

# Annual Report 2014

# Bowden Investment Group



## History and Objectives

The Elbert V. Bowden Student Investment Management Fund was established in January 2000 in honor of Dr. Bowden. The Bowden Investment Fund has grown considerably since inception, thanks to effective guidance and generous contributions. Students in the Bowden Investment Group (BIG) are given the rare opportunity of gaining real-world experience by managing a portfolio of equity investments. Financial analysis and modeling is a key takeaway from the experience and is a skill few undergraduate students have the chance to learn. The goal of the Bowden Investment Fund is to outperform the S&P 500 stock index while appropriately managing risk. Careful consideration is given to sector weightings, assets-held weightings, and portfolio diversification to ensure no unnecessary risks are being taken. Extensive research is done throughout the year on potential investments and on current holdings. In addition, eight of the 12 Bowden members must agree for any assets to be added or removed from the portfolio. The fund benefits both the Department of Finance, Banking, and Insurance, as well as the students involved.



### **Bowden Investment Group 2014-2015**

*Back Row: (From Left) Dr. Goff, Jack Ludlow, Paul Hee, Nathan Birmingham, Stephen Boatman, Patrick Fontaine, Andrew Furr, Zach Pulliam, Mr. Thompson*

*Front Row: (From Left) Brett Featherstone, Danelle Chilcott, Connor Kelly, Matt Wine, Caitlin Owings*

### **Faculty Advisor Background**

Dr. Goff is the Professor for the Bowden Investment Group and has been working with Students in the Bowden Group since its inception. He holds a B.S. from the University of Florida and a MBA and Ph.D. from Florida State University. Dr. Goff is passionate about teaching students about finance and the many important steps of portfolio management. By setting high expectations and motivating students, Dr. Goff has helped grow the program into a great experience for students

Mr. Thompson is an adjunct professor and serves as a mentor for the group. Mr. Thompson is a retired CFO and General Partner of WEDGE Capital, LLP and is a great addition to the group. Serving as a source of wisdom and professional knowledge, Mr. Thompson works with the BIG to help the students become professionals in the finance industry. In his spare time, Mr. Thompson enjoys playing golf and watercolor and oil painting.



# Annual BIG Day 2014



*Camp Broadstone Appalachian State University*

Managing a real world portfolio of investments requires effective collaboration of all members. As incoming BIG members, most of us were unsure of what to expect. Many of the members were finishing up summer internships or jobs and nervous to get back to school. We had been told by former members to be ready for lots of work and for lots of fun. In order to become closer as a team, BIG day was held in August. The day is meant to develop professional skills of the students and to create comfort within the group. The morning activities included an etiquette luncheon led by Ms. Janet Woodson of La-Tea-Da's Catering & Events. In addition to the luncheon, tips on business professionalism were given by Ms. Linda Matney, retired General Partner of WEDGE Capital Management, LLP, and Mr. Thompson. After lunch, the students traveled to Camp Broadstone, which is involved with the Outdoor Programs Department of ASU and is home to a fifty foot Alpine tower. In a team-building mission, we were tasked with climbing to the top of the log structure. A rope and harness system was operated by group members to ensure the safety of those climbing. With the supervision of seasoned instructors, we were able to successfully assist each other to the top. The day concluded with a dinner at Mr. Thompson's cottage in Linville. Students, faculty, family and friends attended the dinner. This informal evening was a perfect end to the day of activity. As a group, this was a great way to start the semester and grow closer as a team.

# Annual New York Trip



Looking back on our college careers, most of the current members of the BIG would likely agree the trip to New York City was one of the most memorable opportunities. For a group of students concentrated in Finance, a trip to New York is the chance of a lifetime. The trip occurred at the end of September and we couldn't have asked for better weather. BIG members were taken to the New York Stock Exchange during the afternoon and were able to see the closing bell. Many other industry professionals with connections to the Bowden Group were kind enough to open their doors for visits. Tiger Management, ISI, Scotiabank, and Blackrock all took time to visit with the group and talk about the field of finance. Seeing the pace and scale of Finance in New York City is something that resonated with the group. In addition to seeing and learning about many areas of Finance, BIG had the opportunity to explore NYC. The Empire State Building, World Trade Center, and Broadway were all destinations for group members during our free time. By the beginning of October, I believe we were all feeling much more like a team thanks to the BIG day and the New York trip.

# 2014 Economic Review

I believe when we look back at 2014, the most important economic events are the dropping price of oil, the United States driving the world economy and increased dollar value, and how the Federal Reserve has started planning rate increases for 2015.

After peaking in June at \$101.18, crude oil ended 2014 at \$53.27, a drop of over 47%. This price decline is due to a combination of discovering oil reserves in the United States, as well as OPEC pumping more oil into the marketplace. This oversupply of oil translated into a drop in the price of retail gasoline from a 2014 high of \$3.77 in July, to



Source: [sussexnrggrp.wordpress.com](http://sussexnrggrp.wordpress.com)

\$2.39 at the end of 2014, a decrease of 36.6% in just five months. The lower gas prices have given consumers more money to spend. We can see this increase in discretionary income when looking at the \$600 billion worth of holiday sales for 2014. The drop in crude oil prices resulted in a decrease in the Energy Sector of the S&P toward the end of the year. The implications of low oil prices are big for small Balkan oil companies, which are more at risk than their Texas counterparts, due to their higher cost of drilling.

The US Economy had a good year, for the most part, in 2014. We saw job growth above 200K per month for the majority of the year, and the December unemployment rate was 5.6% (Figure 1), the lowest since June 2008. However, there are some indicators we have seen that do not paint the same picture. Wage growth in the US has only increased 1.7% y/y and inflation averaged only 1.6% for 2014. Based on this data we saw the FED make many changes in 2014. They ended QE3 in October and in their most recent minutes have changed their wording about when interest rates will rise from “considerable time” to “patient.” This indicates that the FED may raise rates sooner rather than later.

Looking at the rest of the world, we haven't seen strong economic numbers. In Q3, Japan slipped into a recession and then instituted a stimulus package that dropped the value of the Yen relative to the USD. China had some of the slowest GDP growth in recent memory at under 7%, and we have seen the Eurozone enter dangerous economic levels. Europe as a whole has seen negligible GDP growth, deflation across parts of Europe and more worries about the Greek economy. The



European Central Bank has announced that they, too, are going to implement a stimulus package of about €50 billion per month.

This downturn in the Eurozone, combined with the strength of the US economy, has seen the USD rise in value compared to the Euro. The Euro reached a high of \$1.39, but dropped by the end of the year to \$1.21. The USD has also seen strong gains in Asia. This strengthening of the USD will result in some headwinds for US companies that have higher sales in Europe or Asia, but it should provide tailwinds for companies that have labor costs in foreign countries.

–Matt Wine, Economic Analyst

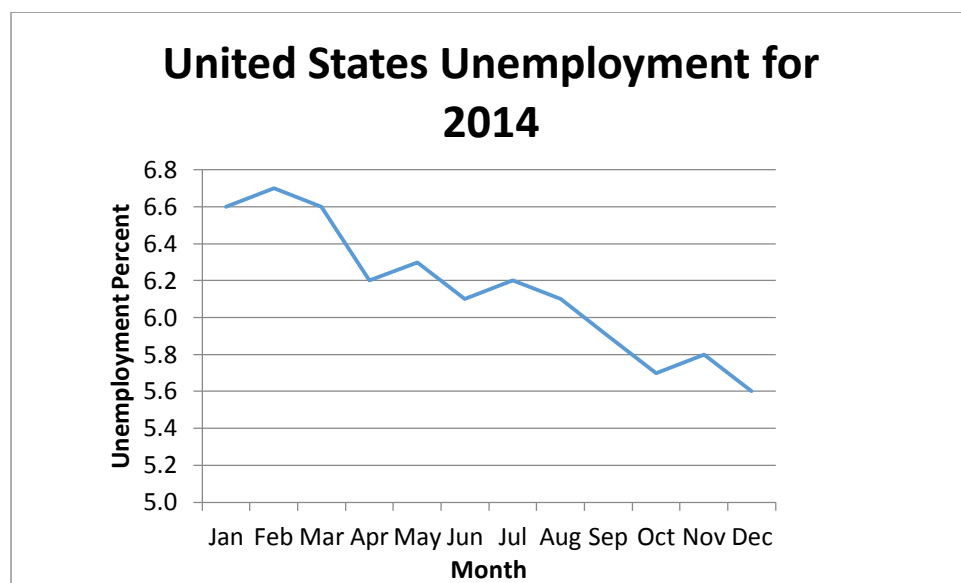


Figure 1: United States Unemployment. Source: bls.gov

# 2014 Year End Industry Reviews

## **Technology Sector**

The overall breakdown of our portfolio during 2014 was somewhat of a roller coaster ride with the final destination being well short of the ride's climatic peak. This past year our portfolio returned 8.88% compared to the S&P's return of 13.69%. Our group was winning the fight throughout the majority of the Fall semester, but were outflanked and lost significant ground to the S&P when our holdings in the technology sector took a hit. The technology sector accounts for 13.89% of the portfolio and consists of the following: Apple Inc., Google Inc., and Stratasy's. Overall, this sector underperformed the S&P 500 by 44.95%, due in part to a 35% decline in SSYS since the beginning of October. Group sentiment for 3-D printing is positive, relying on our belief there will be strong commercial demand for products in the coming quarters. I believe, however, that management needs to focus on gaining support from the everyday consumer in order for the company to have a chance of improving on their -14.01% 2014 returns. SSYS's decline was offset by solid Q3 and Q4 performances by AAPL which beat the S&P by 27% and returned 38.6% for the year. Whether or not SSYS is considered a lost cause will be determined next week during presentations.



## **Industrials Sector**

The portfolio has suffered superficial wounds from both the industrial and consumer cyclical sector. The Bowden Investment Fund has four holdings within the Industrials sector: ABB Limited (ABB), CSX Corporation (CSX), Danaher (DHR), and Raytheon (RTN). These four stocks have a combined weighting of 15.01%. Although ABB Ltd. was a disappointment with a 2014 return of -18.70%, CSX, DHR and RTN produced returns in line with the S&P or above that benchmark. After reaching a 52-week high in January of 2014, ABB stock price dropped significantly. The stock has declined 10% since October. This decline has been a result of a weak European economy, along with increased competition for contracts within the industry. Despite a 2014 decline, ABB is poised to rebound with the recent acquisition of high value contracts and earnings in the 4<sup>th</sup> quarter that beat analyst estimates. Also, with ABB headquartered in Switzerland, they should benefit from a strengthening Swiss Franc, which was recently unpegged

from the devaluing Euro. The entire industrial sector is in position to have a big year as oil prices are expected to remain low and United States economic activity should remain strong. The demand for Raytheon's aerospace and defense products should increase as the fight against ISIS ramps up. The expanding economy should, likewise, increase the demand for raw materials, which will allow CSX to capitalize on the need for increased transportation of those goods. If the healthcare sector performs as expected, Danaher is also in a position for another big year. It designs and manufactures many products that are used in conjunction with healthcare products. The industrial sector shows promise, and we expect it to produce gains for 2015 above the S&P 500.

### **Consumer Cyclical Sector**



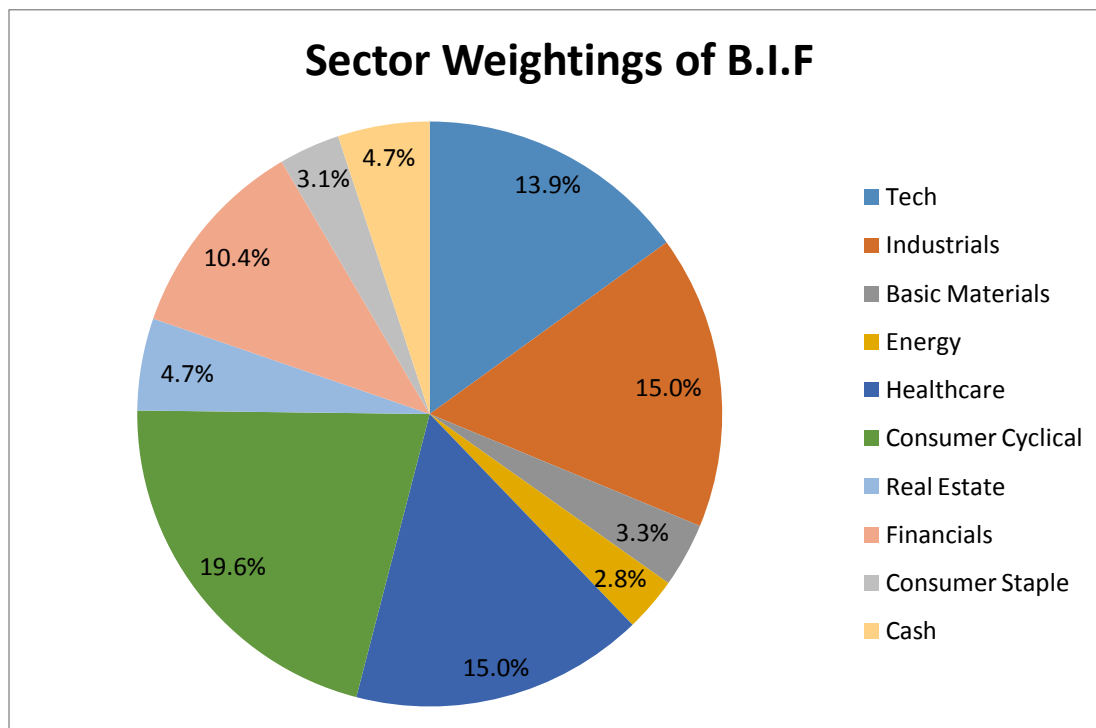
The consumer cyclical sector currently has the highest weighting in the Bowden Investment Fund at 19.56%. Five stocks make up this sector: Ford (F), Foot Locker (FL), Home Depot (HD), Krispy Kreme (KKD), and Vitamin Shoppe (VSI). The largest returns for the sector were HD, FL, and KKD, producing returns of 26.10%, 19.28% and 10.21%, respectively. An increase in discretionary spending by the average American was a big driver for these stocks, as consumers had more money to spend on things such as clothing, home improvements and food. This trend of increased consumer spending should continue into 2015, driving the majority of consumer cyclical stocks up even further. Ford and VSI had losses for 2014, producing returns of -1.54% and -8.74%. Vitamin Shoppe had an up and down year, with news of a possible merger with GNC driving the stock price upwards during September. However, after the rumors subsided, the stock took a major hit. I believe Vitamin Shoppe is a sell as it is experiencing declining market share, a result of the increase in sales for online supplement retailers, as well as GNC's increased stronghold on the market. Ford's losses were a result of retooling costs for the new aluminum-body F-150 as well as recall costs. The SUV and light Truck market experienced an increase in demand, as oil prices declined, but Ford was unable to take advantage. 2015 looks promising for Ford, due to the release of its award-winning aluminum body truck, the first of its kind. It provides 29% better fuel economy than its predecessor and this should draw consumers to the new truck. Overall, the consumer cyclical sector has major upside potential with the economy expected to strengthen and oil prices projected to remain low, putting more money in consumers' pockets.



## **Healthcare Sector**

The performance of our healthcare sector, which is 15% of the portfolio, was amazing in Q4 of 2014. Stryker Corporation and Novartis AG outperformed the S&P 500 by 7.76% and 6.42% respectively. SYK's strong performance can be attributed to its acquisition of Trauson Holdings Company, which now allows SYK to offer a better price-value product to less established markets in China, Indonesia, and Brazil. Looking forward to 2015 I expect SYK to have a much stronger balance sheet and stable earnings reports now that they have officially settled all litigation filed against them. One risk facing SYK is the uncertainty of how much their revenue will be impacted by the increasing value of the dollar. Our analysts are preparing to have that conversation in the coming week.

-Zach Pulliam and Andrew Furr, Industry Analysts



Source: [finance.yahoo.com](http://finance.yahoo.com)

# 2015 Economic Outlook

2014 was an exciting year for the United States economy. The Dow and S&P 500 reached record highs, exceeding the March 2000 dot-com boom. With a strong 2014-year behind us, investors are wondering what's in store for the United States and World economies as we begin the New Year. When evaluating 2015 growth, two important economic indicators to consider are oil prices and the value of the dollar.

As of 1/23/15 WTI Crude Oil sells for \$46.31, which is the lowest we have seen since just before the 2008 financial crisis. Low oil prices are expected to drive the United States economy, but could spell disaster for domestic oil producers. The 2008 financial crisis placed pressure on consumer discretionary spending, especially on purchases like cars and appliances that could be delayed until a later period. Since consumers are spending less at the pump, it is expected that this will increase spending, especially on big-ticket items, which would in turn bolster the United States economy. This increased consumer spending would also allow business to increase capital investments and production capacity, which would potentially spur job growth. Domestic oil producers are having a hard time staying afloat due to this sharp decline in oil prices. With talk of the keystone pipeline and domestic shale oil production, OPEC realized their oil empire was threatened. This caused them to ramp up production and increase exports, causing the price of oil to tumble. If these low oil prices are maintained throughout 2015, we could potentially see small domestic producers go out of business and catastrophic strains on larger domestic producer margins.

Through the end of 2014, the dollar has strengthened in value compared to other major world currencies. In 2008 the exchange rate was \$1.60/Euro, compared to the current rate of \$1.18/Euro. It is expected that the dollar will equal the euro in value by the end of 2015. The strengthening of the dollar will have an effect on US multinational firms, but not a positive one. When a US based multinational firm sells products in another country, they must convert that foreign currency to dollars to record on their balance sheets. For example, it is expected that the dollar will equal the euro in value by the end of 2015. If Apple sells an iPhone in France at the

end of 2015's projected rate for €599, they will exchange that for \$599 dollars. If the iPhone sold for the same price in 2008, that same €599 would be exchanged for \$1078. As the dollar continues to appreciate relative to the euro, profits begin to fall. The effect of these exchange rates will most likely be negligible because most multinational firms participate in currency-forward contracts and options. Regardless of these safeguards, this is still room for error and potential revenue loss due to currency exchange.

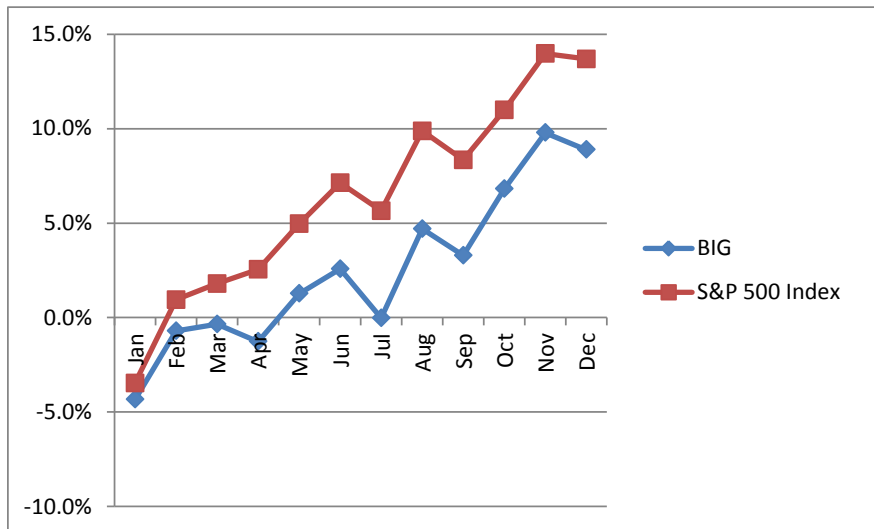
We believe that 2015 economic growth will be positive for the United States economy, however, the extent of that growth will be greatly affect by the European Economy. In Europe, growth is almost nonexistent and unemployment is near record highs. We expect this trend to continue because of deflationary pricing and the proposed economic stimulus program that is expected to depress the value of the euro further.

-Patrick Fontaine, Economic Analyst

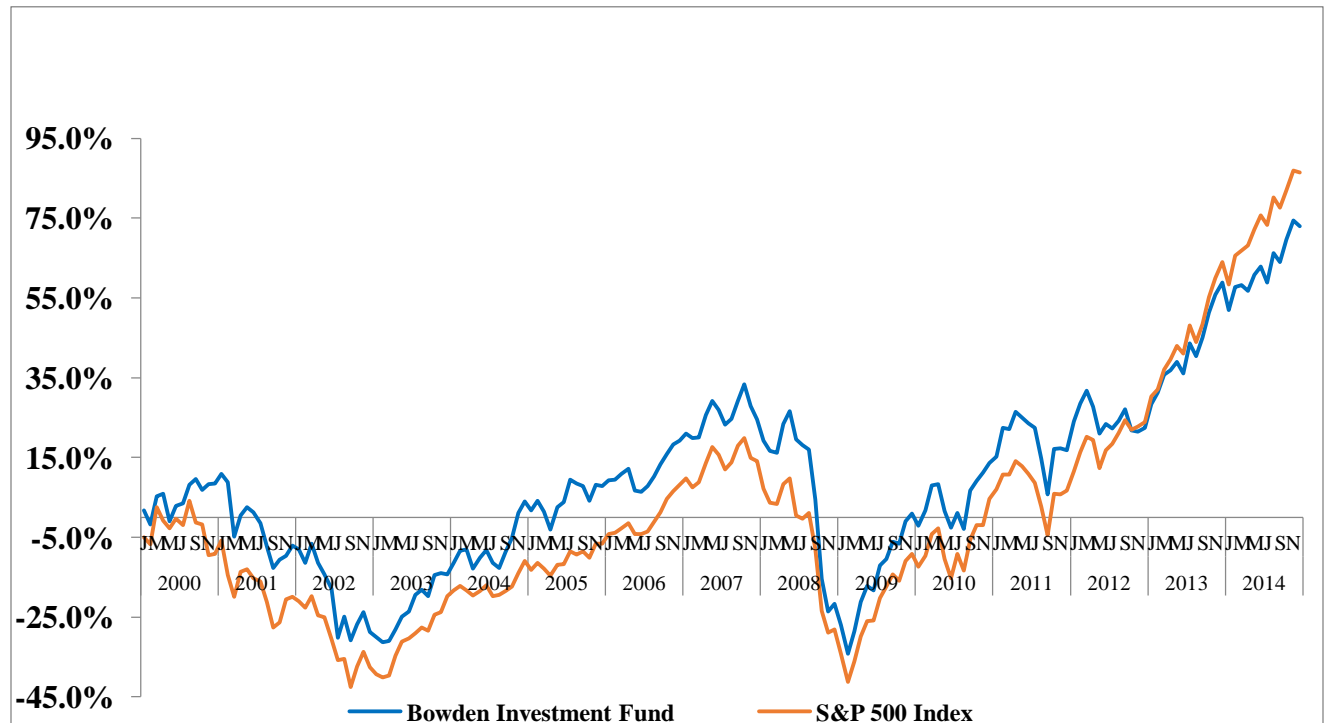


# 2014 Portfolio Performance

2014 Bowden Investment Fund Performance vs. S&P 500 Benchmark



Bowden Investment Fund Returns since Inception



# Thank You

The members of the Bowden Investment Group would like to extend a very special thank you to all those involved with the BIG. Contributions from supporters of the group have made this experience one of the most prestigious opportunities in undergraduate finance. The real-world investment experience and knowledge gained in this course has been a life changing experience for those involved. Thank you to all supporters, alumni, faculty, and industry friends who have been involved with the Bowden Group over the years. We look forward to finishing our final semester on a strong note and hope to provide some positive returns to the Bowden Investment Fund.

For any additional questions about the fund, please contact Dr. Goff for more information.

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