

## LOCAL NEWS

# CSUF students manage \$200,000 in university endowment



By **SHERRI CRUZ** | Orange County Register

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Cal State Fullerton business student Brian Ross is in front of the class making his pitch for the online social media company Yelp Inc. as a stock to “buy.”

Ross says the company’s share price of about \$64 is undervalued. The company’s “catalysts,” the drivers that will make the stock go up in value, are years of revenue increases, no debt, \$98 million cash and international expansion with last year’s acquisition of German rival company Qype, Ross says.

Ross’s pitch isn’t merely a classroom assignment. The students in professor Michael Milligan’s full-year Applied Securities Analysis Program class aren’t dealing with Monopoly money.

The 14 students, divided into two teams, buy stocks with real money –

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Each team manages a \$100,000 portfolio of common stocks, about 40 in all. Some of the companies the teams currently hold are Starbucks Corp., General Dynamics Corp., Cisco Systems Inc., Colgate-Palmolive Co., Nu Skin Enterprises Inc. and Home Depot Inc.

The student teams began the class with identical portfolios, inherited from last year's students. Right now, they're researching and presenting new stocks to add to their portfolios. Each team has about \$10,000 to \$15,000 left in cash to invest.

Ross's presentation lasts about four minutes. Then his classmates pepper him with questions: Why isn't Yelp making money? Does Qype make money? Why is the stock price going up so fast?

Next, Milligan, sitting in back of the class, armed with an iPad that he's using to look up Yelp's financial information, begins grilling Ross.

"Have they figured out how to make money yet?" Milligan asked. "(Yelp's) revenue has been growing like crazy but it's not making its way to the bottom line. And they're missing earnings."

This is clearly a teaching moment for the whole class.

Poised, Ross is holding up under the pressure. He explains that even though the company has yet to make a profit, Yelp is positioned to grow and is undervalued.

It's a back and forth, with Ross asking Milligan questions too.

Milligan's questioning isn't intended to get Ross to change his "buy" decision, but to make a better case for his recommendation.

"This report does not justify the buy," Milligan said. He recommends Ross re-evaluate the company using the discounted cash flow model, a way of valuing a company based on projections of future "free cash flow," which is cash flow from a company's operations that is available to pay investors.

It may sound intense, but Ross and his fellow classmates knew what they were getting into. They had to apply and be selected for Milligan's Applied Securities Analysis Program, which was launched about three years ago,



In Milligan's Applied Securities Analysis Program, students essentially run a small portfolio management business. The performance of the portfolios can't yet be fully measured since this is the first year the program is operating with most of the kinks worked out. But for the past nine months, the accounts are up 13 percent.

"This class is part portfolio management, part stock analysis, part entrepreneurship," Milligan said.

The students share a small office in the finance department, where they have access to the same financial software used by investment companies.

The students say the class is like having a full-time job. They put in as much as 70 hours a week. A big part of their job for the moment is researching new stocks to add to their portfolios.

How do students come up with the stocks?

"I walk them to the pool and throw them in. I say start swimming, start kicking. While they're kicking and trying to figure it out my job is to guide them and steer them in the right direction," Milligan said.

Students also have to analyze existing stock holdings to see if they should be sold and replaced by a better performing stock. They write reports on existing holdings whenever there is a change, such as a new chief executive or when the company reports its quarterly earnings.

The student teams compete against each other and at the end of the year, the losing team pays for dinner for both teams, including their professor, Milligan said. "This is not 7-11 for a beef burrito. We're going to some place nice."

Milligan has a tough love approach to teaching. He's also funny, a dry wit. He calls the grilling he gave Ross a polite grilling, a loving grilling, a real-life grilling – all in the name of a real-world education.

"If you're managing 20 to 30 million of my money and things aren't going well, I'm not a nice guy," he said. "These people are not nice people when you lose their money."

"I always remind them it's nothing personal," he said.



Getting students in the same room with the board members also is a way for students to make connections with people who work in the finance industry. The students have the board's contact information. "I know that several of my students last year got recommendations from board members," Milligan said.

This year, the board is twice the size as last year. "I felt my board was overworked," Milligan said.

The board consists of a collection of Cal State Fullerton finance professors and portfolio managers who manage millions, and in some cases billions, of other peoples' money.

"My students are really lucky to have this type of connection and relationship with the board members," Milligan said.

### **Professor Michael Milligan's investment tips**

- Have your own investment style. "Even the great gurus are wrong"
- Focus your investment. "Diversification is a crock. It is the biggest con job they ever sold you on Wall Street." The people who diversify are the people with so much money they can't put it all in one place.
- Study great performing stocks. Know what makes a company successful and what makes a company unsuccessful. "There's some common thread with all successful companies."
- Once you take a position, manage the risk. "This is probably something that most people don't do." This means cut your losses when you're holding an underperforming stock – an Enron or a Global Crossing, for example. You're likely to lose more money if you hold on to the stock, waiting for it to break even, than if you sell the stock and reallocate it to a better performing stock.
- Read the footnotes. The footnotes in companies' Securities and Exchange Commission filings offer clues to their performance.
- Base decisions on data, not emotion. "Make a business decision based on information. But as new information comes in and things change, you have to

