



APM Returns: 1st Quarter: -2.3%

Performance

The portfolio held 28 stocks. It was valued at \$393,166 - ending the first quarter down 2.3%, compared to the S&P loss of 12%, the Dow loss of 8.4%, and the NASDAQ down 25.5%. In the winner category are a few familiar names from last quarter, American Italian Pasta and Anchor Gaming, posting gains of 16% and 36%, respectively. Joining these two is Boston Scientific Corp - up 32% from the last quarter. Thanks to **Kent, Robert Tracy** and **Paul Koch** for these great ideas!

Contributions

We want to extend our appreciation to **Greg Baugh, Thad** and **Tamara Bolline, Ruben Sigala**, and one of our TA's - **Bart Baldwin** for their 1Q donations.

Thank you all for your contributions!

If you would like to make a contribution to the portfolio, please mail your donation to:

KU Endowment Association McCarthy Fund
 School of Business Endowment Portfolio
 c/o Denise Bergin
 KU School of Business
 1300 Sunnyside Ave.
 Lawrence, KS 66045-7585

Sprint Corp. matched the Bolline's contribution on a 2 to 1 basis. To make things even better, Kent is now matching contributions on a dollar for dollar basis. In this case, the Bolline's \$100 turned into a \$400 contribution to the fund - so, maybe you too can come up with a way to quadruple your contribution.

Several alumni have contacted us with an interest in supporting APM financially, and we have asked you to hold off until we identified the use of these funds. To this end, we met with Dean Fuerst and Assoc. Dean Chauvin to determine how we could best serve the school. You may recall that the original purpose of the fund was to grow to \$15 million and build a

new building. Now the cost of a building is estimated to be \$28 million. We have concluded that a feasible plan for the fund is to be a lead donor in this effort, and have set our fundraising goal at the \$10 million level.

We will follow up with a separate publication to provide more details related to our fund drive (it will be fun !) and more information related to the benefits that Dean Fuerst sees in accomplishing this goal.

In the meantime, here is our chart documenting contributions by class. We do want to extend our apologies to **Brian Murray**, (fall '96) who actually did contribute to the fund through his employer, **Kansas City Life Insurance Company** - we previously showed zero for zero for fall '96. Hopefully, more classmates will join in. I know some of you fall '96 people have matching employers - **Sprint, Arthur Andersen...**

Semester	Yr	Campus	Total	#/Class
Spring	88	Lawrence	\$ 3,100	1 of ?
Fall	94	Lawrence	6,150	7 of 16
Fall	94	Regents	1,651	6 of 14
Spring	95	Lawrence	548	5 of 13
Fall	95	Regents	450	3 of 21
Spring	96	Lawrence	200	1 of 25
Fall	96	Lawrence	250	1 of 23
Spring	97	Lawrence	100	1 of 17
Fall	97	Regents	0	0 of 26
Fall	98	Regents	0	0 of 21
Fall	99	Regents	200	1 of 28
Spring	00	Lawrence	150	1 of 16
Students			\$12,549	27 of 220
Supporters			71,375	
Corporate			11,298	
Total			\$95,222	

TGIF!!!

We are planning a Friday afternoon get together in Kansas City on May 4th at a location TBA. Please check out the website, or email Denise for details. **Brian Murray** will be there to speak to fall '96 alumni about contributions and to share his thoughts on Q.

Heard on the Street

BSX – Boston Scientific was trading at \$13 when the fund bought it in November because of earlier legal problems associated with recalls, consumer lawsuits and management errors. BSX closed the quarter at \$20.13. **Prof. Koch** sees great upside potential IF management can continue without mistakes. (These comments were made a few days before the Medinol lawsuit announcement that brought shares down to \$15 on April 6.)

Con**CERN**ed shareholders, Dispirited employees – Speaking of management mistakes...CEO Neal Patterson single-handedly brought Cerner shares down 25% in 3 days with one e-mail. Patterson's email berates his entire management staff – never mentions a specific problem with performance, but leads shareholders to read between the lines and believe one exists. Our alumni contact **Joe Searle**, however, has provided us with an analyst report with some concrete facts - indicating operating margins doubled in 2000, over 1999. The stock is recovering, and, if nothing else, Mr. Patterson has provided case material for business schools everywhere. As the parking lot is to the manager, the share price is to the CEO...

DUSA – DUSA developed a drug, Levulan, that combines with light-activated therapy to treat skin cancer. The product has taken longer than expected to make it through the approval phase, however, it is now final and the product is being distributed by Berlex, a subsidiary of Schering AG. After nine years, DUSA is no longer a development stage company. DUSA is excited about early indications from physicians and patients. **Betsy Rowe** thinks that DUSA has been unfairly hit in the recent market downturn and recommends that we buy more.

LVLT – Sometimes you do all the work on a stock and things don't go the way you anticipate. **Jessica Ruess** has done a great job of keeping us up-to-date as Level 3 has taken a beating along with the rest of the tech sector. Jessica told us that LVLT would see the bottom at \$11 – Kent's over 40 eyesight read that as \$44 and we doubled up a little soon. We'll be re-evaluating LVLT this quarter. Hang in there Jessica!

Q – Investor concerns about increased competition, falling rates, huge CAP EX and high debt have driven down the S&P Index 12.3%, and Qwest 27.2%, see

comparison below. **Brian Murray** thinks that Q may be overvalued and in for a long slump. Another stock to re-evaluate.

	P/E	P/Book	P/Sales
Q	89	1.42	4.00
S&P Telephone Index	19	3.37	2.73

SPCT - **Greg Greenberg** updated us on Spectrian for the first quarter. The company raised FY 02 revenue growth guidance to 25-30%, up from previous expectations of 10-15%. Spectrian still has roughly \$9 per share in cash, no debt and \$16 per share in sales, expected to grow 25% next year. SPCT's largest shareholder, Leroy Copp Associates, raised its ownership stake to 28%. The company is gaining ground in Latin America, as well as entering Chinese markets for base station products. Greg believes that with European service providers committing over \$96 billion to 3G licenses, it is inevitable that they build out networks capable of generating a return on that investment.

Alumni Picks

At the end of the first quarter we purchased **AETH**, Aether Systems, at the suggestion of **Max Myers**. We purchased 400 shares at 12 11/16 and 400 at 10 3/16. Today the stock closed at 17.93 – quick gain of 50+%. This stock fits in well with the portfolio as it is related to ARCH Wireless that we also own.

We are also keeping our eyes on ELNK and GBIX – suggested by former TA **Sean Krider**.

Portfolio Overview

Alumni	Class	Stock
Robert Tracy	Fall '98	SLOT
Chris Rasmussen	Fall '98	BKS
Joe Searle	Fall '95	CERN
Betsy Rowe	Fall '95	DUSA
Italian Trio	Spring '00	TLEAF
Jessica Ruess	Spring '96	LVLT
Brian Murray	Fall '96	Q
Dan Drake	Spring '95	FON
Greg Greenberg	Spring '96	SPCT
Guan Hwee Lim	Fall '98	SV
Bart Baldwin	Spring '00	PG
Max Myers	Fall '97	AETH

Percent of Portfolio 30%

Kent spent the week of April 2 – 5 teaching in KU's Asolo, Italy, CIMBA Program. Here is an update from one of the star students in the class, **Ariel Zhang**.

The class of Applied Portfolio Management taught by Mr. Kent McCarthy has been a huge success and a wonderful experience for CIMBA full-time students. Mr. McCarthy brings students into the real business world through various business activities, such as international conference calls, entrepreneurs, guest speakers, as well as assigned case studies. From Asolo, the Italian campus, we are excited to hear an American point of view and have a discussion with an Asian CEO. The guest speakers, Pat Terrell and Greg Duvall, offered tremendous valuable experience from 20 years of entrepreneurship. The memorable cases included Arch Wireless, RS Medical, Jayhawk Life Property and China Portals, which all intend to rock our brains by using financial knowledge, broaden business views and sharpen analytical skills. Students from various countries and backgrounds often come up with collective solutions to business problems. Students absorb the lessons by going through tremendous research and hard work on group cases, which normally lasts until after midnight. Some students feel it's a tough class, as it is, and, as is real business. But nobody doubts that we have learned tons. For me, I enjoy it.

Scholarships



APM continues to support a men's basketball scholarship. Above, Jeff Boschee goes for 3. APM congratulates the Jayhawks on their great season!

Last summer (2000) I went to visit Kent to discuss a research idea associated with the Applied Portfolio Management class. Since the class wasn't going to be offered for a while, Kent said "Don't wait. Go ahead and do it, and we'll work it into APM." That was the start of some big changes for me. As a result, this semester I'm teaching a class called Expert Systems for Portfolio Analysis. In this class we are investigating how security analysts make decisions. The challenge is "to get fragmented information out of people's heads, onto paper, and ultimately into a computer." The goal is to model the APM portfolio and to provide a powerful aid to decision-making.

To find out how security analysts make decision, first we combed journals, textbooks, and the internet for descriptions of the security analysis process. Not surprisingly, we read a lot about how important it is to find the growth rate either for earnings, dividends, or 'top-line' growth. Very few of these descriptions mentioned how to find this growth rate. Another important factor that many of the written descriptions mentioned was management. Most of the time people acknowledged that it was important, but, again the descriptions weren't very specific about how the information was factored into a decision.

Right now the class is in the middle of the second and most interesting part of the class. We're interviewing ten security analysts from a variety of firms and in a variety of positions in the Kansas City, Lawrence, and Topeka area. We're digging for some of the specifics that are left out in the written descriptions. The analysts have been extremely generous with their time. I know that both the students and I have learned a lot. It's been very interesting comparing the different methods of the analysts. **Prof. Jack Gaumnitz, Prof. Mark Hirschey, and Josh Selzer (Fall '96)** all participated in the interviews.

For the last part of the class, we will encode some of the expert knowledge from our interviews into the beginnings of an expert system. We don't have time in one semester to complete the system, but hopefully the students will know how to begin to build a portfolio expert system. Over the summer and during the APM class next fall, I plan to model the APM portfolio with the help of some of the students.

FIRST CLASS ALUMNI

Remember spring 1988? Larry Brown, Danny Manning, the Final Four, margaritas at Becceros... That was when APM *really* began at KU. I didn't know this until my introduction to **Dennis Depenbusch** that began with, "What can I do for you, the class, and Kent McCarthy?" Here is an update on a few of those classmates (with assistance from contributing writers Skoog and Depenbusch.)

Dennis Depenbusch has embarked on venture capital investments. He is currently CEO of one of the investments - Whitco Company, LLP, located in Fort Worth, Texas and Hutchinson, KS. Previously, he was with Euronet Worldwide (EEFT), a technology company. He started operations in Poland, and moved on to oversee operations in Germany, and the UK. During this time Dennis participated in three rounds of venture capital financing, one IPO on the NASDAQ and one high yield debt offering.

Dennis currently lives in Hutchinson, KS with his wife Darcilyn, and two boys Frank 6, and George 4.

Dennis has been a significant contributor to the fund in the past and has expressed interest in contributing again to what he believes is a valuable experience. Dennis kindly provided contact information on some of his classmates, so we are pleased that we have also been in touch with Mike Atkins, Mark Heinrich, and Carl Skoog.

Mike Atkins was with Deloitte Consulting for ten years and now has his own business, JML Solutions LLC – focusing entirely on financial institutions. Mike is married to Mako Shimoda, who has her own OB/GYN medical practice in Boulder, CO. They have a two-year old daughter, Sydney. **Mike has also expressed an interest in supporting APM financially.**

Mark Heinrich is a Captain in the Navy and is in charge of oversight of the Navy Petroleum Office, in addition, he is advising the School of Engineering on their Petroleum Management curriculum. He just completed the Advanced Executive Program at the Kellogg School of Management at Northwestern University. He currently lives in Burke, VA (just outside of D.C.), with his wife Judy and their two boys, Jared 12, and Colin 11. Jared is the first APM baby - born while Mark was taking Kent's class – a

good time to have a new baby, since Mark was probably up all night studying anyway.

Carl Skoog was also a member of the first APM class. Carl is an investment banker for Banc One Capital markets in Detroit, focusing on debt and derivative based products for energy companies in Denver, Calgary, Salt Lake City and Dallas. He has some interesting clients and would like to be on our guest speaker list.

Atkins and Depenbusch have expressed their desire to strongly encourage Mark and Carl to contribute to the fund!

Some of the highlights of the first class include visits in one week from both sides of a hostile takeover – Payless Cashways and Sutherland Lumber. Penny Pritzker presented the potential of Hyatt Senior Centers and there was a visit from Kent's associates at Goldman Sachs. In addition, there was lively debate on the potential of Blockbuster Entertainment (we actually shorted it!) and followed Kent's pursuit of Video Tech and its potential as Hong Kong was transitioning to Chinese control.

The class featured Kent's successful attempt at structuring a very team oriented, competitive environment. The teams stayed the same over the entire year and featured many Darwinian maneuvers to ensure domination over competitors. Competition ended up being the least of the class fears as Kent weeded out unworthy financial theories presented while evaluating some of the team's presentations...How exactly does Kent feel about Net Worth?

Kent can be credited with providing a tangible example to the class that KU provides an excellent foundation for those competing in business at any level. He provided reinforcement and support to those wishing to pursue the high intensity environments with which he was a part. This small group's small accomplishments represent Kent's investment in making good students great business people.

Some of the outside of class activities included ordering in Dominoes delivery to a local Mexican restaurant – who did that? The team has stated that there are other stories from after class, but it sounds like we'll have to wait and hear them when we all get together for an APM reunion.

On The Street

Alumni	Company	Location
Jeff Brueggemann	Jayhawk Capital	Kansas City
Fred Coulson	Morgan Stanley	New York
Trevor Cox	Koch Industries	Houston
Gene Diederich	A.G. Edwards	Kansas City
Dan Drake	TalMOR Capital	Boulder
Greg Greenberg	Olde	Kansas City
Mank Hensel	Enron	Wichita
Scott Jones	Interstate Securities	Atlanta
Paul Maxwell	Sal. Smith Barney	New York
Matt Michaelis	Greenhill & Co.	New York
Matt Moore	Paine Webber	Denver
Jeff Morrison	Commerce Bank	Kansas City
Brian Murray	K.C. Life	Kansas City
Max Myers	Western Resources	Topeka
Shane Parr	George K. Baum	Kansas City
Jason Purinton	Paine Webber	St. Louis
Todd Preheim	Sprint (M&A)	Kansas City
Jessica Reuss	SunTrust Bank	Orlando
David Reynoldson	George K. Baum	Kansas City
Carl Skoog	Banc One Cap Mkts	Detroit
Josh Selzer	Iron Horse	Kansas City
Ryan Sprott	C.S. First Boston	New York
Jeremy Tasset	A.G. Edwards	Lawrence
Alex Verbov	WestLB	Dusseldorf
Brett Young	RBC	Greenwich

Trading Suggestions

For all ex-students interested in making suggestions please follow the following guidelines.

1. Email the ideas to Denise:
dbergin@ku.edu
2. One page format with the following three defined sections: 1) Company Profile, 2) Fundamentals, 3) Analysis and Conclusion
3. Include email address and phone number where current students or teaching assistants can contact you. A sample write-up is available on the website.

Visit us at <http://eagle.cc.ukans.edu/~prtfolio> to update your contact information. We would like to hear from you, to reacquaint ourselves with past students, speakers and supporters. You can also email Denise at her address (listed above) to let us know what you have been up to. We are updating an email database for Kent; so please email prtfolio@eagle.cc.ukans.edu as early as possible.

Thanks a lot for your tips and advice on these picks!

How Is The Fund Split?

By SECTOR		
Basic Materials		13.33%
Capital Goods		2.83%
Consumer/Non-Cyclical		6.44%
Energy		3.80%
Entertainment		2.89%
Financial		8.08%
Healthcare (biotech/medical equipment/supplies)		5.80%
Services (total)		20.86%
Casinos & Gaming	6.24%	
Communications Services	11.58%	
Retail (specialty)	3.04%	
Technology (total)		23.81%
Communications	3.67%	
Computer Networks	1.74%	
Computer Services	18.40%	
Utilities (electric)		6.08%
Cash		6.07%
TOTALS		100%

KC Pasta in Paradise

American Italian Pasta Co (**PLB**) has been a home run for the APM portfolio. Our investment began last summer with an average cost of \$17.70 per share; during the interim AIPC has increased nearly 100%.

AIPC produces more than 80 kinds of pasta for institutional foods, private-label retail products (retail accounts for approximately 70% of their business), and ingredients in pasta meals for other companies. Last year, *Forbes* highlighted AIPC as one of the top 200 Small Companies. In November, they acquired Mueller's branded pasta business from Bestfoods. The acquisition eliminates a prior deal between Bestfoods and AIPC that forbade AIPC from making pasta for other companies' brands.

Financial facts for the quarter ended December 31, 2000 shows double-digit percentage growth in revenues and gross profit (12.3% and 18.9%). Operating profit and net income decreased during the quarter due to acquisition expenses.

Tim Webster, CEO, of AIPC has been in touch and is enthused about the class and the fact that the stock has been a big winner for us. He is really excited about being on our fall guest speaker list! Word has it Tim is a great speaker.

Ready, Set, GO!

The International Speedway Corporation (**ISCB.OB**) is preparing the Kansas Speedway for its inaugural Season. Tickets are on sale for the first race on July 2; see kansasspeedwaycorp.com for more information. The APM portfolio wishes the Kansas Speedway much success.

We have been in touch with **Steve Farley**, of **Farley Capital Management**, who recommended the stock to the class. ISCB is hosting an opening event for Wall Street Professionals at the new Kansas Track in late September. During this time, Mr. Farley is arranging for the fall APM class to have its own private meeting with company officers.

Mr. Farley indicates the first quarter TV ratings were up 47%, which is significant when TV ratings for other sports are falling. He also reports that ticket sales are up and earnings came in above estimates.

Overshadowing this good news was the tragic death on February 18th of Dale Earnhardt. Earnhardt was a 7 time Winston Cup champ and had 34 Daytona wins. He was in the final lap of the Daytona 500 when his car crashed into a wall.

APM joins NASCAR fans in expressing our sadness at the loss of this great competitor.

Feel Free to Keep your Cell Phones ON

William Esrey, Chairman and CEO for Sprint (**FON**), delivered the 2001 Vickers lecture on March 15. His lecture targeted wireless web and third generation wireless technology and the Chase Walker project. During his introduction Esrey informed the audience to keep their phones on, because when others hear a phone ring, he hears a cash register. Esrey stated that third generation technology will allow data to move at peak speeds of 144,000 bits per second nationwide in about one year, and at 2.5 million bits per second twelve to eighteen months later.

As Esrey described the Chase Walker project he encouraged the audience to imagine the internet as an extension of their own identity. Sprint is working on developing a virtual person who operates in cyberspace. Esrey stated that this assistant would do such things as wake you up in the morning and inform you of your schedule for the day. It could be

used to return phone calls, emails, schedule appointments and could even open the garage door for a delivery man and close it again and reactivate the alarm system when he was finished.

Missing in Action

If anyone would be willing to spend a few hours searching for e-mail addresses, please contact Denise. The goal is to keep administrative expenses to a minimum. One way to do this is to conduct most communications via email. We really need everyone's address, (or a response indicating a preference to be taken off of our list) so that we can stay in touch. See the website for our list of missing e-mail addresses.

Class Website

The School of Business has contracted with a professional web design firm and expects to have its new site up and running in a few weeks. APM also plans to upgrade, and before the end of May, will have a new address that is a direct link off of the new Business School site. We will let you know as soon as this happens so that you can check out the new site.

In the meantime, we have been making some improvements to the old site. The best thing so far, that you will want to check out, is that we now have all of the newsletters for the past two years on line. We are currently working on a calendar so everyone can keep up-to-date on our fall and spring class schedules and special events like our **May 4th TGIF** and our **fall alumni football pre-game party**, tentatively scheduled for **September 8th**.

We are currently in the creative process, so please feel free to send us any suggestions about what you would like to see on the site, as well as any sites that you have seen that you think are visually appealing.

Fundraising

Please seriously consider the information that you will soon receive from us related to fund raising. There is a true need here. On April 20th, I had the opportunity to attend the Business School Board of Advisors meeting, and am further convinced that our APM alumni, with the help of employer matches, and other corporate connections, can raise the funds to be a lead donor for a new building. It is a worthy goal and is something that we will all be proud to be a part of.

Message from Denise

It has been a very busy quarter! Part of March was spent preparing for the Italy class. We are especially grateful to **Greg Duvall, VP, Northmarq Capital** (Overland Park) and **Pat Terrell, Managing Partner, Terrell & Associates**, (Portland) for their hard work on great cases and for traveling so far to present. Also, thanks to **Ed Baker, CEO, ARCH Wireless** and **Ed Miller, Director, Answerthink** for calling in. Finally, thanks to **Cristina Turchet**, (Asolo, Italy) who did a ton of work putting our materials together.

We will have more on the Italy class on our website soon! Be sure to read **Ariel Zhang's** write up. I enjoyed the opportunity to speak with the students via conference call – and was joined by **Cathy Shenoy** who, among her many other talents, speaks fluent Italian! We're looking forward to seeing the CIMBA students here in Lawrence in July! The Italy program is a great thing for the School of Business. Check out the website at www.cimba.it.

We are working on the fall speaker list and hope to have a draft on the website soon. There is a great deal of enthusiasm for our class on the part of the guest speakers, who are already planning their schedules to fit us in. **Tim Webster, CEO of American Italian Pasta**, **Steve Farley, Farely Capital Mangement**, and **Pat Terrell, Terrell & Associates** are already sure bets. Other potential speakers include **Jack Golsen, LSB Industries**, **David Wittig, Western Resources**, and **Doug Woodrum, CNET**.

Following an Accounting & Finance seminar, Prof. Robert Parrino, who serves on the board of advisors for UT Austin's portfolio management program, kindly took 30 minutes to discuss UT's program one on one. The students at UT are managing a \$13 million fund in a state-of-the art facility. Each year Goldman Sachs, among other top firms, comes to Austin to interview all 25 of the students in the program. He told me that our current program is very similar to theirs 8 years ago. Ever wondered what will become of the class when we *do* raise \$10 million and turn it over to the school for the new building? UT has this figured out - Cathy and I are planning a trip to Austin this summer to take a look at the program.

Look for more on all of these topics in our next publication. Keep in touch!



In case you haven't had a chance to meet him, this is our new dean, **Bill Fuerst**.

