Buying low, selling high is no simple matter

BY DEBORAH MURPHY
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According to Paul Lim of the New York Times, buying low and selling high is apparently quite difficult. He reports that only 28.5 percent of actively managed large-capitalization funds beat the S&P 500.

The theory supporting value investing is simple — buy IBM at, say, $63 per share and sell at $95 per share. Ignoring commission fees, taxes and other fees, your profit would be $32 (for a return of 51 percent).

With current technology and a wealth of information available on the Internet, identifying stocks at or close to their 52-week lows is fairly easy. Knowing when or if the stock is going to increase in the foreseeable future is another issue.

Consider Citigroup. The stock, which previously traded in a $56 range, dropped to a new low of $31.05 on Nov. 8. What a great buying opportunity, right? Wrong! While it appeared that the stock had established a new trading range at around $30, on Jan. 18 the stock dropped another 23 percent to $23.92 per share. (Come to think of it, Enron hit a number of new 52-week lows prior to entering bankruptcy.)

Full-time MBA students at the University of Tennessee are discovering that execution of the sage advice "buy low, sell high" is indeed a challenge.

Each year, a group of students tests its skills at beating the S&P 500 with stock portfolios currently worth between $200,000 and $250,000. This unique opportunity to learn about investing by managing real dollars was created through the generosity of Jim Haslam, founder of Knoxville-based Pilot Corp., and Chris LaPorte, of LaPorte Family Trust.

PORTFOLIO RETURN FOR QUARTER 1 (OCTOBER 1 - DECEMBER 31, 2007)

	Haslam Torch Fund	LaPorte Torch Fund
Portfolio Value 10/10/07	$198,582.09	$250,000.00
Portfolio Value 12/31/07	$199,565.75	$251,068.66
Q1 Portfolio Return	0.495%	0.427%
Q1 S&P 500 Return1	-4.520%	-4.520%

Source: Bloomberg.

WINNERS AND LOSERS FOR QUARTER 1 (OCTOBER 1 - DECEMBER 31, 2007)

	Haslam Torch Fund Stock	Return	LaPorte Torch Fund Stock	Return
Winners:	Genlyte (GLYT)	46.39%	Stryker (SYK)	7.47%
	Noble (NE)	5.21%	Goodrich (GR)	5.74%
	Altria (MO)	8.70%	Terex Corp. (TEX)	5.25%
Losers:	Infosys (INFY)	-18.37%	Cisco (CSCO)	-10.0%
	Amgen (AMGN)	-17.67%	Vulcan Materials (VMC)	-6.87%
	Genentech (DNA)	-14.03%	General Electric (GE)	-3.39%

Each school year, MBA students are selected to manage the two funds. This year, the Haslam Torch Fund is being managed by Benjamin Craven, Thomas Jensen, Alan Richmond, Justin Wax, and Joshua White. Karthik Arangaraju, Ravi Chirravuri, Abhijit Naravane, Maxim Shabrov, and Ryan Ward are managing the LaPorte Torch Fund.

The goal of the managers is not only to beat the S&P 500, but also to beat their fellow managers — establishing a Haslam versus LaPorte Torch Fund competitive environment.

Each quarter, students prepare a report articulating the risk-adjusted performance of the fund they are managing. At the conclusion of their tenure, the managers present their performance results to Haslam and LaPorte, as well as other investment professionals in the Knoxville area.

Haslam said he and his wife, Natalie, believe the fund "is a wonderful opportunity for the students to have a 'real' experience in investing. We have been impressed with the energy, integrity and quality of the Torch Fund members."

In selecting stocks for the Haslam fund, student Josh White said, "I look for companies in industries that have high tangible assets and business models that are not overly complex. I then forecast the return on invested capital the company is generating."

White uses financial information gathered from sources such as Mergent, Thompson Research, and the company's own filings with the U.S. Securities and Exchange Commission.

The Torch Fund managers also recognize that economic events and conditions are critical in determining the future growth of a company. Identifying the core competencies and competitive strengths of a firm must be assessed in light of domestic and global economic and industry factors, such as the sub-prime mortgage debacle and economic slowdown.

Each fund typically holds 12 to 15 stocks. No more than 30 percent is invested in a specific industry and no more than 5 percent is held in cash. The investment horizon is three to five years.

During fourth quarter 2007, both funds outperformed the S&P 500, which was down 4.52 percent, earning positive, albeit small, returns. The Haslam Fund was up 0.50 percent and the LaPorte Fund was up 0.43 percent.

Both funds also beat the S&P 500 on a risk-adjusted basis, meaning that their returns were earned by taking on less risk than the S&P.

Even in light of these quarterly results, the Haslam and LaPorte Torch Fund managers are keenly aware of how difficult it is to consistently pick stocks that are undervalued and poised for growth.

Student Ryan Ward said, "Coming from a background deeply rooted in the sciences, a field full of absolutes, I expected the same from my experience with the Torch Fund. I had hoped my tenure would reveal the 'secret' to investing, or the single equation governing stock prices. I haven't found it yet." ■

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