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At Tech, BASIS puts money where mouth is

A group of students manages \$4.3 million in fixed-income securities, using university money.

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Matt Gentry | The Roanoke Times

Student investors Joseph Shotwell, Tom Floyd, Lauren Grabill, Kevin Pitchford, Josh Allen, Lauren Walker and Matt Odhner (left to right) in the atrium of Pamplin Hall.

BASIS: Bonds and Securities Investing by Students

- **Structure:** Members of the group are divided into five industry sectors. Analysts in each sector make bond recommendations, and sector heads present these recommendations to the group's investment committee. The investment committee is made up of two co-CEOs and the group's CFO and decides

BLACKSBURG -- It's midafternoon in a small office on the second floor of Pamplin Hall, and Josh Allen is in a buying mood.

Dressed in jeans and a black T-shirt, eyes scanning two computer screens' worth of financial data, Allen picks up the phone and dials a Pittsburgh broker.

"The ExxonMobil, we'd like to go with that," he begins. "The GE Finance ... and then the Motorola."

Within seconds, the Virginia Tech finance major is off the phone, \$250,000 spent.

"It's not the glamorous world of Wall Street," jokes Joseph Shotwell, another finance major. "But it'll do."

Shotwell's right.

They may be far from a trading floor, but since October, members of BASIS, or Bonds and Securities Investing by Students, have managed millions of dollars in bonds and other fixed-income securities.

As keepers of a fixed-income investment fund, they squeeze 10 to 20 hours a week of bond research, analysis and investment into schedules already crammed with classes, extracurricular activities and personal commitments.

They do so with \$4.3 million of the Virginia Tech Foundation's endowment at stake.

which bonds to buy and when.

- **Members:** 23; most members are undergrads majoring in finance
Requirements: Prospective members must submit applications and interview with current members. Incoming members must take a class in fixed-income securities, and all members are expected to spend 10 to 20 hours a week, unpaid, on BASIS work.
- **What's the oversight?** The group has a faculty advisor and he, in addition to John Cusimano, the university's associate treasurer and director of investments and debt management, monitors students' investments. Each semester, the students must submit a report on their performance to the foundation.

SEED: Student-Managed Endowment for Educational Development

- **Since 1993,** members of SEED have managed a seven-figure portfolio of stocks for the Virginia Tech Foundation.
- **Members:** 21
- **Investments:** As of Dec. 13, the group had \$4.8 million invested in 53 positions, including Bank of America, Cisco, Johnson & Johnson and General Electric, said SEED CEO Barrett Clark.
- **Performance:** For the year ending March 31, SEED returns beat the S&P 500 by about 7.5 percent. "On an overall basis, we do normally beat the market," Clark said. "But last year, it was definitely superior." As of Dec. 15, Clark said the group's

Similar to SEED, a student group that has played the stock market since 1993, BASIS aims to give its primarily undergraduate students real-world investment experience.

The group is one of just a handful of student-run fixed-income funds in the country. Others, developed at the University of Wisconsin-Madison, the University of Minnesota, Cameron University in southwest Oklahoma and the University of Southern California, manage between \$600,000 and \$40 million.

Efforts to start a program at Tech began in 2004, largely in response to suggestions from recent graduates.

"Many alumni were coming back and putting it out there that they didn't find jobs in equities -- they were finding jobs in fixed income because that's where the jobs were," said George Morgan, a finance professor in Tech's Pamplin College of Business and BASIS faculty adviser.

And while SEED was available to students interested in equity, there was nothing comparable for students on the fixed-income side.

That changed in May when, after a year and a half of research and prep work, BASIS students pitched their program to the foundation's investment committee.

Armed with a PowerPoint and pitch book, Allen said he and another student talked about the bonds the group was eyeing, the benchmark they would use to measure performance and the educational experience BASIS could offer.

"There were a few retired CEOs there -- very well-off, affluent people -- people that knew debt even though they weren't working in it," Allen said. "It was very challenging and very intimidating to go in there and tell them, 'You guys should give us \$4.3 million to invest.' "

"We really had to be prepared for anything they may ask," Allen added. "Because, really, any uncertainty on a question would show a lack of preparation and a failure on our part to be able to manage the portfolio."

But Ray Smoot, chief operating officer of the Virginia Tech Foundation, said given SEED's credibility and track record, and the active interest from students and faculty in BASIS, "it was not a hard sell."

Since they began managing foundation funds, members of SEED have earned returns comparable to those of other domestic equity managers.

Soon after their presentation, BASIS' then 13 students learned they would receive allocations totaling \$4.3 million between October 2006 and spring 2007.

"There were lots of high-fives, smiles on people's faces, deep breathes and 'Yes, we've done this,' " Morgan recalled. "They came back in the

portfolio had gained 8.2 percent in value since April 1.

What's fixed income?

- A security that pays a specific interest rate, such as a bond, money market instrument, or preferred stock.

What's equity?

- Ownership interest in a corporation in the form of common stock or preferred stock.

fall, two days early for orientation, and that's when I started to see that next emotional reaction of, 'Oh my God.' "

A month and a half after BASIS received its first \$1 million, most of the group's trepidation had waned.

On a late afternoon in mid-November, Shotwell and Tech senior Mike Schmid sat in the Pamplin office, backpacks at their feet.

Shotwell logged onto the group's Bloomberg terminal and began entering criteria for a bond search.

"This searches any bond that's out there," Shotwell said of the Bloomberg network, purchased for about \$9,000 a year at an educational discount.

"Because we get to use this, it makes us more marketable for jobs -- every trading floor, each trader, you always see this keyboard and, like,

four screens."

As members of the group's communications, technology and utilities sector, Shotwell and Schmid were on this day hunting for telecommunication company bonds.

Already their sector had submitted several recommendations to the BASIS investment committee, a decision-making body made up of co-chief executives Allen and Kevin Pitchford and Chief Financial Officer Lauren Grabill.

One of the recommendations, for IBM bonds, had been accompanied by a 15-page report looking at everything from industry news and competitor comparisons to debt distribution and a corporate action calendar.

The data -- presented in bullet points and graphs -- is dense, and members of BASIS acknowledge their work isn't easily digestible.

"I know to a lot of people, fixed income sounds very boring," Allen said. "Equities are much sexier, people say, but this was really an opportunity, in my opinion, that was much more of a learning curve and just a much greater challenge."

Taking on that challenge, while still loaded with course work, is likely to have major payoffs as BASIS members try to move into the corporate world.

"To me, it goes beyond the normal participation of some of your more active students in, like, student government or Kappa Alpha Psi or some other organization on campus," said Greg Kendrick, an audit project manager and vice president with Wachovia Internal Audit, who helps recruit at a variety of schools including Virginia Tech. "You know you're getting someone who's been selected for an elite group, and you also know you're going to get someone who has been through a process to learn to develop their analytical and critical thinking.

"Just this past year, I know we interviewed six of the individuals in BASIS," Kendrick added.

One of them, Grabill, will join the company in June.

Participation may be valuable not just for getting a job but in holding one down.

"When we visit these companies and they talk to us, we know what they're talking about," Shotwell said, while scrolling through a list of bonds. "In the classroom, the examples are older -- sometimes 2 or 3 years old,

whereas this is in real time. What's going on in the market today is what we're following, not the trends that happened three years ago."

"In class, they teach us how to calculate," Schmid added. "Here, we learn how to use it."

But the lessons, Morgan said, go beyond formulas and measurements.

"There's been a lot of maturing going on, taking on responsibilities, a lot of self-motivation and delving into topics," he explained. "They obviously see it as a serious responsibility to the foundation."

They should.

"We treat them the same way we do any of our other managers," Smoot said. "If we didn't think they could, over time, earn market return on it, we'd have to take it away from them."

As of Dec. 20, BASIS had earned a 1.85 percent return on its investments since Oct. 1, beating its benchmark index by 0.71 percent.

At a meeting earlier in the month, Grabill pointed to a projection screen showing an Excel sheet full of numbers.

The tally listed the bonds the group had purchased in the past two months. Among them were U.S. treasuries and bonds from Countrywide Financial, Fannie Mae, Freddie Mac, IBM, Verizon and Citigroup. Together they represented an investment of \$1.67 million.

"Here's our performance for November," Grabill said to a room full of members and new recruits. "We are beating our benchmark, so we won't get fired."

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