



FINANCE SENIORS INVEST CAL POLY CORPORATION MONEY IN THE STOCK MARKET

BY MARY MCNALLY

WHAT WOULD YOU SAY if you were told a 22-year-old college student would manage your retirement account or your investment portfolio? If you weren't that enthusiastic, you would be underestimating a particular class of Cal Poly undergrads.

A select group of senior finance students in the Orfalea College of Business has been managing every investment decision for the Student Managed Portfolio Project (SMPP) since its inception in 1992.

Initiated by now-retired professor John Lindvall, the SMPP was initially funded with \$200,000 from the Cal Poly Corporation to give advanced finance students hands-on training as fund managers and investment professionals.

The students have proven to have a keen understanding of the market: The SMPP has outperformed its benchmark, the S&P 500 index. The corporation has withdrawn investment earnings of \$140,000. As of the last quarterly report, the trading account reflected a balance of \$452,000.

"This is an example of Cal Poly's commitment to hands-on education," said Ron Weaver, investment adviser for the Cal Poly Corporation. "Trading on paper is one thing. But when the risks are real, the pressure is different and the learning is tangible."

REAL WORLD

The class is patterned after a real-world relationship between a client (the corporation) and its adviser (the SMPP students).

The students design an investment strategy and write a prospectus for the fund based on the client's investment horizon, portfolio objectives and risk tolerance. For this client, the goal was to create a well-balanced, diversified portfolio to maximize growth and limit risk. To accomplish this, the class developed a strategy weighted heavily toward Exchange Traded Funds.

Class discussions, often led by visiting industry professionals such as long-term fund managers and college namesake and Kinko's founder Paul Orfalea, include the effect of macro-economic factors, such as news in the world at large, and how that can impact the market.

"The last two years have been a once-in-century opportunity to see the world change in real time in a dizzying manner," said SMPP supervisor and finance area Chairman Cyrus Ramezani.

The students managed the fund successfully while navigating the sub-prime credit crisis, failure of some of the nation's largest financial firms, the health care debate, high unemployment, implementation of the federal stimulus package, and a surge in energy and commodity prices.

REAL RISK, REAL RETURNS

Each year, the new crop of student fund managers assesses the legacy fund from the previous year's group. Fall quarter is dedicated to conducting due diligence while developing a strategy for the coming year. Before assuming responsibility for the real-world portfolio, they work the portfolio on paper.

"The paper portfolios show spectacular success and great failure," Ramezani said. But failure, he added, is one of the great teachers.

"The risk has to be at the forefront of your mind," said 2009-10 SMPP student David Dudek. "The prior two years showed just how fast you can lose a large amount of money if you focus solely on maximizing returns."

Through the course of the project, SMPP students learn to utilize the same techniques professionals use, including analyst reports and in-person interviews. They also master electronic information resources including Morningstar Direct, MergentOnline, Reuters and Bloomberg. By the end of the course, they can dissect the fair value of stocks based on Monte Carlo simulations, Sharpe ratios, and regression and dividend discount models.

"The success of the program isn't just reflected in the returns the portfolio generates," Ramezani said. "It's the confidence and experience the students gain from the experience." □

