

APPLIED PORTFOLIO MANAGEMENT QUARTERLY UPDATE 1ST QTR. MARCH 1999

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QUARTER HIGHLIGHTS: Portfolio Return: 9.3% INVESTING IS DYNAMIC S&P 500 Return: 4.7%

The first quarter of 1999 was an exciting time for investors. The U.S. economy still looks strong, interest rates have been untouched by the Fed, and the Dow closed above 10,000 for the first time on March 29. The Applied Portfolio Management team also saw many interesting developments over the past three months. One of the overwhelming themes of the APM class is the dynamics of investing. In this quarter's newsletter we will focus on what developments there are within the portfolio, and educate APM's former class members on our current holdings. Also included this quarter is the performance of our alumni trading ideas.

ALUMNI STOCK PERFORMANCE

We are still trying to build out 20 to 25 trading ideas, and over the quarter we have added a few names to the portfolio. If you have an investment idea, please feel free to give us a call or send us an e-mail through the web site. Here's what's new in the portfolio.

Company	Cost Per Share	Current Price 5/13-
Enron	59.61	76 1/8
Dusa Pharm.	6.95	10 1/8
TDS	41.55	67 1/4

Along with strong performance of our new additions over the past three months, the portfolio itself returned 9.28% for the first quarter. Of the new additions, APM alumni picked Enron(ENE), Dusa Pharmaceutical (DUSA), and Telephone and Data Services (TDS). Enron was picked by **Mark Hensel**, and was up 11.9%; **Betsy Rowe** chose Dusa which has returned 12.4%, and **Garreth Hippe** chose TDS, returning a whopping 39.6%. All returns are based on unit cost. Great picks guys! Other picks that have been added since the end of the first quarter are Guidant (GDT) by **Paul Koch**, Pediatrix (PDX) by **Robert Tracy**, and Agribrands (AGX) International by **Guan-Hwee Lim**. Attached to the newsletter is a sample by Guan-Hwee of how we would like to receive your recommendations.

This is an exciting opportunity to help grow our portfolio and promote the business school. Send your APM stock pick to Robert Tracy at rtracy@vger.ca.ukans.edu.

RMOC- POST-SCRIPT TO FALL CLASS

In the fall semester the APM class did a case on Pogo Producing (PPP) and Rutherford Moran (RMOC). PPP and RMOC are oil producers that are partners on an oil field in Thailand. The companies have an operating agreement where PPP does the exploring and pumping and RMOC supplies them with 50% of the costs associated with the field. The class felt that Rutherford was a strong buyout candidate, and could catch a premium to their price of \$10. This seemed to be a reasonable assumption considering all of the consolidation within the industry, but unfortunately liquidity and access to capital dried up. As a result the debt capabilities of RMOC came into question, and the class wondered if the company could keep their head above water until it sold. All indications from the company led the class to believe that they could get financing from their lender Chase.

Behind the scenes Rutherford's President and CEO John Moran, a seasoned deal-maker, felt confident that he could get a higher price than what was being offered. Throughout the time frame of the class we saw the oil environment go from bad to worse. Oil and gas prices reached all time lows and consolidation had come to a halt. As RMOC's cash reserves and available bank funding diminished, so did the selling price of the company. In February, Chevron came calling and agreed to buy Rutherford. Chevron funded the operations until the deal was completed, and on March 17, Rutherford stockholders approved the transaction receiving .044 shares of Chevron in exchange for each share of RMOC. In other words Chevron got a bargain buy at \$4 per share. As investors in the company, the class was shocked to find that outlined in the February prospectus Rutherford turned down a \$20 offer.

RMOC has been an excellent example of the dynamic investment environment we live in, and it shows how many factors, both known and unknown, can effect the livelihood of a company. Looking through the rear view mirror as a basis of analysis can only provide a small amount to the actual future valuation of a company.

APM ALUMNI ON WALL STREET

One of the goals of APM is to help KU students prepare for a future on Wall Street. Recently, two former students made their move into the business. Dave Reynoldson, member of the 1996 class and long-time teaching assistant for APM, is

Industry Highlights for REITs: A strong U.S. economy has mitigated the risk of default for commercial and residential mortgage backed securities (MBS). Over the past four months, corporate and mortgage backed securities have gained back 75% of the return losses attributed to the widening of spreads from the period July 1998 through October 1998. Declining volatility, falling prepayments on mortgages and the attractive spreads of MBS relative to alternative assets has provide REITs with high yielding income opportunities. Market liquidity has improved from last fall; consequently there is decreased risk of future collateral calls that plagued the industry last fall. REITs have avoided the high leverage positions, which precipitated last falls collateral calls and implosion of balance sheets. The out-of-favor status of REITs provides a good buying opportunity for bottom fishing investors looking for attractive high dividend yields and future capital appreciation. Watch for these factors to play a big part of the future developments with Wilshire (WREI) and Anthracite (AHR).

CNET, Inc. (CNET) can be described best as a publishing media commerce portal Internet auctioneer company. In other words, CNET is involved in almost every aspect of the Internet. Though widely known as the online leader in technology news and media over the Internet, the company is also involved with television productions on the USA network and Sci-Fi Channel, radio webcasts, and the development of the Internet portal Snap!. CNET also provides tech news headlines for MSNBC and ABCNews.com, and is retail partners with Borders, Cyberian Outpost, and Egghead. The fourth quarter for CNET was the best on record for the company. They beat first call estimates by \$.08 with sales surging 86% from the year ago period. Profits from operations were \$3.3 million (\$.18 per share) compared to a loss of \$8.7 million (\$.63 per share) in the fourth quarter of 1997. In part, the production of positive earnings has been to the company's divestiture in its Internet portal Snap!. Following the likes of other portal media partnerships, NBC has purchased 19% of Snap! with the option to increase their share to 60% (\$32 million) or 5% of the company. Wall Street will watch the success of this agreement in the coming year. The trading range for CNET over the past year has been between \$14-\$124.

INTERNATIONAL INVESTING

One of the interesting aspects of the APM portfolio is its international diversification. The portfolio holds two closed-end international funds: Templeton China and Latin America Discovery Fund, Inc.

The Templeton China fund is primarily invested in assets in Hong Kong and China, but it also is involved in Singapore, the Philippines, Malaysia, and Thailand. The fund seeks to provide long-term capital appreciation, and it pays dividends in October and December if necessary. As foreign investors, Templeton can only purchase B shares on the Shanghai Stock Exchange and H shares on the Hong Kong Stock Exchange. If the Chinese government drops restrictions of foreign exchange

capital flows, and allows locals and foreigners to own the same class of stock, foreigners would be able to participate more actively in this potentially strong market. Another factor with the fund is Hong Kong reverting to the sovereignty of China. As with any major political transfer of power, this could result in political, social, economic, and market factors that could affect the value of fund investments.

The Latin America Discovery Fund is primarily weighted with Mexican and Brazilian securities, but it also takes part in Brazil, Argentina, Chile, and Colombia. The fund's net asset value per share fell 30% during the last quarter of the year versus a decline of 25% for the Index. Disappointing returns in Brazil largely drove underperformance relative to the Index. Because of their relatively high degree of liquidity compared to other emerging market stocks, Brazilian blue chips slid precipitously as worried investors reduced their exposure to emerging markets.

SKYTEL- FOURTH QUARTER RESULTS

Last semester the class had the opportunity to talk with SkyTel CEO John Stupka. Mr. Stupka described to us how he envisions SkyTel's market growing into the future. We also had the chance to visit with Western Wireless CFO Cregg Baumbaugh, whose company is in the cellular and PCS business. We had a great time trying to determine which technology would win out, and at this point, a weaker first quarter for SkyTel may indicate that Western Wireless could be winning.

SkyTel revenue rose 22% to \$138M for the fourth quarter, with profit of \$1.8M, compared to a year ago net loss of \$22.1M, a company first. The outlook for 1999 earnings remains firm at \$.65 per share, \$.04-.05 of which should occur in the first quarter. Questions about demand and distribution have resulted in the sharp selloff of the companies stock. Although Skytel maintains that its market research indicates substantial demand for its services (especially advanced messaging), some industry analysts see growth slipping to single digits this year and vanishing altogether within five years as the paging industry is struggling to find its place in the paging world (especially with the rising interest in cellular phones).

Distribution remains the largest issue affecting SkyTel's subscriber growth. To combat this problem and improve advanced messaging awareness, SkyTel also announced a revenue sharing agreement whereby 500 Office Depot stores will begin carrying their product. Eventually, the agreement will be expanded to include all 700 Office Depot stores. Additionally, SkyTel is aggressively pursuing distribution agreements with resellers like MCI WorldComm and Internet providers as well as other companies that sell office supplies to small and mid-sized companies.