graduating from the MBA program in 2011, Gary accepted a position as an associate in GE Aviation's Business Development group in Cincinnati, Ohio. In his current role, Gary analyzes transactions in the aerospace and defense markets. Gary assists senior GE Aviation leadership in decision making and manages the M&A process on select deals.

### Jered DaCosta, AIM XXXII

Jered currently works at Barclays Capital (NY) as an Associate in the Industrial Group of the Investment Banking Division. His group advises companies in this industry on financing, acquisitions, divestitures and other capital raising efforts. In addition to normal business activities, he volunteers and plays a leadership role in the firm's Veteran network. Jered also serves as a recruiting team leader at the Company for Notre Dame's Mendoza College of Business.

### Patrick Sullivan, AIM XIX

Patrick currently works at Check-6, Inc as a Strategy and Finance Manager. Started by former Top Gun Navy Fighter pilots and Special Forces, Check-6 specializes in improving operational performance and safety in hazardous environments such as oil rig sites and mines. Only 5 years old, Check-6 was ranked #100 on Inc Magazine's 2011 list of America's fastest growing companies. Patrick is currently working in the Tulsa office. Outside of work, Pat sits on the Development Board at Catholic Charities, and the Advisory Council at Iron Gate Soup kitchen, both located in Tulsa.

**\*This is a reminder that the Alumni Chicago Dinner is Thursday, March 29, 2012 @ Maggiano's (516 North Clark Street, Chicago, IL, 60654). Reception @ 6:30pm, dinner @ 7:15pm. Please RSVP to Shelley Huff (shelleyhuff@anthonytravel.com ) by mid-March 2012.**

## AIM XXXIV Class Profile

ANALYST	EMAIL	1st STOCK	HOMETOWN	CAREER INTEREST
Brady Blackett	hblacket@nd.edu	Coca Cola	Englewood, CO	Investment Banking
Oliver Castelino	ocasteli@nd.edu	Potash	Manlius, NY	Alternative Investments
Samuel DeLemos	sdelemos@nd.edu	Amazon	Nashville, TN	Investment Banking
Matthew Elijah	melijah@nd.edu	KeyCorp	Tiburon, CA	Financial Services
Anand Hingway	ahingway@nd.edu	Dick's Sporting Goods	Nagpur, India	Financial Analysis
Kristin Iyer	kiyer@nd.edu	Starwood	Fort Collins, CO	Equity Research
Andrew John	ajohn2@nd.edu	LabCorp	Bellevue, WA	Fixed Income Research
Paul Karam	pkaram@nd.edu	eBay	Los Angeles, CA	Investment Management
Ryan Kennedy	rkenned5@nd.edu	Alliant Technologies	Croton, NY	Investment Management
Michael Kiel	mkiel@nd.edu	Qualcomm	Livonia, MI	Investment Banking
Brian Kuske	bkuske@nd.edu	Dollar Tree	Naperville, IL	Investment Banking
Wenhao Li	wli6@nd.edu	Continental Resources	Chengdu, China	Financial Services
John Madia	jmadia1@nd.edu	Discover Financial	Clarksburg, WV	Investment Banking
Andrew Mayer	amayer2@nd.edu	EcoLab	Arvada, CO	Equity/FI Research
Brandon McGrath	bmcgrat1@nd.edu	Perrigo	Denver, CO	Corporate Finance
Paul Mooradian	pmooradi@nd.edu	Caterpillar	Shrewsbury, MA	Investment Consulting
Jennafer Newcomb	jnewcom1@nd.edu	Chevron	Tom River, NJ	Corporate Finance
Frederick Patterson	fpatters@nd.edu	Google	Fremont, MI	Performance Improvement Consulting
Laura Ritter	lritter@nd.edu	Cummins	Beverly Hills, MI	Corporate Finance
Adrianna Stasiuk	astasiuk@nd.edu	Halliburton	Park Ridge, IL	Private Wealth Management
David Weinstein	dweinste@nd.edu	Teradata	Pittsburgh, PA	Investment Research
Ryan Wong	rwong2@nd.edu	Newmont Mining	Diamond Bar, CA	Corporate Restructuring
David Young	dyoung7@nd.edu	United Health	Seattle, WA	Investment Banking