

2011

Investment Club Handbook

The Essential Analyst Guide

1st Edition



Officer Duties

President: As the President of the Investment Club he/she must have already served an officer position for at least one (1) year. The President of the Shippensburg University Investment Club shall be the former Vice-President unless the following extraordinary circumstances occur: A majority vote by the membership suggests that the Vice-President has not performed his/her duties to the best of his/her, the Vice-President has broken any rules outlined in the Constitution, or the Vice-President declines the Presidency. The President is responsible for running the club and effectively delegating duties among the other officers of the club. The President will also act as a liaison between the club advisors, faculty and the students. The President will also be expected to network with potential speakers, organize possible trips, and secure potential donations and funding from outside sources. The President will also meet with the Associate Dean at various required meetings in accordance with all other student organizations within the Grove College of Business. The President should always be active and pursuing new opportunities to advance the overall well-being of the club's members.

Vice President: The Vice-President will be an elected position open to any member of the club preferably (a) a member holding a previous officer position (b) a member that is entering junior status so that they may have the opportunity to advance to the position of club President upon reaching senior status. The VP is responsible for activities within the organization including but not limited to: advertising and promotion, keeping all members informed of club activities, reviewing the actions of other officers, acting as a liaison between the President and the webmaster, organizing speakers and trips, and helping to facilitate club meetings. This position should ultimately be used as a training position for the future position of President.

Treasurer: The Treasurer will be the primary liaison between the club and the bank that the club has an account with. The Treasurer shall reconcile the bank statements, keep track of active members and their respective dues, and keep accurate records of all expenses the club incurs. The Treasurer will have check writing privileges. However, all expenditures must be authorized by the President. Each check that is written against the club's account shall be recorded in a ledger kept by the treasurer. A receipt must be presented for any use of funds. This receipt will be filed in an organized manner. The treasurer will also work with the VP of the club to create a budget for the upcoming academic year and present said budget to the Student Senate for approval. The treasurer and VP will also work together in order to gain all possible moneys from student senate utilizing presentations to cover the cost of trips and speakers.

Secretary: The Secretary of the Investment Club will be responsible for working with other officers to organize and execute fundraising activities. The Secretary will also be responsible for recording minutes at all meetings and promptly distributing them to the webmaster for posting on the club's website at <http://webspace.ship.edu/invest>. The Secretary may also be responsible for various duties requested by the President or VP.

Marketing: The Marketing officer shall be responsible for carrying out all advertising and promotion activities as directed by the VP and President. They are also responsible for updating and maintaining the club bulletin board.

Webmaster: The webmaster shall be responsible for posting all information including but not limited to upcoming events and meeting minutes promptly and efficiently. The webmaster shall also maintain the club website and keep its appearance professional and organized.

Member Duties

A member of the Investment Club is defined as a current student at Shippensburg University whom has (a) filled out a member form and submitted it to the club treasurer and (b) paid the stated annual dues. In return for meeting these requirements the member will be given voting rights for the current academic year. The member's duties are to (a) analyze and keep the club updated on the state of one (1) of current security holdings in the Shippensburg Global Collegiate Fund and (b) to search for new acquisitions to be made in the future.

Investment Policy Statement

Investment Objective

Obtain a risk-adjusted return greater than the S&P 500 Index. The risk-adjusted return is calculated as the portfolio's mean return divided by standard deviation of the portfolio's returns.

Investment Approach

When a member of the club has a buy or sell recommendation, they should make a presentation at a club's meeting. The presentation should address what the company does, the company's significant products and services and why they sell, the company's competitive advantages, its financial fundamentals, and whether the stock price is reasonable. See below for more detailed descriptions of stock analysis.

1. What does the company do?

You need to understand the product lineup of the company to determine how it generates revenue. You do this by looking at the company's annual report. This is where you can determine what the company does, the competitive forces that affect its industry, and its long term strategy. It is important to find out where the company has the most at stake by finding which products contribute the most to the bottom line. A company's annual report can be found on its website or with the US Securities and Exchange Commission (SEC) records of 10-K reports (summaries can be found on Yahoo! Finance).

2. How fast is the company growing?

A stock's price hinges on how well a company is able to grow its underlying business. Looking at sales growth (historical and projected) is a good way of judging how effective a business is doing. It is also important to look at earnings growth to see that the company is turning its sales growth into profits. Historical growth rates can be found at Reuters.com, Morningstar.com, and Yahoo! Finance, while projected growth estimates can be found at Zacks.com and Yahoo!Finance.

3. How profitable is it?

Compare a company's return on assets (ROA) to historical measures and its peers to see if it has a good or improving return on the assets it owns (higher is better). Check to see if shareholders are receiving a return on their equity by checking return on equity (ROE) for the same performance or growth. Be careful because ROE can also be increased by taking on debt which would be evidenced by an increase in Financial Leverage. Use Morningstar.com for time-series ROA, ROE, and Financial Leverage analysis. Use Reuters.com to compare these measures to industry peers. Ratios are discussed further in the ratio analysis section.

4. Does it generate real cash?

Check the cash flow statement to see how a firm generates cash from operations (positive is good). Look for large increases in inflow/outflow from quarter to quarter. Also look to see where it is investing its capital (investing cash flow and financing cash flow). By looking at the cash flows statement, you will gain additional insight into where the company is headed.

5. How sound is the balance sheet?

Look at the company's balance sheet to see how much debt it has taken on (liabilities). Look to see that it has enough cash and current assets on hand to cover its current liabilities and interest payments. Also look for trends in liabilities to gain insight on management's strategy. Too much debt can be a bad thing so make sure the company's debt payments are not taking up a large portion of its earnings.

6. Is it worth the price?

This is the part where you determine if the company is selling at a cheap or expensive price for its intrinsic value. This is done by comparing earnings ratios (P/E, P/B, and P/S to industry peers or by using discount models to compare the price to future profits the company is expected to receive. We discuss valuation ratios later in the ratio analysis section.

7. What role can it play in the portfolio?

Make sure the company has a place in our portfolio. In order to reduce risk, we have diversified our portfolio across the 10 GICS sectors of the S&P 500 index (see the GICS section). We want to focus on undervalued, fundamentally sound companies. Our portfolio should not have many positions in smaller, more speculative stocks or assets at one time. Special care must also be taken to ensure that the portfolio performance is not dominated by one single holding. This means managing the investment proportion of certain holding so they do not become too large and thus adversely affect our diversification efforts. Keep an eye on the big picture and focus on the long run, not the short run. The short run brings excitement while long run brings returns.

Financial Ratios

Financial Health

- **Current Ratio:** Shows how many times a company's current assets exceed current liabilities.
 - Look For: Current Ratio >1
- **Debt Ratio:** Shows what % of a company's assets is financed with debt (borrowing & bonds) rather than equity (earnings & stock).
 - Look For: a lower debt ratio is safer
- **Equity Multiplier:** Calculated as total assets over equity. Similar to debt ratio, it shows a company's financial leverage.
 - Look For: a lower equity multiplier

Efficiency

- **Inventory Turnover:** How many times a company turns its inventory into sales.
 - Look For: Turnover that is higher than a company's peers or increases from year to year.
- **Total Asset Turnover:** How many times a company generates sales from its total assets.
 - Look For: Turnover that is higher than a company's peers or increases from year to year.

Profitability

- **Net Profit Margin:** % of sales that are profits.
 - Look For: An increase from previous years and/or higher than a company's peers.
- **Return on Assets (ROA):** Profitability that a company generates on its total assets.
 - Look For: An increase from previous years and/or higher than a company's peers.
- **Return on Equity (ROE):** Profitability that a company generates for its shareholders.
 - Look For: An increase from previous years and/or higher than a company's peers.
 - **Careful:** A company can increase its ROE by increasing its financial leverage. In general, high financial leverage is undesirable. $ROE = ROA \times \text{Equity Multiplier}$

Growth

- **Sales Growth Rate:** % change in sales over time
 - Look For: A positive trend from previous years and/or higher than a company's peers
- **Earnings (EPS) Growth Rate:** % change in EPS over time
 - Look For: A positive trend from previous years and /or higher than a company's peers

Stock Valuation

- **P/E (Price to Earnings Ratio):** How many times the current market price per share exceeds earnings per share.
 - Look For: Lower than a company's peers.
- **P/B (Price to Book Value Ratio):** How many times price per share exceeds the current book value (\$ value equity) per share.
 - Look For: Lower than a company's peers but >1.
- **Dividend Yield:** dividend per share over current market price per share.
 - Look For: Greater than peers.

Financial Statements

The next three pages are the financial statements for Apple Inc. (AAPL) from Yahoo! Finance.

Statement of Cash Flows—Apple Inc. (AAPL)

View: [Annual Data](#) | [Quarterly Data](#)

All numbers in thousands

Period Ending	Dec 31, 2011	Sep 24, 2011	Jun 25, 2011	Mar 26, 2011
Net Income	13,064,000	6,623,000	7,308,000	5,987,000
Operating Activities, Cash Flows Provided By or Used In				
Depreciation	721,000	543,000	481,000	434,000
Adjustments To Net Income	1,876,000	934,000	953,000	1,027,000
Changes In Accounts Receivables	(4,767,000)	(244,000)	(376,000)	(221,000)
Changes In Liabilities	8,082,000	2,300,000	2,366,000	365,000
Changes In Inventories	(460,000)	113,000	41,000	(45,000)
Changes In Other Operating Activities	(962,000)	160,000	335,000	(1,328,000)
Total Cash Flow From Operating Activities	17,554,000	10,429,000	11,108,000	6,219,000
Investing Activities, Cash Flows Provided By or Used In				
Capital Expenditures	(1,321,000)	(1,645,000)	(777,000)	(624,000)
Investments	(15,665,000)	(8,028,000)	(14,092,000)	(901,000)
Other Cash flows from Investing Activities	(142,000)	(3,463,000)	(163,000)	3,000
Total Cash Flows From Investing Activities	(17,128,000)	(13,136,000)	(15,032,000)	(1,522,000)
Financing Activities, Cash Flows Provided By or Used In				
Dividends Paid	-	-	-	-
Sale Purchase of Stock	91,000	254,000	83,000	286,000
Net Borrowings	-	-	-	-
Other Cash Flows from Financing Activities	(355,000)	(41,000)	(221,000)	(25,000)
Total Cash Flows From Financing Activities	69,000	431,000	37,000	547,000
Effect Of Exchange Rate Changes	-	-	-	-
Change In Cash and Cash Equivalents	495,000	(2,276,000)	(3,887,000)	5,244,000

Currency in USD.

Income Statement—Apple Inc. (AAPL)

View: [Annual Data](#) | [Quarterly Data](#)

All numbers in thousands

Period Ending	Dec 31, 2011	Sep 24, 2011	Jun 25, 2011	Mar 26, 2011
Total Revenue	46,333,000	28,270,000	28,571,000	24,667,000
Cost of Revenue	25,630,000	16,890,000	16,649,000	14,449,000
Gross Profit	20,703,000	11,380,000	11,922,000	10,218,000
Operating Expenses				
Research Development	758,000	645,000	628,000	581,000
Selling General and Administrative	2,605,000	2,025,000	1,915,000	1,763,000
Non Recurring	-	-	-	-
Others	-	-	-	-
Total Operating Expenses	-	-	-	-
Operating Income or Loss	17,340,000	8,710,000	9,379,000	7,874,000
Income from Continuing Operations				
Total Other Income/Expenses Net	137,000	81,000	172,000	26,000
Earnings Before Interest And Taxes	17,477,000	8,791,000	9,551,000	7,900,000
Interest Expense	-	-	-	-
Income Before Tax	17,477,000	8,791,000	9,551,000	7,900,000
Income Tax Expense	4,413,000	2,168,000	2,243,000	1,913,000
Minority Interest	-	-	-	-
Net Income From Continuing Ops	13,064,000	6,623,000	7,308,000	5,987,000
Non-recurring Events				
Discontinued Operations	-	-	-	-
Extraordinary Items	-	-	-	-
Effect Of Accounting Changes	-	-	-	-
Other Items	-	-	-	-
Net Income	13,064,000	6,623,000	7,308,000	5,987,000
Preferred Stock And Other Adjustments	-	-	-	-
Net Income Applicable To Common Shares	13,064,000	6,623,000	7,308,000	5,987,000

Currency in USD.

Balance Sheet—Apple Inc. (AAPL)

View: [Annual Data](#) | [Quarterly Data](#)

All numbers in thousands

Period Ending	Dec 31, 2011	Sep 24, 2011	Jun 25, 2011	Mar 26, 2011
Assets				
Current Assets				
Cash And Cash Equivalents	10,310,000	9,815,000	12,091,000	15,978,000
Short Term Investments	19,846,000	16,137,000	16,304,000	13,256,000
Net Receivables	18,421,000	13,731,000	13,363,000	12,778,000
Inventory	1,236,000	776,000	889,000	930,000
Other Current Assets	4,958,000	4,529,000	4,251,000	4,055,000
Total Current Assets	54,771,000	44,988,000	46,898,000	46,997,000
Long Term Investments	67,445,000	55,618,000	47,761,000	36,533,000
Property Plant and Equipment	7,816,000	7,777,000	6,749,000	6,241,000
Goodwill	896,000	896,000	741,000	741,000
Intangible Assets	3,472,000	3,536,000	1,169,000	507,000
Accumulated Amortization	-	-	-	-
Other Assets	4,281,000	3,556,000	3,440,000	3,885,000
Deferred Long Term Asset Charges	-	-	-	-
Total Assets	138,681,000	116,371,000	106,758,000	94,904,000
Liabilities				
Current Liabilities				
Accounts Payable	29,721,000	23,879,000	22,867,000	20,736,000
Short/Current Long Term Debt	-	-	-	-
Other Current Liabilities	4,886,000	4,091,000	3,992,000	3,591,000
Total Current Liabilities	34,607,000	27,970,000	26,859,000	24,327,000
Long Term Debt	-	-	-	-
Other Liabilities	11,833,000	10,100,000	9,149,000	7,870,000
Deferred Long Term Liability Charges	2,187,000	1,686,000	1,407,000	1,230,000
Minority Interest	-	-	-	-
Negative Goodwill	-	-	-	-
Total Liabilities	48,627,000	39,756,000	37,415,000	33,427,000
Stockholders' Equity				
Misc Stocks Options Warrants	-	-	-	-
Redeemable Preferred Stock	-	-	-	-
Preferred Stock	-	-	-	-
Common Stock	13,961,000	13,331,000	12,715,000	12,326,000
Retained Earnings	75,709,000	62,841,000	56,239,000	49,025,000
Treasury Stock	-	-	-	-
Capital Surplus	-	-	-	-
Other Stockholder Equity	384,000	443,000	389,000	126,000
Total Stockholder Equity	90,054,000	76,615,000	69,343,000	61,477,000
Net Tangible Assets	85,686,000	72,183,000	67,433,000	60,229,000

Currency in USD.

GICS Sectors

The **Global Industry Classification Standard (GICS)** is an industry taxonomy developed by MSCI and Standard & Poor's (S&P) for use by the global financial community. The GICS structure consists of 10 sectors and 154 industries into which S&P has categorized all major public companies.

Energy: This sector includes companies where the main business is construction or provision of oil rigs, drilling equipment, and other energy related service equipment, including seismic data collection. Companies engaged in the exploration, production, marketing, refining and/or transportation of oil and gas products, coal and other consumable fuels are also in this sector.

Materials: Companies that manufacture chemicals, construction materials, glass, paper, forest products and related packaging products, and metals, minerals and mining companies, including producers of steel.

Industrials: Companies with the dominant business of manufacturing and distributing capital goods, the provision of commercial services, or transportation services. Business includes aerospace & defense, construction, engineering & building products, electrical equipment, industrial machinery, printing, employment, environmental & office services, airlines, couriers, marine, road & rail transportation infrastructure.

Consumer Discretionary: The manufacturing and services industries most sensitive to economic cycles including automotive, household durable goods, textiles & apparel, leisure equipment, hotels, restaurants & other leisure facilities, media production and services, and consumer retailing and services.

Consumer Staples: The industries that are less sensitive to economic cycles are found here. These include manufacturers and distributors of food, beverages and tobacco and producers of non-durable household goods and personal products. It also includes food & drug retailing companies, supermarkets, and consumer super centers.

Health Care: There are two main industry groups. The first includes companies that manufacture health care equipment and supplies or provide healthcare related services, distributors of healthcare products, providers of basic healthcare services, and owners/operators of healthcare facilities and organizations. The second includes companies primarily involved in the research, development, production, and marketing of pharmaceuticals and biotechnology products.

Financials: This sector includes companies involved in banking, mortgage finance, consumer finance, specialized finance, investment banking and brokerage, asset management and custody, corporate lending, insurance, financial investment, and real estate (REITs included).

Information Technology: The three segments to this sector are Technology Software & Services, Technology Hardware & Equipment, and Semiconductor Equipment Manufacturers.

Telecommunication Services: These are companies that provide communication services

Utilities: These companies include electric, gas, or water utilities as well as independent producers and/or distributors of power

Investment Resources

General Info

IBM Investor Guide- <http://www.ibm.com/investor/help/guide/introduction.wss>

Value Line- <http://www.valueline.com/myvl/myvalueline.aspx>

Mergent Online- <http://www.mergentonline.com/basicsearch.php>

Industry Analysis

Reuters- <http://www.reuters.com/>

Mergent Online- <http://www.mergentonline.com/basicsearch.php>

Ratio Analysis

Morningstar- <http://library.morningstar.com>

Yahoo! Finance- <http://finance.yahoo.com>

Reuters- <http://www.reuters.com/>

Company Profile

Reuters- <http://www.reuters.com/>

Value Line- <http://www.valueline.com/myvl/myvalueline.aspx>

News

Yahoo! Finance- <http://finance.yahoo.com>

CNBC- <http://www.cnbc.com>

MSN Money- <http://money.msn.com/>

Seeking Alpha- <http://seekingalpha.com/>

Analyst Estimates

Zacks- <http://www.zacks.com/>

Yahoo! Finance- <http://finance.yahoo.com>