Ohio State's Student Investment Portfolio A Picture of Perfect Timing: Brent Lalonde

A large Ohio State University endowment fund managed by business students has earned nearly $5 million in the past seven months and is bearing down on its record value.

The Student Investment Management portfolio, managed by undergraduate and graduate business students since 1990, has grown to $24.7 million dollars as of Feb. 21 after ending the previous fiscal year at $19.9 million. The fund which peaked at $26.3 million in August 2000, has outperformed the S&P 500 by 8.5% since June 30.

"It has just been perfect timing. We allocated the fund from our summer class appropriately and made some small adjustments since then," said Jeremy Sell, a graduate student in Ohio State's Fisher College of Business who took the class last summer and now helps manage the fund.

Ohio State students have been running the endowment fund since 1990, when the investment committee of Ohio State’s Board of Trustees entrusted the students with a $5 million dollar fund to manage. The program paid immediate dividends when the trust grew by 20% in the first year at a time when the S&P 500 grew by 13.5 percent. In the second year, students did even better, posting a 25% return that increased the value of the fund to $7.5 million. The fund has outperformed the S&P 500 eight of the past ten years.

The students who manage the fund are enrolled in a class called Business Finance 724 for undergraduate students and Business Finance 824 for graduate students. The students spend the 10-week course studying market sectors, such as telecommunications, researching the portfolio’s holdings, then making recommendations on whether to buy or sell certain stocks.

INVESTING BY CONSENSUS

The class decide as a group which stocks to move, with about 10 percent to 15 percent of the portfolio changing at the end of every quarter.

"The best part about this class is it’s real assets and real applications. At the end of the day, your decision means something in a tangible dollar amount", Sell said. "OSU’s program is one of the largest on a dollar basis—that’s the real fun and excitement of it."

The portfolio has about 34 stocks, with major holdings including Microsoft Corp., Infosys Technologies ADR, Merrill Lynch and Co., Johnson & Johnson and Mastercard.

Students are graded on the quality of presentations and stock analyses. The Rosenfield Family Prize for Excellence in Security Analysis awards a $2000 prize each quarter to the best analysis.

The Fisher College of Business earns a 0.05 percent management fee for overseeing the fund, which will generate about $120,000 for the college this year. That money is used to pay for the professors and graduate students who teach the course, and for...
research tools and data for the class. It also funds a 2-day class trip to New York City or Chicago that allows students to meet with analysts and portfolio managers.

"I am always impressed by the absolute dedication these students have. Scholarships for other students are on the line and they have to take their job very seriously," said G. Andrew Karolyi, a professor of finance and director of the program.

EXPERIENCED TEACHERS

The class is taught by two adjunct professors who are investment management professionals. Royce West, in his fourth year, is a portfolio manager for the State Teachers Retirement System of Ohio, while first year instructor Chris Henneforth is co-founder of LevelPartners LLC, a Columbus-based asset management firm.

The instructors guide discussions and provide tips on how to research and analyze the stock market, but leave the decision-making process to the students.

"I just try to ask the right questions, but the students are the ones who vote and the vote is the key," West said.

West and Henneforth stand back when they don't agree with the students.

"I definitely disagree with some of the decisions, but sometimes I am wrong," West said. "You can't win them all. That is just the nature of this business."

But those instances are rare, mostly because the students check and balance each other before votes are cast.

"Everyone is prudent," West said. "If somebody suggests something that doesn't make sense, somebody will call them out."

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