Bowden Investment Group

Annual Report

2010

Mission Statement

Since inception in January 2000, the Bowden Investment Group (BIG) has enjoyed 11 successful years of managing the Bowden Investment Fund. Named in honor of Elbert V. Bowden, group members strive to instill the same passion and commitment to the fund that Mr. Bowden shared with his students in the Walker College of Business' Department of Finance, Banking, and Insurance. The Bowden Investment Fund's purpose is to earn a higher return on investment in respect to its benchmarks; and to provide students with a unique opportunity to manage a live equity investment fund with practices, goals, and expectations that one would experience in a professional portfolio management role. Funds provided by the portfolio are utilized to the benefit of the students and faculty of the Finance, Banking and Insurance Department at Appalachian State.

Bowden Investment Group and Fund Overview

Bowden Investment Group members are required to apply, submit a resume, and sit for two interviews before being accepted to manage the Bowden Fund. Academic ability and overall interest in investment management are key determinants in the decision process. Once accepted, a year-long commitment to the group is required by the new members. Bowden Group members are then encouraged and challenged in a framework that would more resemble a board meeting than a typical classroom setting.

During fall meetings, Bowden members hone their financial analysis skills through economic and market research, and financial statement analysis. Each analyst is required to write a stock report of an investment of their choosing and issue a buy or sell recommendation at the end of the semester. A two-thirds majority vote is required for any transaction affecting the fund. Spring meetings will concentrate on reevaluating the composition of the portfolio and repositioning it for success going forward.

The Bowden Fund is comprised solely of equities and is managed as a growth and income fund. Sector and individual equity weighting parameters do apply to the fund as a safe-guard against over exposure, yet weightings can be skewed at any time if it is the belief that the strategy will enhance the return of the portfolio. Current macro-economic data and trends are analyzed by the group to assess the viability of those weightings.

2010-2011 Bowden Investment Group

Back Row (from left to right): Jesse Whittaker, John Divine, P.A. Rowe, Jacob Haas. **Front Row** (from left to right): Christopher Wexler, Bryan Lazenby, Svetlana Signyeyeva, David Emery, Joseph McWilliams

Administrative Positions

President: *David Emery*

Vice President/ Public Relations Manager: *Bryan Lazenby*

BIG Update Editor/ Webmaster: *John Divine*

Annual Update Editor: *Joseph McWilliams*

Accountant: *Jesse Whitaker*

Economic Analyst: *Christopher Wexler*

Economic Analyst: *Jacob Hass*

Industry Analyst: *P.A. Rowe*

Industry Analyst: *Svetlana Signyeyeva*

A Welcome Addition…

David A. Thompson, CFA, joined the Bowden Investment Group as an Adjunct Instructor. He is serving in a support role to Dr. Delbert Goff. Mr. Thompson is a retired General Partner and CFO of WEDGE Capital Management, LLP.

WEDGE Capital is an institutional investment management firm with over $9 billion in assets under management. WEDGE was founded in 1984 in Charlotte, NC, and serves clients across 44 states and five other countries.

With 27 years of investment and portfolio management experience, his objective is to use his work-life experiences to enrich and expand the education of students focused on an education in finance and accounting. Mr. Thompson is a Chartered Financial Analyst and a member of the CFA Institute. He also earned the Certified Public Accountant designation in 1987 and is a member of the North Carolina and Tennessee Society of CPAs.

Outside of class David's water color and oil painting is a way to express his adoration for nature and the extraordinary. His artwork is a great reminder that we are surrounded by beauty, we just need to take the time to enjoy it.

2010 Economic Review

Concern and uncertainty were the themes of 2010's economy. The people of our nation didn't need to look far before being confronted with the uneasy feeling of what the year may hold for their families and wallets. We started off with a national unemployment rate of just under 10% (reported, not including those not actively searching for employment) and very little consumer confidence. This, of course, didn't help spending; leaving some speculation as to where the stock market would go for the year, and if the recession that started years prior was really ending.

The housing market, while better by the numbers, still experienced weak sales, and many of these "okay" data points were skewed by existing home sales of under-priced property sold as foreclosures, short sales, or simply owners wanted to cash out.

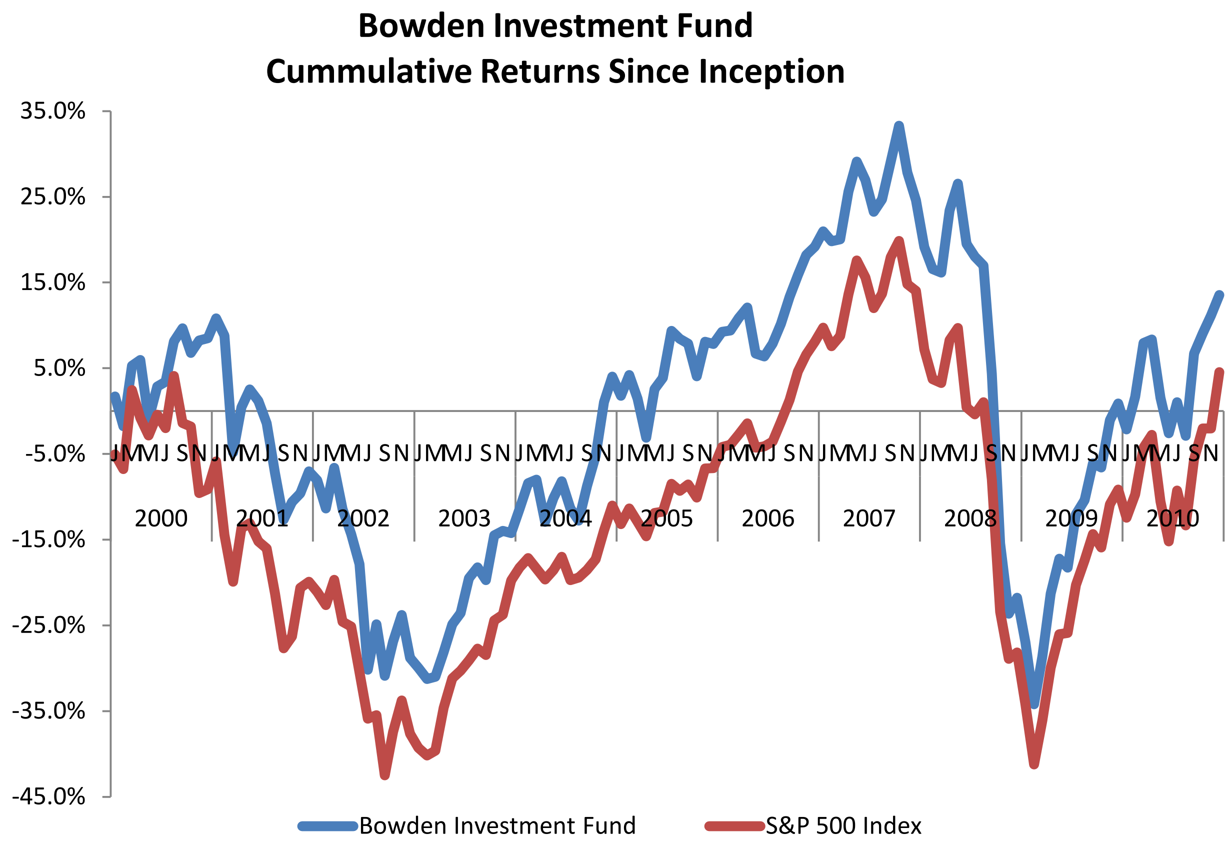
Later in 2010 the Fed announced plans for more quantitative easing by purchasing 600 billion dollars of assets from the secondary market. While the idea behind this is to ease liquidity in the market, since interest rates are already so close to zero, there is great concern from many analysts that it may not be helping, and even greater concern that the economy will take a turn for the worst when the Fed changes course in the future.

Globally, we saw great unease; especially in Europe. Two of the greatest examples of global economic unrest that made headlines were the political and economic turbulence, and perhaps failure, of Greece and Ireland. These countries forecasted great growth, borrowed an excessive amount of debt, and later had very little or no means to pay it back in the future. The fear of economic collapse spread through Europe like wildfire creating an atmosphere of fear that neighboring countries couldn't ignore.

2011 is now here and the world is still unsure about its economic future. While emerging markets have been crucial for global economic growth, excess commodity and food prices are now starting to hamper developing nations.

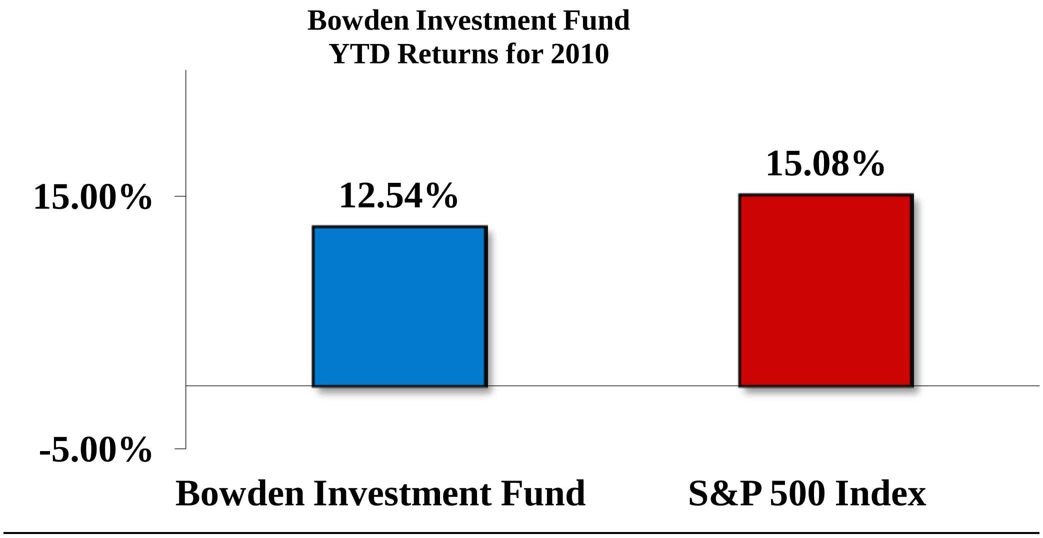
- ***Chris Wexler,*** Bowden Economic Analyst

Bowden Fund Overall Performance



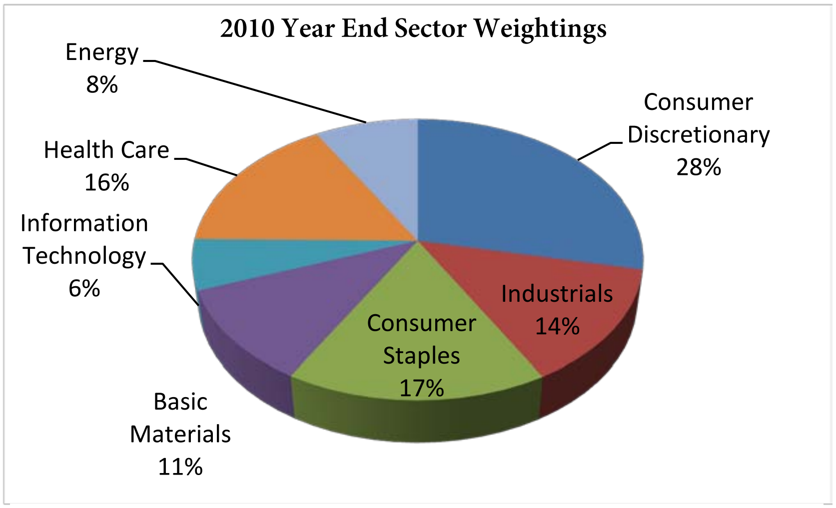
As shown in the graphic above, the Bowden fund return, over time has consistently stayed ahead of its benchmark index. The Bowden Investment fund began in early January of 2000 with a balance of $10,678.21 and ended the year of 2010 with a balance of $80,638.93. This growth is attributable to the 11 years of Bowden analysts' hard work and the generous donations and investments by our benefactors. BIG will continue to adhere to the disciplines and fiduciary responsibilities, set forth since the beginning, into the next upcoming year.

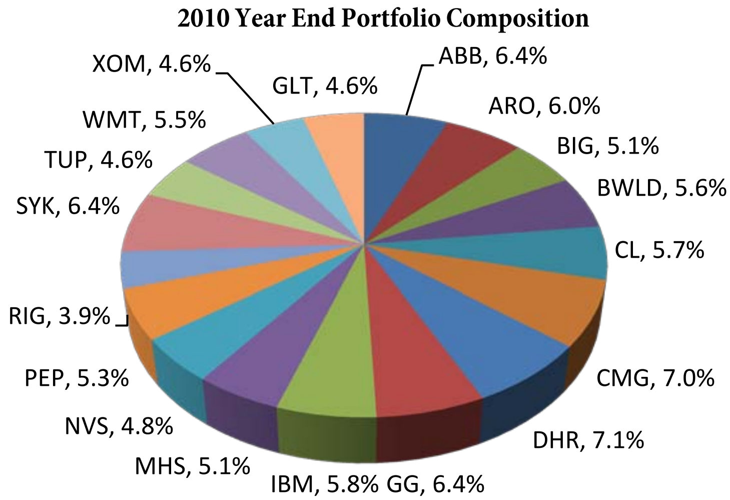
2010 Portfolio Performance



In 2010, the Bowden Investment Fund missed its performance benchmark; the S&P 500 Index. The substantial growth in the American markets was fueled by contrarian optimism in the performance of sectors that had fallen out of favor with investors in recent years passed. This represents a shift in the fund’s makeup in the beginning year toward income producing equities. This shift was well warranted due to the uncertainty of the American economy and the Small CAP and Growth options in the equities markets. December, in particular, was a difficult month due to the anticipation of year-end/holiday earning results and was the leading factor to us missing our benchmark. The portfolio is well positioned for the future with investments in firms that have the resources and cash to fuel growth in the economy going forward and we are currently exploring options to gain exposure to some promising value and growth stocks that have exposure to emerging markets; an area we believe will be a catalyst for growth in the upcoming year.

2010 Sector Exposure and Portfolio Composition





Sector weightings are an important part of portfolio composition and risk management. Reliance on the performance of a few sectors will hinder overall portfolio performance and exposes our investors to unnecessary risks. The Bowden group recognizes this and maintains strict sector and industry weighting parameters to ensure we are properly diversified. Our accountant, Jesse Whitaker, monitors these weightings on a routine basis and informed us in October that we were overweight in the Consumer Discretionary sector. This was in large part due to the outstanding performance of our investment in Chipotle Mexican Grill (CMG). Since the beginning of the year, CMG has realized an astounding 120.4% return on investment. This led us to reduce our position in CMG by 1/3 of holding value. Consumer Discretionary, as a whole, has been a sector that has exceeded expectations as investors were optimistic about economic recovery and consumer spending habits. We at Bowden will continue to monitor the fund’s sector weightings/performances and make adjustments accordingly as they relate to our current holdings and potential investments in the future.

Recent Additions to Portfolio

PH Glatfelter Co. (GLT): GLT manufactures and sells specialty paper products such as specialty labeling both domestically and internationally. GLT also boasts the number one market position in terms of publishing papers and is the second largest producer of carbonless papers. Glatfelter's dominance of niche markets, quality earnings, and customer focus contributed to BIG's investment in the company.

Current Firm Analyses for Consideration Include:

- Activision Blizzard, Inc. (ATVI)
- Church & Dwight Co., Inc. (CHD)
- First Solar, Inc. (FSLR)
- Google Inc. (GOOG)
- Lancaster Colony Corp. (LANC)
- StoneMor Partners LP (STON)
- Under Armour, Inc. (UA)

Ongoing Portfolio Analysis

Each stock in the Bowden Investment fund is closely followed by all of our analysts. Any news, developments, and external factors that could affect the ability of the stock's performance are closely scrutinized. At Bowden, we believe it is crucial to assess the individual investment's ability to contribute value to the portfolio and, ultimately, our investors.

2011 Economic Outlook

Moving into 2011, the economies of the world face great uncertainty. The American markets have shown strong growth over the last couple months, and the emerging markets have also performed well. However, governments across the globe are experiencing discontent. In Egypt, Ireland, and Tunisia a changing of the guards appears to be imminent. Although these countries have received a lot of the publicity lately, their problems are dwarfed by those of the European Union and the United States. Additionally, I believe that after some market corrections, China and emerging markets will be the engine of growth moving forward.

The EU has many hurdles in its way before achieving a full recovery. Overspending by the few continues to plague the whole. Unlike the United States, individual members of the EU do not have the option of inflating their way out of debt. They must choose to either debase their currency together, or make difficult decisions regarding what social entitlement programs to reduce. Neither option is particularly attractive, but a decision must be made. Because cutting back on social programs is so unpopular for politicians wanting to get reelected, I believe that eventually the EU will choose the inflationary route. I also believe that some members of the EU might ultimately choose to leave the group. Their primary barrier to doing so is the cost of reestablishing their own currencies.

Domestically, the Federal Reserve says that strong economic growth has taken hold, and that our economy's fourth quarter annually adjusted real GDP figures of 3.2% suggest that better days are coming. When not adjusted for inflation this figure is 3.4%. This means that despite the commodities price hikes, inflation is expected to be 0.2% annually. Anybody can look at prices at the gas pump and grocery store and see that this data is grossly misrepresented. I believe that most of the supposed growth in GDP is really a byproduct of increased nominal costs in food and energy. This data has nevertheless created a sense of optimism in the financial markets, and I expect this optimism to continue for at least the first quarter of 2011. However, economists are debating whether this growth is sustainable.

The fundamentals are still far out of alignment and legitimate growth cannot continue throughout the entire year. Our financial problems were created by easy money and too much debt; by both the government and investors. However, the Federal Reserve is prescribing vast amounts of more debt as the solution. I consider this idea tantamount to a person with too much credit card debt thinking that he can solve his problems by using more credit cards. It is simply unsustainable long-term.

Many parts of Asia and Latin America are experiencing high levels of inflation. This is particularly a problem in India and China where things such as food, spices, and real estate are soaring. China has seen a great deal of speculative investments in their real estate markets. While I believe that China will carry the world through this next century, a real estate correction is overdue. When this occurs, it will most likely cause a significant dip in the financial markets, and provide a tremendous investment opportunity.

-Jacob Haas; Bowden Economic Analyst

Bowden in New York

In the early fall of 2010, the Bowden Investment Group had the opportunity to visit the financial capital of the world and interact with leading financial companies and professionals. BIG was thankful to be received by members of Alliance Bernstein, International Strategy and Investment Group, the Capital Group, and U.S. Trust. We also had the honor of witnessing the proceedings of open market trading on the floor of the New York Stock Exchange. These firms generously took time out of their work day to provide insight into today's financial markets, analysis, executive skills, and the career of a financial analyst.

ISI
International Strategy & Investment

AB
AllianceBernstein
Investments

NYSE
New York Stock Exchange®

U.S. TRUST
Bank of America Private Wealth Management

Capital Group®
Companies

A Very Special Thanks…

To everyone who has contributed their investment, whether dollars or time, to our continuing education and practice. We at Bowden feel immensely grateful for this opportunity to gain real experience in investment management and financial analysis. It is quite a rewarding experience and will pay dividends to our and future members' personal and professional lives.

For More Information:

Dr. Delbert C. Goff
Department of Finance, Banking and Insurance
Appalachian State University
P.O. Box 32058
Boone, NC 28608-2058
(828) 262-6188
goffdc@appstate.edu

Visit the Bowden Investment Group online at:

www.big.appstate.edu

"Tell me and I'll forget; show me and I may remember; involve me and I'll understand."

Chinese proverb