

The Colorado College
Investment Club



Annual Report 2011-2012

Contents

The Colorado College Investment Club.....3

Letter from the Faculty Advisor.....4

Letter from the President.....5

Letter from the Presidents Elect.....6

Summary of Investment Club Holdings.....7

Discussion of Investments.....8

Analysis of Liquidation.....9

Guest Speakers.....10

Members and Special Thanks.....11

The Colorado College Investment Club

The Colorado College Investment Club was established in December of 2003 and was entrusted with the management of the Investment Club's own portfolio. This portfolio was funded through the generosity of private investors. In May 2006, the club was given a second account, which consisted of a portion of the Schlessman Endowment. However, during the 2011-2012 academic year, the Economics Department took the \$50,000 given to the club in 2006 back. Nevertheless, the club retained the gains realized over the period of management. The Investment Club is a student run organization that educates members about the financial markets, investing, and portfolio management.



Photo of a portion of Investment Club Members from April 2012.

Letter from the Faculty Advisor

As I reflect on the past year (notably my first on the faculty at Colorado College), I'm amazed at the contributions of CC students both in and out of class. Both Stacy Lutz-Davidson, the college's Controller and Director of Investments, and I have immensely enjoyed the experience working with Investments Club President, Dan Ward, and the other highly-engaged students throughout the year. Under Dan's superb leadership, "I-Club" has become one of the most active and talked about clubs at the college.

This year was marked not only by a robust series of guest speakers and presentations, but also by one of the realities that any investment manager has to expect from time to time – liquidation. The Economics & Business department asked the club last fall to return monies which it had provided to the club on a temporary basis several years ago when there were surplus funds available. Although this move was not something anyone took lightly, it had become necessary during this recent period of tightening budgets. Under Dan's leadership, the club spent a great deal of time thinking about divestment strategies and asset allocation, and came up with what seemed to be a very prudent plan. Liquidation was finalized in the spring leaving the club to think about how to best allocate funds with a markedly smaller, albeit it still substantial, portfolio going forward.

I took on the role of faculty advisor believing I would have to help the club in organizing activities and speakers, but have come to learn, my role is truly an advisory one. The leadership demonstrated by all of the club officers and regular members was incredible. I often found myself in the back of the room enjoying the weekly guest speaker and the pizza, forgetting I had anything to do with the process. When I assumed the advisory role from my good friend and colleague, Pedro de Araujo he told me "there really isn't much for you to do." His words turned out to be prophetic, and that's one of the strongest testaments I can make to the student leadership of this organization.

I want to personally thank all of the I-Club Officers -- Dan, Antonio, Abdoulaye, Diego, and Yannick. Each of you have been instrumental in your leadership efforts this year and the experience for all involved has been better because of it. Thanks also to all of the regular members and underclassmen who have shown so much interest. I eagerly look forward to watching you assume your own leadership roles over the club and its investments in the coming years. Seniors, heartiest congratulations on your imminent graduation. Please keep in touch. As for the others, please enjoy your summer, be safe and I look forward to seeing you back in the club next fall!



Jim Parco
Faculty Advisor
Colorado College Investment Club

Letter from the President

As the 2011-2012 school year comes to an end for the investment club, the club has performed admirably in the face of adversity caused by liquidation of about 60% of the club's assets that have been returned to the Economics Department. Even with liquidating \$50,000 of funds, we were able to make purchases to position the portfolio to take advantage of the fact that small cap stocks will typically outperform large cap stocks through Keryx Biopharmaceuticals (data expected on phase 3 drug in Q4) and Kodiak Oil and Gas (a small cap oil name based out of Denver). Our portfolio will still provide an amazing yield thanks to Real Estate Investment Trust stalwart American Capital Agency (over a 16% yield) and new utility Consolidated Edison (over a 4% yield). The club is very interested to see how its new positions (which also includes General Motors) perform over the typically bearish summer period.

While the club goes into the summer with minimal cash, multiple club members have already brought up a desire to revisit the emerging markets area. The iShares MSCI Brazil Index has returned -18% excluding dividend during its period in the club's portfolio that has lasted multiple years and may be a possible item for sale next school year. One of the club's main allocation decisions this year was to move away from bonds, which was partially triggered by the need to raise cash due to the liquidation. While the bonds had overall been providing the club with a slow, but steady return, the club decided that horrible bond yields were not the appropriate place to store cash due to the shrinkage of the portfolio from the liquidation.

The club's purchases made last year and first semester this year saw some great performances. Last year's purchase of American Capital Agency returned approximately 25% (19% of which came from dividends) and the Wells Fargo purchase returned approximately 19% (2% of which came from dividends), each vastly outperforming the approximately 3% return of the Wilshire 5000. The purchase of the Vanguard Information Technology ETF first semester has already provided 16% in gains (1% of which came from dividends).

The club was lucky to have a great group of speakers from a wide variety of areas within the investment field. Speakers included Andrew Tappe and Colin Beck from Fidelity, Jack Brush from Columbine Capital, Tim Wilkinson from Riverbridge Partners, Thayer Tutt from the El Pomar Foundation, and Joel Gheen and John Graaff from Core Capital.

The club's virtual stock exchange was very successful this year as well. First semester's contest was won by Hayden Collins with a return of approximately 32% over the first semester. I won the second semester contest with a return of approximately 65% over the second semester. Each contest saw great participation with at least twenty members involved in each.

It has been a pleasure to serve as the Colorado College Investment Club President for the 2011-2012 school year. The club was able to effectively navigate a significant and complicated liquidation, and I believe that the portfolio is in great shape to provide significant returns through income from dividends and significant returns from some of new holdings.

Daniel Ward
President
Colorado College Investment Club

Letter from the President Elects

After an incredible year to be a part of the Colorado College Investment Club, we are honored to help lead and facilitate this outstanding club in 2012-2013. Through the unforeseen volatility in the markets this year due to events like the Euro debt crisis and the recent bull market in early 2012, the club was able to experience an exciting and educational year. On top of the thrilling market events the club liquidated a sizeable portion of their assets which provided an excellent opportunity to re-evaluate positions in various securities and allowed our members to develop a cohesive investment strategy for the future which we are very excited to continue into next year.

Upon the closing of the academic year the club has decided to buy four new securities that will create a more diverse portfolio, and give the club a position in sectors we previous withheld from. After the heavy liquidations, as well as, the recent acquisition of these new stocks, we firmly believe that the club's fund is in a strong position to excel and grow in the future.

Over past year the club brought in an extraordinary list of speakers. We hope to follow this up by inviting an array of seasoned veterans from all areas of the financial industry. Through personal relationships and CC networks, we will try to get as many successful and distinguished professionals from Colorado and across the country that can provide the club with valuable eye opening information about careers in finance and the various aspects of the complex industry.

An idea that has been proposed for the upcoming year is to create podcasts of some of the more important meetings and attach them to the club's LinkedIn or PROWL page. We will begin implementing this idea in the next academic year in hopes to promote student involvement and to create an enhanced educational experience. As the co-presidents of I-Club, we wish not only to maintain strong student involvement, but to also create a stronger link to members of the past by allowing alumni to participate and see the progress and activities of the club.

The main focus of the club next year will be to maintain and expand the club's educational progress. We believe that the club has selected a strong group of cabinet members to achieve our goal of educating about the financial markets, investing, and portfolio management. We would like to thank our current president, Daniel Ward, and his exceptional cabinet members along with every faculty member that has helped and supported the Investment Club throughout the year.

Eli Greenspan and Jayson Post
Co-President Elects
Colorado College Investment Club

Investment Club Holdings

<u>Summary of Investment Club Holdings</u>		
Holdings by Asset Class	Shares	Value (May 4, 2012)
Stocks		
Quest Diagnostics	50	\$2,857.00
iShares MSCI Brazil Index	40	\$2,343.60
American Capital Agency Corp	200	\$6,332.00
Wells Fargo & Company	100	\$3,303.00
SPDR Gold Shares	13	\$2,073.24
Consolidated Edison Inc.	58	\$3,444.04
General Motors Company	133	\$2,973.88
Keryx Biopharmaceuticals Inc.	683	\$990.35
Kodiak Oil & Gas Corp.	464	\$4,013.60
Vanguard Information Technology ETF	60	\$4,234.20
Total Stock		\$32,564.91
% of portfolio		94.8%
Bonds		
AllianceBernstein Global High Income Fund, Inc.	95	\$1,425.00
% of portfolio		4.2%
Cash	354.91	\$354.91
% of portfolio		1.0%
Portfolio value		\$34,344.82
Total Investments		\$33,989.91

New Holding = Blue

Annual Investment Report

(Prepared by Spencer Collins)

This year we executed a total of five transactions, four of which were to exhaust remaining cash reserves for the summer. On May 1st, we decided to spend all available cash so that those funds were invested over the summer. We decided that choosing three securities that yield respectable returns and one, more risk seeking, security that we could use as an experiment. It was also concluded that these securities should expose our portfolio to markets that it did not have a stake in. These sectors were Oil/Gas (KOG), Electricity/Natural Gas (ED), Biotech (KERX) and Transportation (GM).

Vanguard Information Technology ETF (VGT): This ETF mimics the performance of the MSCI US Investable Market Information Technology Index. This index is largely made up of small, mid and large-cap companies in the information technology sector. We decided that this would be a good investment because our portfolio needed exposure to the information technology sector and thought that it was significantly undervalued. We purchased a significant amount of shares on October 24th, 2011 for \$63.12 a share. Since its purchase, our portfolio has benefited from its appreciating stock price (it is currently trading at about \$72) and consistent dividends.

Kodiak Oil & Gas Corporation (KOG): This company was chosen because we felt that it adds diversity to our portfolio and that the price would appreciate in value over the course of the summer. Kodiak specializes in the drilling of crude oil and natural gas in the United States. Since energy demand always increases in the summer, we felt that purchasing prior to the influx in demand would be advantageous. On May 1st, as a part of our end-of-the-year shopping spree, the club voted in favor of purchasing roughly \$4,000 of Kodiak. The order was executed for 464 common stock shares at \$8.46 per share.

Consolidated Edison, Inc. (ED): Consolidated Edison provides electricity and natural gas to parts of New York, Pennsylvania and New Jersey. Once again, with demand for energy always being significantly higher during the summer than other seasons, we felt that now would be the optimal time to buy into this company. We allocated roughly \$3,500 to this security by purchasing 58 shares at \$59.49 a share.

General Motors Company (GM): General Motors of course makes a large number of vehicles, domestically. Since its government bailout in 2007, General Motors has performed better than expected. Its EPS of \$4.58 is what made it the perfect summer security in the club's eyes. With its promising performance and solid earnings we executed the order with confidence. On May 1st, the club voted to purchase 133 shares for \$22.45 totaling almost \$3,000.

Keryx Pharmaceuticals (KERX): The club decided to do as so many guest speakers have told us this year, make investments that we *want* to make. When Scott Schoelzel came in to speak to the club he was asked to recommend a few securities: KERX was one of them. He, of course, made this recommendation with a strong cautionary tale. This company researches, tests and manufactures pharmaceuticals to treat cancer and renal disease so their fate is largely decided by the FDA's approval or lack thereof. We purchased 683 shares of Keryx for \$1.52 and we are excited to see where this company goes in the coming months.

Overview of Liquidation

Unfortunately, this year we have had to liquidate a sizeable portion of our assets, due to the Economics Department's need to allocate those funds elsewhere. Through this, the club was able to experience a valuable educational opportunity in which we have managed to keep our portfolio balanced and poised for steady appreciation.

The first stage of the liquidation process included sequestering \$25,000 to give to the Economics Department. This involved liquidating only \$8,000 of I-Club holdings because the rest was given from the club's \$17,000 cash reserves at the time. The \$8,000 dollars was procured from portions of the club's holdings in iShares Barclays Aggregate Bond (AGG) and Vanguard Information Technology ETF (VGT). The club felt that these were good choices for liquidation because these positions consumed large portions of the fund's allocation.

The second stage of liquidation included a fire sale of an additional \$25,000 in holdings. This turned out to be a difficult and arduous task for the club but allowed for an in-depth evaluation of the entire portfolio. The end result was to sell off portions and/or entire holdings of the following positions:

- SPDR S&P 500 ETF (SPY)
- BlackRock Senior High Income Fund, Inc. (ARK)
- AU Optronics Corp. (AUO)
- SPDR Gold Shares (GLD)
- iShares Barclays Aggregate Bond (AGG)
- Federal National Mortgage Association (FNMA.OB)
- Wells Fargo & Company (WFC)
- Vanguard Information Technology ETF (VGT)
- Quest Diagnostics Inc. (DGX)
- iShares S&P Europe 350 Index (IEV)

Each security had its own rationalization for the club to sell its shares. However, the overall decision was to move away from index funds and bonds to enhance the learning experience in relation to stock picking. The liquidation also gave the club the opportunity to get rid of poor investments that had been lingering in the portfolio. We also sold shares in various successful investments in order to balance the weight across the portfolio.

The club felt that these securities, although profitable, were no longer ideal investment positions. The club was able to reach this decision after extensive research and several presentations. We believe that without these investments our portfolio has a strong, possibly even stronger stance for growth in the future.

Guest Speakers

The investment club had five great speakers from a wide variety of areas in the investment world. Our meetings with guest speakers were the best attended by club members. Everyone found it very helpful to hear about the varied career paths. Information from the speakers also helped the club pull off a smooth liquidation process while still maintaining a quality portfolio.

Andrew Tappe, a Senior Vice President of Fidelity, and **Colin Beck** also from Fidelity presented on tools that can be used to make smart investment decisions. Everyone was very impressed with the stock screener and how it could be used to find a great list of stocks for possible investment given specific criteria. This was very helpful as introduction to the newer club members as it showed some of the many tools that are available online to help make quality investment decisions.

Jack Brush, President of Columbine Capital in Colorado Springs, was a great speaker for the members of the club especially interested in the relationship between the market and Mathematical-Economics. Columbine Capital is an independent equity research equity firm that researches various types of models to find ways that investment managers can gain excess return with their portfolio. His analysis help showed members how technical aspects of stocks can be used by traders to make decisions related to building an efficient portfolio.

Thayer Tutt, the Chief Investment Officer of the El Pomar Foundation, presented on some of the techniques he uses in the management of the organization's endowment. His analysis on both bonds and the energy industry was very useful in helping the club allocate its resources in these sectors. Everyone was impressed with how he was able to navigate these volatile markets while provide steady capital appreciation with a not very risky portfolio even considering that the foundation withdraws a certain amount of money from the endowment each year for projects.

Tim Wilkinson, Principal Director of Investment Management for Minneapolis-based Riverbridge Partners, presented some very interesting investment strategies. Riverbridge Partners is an investment manager for institutions and high-wealth individuals. Members were shocked to here that Riverbridge currently was not holding any Apple stock because it only invests in companies that have products people will need to buy with some regularity, which is not a qualification fit by Apple. Those interested in socially responsible investing were very interested to see that Riverbridge's socially responsible fund had been outperforming the market in recent years.

Joel Gheen and **John Graaff**, both from Core Capital (the only investment bank in Colorado Springs), came and taught the club about the inner-workings of executing a successful deal in the investment-banking world. Members were taught about valuations for a company and the timeline that deals often follow. Core Capital has been a big supporter of Colorado College through coming in to talk to the club and sponsoring internships for students throughout the year.

Members and Special Thanks

Faculty and Staff

Jim Parco
 Pedro de Araujo
 Stacy Lutz-Davidson

2011/2012 Officers

Position	Name	Age	Hometown	Class	Major
President	Daniel Ward	21	Carmel, ME	Junior	Math Econ
Vice President	Antonio Skarica	23	Prozor, Bosnia	Senior	IPE
Secretary	Abdoulaye Dabo	23	Mbour, Senegal	Senior	Economics
Educational Officer	Diego Domenech	21	Mexico City, Mexico	Senior	Math Econ
Sovereign Debt Director	Yannick Schindler	22	Hamburg, Germany	Senior	Economics

2012/2013 Elected Officers

Position	Name	Age	Hometown	Class	Major
President (Semester 1)	Daniel Ward	21	Carmel, ME	Senior	Math Econ
Co-President (Semester 2)	Jayson Post	19	Pelham, NY	Junior	Math Econ
Co-President (Semester 2)	Eli Greenspan	19	Littleton, CO	Junior	Math Econ
Vice-President	Spencer Collins	19	Denver, CO	Sophomore	Economics
Secretary	Aly Hammonds	20	San Francisco, CA	Junior	Undeclared
Education	Chris Mayo-Smith	20	Weston, MA	Junior	Undeclared

Elections are held each year in May in order to determine the President, Vice President, and Secretary for the following academic year. All additional positions are created by members as deemed necessary.

Special Thanks

Kathy Lindeman: Lunch Organization