



**Bowden Investment Group**

*10 Year Anniversary*

Annual Report

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2009

## **Bowden Investment Group Overview**

January 2010 marks the 10 year anniversary for the Elbert V. Bowden Student Managed Investment Fund. The fund was established in January 2000 by the Department of Finance, Banking and Insurance at Appalachian State University. The fund was named in honor of Dr. Elbert V. Bowden to recognize his outstanding work and his many contributions to the students at Appalachian. The purpose of the Bowden Investment Fund is to provide students with an opportunity to obtain hands-on investment experience and to provide funds to benefit the students and faculty in the Department. After 10 years, the fund continues to challenge students in new areas and offer opportunities beyond typical undergraduate course work.

In order to participate in the management of the Bowden Investment Fund (BIF) students must apply and be accepted into the Bowden Investment Group (BIG). Acceptance is based on each applicant's academic standing, interview, and interest in investments and financial analysis. Once accepted each member must commit to both Fall and Spring Investment Management courses.

The BIF is managed as a "growth and income" fund and is invested solely in equities. The fund composition may be biased in one direction depending on the view of the BIG regarding current economic conditions and/or the style which is likely to provide the best performance over time. Investments in the BIG may include common stock, preferred stock, closed-end investment funds, and exchange traded funds (ETF).

Each member in the BIG prepares investment reports based on their extensive research for a particular security they believe to be a buy. Each member will present their research and recommendation to the class. In order to purchase a security, a vote of two-thirds membership is required.

In order to control the risk of the fund and reduce the probability of capital loss, the BIF is managed in such a manner as to avoid excess volatility. The BIG uses the portfolio's beta as its primary measure of volatility. The beta of the BIF should not exceed the beta of the portfolio's benchmark by more than 20%. The benchmark portfolio used for judging the relative performance of the BIF is the S&P 500 Index.

## 2009-2010 Bowden Investment Group



Back Row from left to right: Katie Splawn, Andrew Turngren, William Helmke, Matt Smith, Chris Biddle, Ivey Gaskin. Front Row from left to right: Jeremy Butts, Nicole Pinter, David Towarnicky, Michael Angolia, Lev Kotliar

### Positions and Responsibilities

#### **Administrative Positions**

*President: Lev Kotliar*

*Vice President/Public Relations Manager: Chris Biddle*

*Webmaster: William Helmke*

*BIG Update Editor: Katie Splawn*

*Annual Report Editor: David Towarnicky*

*Accountant: Nicole Pinter*

#### **Economic Analysts**

*Andrew Turngren*

*Michael Angolia*

#### **Industry Analysts**

*Technology and Financial Services: Jeremy Butts*

*Healthcare and Services Industries: Ivey Gaskin*

*Consumer and Industrial Goods: Maxx Smith*

*Basic Materials and Energy Industries: Matt Smith*

## 2009 Economic Review

The year 2009 was one that brought with it many changes, both in the financial markets and in the overall economy. The financial meltdown of 2008 resulted in consumer confidence in the economy that reached staggering lows as 2009 began. Domestic and international markets were losing their value daily. The year 2009 raised numerous questions about the extent of damages the events of 2008 caused: how and when the economy would recover, and what the newly elected President of the United States was going to do about it.

Fortunately many of these questions have been answered, and the current situation of the U.S. and world economy is not as bad as many feared when the year began. In 2009 we saw the official end of the recession, although its effects are still being felt. The year 2009 resulted in positive overall growth for most of the year, which was a drastic improvement compared to market performances in 2008. This has been a slow recovery which has brought about many changes in world economies, consumer confidence, and the overall financial system.

In the U.S. overall GDP declined through the 2<sup>nd</sup> quarter but began to recover in the 3<sup>rd</sup> with a positive 2.8% growth. One specific area of concern for the U.S. and its government leaders has been the unemployment rate. Beginning the year around 7%, the unemployment rate rose to a high of 10.2% but ended the year around 10%. This jump in unemployment came in the wake of lay-offs and businesses closing their doors due to decreased consumer demand and confidence.

Consumer confidence has played a major role in the past year in dictating the overall trend of the markets. According to the Conference Board, consumer confidence was extremely low at the start of the year but rose through April and has since bounced around 50 on the consumer confidence index. The decrease in consumer confidence led to decreases in discretionary spending as Americans began to save their money in anticipation of tough economic times that lay ahead. The U.S. economy continues to be negatively affected by decreased consumer confidence and spending. The year did end on a positive note however, as the index rose for the last two months of the year.

The year 2009 also brought with it a wide range of changes in global markets. Some countries have weathered the recession very well, but others continue to struggle and take much longer to recover. One area of the global marketplace that has been very positive is the commodities market. The International Monetary Fund (IMF) commodity price index has risen by 40% since its low in February of 2009. This has been accompanied by the stabilization of the real estate market, which was a major contributing factor to the official end of the recession. Real estate prices did not rise significantly in 2009, leading to doubt about the long term strength of the recovery.

Following the financial crisis of 2008, Congress has set in motion legislation with the objective to overhaul the financial system and ensure that another financial crisis will not happen in the future. This legislation, along with proposed changes in healthcare, is sure to have an enormous effect on the U.S. economy if passed.

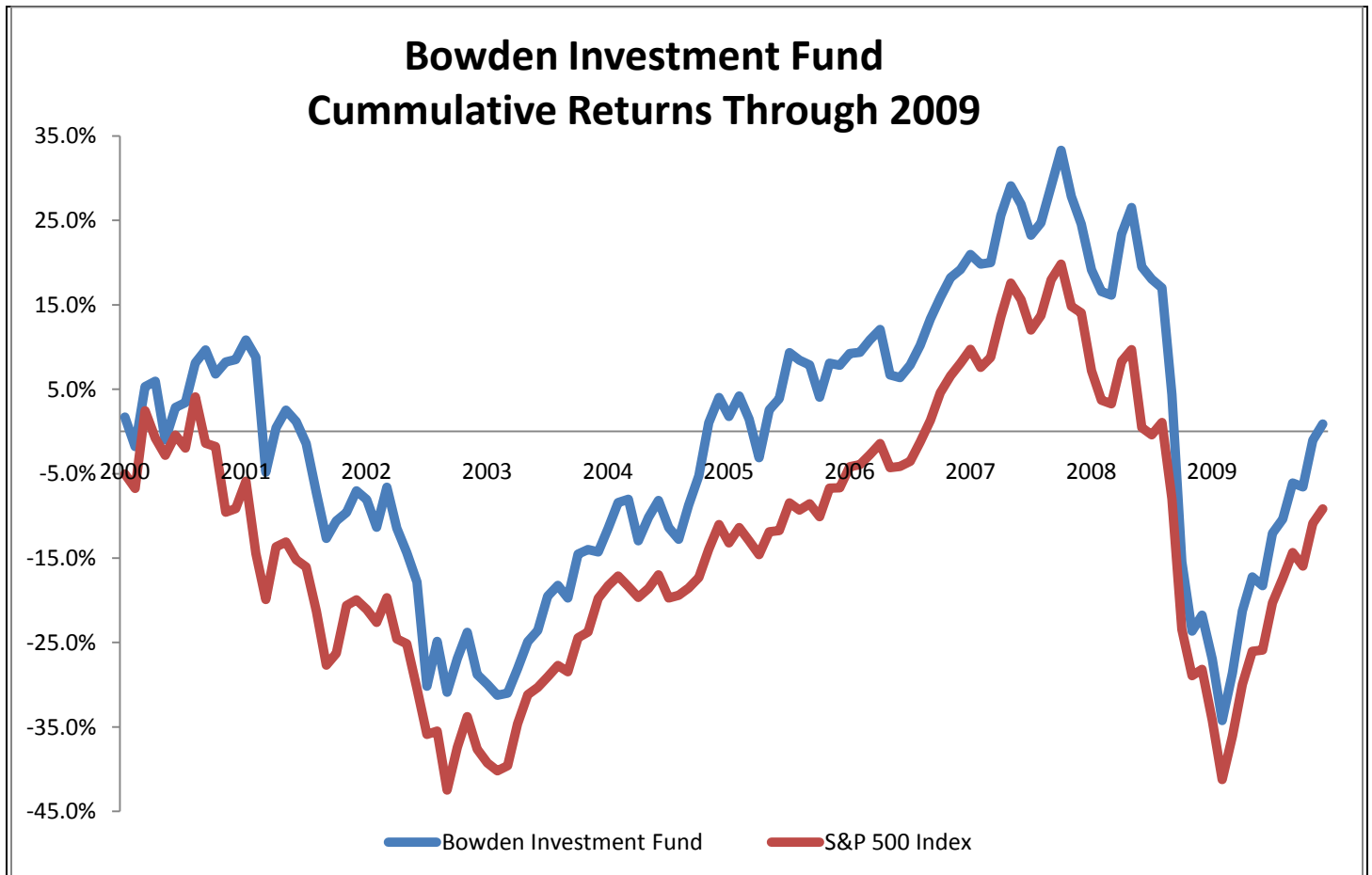
The year 2009 has been a year of many changes, both positive and negative. The economy appears to be on a positive trend as markets continue to stabilize and consumer confidence and spending continue to increase. This past year has been quite the learning experience for members of BIG. BIG members have witnessed firsthand a crushing financial crisis and the economy's ensuing recovery.

*Michael Angolia*

*-Economic Analyst, Bowden Invest Group*

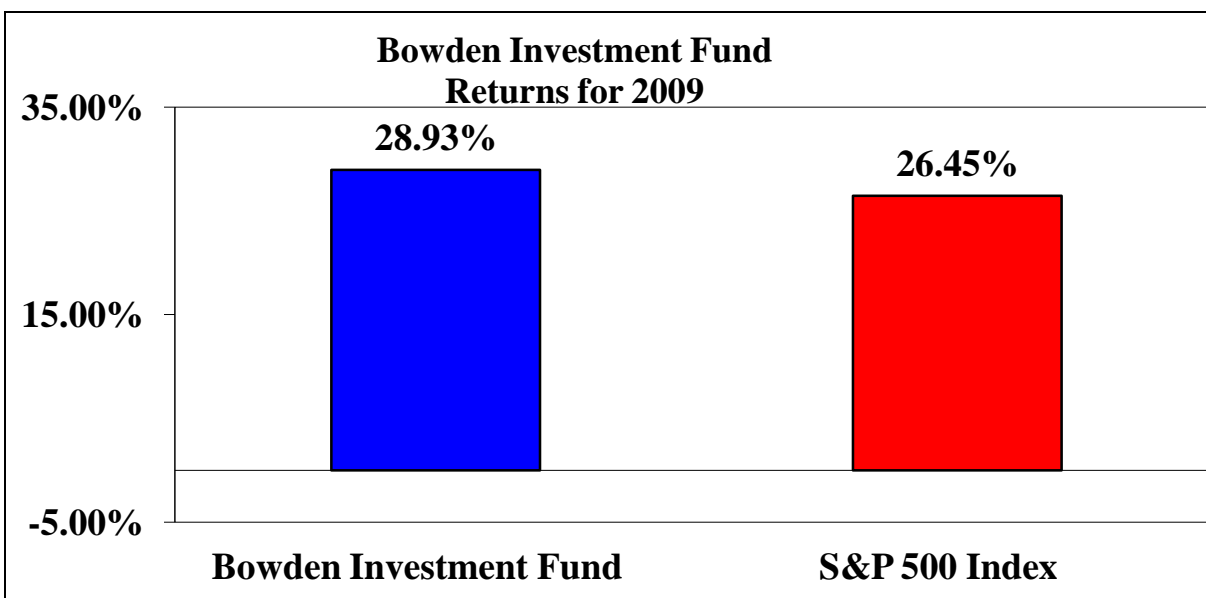
## Fund Performance

This year marks the 10<sup>th</sup> anniversary of the BIF. Since its inception in 2000, the Bowden Investment Group's cumulative returns have consistently surpassed that of its benchmark, the S&P 500 (see "Cumulative Returns" graph below). In January of 2000 the BIG began with an account balance of \$10,678.21, and has grown to an ending balance on December 31<sup>st</sup>, 2009, of \$71,651.83. While the BIG would like to take sole credit for the growth of the fund, the investing decisions of the group as a whole over the last ten years is only a part of the reason for the success and growth of this fund. Over the last 10 years, the Bowden Investment Group has been the recipient of financial donations from our generous supporters which have allowed us to grow the value of our portfolio, expand our investing options, and enhance the educational experience of group members.

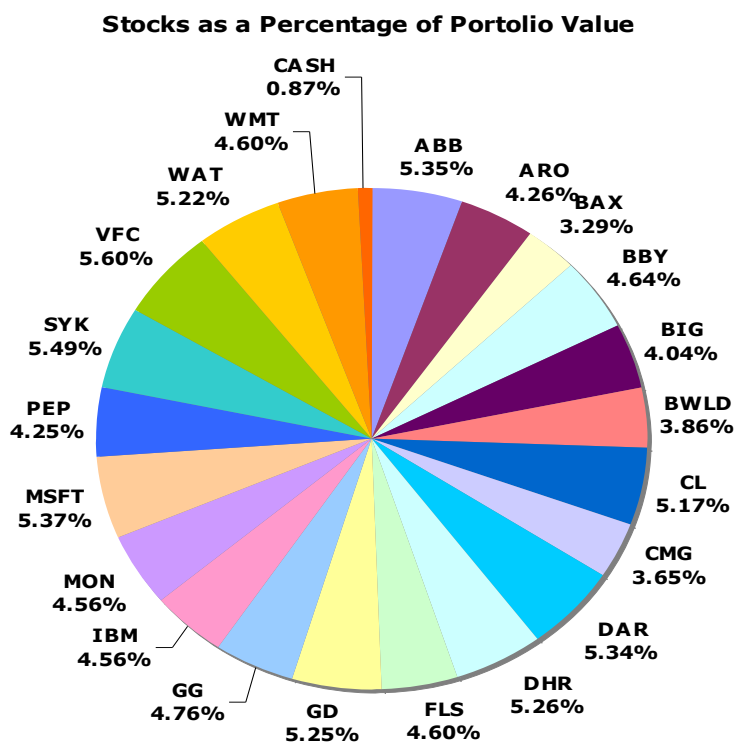


## 2009 Portfolio Performance

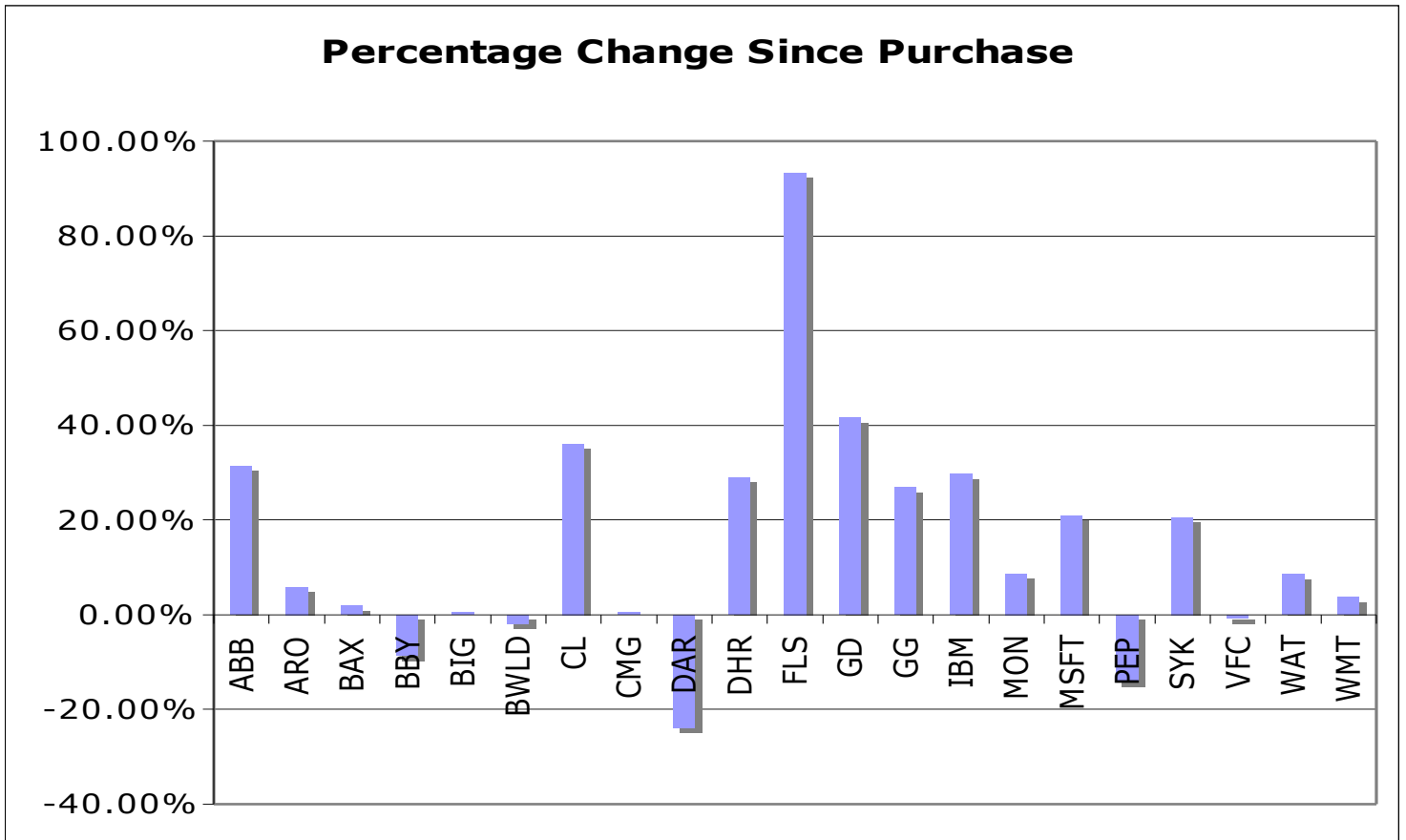
In 2009 the BIF once again outperformed our benchmark index, the S&P 500, as markets began to regain their value in the wake of the financial meltdown of 2008. The BIF had an annual return of 28.93% compared to the annual return of 26.477% for the S&P 500 (see “Bowden Investment Fund Returns for 2009” chart).



The BIF consists of stocks from numerous industrial sectors including: consumer discretionary, consumer staples, health care, industrials, information technology, and materials industries. No individual sector is to make up more than 20% of the portfolio’s holdings. The BIF has recently chosen to stay away from the financial industry as many companies in that sector continue to recover from the crisis of 2008 and face greater governmental regulations that will likely have negative effects on profitability for some time. The BIF’s three largest individual holdings are VF Corp., Microsoft Corporation, and Stryker Corp. Individual holdings as a percent of the total portfolio value can be seen in the “Stocks as a Percentage of Portfolio Value” chart.



The BIF is closely watched by group members on a daily basis for news and events that could substantially alter an individual security's ability to contribute value to the portfolio. Students have the opportunity at any point in the school year to make a formal "SELL" recommendation on any stock. In the spring semester however, the entire portfolio is closely re-evaluated and each individual security receives a thorough analysis regarding its potential to add significant value to the BIF. The three most profitable assets since their inclusion in the fund have been Flowserve Corp., General Dynamics Corp., and Colgate-Palmolive Co. The performance of individual securities is seen in the graph titled "Percent Change Since Purchase."



## Recent Additions to the Portfolio

During the fall semester members of the BIG each chose a stock to follow and analyze throughout the semester. Each student spent the semester breaking down numerous aspects of their respective company that culminated in a final BUY/SELL recommendation at the end of the semester. Students based their recommendations on research conducted on their company's industry, its sustainable competitive advantage, and a detailed financial analysis of the company. Members of the group learned how to build financial models based on a company's public financial statements and how to conduct an in-depth DuPont analysis to help determine their company's financial strength. After the presentations in December, the group voted on which stocks to add to the portfolio. Fall semester additions included:

**Aeropostale (ARO):** Aeropostale is a specialty apparel retail store that focuses on producing high quality and fashionable merchandise at affordable prices. Aeropostale designs and markets its own brand which targets age groups from 14-17 years old, with a majority of their stores located in the United States. With 11 years of consecutive sales growth, competitive pricing, a new product line, and an estimated 500 new stores in the next decade, Aeropostale caught our attention to be a great buy.

**Big Lots (BIG):** Big Lots operates as a closeout retailer offering products in a wide range of merchandising categories. Big Lots has positioned itself well within its market due to the deep-discount and close-out nature of the goods they sell. As many consumers continue to "trade down" there will be an increased demand for deep-discount retailers, and subsequently higher earnings for companies like Big Lots. Members of the Bowden Investment Group not only like this company's ticker symbol, but also its ability to offer customers great deals, its strong financials, and its room for growth.

**Buffalo Wild Wings (BWLD):** BWLD operates casual dining restaurants that combine a sports bar atmosphere with a family-friendly environment. The company currently operates approximately 600 restaurants and plans to expand to over 1,000 locations. BWLD has very little long term liabilities (12% of total assets), an increasing return on equity ratio (15.1%), and earnings growth of 20% or greater since its founding in 2003. The company's healthy financial position, its growing popularity, and room for expansion made this an attractive buy.

**Chipotle Mexican Grill (CMG):** CMG is a fast-casual Mexican restaurant company that distinguishes themselves with their high quality of food, environmentally friendly ingredients, and modern image. CMG is steadily growing sales, has a low amount of debt, and plans to open 120-130 new restaurants in 2010, including their first European location.



## 2010 Economic Outlook

The global economic outlook for 2010 is at best, tepid. Financial systems around the world appear to have stabilized as a result of enormous economic recovery and stimulus packages injected into the economy, but many questions still loom. The biggest of these questions is when policymakers around the world will initialize stimulus package removal. The “real” economy, with benchmarks such as unemployment and housing, is still very much lacking. The unemployment level is still a major problem almost everywhere around the world and has led to overcapacity and a slack in demand as real wages on a per capita basis have been decreasing. Due to the nature of being a lagging indicator, unemployment is likely to slow its increase but remain at elevated levels for quite some time. This will in turn hold back the general economic recovery.

The greatest fear that the global economy is faced with in 2010 is that a premature removal of stimulus will hamper economic growth, and we can experience a “W” shaped recession, or what is also referred to as a “double-dip” in which growth could stagnate or we could begin another recession. While information from global capital markets is encouraging, I believe that this is an inaccurate view of the actual global economy. Trading activity has increased prices, but there is very little value added and the real economy has improved very little. It is unclear as to when the majority of the central banks will decide to raise rates and remove stimulus to curb inflation. The Federal Open Market Committee is currently debating how and when to raise interest rates and stop quantitatively easing the monetary base; however I feel that interest rates will remain low for some time. I believe that the earliest the U.S. would consider raising interest rates would be in the third or fourth quarter of 2010.

It is unlikely that the dollar will lose its place as the world’s reserve currency but there are concerns about its long term strength. The U.S. is recovering slightly faster than many of the other developed economies which could lead to short term appreciation of the dollar, but the rapid growth of developing economies that the U.S. has a large reliance on for goods will put downward pressure on the dollar in the long run, specifically on exchange rates with those developing countries.

Perhaps the most interesting outlook is that of the capital markets. Over the last year we have seen incredible growth given the lows we reached, but the key word for 2010 will be volatility. While market activity heated up in 2009, it is my belief that many investors will start to realize that capital market gains cannot make up for a lagging real economy, and values will start to go down. Budgets across the board will continue to be tight; however the return to profitability over the last several quarters for many firms will loosen them slightly. A new set of fiscal regulations working its way through congress will also add another layer of uncertainty on the capital markets.

In the short term there will be more gains as the economy “rides the wave” of economic stimulus packages and a Christmas season that saw consumer spending increase. These new levels of spending are encouraging signs for 2010, but I believe that the weight of unemployment and overcapacity will show this increase to be temporary. The unwinding of fiscal stimulus both here and abroad will prove to be the greatest challenge of 2010. Central banks around the world are saddled with the task of steering the global economy on the narrow path between unwinding stimulus too late, leading to rampant inflation, and unwinding too soon and falling into another recession.

*Andrew Turngren*

*-Economic Analyst, Bowden Investment Group*

## NYC Trip

In early November the Bowden Investment Group made their annual trip to New York City to visit with companies and network with professionals in the finance field. While staying at the Appalachian Loft in Manhattan, students visited Capital Group, Edgewood Capital Management and the New York Stock Exchange.

Our first visit was to the famous Rockefeller Center and The Capital Group. We were welcomed by two of their investment specialists who went over some information about the company and answered questions about their investing strategy. We were then given the opportunity to discuss the Bowden Investment Fund and received very positive feedback on the quality of stocks in the portfolio. Later on BIG visited Edgewood Capital Management, where their representatives introduced us to the types of funds that they manage and their general investment strategies. We also discussed the process of researching stocks and presenting to colleagues, which helped us in our own reports. Both of these visits were very beneficial to students, who got a unique chance to interact with top professionals in the business.

The trip concluded with a visit to Wall Street and the New York Stock Exchange. At the NYSE the group got a chance to walk the floor and learn about the history of the NYSE and the technological changes that it has gone through over the years. The visit was an invaluable experience to all members of the Bowden Investment Group and concluded with our witnessing of the closing bell. It was surreal to be at the NYSE in person after watching it so many times on TV, and is sure to be an experience we will all forever remember. While on Wall Street students also took the time to visit the Museum of American Finance and its exhibits.

During periods of the trip with no scheduled activities, students were permitted to experience the city and find their own forms of entertainment. Outside of the scheduled activities students attended Off-Broadway performances, attended a New York Kicks basketball game, visited Ground Zero, walked across the Brooklyn Bridge to get a taste of real Brooklyn-style pizza, and experienced the culture of different areas of the city.

While in NYC, students learned a lot about working in the financial industry, but also learned a lot about each other. The trip was a valuable learning experience that opened our eyes to sights and ideas that most students only get to experience through the pages of a text book.



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## Special Thanks To Our Supporters

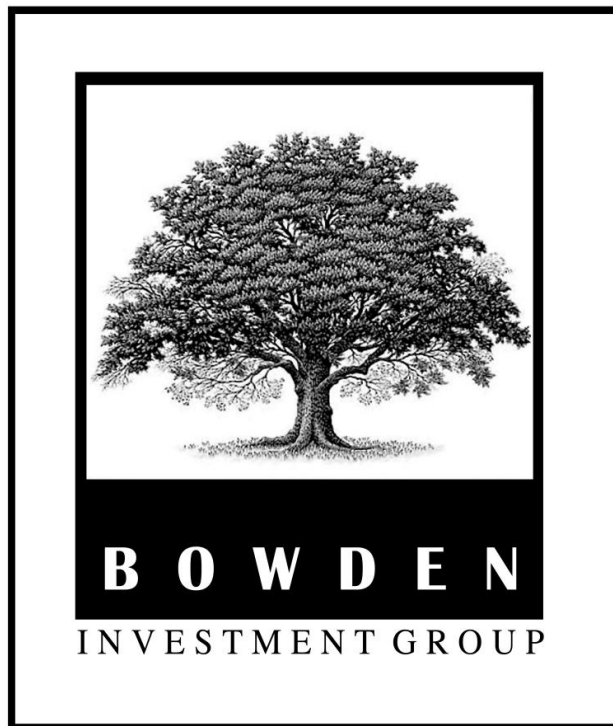
All the members of the Bowden Investment Group would like to sincerely thank all of those that supported and contributed to the Bowden Investment Fund over these last 10 years. We are very grateful for the unique and truly rewarding educational experience that you have made possible through your generosity. We look forward to continuing our relationship with all those who have provided us with such an incredible opportunity to gain hands-on experience in the field of finance.

### For More Information:

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*"An investment in knowledge always pays the best interest."  
-Benjamin Franklin*