

## Our Mission

“As members of the University of Tulsa’s Student Investment Fund, we will meet for the purpose of furthering our knowledge of financial management, elevating our experience in the investment arena, promulgating our objectives and purposes to the public, mastering the practices, habits, and ethics of finance professionals, and for the promotion of social and professional relationships amongst our members. This background will provide us with superior knowledge and competitive ability in our professional field.

We will also, as beneficiaries, endeavor to provide superior returns to our shareholders; those individuals who have enabled us to enjoy this experience by donating to the Finance Excellence Fund.”

*-Adopted January 23<sup>rd</sup>, 2001*

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\*This report and the financial statements contained herein are submitted for the general information of the fund’s donors.  
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# Letter to the Shareholders

## **SIF History**

In 1990, Frank M. Engle made the first contribution to the Finance Excellence Fund. His vision was to create a fund that would provide scholarships for outstanding students and offer the resources necessary to draw nationally prominent faculty to the University of Tulsa.

Friends of Finance adopted Mr. Engle's vision and began to raise additional funds from generous individuals and businesses. The Finance Department, in conjunction with Friends of Finance, decided that Mr. Engle's vision would be served best through the establishment of a unique educational experience at the university. Thus, a class was formed to give students the opportunity to learn in a professional environment with a hands-on approach while allowing the fund to grow. Furthermore, they envisioned that this class would become a major draw of the Finance Department to both prospective students and faculty.

In 1997, the University of Tulsa Board of Trustees approved the Finance Department's proposal to establish a Student Investment Fund (SIF). The first SIF class, under the direction of Professor Larry Johnson, was offered in the summer of 1997. Students spent that summer and the fall semester of 1997 researching similar funds at other universities, writing by-laws, formulating operating and investment procedures, selecting a broker, and determining space and equipment needs. SIF's inception began on April 13, 1998, with the transfer of \$300,000 for the students' management. Today, the University of Tulsa Student Investment Fund is an actively managed endowment fund overseen by the students.

## **The Purpose of SIF**

The SIF class is designed to give students the opportunity to apply financial theories and models to actual investment decisions in managing a real portfolio of financial assets. Unlike other classes, the SIF provides students with hands-on experience that prepares them for a financial career. Yet, it does so in an academic setting that allows them the flexibility to freely pursue their own strategies and ideas with less personal risk.

## **SIF Goals and Style**

The stated goal of the SIF is to outperform the S&P 500 Index. Although various SIF groups have set varying goals regarding the exact standard, whether it be absolute value or growth rates, the SIF has always maintained as its benchmark goal a superior return to that of the S&P 500.

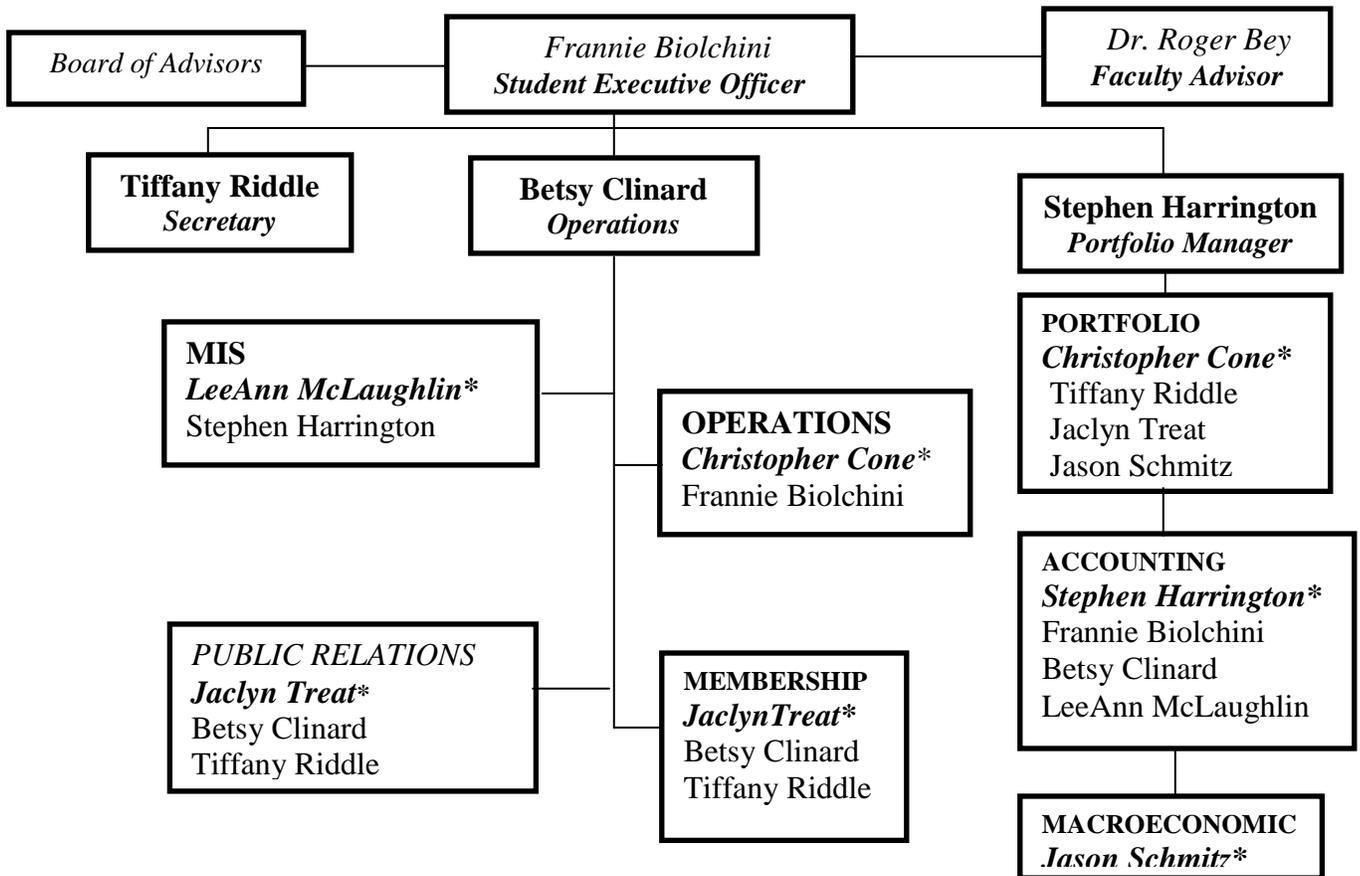
To meet these goals, an enhanced index portfolio has been established that actively manages 40 to 60% of the funds, while the remaining portion is invested in a SPDR. With the actively managed portion of the fund, the SIF attempts to enhance the returns of the S&P 500 Index fund by investing in areas of higher growth potential. In this endeavor, the SIF is subject to certain constraints. Specifically, for purposes of diversification, the fund can invest no more than 7% of its assets in any one security, nor can it buy more than 25% of any one industry.

## Class Organization

The class is organized in such a way that each student serves in a multi-disciplinary role. This allows for a broad learning experience across business functions. As can be seen by the chart below, the fund management is organized in a committee structure. The fund is headed by an SEO (Student Executive Officer), who is responsible for the class and overall portfolio performance. Acting as Vice-Presidents, the Portfolio Manager and Operations Manager report directly to the SEO, and are responsible for the performance of the committees under their authority structure. As can be seen by the chart below, the fund management is organized in a committee structure. The fund is headed by an SEO (Student Executive Officer), who is responsible for the class and overall portfolio performance. Acting as Vice-Presidents, the Portfolio Manager and Operations Manager report directly to the SEO, and are responsible for the performance of the committees under

The Board of Advisors is composed of six area businesspeople. The class is responsible to them for fund performance and quarterly reports. The Faculty Advisor serves as an advisor to the SEO and the class, as well as a final arbitrator. He or she also leads classroom discussions, establishes standards and requirements, and serves as a liaison between the class and the Board of Advisors.

Perhaps the most unique class offered at the University of Tulsa, the Student Investment Fund has generated interest in students from a variety of grade levels, nationalities, and disciplines. The class is well diversified in terms of the student body. The students are both graduate and undergraduate, spanning a variety of disciplines.



## Performance

The market demonstrated high volatility in 2001. With the recent attacks on America and the fall of the energy giant Enron, the Fund was faced with the possibility of overwhelming losses.

Due to the Fund's focus on diversification, the SIF was able to achieve a return equal to the market. Securities in sectors such as the consumer cyclicals, consumer staples, and healthcare contributed positive returns toward the Fund's overall performance. The performance of Harley Davidson, Anheuser-Busch, and Phillip Morris brought stability to the Fund's performance.

As of December 31, 2001, the SIF portfolio consisted of 13 securities, SPDR, and a Money Market Fund. The SIF was heavily invested in the Energy and Health Care industry, which represented 6.58% and 18.65% of the fund. The largest holding in any one stock was Exxon Mobil, which represented 4.64% of the portfolio. Additionally, Anheuser-Busch, Harley-Davidson and Microsoft, were instrumental in the Fund's success in 2001. Due perhaps to the popularity of these industries, the SIF has been fortunate to have invested heavily in the areas of the most potent growth in the economy.

Over the course of the year, two different SIF classes made significant contributions to the portfolio with its various additions and subtractions. The fund added a number of new securities to its portfolio list, including purchases of Cardinal Health, Genzyme, and Exxon Mobil, Dynegy, Lockheed Martin, Phillip Morris, SBC, and Pfizer. The Fund also made several sales that have positively affected the portfolio considerably: AMD, Motorola, Nextel, Qwest, Nokia, SBC, Oracle, and Zimmer were sold.

## Conclusion

In 2002, there are a number of opportunities and threats to which the SIF, and investors in general, must pay careful attention. Will the growth in the consumer cyclical and staples markets continue? Will the economy recover from its current situation? Most importantly, can the growth-oriented stocks maintain the incredible pace they have recorded over the past year? In the Student Investment Fund, students are not only being equipped with the necessary tools to answer such questions, but they are also given the opportunity to test their solutions with real assets and an actual investment scenario.

Through the financial and operational support of Williams, the Williams Risk Management Center (WRMC) was established in the Fall of 2001. This Center is a vital addition to the SIF performance by contributing a state-of-the-art environment for experiential learning and professional development. To assist students in making informed justifiable business decisions in the face of changing economic conditions, the WRMC is at the heart of the SIF program. The Center is equipped with electronic stock ticker boards, computers, Bloomberg terminals, extensive financial databases, and computer software and provides a life-like laboratory where students can apply and extend knowledge gained in the classroom. The WRMC aids students in gaining efficient, correct information and data.

After incredible growth in 1998 and 1999, 2000's markets have been defined by turmoil and loss of value, especially on the energy front. As investors reconsidered the valuation of these stocks, many portfolios experienced double-digit declines. While the SIF portfolio value declined, it was diversified enough to prevent any extreme loss that some other investors experienced. In addition, the class members have been quick to react and reallocate,

insulating the fund from further losses in the energy market.

The SIF class is an invaluable experience. Fortunate enough to attend one of a handful of schools that offers such an opportunity, members of the Student Investment Fund would like to extend our sincere gratitude to all of the generous donors who have made it possible. We hope that, through our dedicated time and effort spent towards achieving our goals and strategies, we are able to fulfill the vision of Mr. Engle and the

rest of the men and women who have contributed to the most unique learning opportunity at the University of Tulsa

Sincerely,



Frannie Biolchini  
Student Executive Officer, Spring 2002



From top left to right:  
LeeAnn McLaughlin, Jaclyn Treat, Dr. Bey, Jason Schmitz, Betsy Clinard, Stephen Harrington  
From bottom left to right:  
Chris Cone, Tiffany Riddle, Frannie Biolchini

# Portfolio Performance

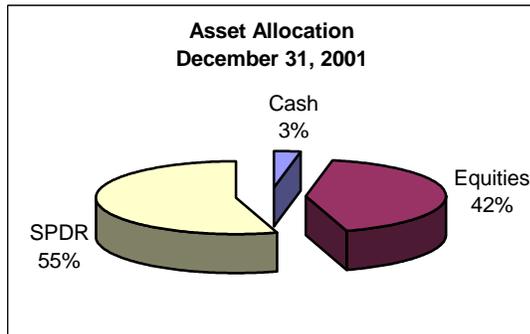
## Investment Policy

The SIF Investment Policy is:

- No more than 7% of the portfolio can be invested in an individual stock
- No more than 25% of the portfolio can be invested in any one industry
- No less than 40% can be invested in an S&P 500 Index fund
- Financial derivatives cannot be used
- Short sales are not allowed
- Securities cannot be purchased on margin
- Individual securities must have at least \$3 billion in market capitalization

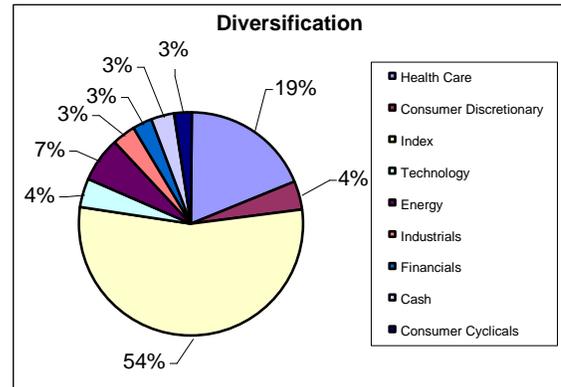
## Portfolio Distribution

As shown in the chart below, the SIF Fund was 97% invested in equity and the SPDRs.



## SIF Asset Allocation

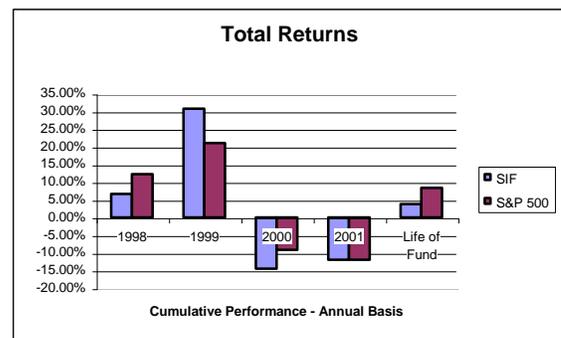
The sector percentages reported represent the amount of our fund invested in individual sectors. The portion of our fund invested in the SPDR holds the highest percentage in our portfolio with 54%. Following the SPDR are the Health Care sector and the Consumer Discretionary sectors holding 19% and 7%, respectively.



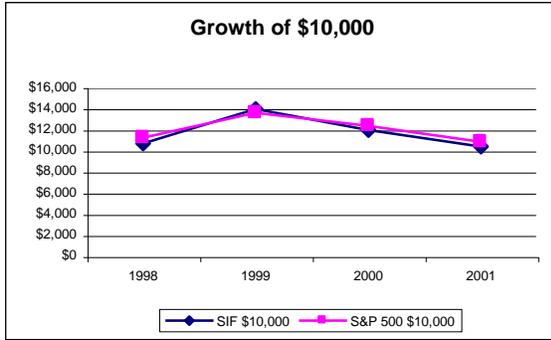
## Performance Summary

At the end of 2001, the SIF portfolio consisted of 13 common stocks, a SPDR Trust Fund, and a Money Market Fund. The Investment Guidelines for the SIF Fund requires that we invest at least 40 percent in an S&P Index Fund. The current investment in the SPDR Trust Fund is 56 percent.

The SIF portfolio's total return was negative 11.87 percent, compared to the S&P 500's total return of negative 11.9 percent. The greatest gains came from Harley-Davidson, Anheuser-Busch, and Microsoft.



Due to the economic recession and the uncertainty of investments following the September 11<sup>th</sup> attacks, both the SIF portfolio and the S&P 500 experienced negative returns for the year.



The graph above illustrates the cumulative result of a hypothetical \$10,000 investment at the beginning of the SIF fund. At the end of 2000, the SIF would have been valued at \$10,381 while an investor could have earned \$10,839 in the S&P 500.

### Top Holdings in Terms of Dollar Value

SPDR	\$286,893
Exxon Mobil	\$24,366
Amgen	\$25,398
Microsoft	\$21,531

### Top Stocks in Dollars Gained in 2001

Harley-Davidson	\$3,640
Anheuser-Busch	\$1,964
Microsoft	\$6,291

### Stocks Purchased in 2001

Anheuser Busch	Exxon Mobil
Bristol Myers Squibb	Lockheed Martin
Cardinal Health	Microsoft
Genzyme	Pfizer
Cisco	Phillip Morris
Citigroup	SBC
Dynegy	

### Stocks Liquidated in 2001

AMD	Oracle
Cisco	Qwest
Motorola	SBC
Nextel	Zimmer
Nokia	

### Investment Strategy

SIF continued to follow an enhanced index fund investment strategy. The equity investments were comprised of large cap stocks with a market capitalization of at least 3 billion dollars.

### Portfolio Risk

A measure of the market risk of the SIF fund and the standard deviation of the yearly return is shown in the table below. The SIF's beta was 0.95 over the four-year life of the fund. The risk of the portfolio has been slightly lower than the market in past years.

YEAR	STD DEV SIF	BETA SIF	STD DEV S&P 500
1998	6.28%	0.87	6.95%
1999	4.21%	1.04	3.77%
2000	5.53%	0.97	4.95%
2001	5.71%	0.95	5.72%
Life of Fund	5.44%	0.95	5.30%

## Portfolio at a Glance

### **Amgen, Inc. (AMGN)**

The biggest of the biotech big'uns, Amgen makes and markets therapeutic products for nephrology, cancer, inflammatory disorders, and metabolic and neurodegenerative diseases. Anti-anemia drug Epogen and immune system stimulator Neupogen account for nearly 90% of sales. Its Infergen has been commercialized as a treatment for hepatitis C, and Stemgen is approved for stem cell therapy in Australia, Canada, and New Zealand. The company has a pipeline of promising drugs in various stages of development. Amgen has research and marketing alliances with several companies, including Hoffmann-La Roche, Johnson & Johnson, and Kirin, the Japanese brewer that also operates a fast-growing pharmaceuticals unit.

### **Anheuser-Busch Companies Inc. (BUD)**

If you like beer and amusement parks, Anheuser-Busch Companies loves you, man. The largest beer maker in the US, with about 48% of the market, Anheuser-Busch is also the world's largest brewer. The company makes leading brands Budweiser, Bud Light, Busch, and Michelob, as well as specialty beers such as Red Wolf Lager, ZiegenBock Amber, and O'Doul's (nonalcoholic). The company has investments or licensing agreements in Asia, Europe, and Latin America and sells its products in more than 80 countries. It also operates theme parks (Busch Gardens, SeaWorld) and water parks (Water Country USA, Adventure Island). Chairman August Busch III is the fourth generation of the Busch family to run Anheuser-Busch.

### **Bristol-Myers Squibb Company (BMY)**

Bristol-Myers Squibb produces pharmaceuticals, medical devices, and other health-care products, as well as household chemicals and beauty aids. It manufactures prescription

drugs, antibiotics, orthopedic implants, and bandages. The company's brand-name products include Enfamil infant formula, Bufferin and Excedrin pain relievers, Clairol hair-care products, Sea breeze skin-care applications, and Herbal Essences shampoos and conditioners. Foreign sales account for approximately 39% of the company's total sales.

### **Cardinal Health, Inc. (CAH)**

Cardinal Health's cardinal number is one—it is the largest US wholesaler (ahead of McKesson) of pharmaceuticals, surgical and hospital supplies, and other specialty pharmaceutical products. The company, which espouses growth through acquisitions, brings all its products and services together under four segments: pharmaceutical distribution, pharmaceutical technologies and services, automation and information services, and medical and surgical products. Among its subsidiaries are Allegiance (surgical apparel and lab products sales), Pyxis (automated drug-dispensing systems for hospitals), and R.P. Scherer (gelcap manufacturing). Cardinal Health has acquired pharmaceutical distributor Bindley Western.

### **Citigroup, Inc. (C)**

One of the world's biggest banks and one of its biggest insurers have joined forces to create -- what else? -- the biggest financial services company. Citigroup, formed from the merger of Citicorp and Travelers Group, has retained Travelers' red umbrella logo, from beneath which it offers credit card, banking (primarily through subsidiary Citibank), insurance, and investment services in some 100 countries. Subsidiaries include Salomon Smith Barney (brokerage), Primerica (life insurance and mutual funds), and Travelers Property Casualty. Citigroup's e-Citi unit develops

online financial service products. The firm acquired the investment banking business of Schroders PLC and Associates First Capital.

### **Dynegy (DYN)**

Power dynamo Dynegy markets and trades electricity, natural gas, coal, and other energy products in North America and Europe. Dynegy controls nearly 16,000 MW of generating capacity through investments in power projects; it sells the energy in wholesale markets and through alliances with utilities in deregulated retail markets. Dynegy Midstream Services gathers and processes natural gas and produces natural gas liquids. Subsidiary Illinois Power distributes electricity and natural gas to 650,000 customers. Dynegy Global Communications builds and operates fiber-optic networks in the US and Europe. ChevronTexaco owns nearly 27% of Dynegy, which has terminated its agreement to acquire troubled rival Enron.

### **Exxon Mobil Corporation (XOM)**

It's not necessarily the oil standard, but Exxon Mobil is the world's largest integrated oil company (ahead of BP). Exxon Mobil engages in oil and gas exploration, production, supply, transportation, and marketing around the world. It has proved reserves of just less than 21 billion barrels of oil equivalent. Exxon Mobil's refineries can handle more than 6 million barrels per day, and the company supplies refined products to more than 40,000 service stations in 118 countries that operate under the Exxon, Esso, and Mobil brands (including more than 16,000 in the US). Exxon Mobil also produces and sells petrochemicals, and it has interests in coal mining, minerals, and electric power generation.

### **Genzyme Corporation (GENZ)**

A bloodhound would have no problem tracking Genzyme. The company has three divisions, each with its own tracking stock. Genzyme Molecular Oncology focuses on gene-based cancer diagnosis and treatment products; Genzyme Biosurgery primarily makes orthopedic and cardiothoracic medical and surgical products. Genzyme General's main products are Cerezyme and Ceredase, leading (and pricey) treatments for Gaucher's disease, a rare enzyme-deficiency condition; the division also includes drug development and genetic testing and other services. Genzyme Transgenics, of which it owns more than 25%, develops transgenic proteins to treat various diseases.

### **Harley-Davidson, Inc. (HDI)**

The #1 road hog and proud of it, Harley-Davidson is the only major US maker of motorcycles and the nation's #1 seller of heavyweight motorcycles. Harley-Davidson offers 24 models of touring and custom Harleys through a worldwide network of more than 1,300 dealers. The company's legendary high-powered Harley motorcycles include the Electra Glide, the Sportster, and the Fat Boy. Besides its bikes, Harley-Davidson sells attitude -- goods licensed with the company name include a line of clothing and accessories (MotorClothes). Harley-Davidson also makes motorcycles under the Buell nameplate and offers financial services to dealers and consumers in the US and Canada through Harley-Davidson Financial Services.

### **Lockheed Martin Corporation (LMT)**

Lockheed Martin, the world's #1 defense contractor (ahead of Boeing), has been named the main contractor for the Joint Strike Fighter (J-35). Its principal segments are Systems Integration (missiles and fire control), Space Systems (communication satellites, submarine-

launched missiles), Aeronautics, and Technology Services (management, engineering, and logistic services). High-tech offerings include missiles for both offense (Trident II) and defense (Theater High Altitude Area Defense). Lockheed Martin's high-profile planes include the F-16 and F-22 jet fighters, as well as the C-130J transport plane. The company is exiting its global telecommunications business. The US government accounts for about 80% of sales.

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### **Pfizer (PFE)**

Make drugs, not war! Pfizer, which in 2000 merged with former rival Warner-Lambert, is now a card-carrying member of the establishment, firmly ensconced as one of the top five drug makers in the world. The company's products include such prescription drugs as impotence treatment Viagra, cardiovascular drug Norvasc, and cholesterol-lowering Lipitor, as well as such consumer brands as Visine, BenGay, Listerine, Certs,

Dentyne, Efferdent, and Zantac (which are united under the Warner-Lambert nameplate). Pfizer also operates units that make animal health products.

### **Phillip Morris Companies Inc. (MO)**

The house the Marlboro Man built, Philip Morris Companies, is the world's largest tobacco firm; it controls about half of the US tobacco market, and the Marlboro name is one of the world's most valuable brands. It also makes the Benson & Hedges and Virginia Slims brands. However, tobacco is only part of the story. Philip Morris owns 84% of Kraft Foods, the world's #2 food company (after Nestlé), which makes leading brands including Jell-O and Post cereal. The tobacco giant bought Nabisco in late 2000, adding brands such as Oreo and Ritz to Kraft's food portfolio. In addition, Philip Morris owns Miller Brewing, the #2 US brewer, after Anheuser-Busch. The company's proposed name change, to Altria Group, has been approved.

### **SPDR Trust, Series One (SPY)**

Arachnophobia investors need not apply. The SPDR Trust, Series 1 is a unit investment trust that issues Standard & Poor's Depository Receipts (SPDRs or "spiders"), a tracking stock for the Standard & Poor's 500 Composite Stock Price Index (the S&P 500), which consists of the US's largest companies. SPDRs are worth about one-tenth of the index and are designed to mirror its daily undulations. Some of the trust's most heavily weighted components include General Electric, Cisco Systems, Microsoft, Exxon Mobil, Pfizer, and Intel; about 20% of its value lies in the technology sector. Standard & Poor's, a subsidiary of publisher McGraw-Hill, is not affiliated with The SPDR Trust but does receive trademark-licensing fees.

## The Economy in 2001

### First Quarter

The slumbering “Bear” awoke from hibernation and the U.S. Stock Market fell victim to its hunger. The first quarter saw the Stock Market sell off sharply, which extended the trend established in the fourth quarter. Technology stocks led the NASDAQ’s decline as dot-coms turned into pumpkins. March witnessed job cuts that were nearly triple the level of the previous year. The erosion of consumer, business, and investor confidence also became visible. In anticipation of the slowdown, U.S. businesses began selling off inventory instead of making purchases. The Fed responded to the depressive state of the economy by cutting interest rates three times, which brought them back to the 1998 levels (the early days of the last economic surge).

### Second Quarter

The Fed cut interest rates three times in the second quarter, which brought the Federal Funds rate 275 basis points below the 2000 peak level. Within the FOMC, however, concerns over inflation were beginning to take hold. Shrinking corporate profits was an issue of increasing consternation for regulators and investors as the meltdown in technologies was showing signs of a ripple effect through other industries. The international outlook turned bleak as well. Economic weakness overseas and the continued strength of the dollar failed to offer relief to the slumping domestic economy. In spite of the dwindling light coming from the end of the tunnel U.S. Stock Markets were propelled upwards. The NASDAQ, which had experienced four straight quarters of declines, closed the second quarter with a 17.4% advance. Consumer sentiment and spending remained resilient as home sales and durable goods orders were better than expected. I

### Third Quarter

The September 11<sup>th</sup> attack resolved debate about the short-term outlook. Immediately after the attack, the government poured money into the economy through open market activities, interest rate cuts, and relief spending. Second Quarter GDP growth was revised to 0.3% in September, its lowest point since 1993. Consumer spending continued to tow the line, however, confidence was down, and the effect of reduced business activity was beginning to show in the unemployment rate, which stood at 4.9%. The recovery experienced by the stock market in the Second Quarter stalled in the Third as the market experienced the largest quarterly drop since the fourth quarter of 1987. Nearly 80% of the stocks in the S&P 500 declined and of the 11 industry groups in the index, only one, Healthcare, was in positive territory (at 3.3%). Technology stocks were the hardest hit across the board with small and mid-cap stocks losing just under 30% and large-cap stocks losing 33%. Of course, the events on September 11<sup>th</sup> contributed to the market decline. From September 10<sup>th</sup> to the end of the quarter the Dow lost 8%, the S&P nearly 5%, and the NASDAQ over 11%. Not surprisingly, airline stocks and other travel-related issues suffered significantly during the period. Despite the largely negative results, investors found hope in defense stocks such as Northrop Grumman and Raytheon Co. The final week of the quarter witnessed the Dow and S&P increase by 7% and the Russell 2000 Index by nearly the same amount as investors were attracted to the low prices of many high quality stocks.

## Fourth Quarter

The recession of 2001 was statistically confirmed with Third Quarter GDP declining 1.3% in the wake of the 0.3% increase posted in the Second Quarter. All sectors of the economy suffered during the quarter as businesses and consumers retrenched in preparation for war and economic uncertainty. The Federal Reserve cut the Federal Funds Rate another three times during the quarter. This brought the rate to 1.75%, its lowest level since 1961. Consumer Confidence (as measured by the Conference Board) fell to a five-year low in November, but rebounded sharply in December. Retail sales showed a similar pattern, falling by a record 3.7% in November, but growing ahead of forecast levels through the holidays.

Orders for durable goods fell by 4.8% in November, due primarily to the aircraft industry and related component manufacturers. Excluding the transportation sector, durable goods orders rose by 1.1% in November, following a 2.9% rise in October. Capacity utilization fell to a 10-year low in November. Manufacturers, financial services, and other firms continued to lay off workers.

The unemployment rate rose to 5.8% in December, which represented a 5-year high.

The Fourth Quarter brought relief to investors, weary from a year of heavy losses. From September 21<sup>st</sup> the S&P 500 increased 19%, the NASDAQ gained 37% and the Dow increased 22%. 80% of the stocks in the S&P ended the quarter (its best in 2 years) in positive territory, led by gains in the technology sector (returning 34%), consumer discretionary (returning 19%), and industrials (returning 16%). Additionally, mutual funds received \$9.3 billion in net contributions in November, which reversed a two-month trend of net outflows.

Even with the rally of the markets in the Fourth Quarter, the major indexes ended 2001 in the red. The S&P 500, NASDAQ, and Dow all posted losses for the 2<sup>nd</sup> consecutive year. Unlike the previous year, however, when technology issues monopolized the losses, most industries suffered in 2001. Only two economic sectors, consumer discretionary and materials ended the year trading above water.

## **Industry Analysis – Non-Alcoholic Beverage**

### **Industry Sales and Growth Overview**

The non-alcoholic beverage industry consists of soft drinks, beer, milk, coffee, bottled water, juices, tea, powdered drinks, and sports drinks. According to the 2001 Standard & Poor Industry Report, retail sales in the leading beverage markets totaled \$78.1 billion, up 5.7% from the previous year. The top five leading beverage categories consist of soft drinks, bottled water, juice and juice drinks, ready-to-drink teas, and sports drinks. Soft drinks led the market with retail sales of \$60.31 billion, followed by bottled water with sales of \$6 billion, juice and juice drinks with sales of \$5.68 billion, ready-to-drink teas with sales of \$3.46 billion, and sports drinks with sales of \$2.63 billion.

### **Characteristics of Beverage Industry Store Brand Versus Brand Names**

Due to the maturity of the U.S. food and beverage marketplace, companies are limited in their pricing ranges. Brand loyalty through brand awareness is the most efficient way to enhance pricing power and encourage growth in this saturated market. Advertising justifies for a large portion of a company's product cost because it is essential to procure customer awareness and loyalty.

According to Private Label Manufacturers Association, sales of store brands totaled \$47.3 billion in 2000, up 2.6% from the prior year. As real disposable personal income declined during the 1990's, the beverage industry felt downward pressure on consumer product prices as shoppers shifted from brand-name products to private-label goods. Conversely 1999, 2000, 2001 experienced a growth in disposable personal income. As a result, which is depicted in The Top 10 Carbonated Soft Drink Market Share chart mentioned above, private label grocery products lost market share in 2001 from 2000.

Despite the recession, Standard & Poor reported that Americans' disposable income grew 6.2% in 2000, 5.7% in 2001, and expects growth of 3.6% in 2002.

### **Non- alcoholic Beverage Operations**

The non-alcoholic beverage companies operate on a national and/or international level. Many corporations have evolved from local companies with local markets to corporate giants with global markets. Beverage plants manufacture beverages, as well as related products that use the same raw materials or equipment. Such related products include snack foods, chewing gum, vegetable oils, and animal fats and oils. In order to understand how the industry works, it is imperative to grasp the layout of the industry's operations. The non-alcoholic beverage industry operations can be broken down into three responsibilities. First, the firms are divided into franchise companies and bottlers. Then these companies distribute their products through numerous channels using either a direct-distribution or warehouse system. Lastly, products are dispersed to end users through various channels of distribution.

### **Divisions of Beverage Companies**

The non-alcoholic beverage industry consists of mainly two types of companies: franchise companies (or brand owners) and bottlers. Franchise companies, like Coca-Cola and Pepsi-Cola Company, PepsiCo's beverage unit, own the trademarks and the secret syrup for their beverages. In some cases, the franchisers appoint the bottlers to manufacture the beverages, if they are licensed.

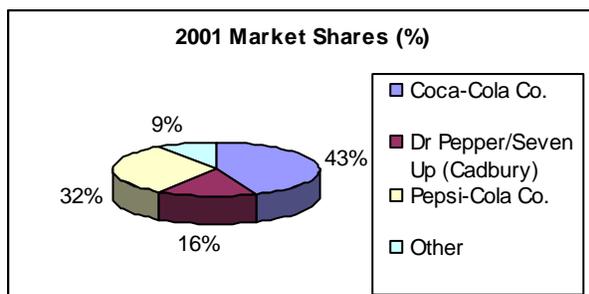
## Distribution of Beverage Companies

Once the beverage product is bottled either by the franchiser or bottler, the next step is to distribute the product. There are two means of distribution: direct-delivery system or warehouse system. In a direct-delivery system, the beverage company takes on all the duties of product distribution. The beverage company will deliver the products to the store, stock the store's shelves with their product, and order more products when the store runs low.

## Distribution Channels

Lastly, the beverage corporations use various channels of distribution to dispense their products. The primary channels used by the beverage corporations are supermarkets, mass merchandisers, vending machines, convenience and gas stores, fountain accounts like restaurants or cafeterias, and other outlets, including small grocery stores, drug stores, and schools. The largest distribution channel is a supermarket. Supermarkets in the U.S. and Canada bring in 40% of the beverage sales. The fastest growing distribution channels are mass merchandisers, fountain operators, and convenience and gas station stores.

## Competitors



Three giant soft drink companies represent 91% of U.S. non-alcoholic beverage sales. These oligopolies are Coca-Cola, PepsiCo, and Cadbury Schweppes. The fundamentals of these companies are described below. For quantitative analysis including key financial

figures, important ratios, and industry comparisons please refer to the Appendix.

## Industry Trends Demographics

The industry is targeting the 77 million people between the ages of 37 and 55, who account for 30% of the U.S. population. With baby boomers entering middle age, many are growing in affluence while continuing an "on the go" lifestyle. Further, older adults tend to have reduced ability to digest food and absorb nutrients. These factors have led to an expanded market for nutrient-enriched drinks.

The market-savvy beverage industry looks for growth opportunities in all age groups. Well aware that children have significant clout in influencing their parent's purchases, industry-marketing practices have narrowed in on the five to seventeen year old segment of the population. Whether it be Britney Spears or Michael Jordan, the beverage industry is hoping to influence this 52.4 million population group and their parents, as well as gain lifelong brand-loyal customers.

## Global Expansion

Following the lead of industry giants Coca-Cola and PepsiCo who generate substantial profits from foreign operations, the beverage market is becoming more global. According to Standard & Poor, the total processed food and beverage trade neared \$83.5 billion in 2000. Due to the appeal of American brand names, the U.S. is among the world leader in global commerce.

Limited by the maturity of the U.S. beverage market, beverage companies are going overseas to find new or faster growing markets.

## New Age Functional Beverage

Products that include all-natural juices and teas laced with herbs and ingredients, such as

ginseng and kava kava, are becoming more popular as the growing demand for healthier lifestyles permeate the nation. Differentiating themselves from soda and other non-carbonated beverages, new age or functional beverages focus on a market demand for something different using quirky advertising campaigns, unconventional packaging designs, and ever-changing taste combinations. Brands like Snapple, Arizona Iced Teas, Mistic, and SoBe are a few of the larger functional beverages that are exhibiting strength in the market place.

### **Economic Influences**

The take home food and beverage industry was unaffected by the events of September 11. Compared to 2000 September figures, total food and beverage sales were up 2.2% to \$39.4 billion in 2001. Regardless of the economic recession, the demand for food and beverages remains relatively resilient.

### **Disposable Personal Income**

Measuring Americans' income after tax, disposal personal income changes can influence how much consumers spend on food and beverage products. Even though the demand for food and beverage remains the same, the industry keeps a close eye on this figure because in bad times consumers tend to "trade down" to less expensive private-label goods. Conversely, branded packages of food and beverage products tend to benefit during good times.

### **Producer Price Index**

This is a measure of the price inflation (or deflation) for the raw materials used by U.S. manufacturers. The producer price index (PPI) gives an idea of the pricing pressures felt by manufacturers. The rise in the PPI can hurt the beverage industry's profit margin because they cannot alter their prices quickly enough to pass

the rising costs of raw materials on to their customers.

### **Industry Forecast**

Consumers have adjusted to the higher supermarket prices for soft drinks and the demand for the industry's products is stronger than ever. Standard & Poor expects the industry will experience a strong increase in profits in 2002, reflecting the improvement in the international market, the strengthening of the pound relative to the dollar, the modestly higher prices due to the increase in the consumer price index, the growth enhancing and cost saving activities resulting from the manufacturing, product development, bottling and distribution synergies, and the constant demand of food and beverage consumption. .

Standard & Poor reports that U.S. non-alcoholic beverage companies will experience a 9% to 11% rise in operating earnings in 2002. Margins will benefit from the lower cost of raw materials, especially corn sweeteners. Other contributing factors to this increase include rise in per capita consumption around the world, strong growth in new products, lower advertising cost, and modest price increases. A decline in the U.S. economy's growth that typically affects most industries has little influence in the non-alcoholic beverage industry. Because food and beverage items are staples that must be purchased frequently, the demand is inelastic. Even though the demand remains steady, consumers fluctuate between store brand and brand name products depending on the amount of money available to spend, as measured by disposable personal income. In 2002, the forecasted growth of consumer's disposable personal income to 3.6% may further enhance brand name sales as a result of consumers trading up. Known to be relatively resilient in a time of economic recession, the non-alcoholic beverage industry is defensive in nature and a safe haven for investors experiencing a bear market.

## Security Analysis – Wal-Mart

*“We’re all working together; that’s the secret. And we’ll lower the cost of living for everyone, not just in America, but we’ll give the world an opportunity to see what it’s like to save and have a better lifestyle, a better life for all. We’re proud of what we’ve accomplished; we’ve just begun.” – Sam Walton (1918-1992)*

### **The Wal-Mart Resume:**

Wal-Mart, head-quartered in Bentonville, Arkansas, is the world’s largest retailer with over 1.3 million employees and more than 4,600 facilities. More than 100 million customers per week visit Wal-Mart stores. Wal-Mart posted net income of \$6.7 billion on sales of approximately \$218 billion for fiscal year ended January 31, 2002. This 2001 sales figure was enough for Wal-Mart to displace Exxon Mobil as the world’s largest company. Founder Sam Walton’s heirs own approximately 38% of Wal-Mart.

The company was founded in 1962 with the opening of the first Wal-Mart in Rogers, Arkansas. In 1967, Wal-Mart’s 24 stores totaled \$12.6 million in sales. Just to show how far the company has come, in 2001, Wal-Mart had \$596,709,589.04 per day. In 1983, the people greeter was implemented in all Wal-Mart stores. In 1990, Wal-Mart became the nation’s #1 retailer. Wal-Mart enjoyed its first billion-dollar sales week in December of 1993.

Wal-Mart became an international company in 1991 when Sam’s Club opened near Mexico City. Two years later, Wal-Mart International was created to oversee the growing opportunities for the company worldwide. The division currently operates stores and clubs employing more than 282,000 associates in Argentina, Brazil, Canada, China,

Germany, Korea, Mexico, Puerto Rico, and Britain. Wal-Mart is the #1 retailer in Canada and Mexico.

Wal-Mart can be divided into four retail divisions; Wal-Mart Discount Stores, Wal-Mart Supercenters, Neighborhood Markets, and Sam’s Club Warehouses.

**Wal-Mart Discount Stores:** is the flagship retail division of Wal-Mart. Wal-Mart Discount Stores include approximately 36 unique departments, which include family apparel, health & beauty aids, household needs, electronics, toys, fabrics & crafts, lawn & garden, jewelry, and shoes. Some stores include a Pharmacy Department, Tire& Lube Express, garden center, snack bar or restaurant, Vision Center, and a One-Hour Photo Processing Center. The first Wal-Mart Discount Store opened in 1962 in Rogers, Arkansas. There were 1693 Wal-Mart Discount Stores operational in the United States (Alaska and Hawaii) as of the year ended January 31, 2001.

**Wal-Mart Supercenters:** Supercenters the traditional Wal-Mart Discount Store with grocery departments for one-stop shopping. The first Wal-Mart Supercenter opened in Washington, Missouri in March 1, 1998. Supercenters feature 36 general merchandise departments like their Discount Store brethren. Isles are wider; there are departmental directories as well as 24-hour service. Supercenters average between 100,000 and 210,000 square feet of retail space. Supercenters employ between 200 and 550 associates depending on the size.

**Sam’s Clubs:** Sam’s Club is the nation’s leading members-only warehouse club with locations across the country. Sam’s club is dependent on high volume to compensate for very narrow profit margins on merchandise

due to the extremely low prices extended to member-customers. Sam's Club limits its merchandise mix to 3,500 items local businesses and consumers use most. Merchandise typically is in larger institutional sizes or multi-packs of like or assorted items. The Sam's Club concept was introduced in 1983 in Midwest City, Oklahoma.

**Neighborhood Markets:** First opened in 1998, Neighborhood Markets range from 42,000 to 55,000 square feet and feature a wide variety of products including fresh produce, deli foods, fresh meat and dairy items, health and beauty aids, drive-through pharmacies, stationary & paper goods, pet supplies, and household chemicals. Neighborhood Markets employ 80 to 100 associates and offer about 28,000 items.

The **McLane Company** is a subsidiary of Wal-Mart and is the #1 convenience store distributor in the U.S. The wholesale distributor hauls food and nonfood (tobacco, general merchandise, and toys) products to Wal-Mart stores. The company also distributes merchandise to theaters and drugstores and has expanded its fast-food distribution network to more than 20,000

restaurants since purchasing U.S. operations of AmeriServe Food Distribution (now McLane Foodservice). Wal-Mart bought McLane, which was founded in 1894, in 1990.

**The Retail Industry:**

Retailing includes all business activities that involve the sale of goods and services to consumers for personal, family, or household use. Retailing is characterized by high volume and low margins. Retail is the second-largest industry in the United States both in number of establishments (over 1.6 million) and number of employees. It is also one of the largest worldwide. The retail industry employs more than 22 million Americans (which accounts for around 17% of the nation's workforce or nearly 1 in 5 workers) and generates more than \$3 trillion in retail sales annually.

Single store businesses account for over 95% of all U.S. retailers, but generate less than 50% of all retail store sales. Gross Margin typically runs between 31% and 33% of sales for the industry but varies widely by segment. Net Profit Margin typically runs between 2.5% and 3.5% for the industry.

**Wal-Mart Earnings Reports 1998-2001:**

\*Disclaimer: Wal-Mart's fiscal year ends January 31. The numbers listed under "2002" are actually the figures for 2001, the numbers under 2001 are actually the figures for 2000, and so on. Wal-Mart is not only ahead of the retail industry but with the reporting of their financials as well.

**Year Ended January 31, 2002:** Net sales were \$218 billion, an increase of 13.8% over the prior fiscal year. Net Income for the fiscal year increased 6.0% to a record \$6.671 billion or \$1.49 Earnings Per Share, which is up from \$6.295 billion or \$1.40 Diluted Earnings Per Share, for the prior fiscal year.

	Fourth Quarter			Year Ended Jan 31, 2002		
	2002	2001	%Change	2002	2001	%Change
<b>Wal-Mart</b>	\$40.909	\$35.476	15.31%	\$139.131	\$121.889	14.10%
<b>Sam's Club</b>	\$8.296	\$7.481	10.90%	\$29.395	\$26.798	9.70%
<b>International</b>	\$10.809	\$10.062	7.40%	\$35.485	\$32.100	10.50%
<b>McLane</b>	\$4.197	\$3.537	18.70%	\$13.788	\$10.542	30.80%
<b>Total Company</b>	\$64.211	\$56.556	13.50%	\$217.799	\$191.329	13.80%

## Industry and Competition

Under the broad term “Retailing”, Wal-Mart is specifically categorized as a “Discount Retailer.” With the demise of K-Mart, the competitive landscape in this particular region of retailing has dramatically eroded. The chief threat to Wal-Mart among “Discount Retailers” is Target. The lack of viable

candidates in “Discount Retailing” necessitates that Wal-Mart be compared to top retailers in other segments of retail such as Department Stores and Home Improvement. Chief competitors include Target, Costco, Kohl’s, Sears, and Home Depot.

### Changes in Selected Balance Sheet and Income Statement Items 1997 - 2001

	Sales	%Change		Cost of Goods Sold	%Change
2001	\$217,799,000,000	13.83%	2001	\$171,562,000,000	16.02%
2000	\$191,329,000,000	15.95%	2000	\$147,868,000,000	15.82%
1999	\$165,013,000,000	19.89%	1999	\$127,666,000,000	19.48%
1998	\$137,634,000,000	16.68%	1998	\$106,853,000,000	16.39%
1997	\$117,958,000,000		1997	\$91,804,000,000	

It’s interesting to note that Cost of Goods Sold increased faster than Sales from 2000 to 2001 by a considerable percentage. In previous years, Sales and Cost of goods sold, for the most part, increased in tandem.

	Gross Profit	%Change		Net Income	%Change
2001	\$46,237,000,000	6.39%	2001	\$6,671,000,000	5.97%
2000	\$43,461,000,000	16.37%	2000	\$6,295,000,000	17.07%
1999	\$37,347,000,000	21.33%	1999	\$5,377,000,000	25.72%
1998	\$30,781,000,000	17.69%	1998	\$4,277,000,000	24.04%
1997	\$26,154,000,000		1997	\$3,448,000,000	

Gross Profit Margin and Net Income have continued to increase, however, there is a dramatic drop-off in the % change in each from 2000 to 2001.

	Capital Expenditures	%Change		Total Assets	%Change		Total Liabilities	%Change
2001	\$8,383,000,000	4.24%	2001	\$83,375,000,000	6.71%	2001	\$48,273,000,000	3.18%
2000	\$8,042,000,000	30.07%	2000	\$78,130,000,000	11.06%	2000	\$46,787,000,000	5.10%
1999	\$6,183,000,000	65.59%	1999	\$70,349,000,000	40.71%	1999	\$44,515,000,000	54.12%
1998	\$3,734,000,000	41.65%	1998	\$49,996,000,000	10.16%	1998	\$28,884,000,000	7.45%
1997	\$2,636,000,000		1997	\$45,384,000,000		1997	\$26,881,000,000	

The dramatic increase in Capital Expenditures, Total Assets, and Total Liabilities from 1998 to 1999 can be partly attributed to Wal-Mart’s acquisition of the British supermarket chain ASDA. ASDA was

purchased for \$10.8 billion. Wal-Mart added 232 stores in England, Scotland, and Wales. At the time of the merger ASDA was the third-largest supermarket chain in the UK.

## Ratio Analysis

\*Disclaimer: The ratios below for Wal-Mart were calculated from the numbers found on the company's financials. The industry ratios they are compared to were taken from

Research Insight. Also, remember that 2002 is actually 2001, 2001 is actually 2000, and so on. This is because Wal-Mart's fiscal year ends January 31, which means for example that year ended January 31, 2002 covers 2001 and so on.

Year Ended January, 31										
<b>Return on Invested Capital</b>	2002	Industry	2001	Industry	2000	Industry	1999	Industry	1998	Industry
Return on Assets	8.00%	7.78%	8.06%	8.36%	7.64%	8.69%	8.55%	8.52%	7.60%	7.25%
Return on Equity	19.00%	18.72%	20.08%	20.97%	20.81%	21.78%	20.26%	20.91%	18.63%	18.20%

Wal-Mart is a model of consistency; ROA and ROE appear immune to fluctuations. The ratios suggest that Wal-Mart doesn't outperform the industry; rather it sets the bar for it.

Year Ended January, 31										
<b>Profitability</b>	2002	Industry	2001	Industry	2000	Industry	1999	Industry	1998	Industry
Gross Profit Margin	21.23%	23.70%	22.72%		22.63%		22.36%		22.17%	
Operating Profit Margin	4.62%		4.98%		5.04%		4.76%		4.42%	
Net Profit Margin	3.06%	2.93%	3.29%	3.20%	3.26%	3.19%	3.11%	3.02%	2.92%	2.65%

The Retail Industry, as mentioned earlier in the report, is characterized by low prices, high volume, and consequently low margins. The ratios on exhibit here give credence to that assumption. Again, the operative word is

consistency. There is little variation in the ratios from 1997 thru 2001. Once again, Wal-Mart doesn't outperform the industry by leaps and bounds instead it aspires to it.

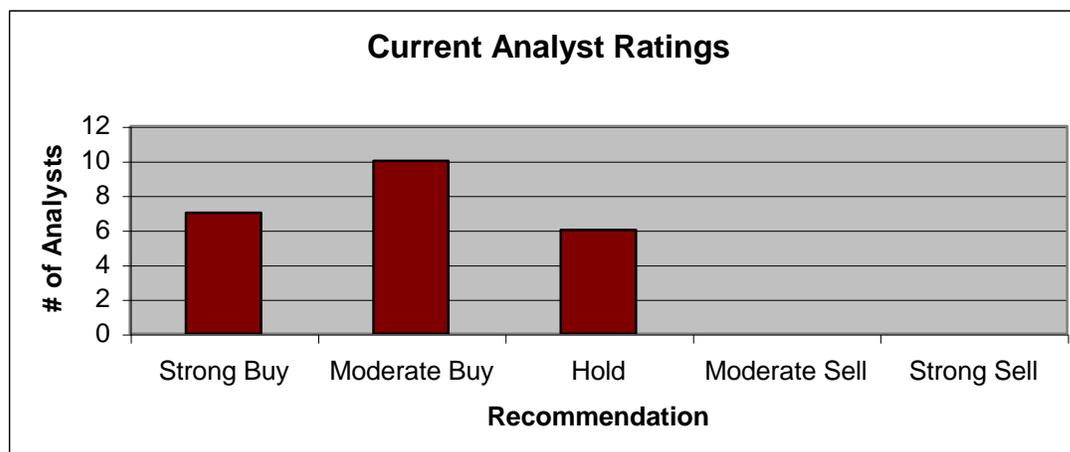
## Stock Split Information

In 1970, Wal-Mart offered 300,000 shares of its common stock to the public at a price of \$16.50 per share. Since that time, Wal-Mart has had

eleven two-for-one stock splits. On a purchase of 100 shares at \$16.50 per share on its first offering, the number of shares has grown as follows:

2-for-1 Stock Splits	Shares	Cost per Share	Market Price on Split Date	Record Date
On the Offering	100	\$16.50000		
May-71	200	\$ 8.25000	\$47.00	05/19/1971
March-72	400	\$ 4.12500	\$47.50	03/22/1972
August-75	800	\$ 2.06000	\$23.00	08/19/1975
November-80	1,600	\$ .03000	\$50.00	11/25/1980
June-82	3,200	\$ 0.05200	\$49.88	06/21/1982
June-83	6,400	\$ 0.02550	\$81.63	06/20/1983
September-85	12,800	\$ 0.12750	\$49.75	09/03/1985
June-87	25,600	\$ 0.06250	\$66.63	06/19/1987
June-90	51,200	\$ 0.03125	\$62.50	06/15/1990
February-93	102,400	\$ 0.01563	\$63.63	02/02/1993
March-99	204,800	\$ 0.00781	\$89.75	03/19/1999

## Analyst Ratings



**Currently, the average recommendation is Moderate Buy.**

**4/9/02:** Salomon Smith Barney placed a “Buy” rating on Wal-Mart with a \$70 12-18 month price target.

**4/1/02:** Merrill Lynch placed an “Intermediate-Term Buy” rating on Wal-Mart, down from an “Intermediate-Term Strong Buy” citing that retailing stocks look vulnerable both relatively and absolutely in April & May. Merrill Lynch is anticipating average performance ahead.

# Financial Statements

## Fiscal Year 2001

### Balance Sheet

Year Ended December 31	2001
Amounts in US Dollars	
<b>Assets</b>	
Total Cash/Cash Equivalents	\$ 17,250.75
SPDR Trust Funds, at value (cost \$ 322,274)	\$ 286,893.00
Common stocks, at value (cost \$ 215,608)	\$ 221,184.00
<b>Total Assets</b>	<b>\$ 525,327.75</b>
<b>Capital</b>	
Paid in capital	\$ 540,384.00
Capital gains (losses) (cumulative)	\$ (15,056.25)
<b>Total Capital</b>	<b>\$ 525,327.75</b>

### Income Statement

Year Ended December 31	2000	2001
Amounts in US dollars		
<b>Investment Income</b>		
Interest	\$ 241.78	\$ 1,322.76
Dividends	\$ 3,298.93	\$ 3,623.15
<b>Total Income</b>	<b>\$ 3,540.71</b>	<b>\$ 4,945.91</b>
<b>Expenses</b>		
Annual Fee	\$ 150.00	\$ 150.00
Supplies and Expenses	\$ 205.13	\$ 351.49
Postage and Shipping	\$ 45.38	\$ -
Printing and Duplication	\$ 987.50	\$ 1,215.07
Telecommunication	\$ -	\$ -
Membership and Subscriptions	\$ 268.93	\$ 395.77
Entertainment	\$ -	\$ -
Other Expenses	\$ -	\$ -
<b>Total Expenses</b>	<b>\$ 1,656.94</b>	<b>\$ 2,112.33</b>
<b>Realized and unrealized Gain (loss)</b>		
Unrealized Gain (loss)	\$ (87,391.00)	\$ (29,808.00)
Realized Gain (loss)	\$ 13,675.00	\$ (13,689.00)
<b>Net gain (loss)</b>	<b>\$ (73,716.00)</b>	<b>\$ (43,497.00)</b>
<b>Net Income</b>	<b>\$ (71,832.23)</b>	<b>\$ (40,663.42)</b>