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Va. Tech students handle bond fund better than most

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With the stock market lurching like an erratic elevator, the housing bust and credit crunch tipping the nation into recession and financial institutions struggling to find cash, it seems a wildly uncertain time to be learning about investment.

Especially if you're using nearly \$5 million of someone else's money to get the education.

But that's what about 15 Virginia Tech students are doing, and indications are they're doing fine.

The group, known as BASIS, or Bond and Securities Investing by Students, has invested about \$4.8 million of the Virginia Tech Foundation's money in more than 50 securities during the past two years.

Since its inception, the group has ranked in the top 8 percent of portfolio managers nationwide in one of Merrill Lynch's credit management indices, according to Tech banking professor George Morgan, who along with investments professor Raman Kumar advises the students.

During the past year, the group returned \$250,000 to the foundation in interest on its fixed-income investments while outperforming the market.

"We're doing quite well, and we take a lot of pride in what we're doing," said BASIS member Nandan Shah, 22, of Midlothian, a senior majoring in mechanical engineering and economics who admits trading in the bond market is sometimes intense. "I wouldn't say cold sweats, but it's definitely nerve-wracking."

The group's involvement with bonds has grown considerably trickier in the past few months thanks to market volatility and the tightening of credit.

In the current environment, Shah said, analyzing a corporation's value and the potential payoff of any bonds it may issue becomes more difficult.

"We don't know exactly what's on their books. You don't know which is the best market," he said. "It's a roller coaster out there."

BASIS was formed in 2006 at the instigation of some Tech alumni who told professors there were more jobs available in the bond market than in the stock market, therefore students needed a way to gain experience in trading bonds.

The foundation, which controls Tech's \$528 million endowment, had long funded a group of students trading in the stock market, so agreed to give money to a bond market group as well.

Morgan said the Tech group is only one of seven collegiate groups nationwide that deals exclusively in bonds. The group is not part of a class, though students must take a course on bonds where they learn about such concepts as "yield curve" and "duration," and new members are typically juniors majoring in finance, accounting, marketing or economics, though some are majoring in engineering.

To get invited into the group, students must submit a résumé and a statement, then analyze a bond from one of the four bond sectors — U.S. Treasury, government agencies, municipals and corporate — selected by the group.

They must then submit to an interview during which they must defend their analysis of the bond.

The group extended invitations to 14 more students last month, temporarily swelling its membership to about 30.

Ben Marshall, a 20-year-old BASIS member and a junior from Centreville majoring in finance and economics, said new members can expect to put in long hours studying the bond market.

“It varies for me, but I put in anywhere from 20 to 25 hours a week,” he said.

Under the rules laid down by the foundation in return for the capital, the group can only trade in bonds rated A and above, the kind issued by such moneymakers as General Electric Co., Exxon Mobil Corp. and Wal-Mart Stores Inc. The restraint restricts the group’s exposure to risk.

The goal is to outperform the market and bring the foundation the maximum return on its investments. The group’s investment committee meets for several hours once a week to discuss which bonds to buy or trade. The committee hears analysis and recommendations from four sector heads, who are students with other group members under them doing rigorous analysis of bonds.

In October, Marshall said, the group bought or traded five securities, and the month before it bought or traded 10.

Morgan, the professor, said the students typically buy up to \$125,000 worth of Treasuries at a time, while limiting corporate bond purchases to \$50,000 to \$75,000.

“It’s a risky business — some months we make money, some months we lose,” Morgan said. “They’re surprisingly conservative. But even being conservative is taking a risk.”

Shah, who is co-CEO of BASIS with Marshall, said the learning experience is invaluable, despite “a lot of sleepless nights” due to the workload.

“It’s a great opportunity,” Shah said. “We’re making purchases I’d never dreamed about making at my age.”

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