

Letter to Our Shareholders



RJ Lasek, SEO

The Beginning

The establishment of the Finance Excellence Fund by the Friends of Finance group began in 1990 with the first contribution given by Frank Engle. The vision was to create a fund that would not only provide scholarships for outstanding students, but also would also draw nationally prominent faculty and attract the nation's best students.

In 1997, the University of Tulsa's Board of Trustees made a decision that would impact the education of Finance & MBA students for years to come. By approving the Finance Department's proposal to establish a Student Investment Fund that would manage the donations received from Friends of Finance Members, they helped to establish a unique educational opportunity. The department's vision was to create a class that would allow the fund to grow and would give students a chance to learn in a professional environment. Classes began in the summer of 1997 under Professor Larry Johnson. They took the time to research similar funds at other schools, determine resource needs, and select a broker in Merrill Lynch. By the spring of 1998, the entire fund in the amount of \$300,000 was transferred to the SIF class for full student management. This began the SIF as we know it today; an actively managed endowment fund overseen by the students.

The Purpose of the SIF

The Student Investment Fund class is designed to allow students an opportunity to apply financial theory and money-management techniques while making investment decisions that affect a real-world portfolio valued at over \$550,000. In today's business world, it gives the students an edge in the competitive job market as they gain hands-on experience while preparing for a career in financial management. The class is presented in the softest learning environment, an academic classroom. Students have great flexibility to explore their own theories and strategies with less personal risk.

Management Style

As with most professionally managed funds, the goal of the SIF is simply to provide superior returns above the market, measured by the S&P 500 index. To achieve this goal, the funds are invested in an enhanced index portfolio.

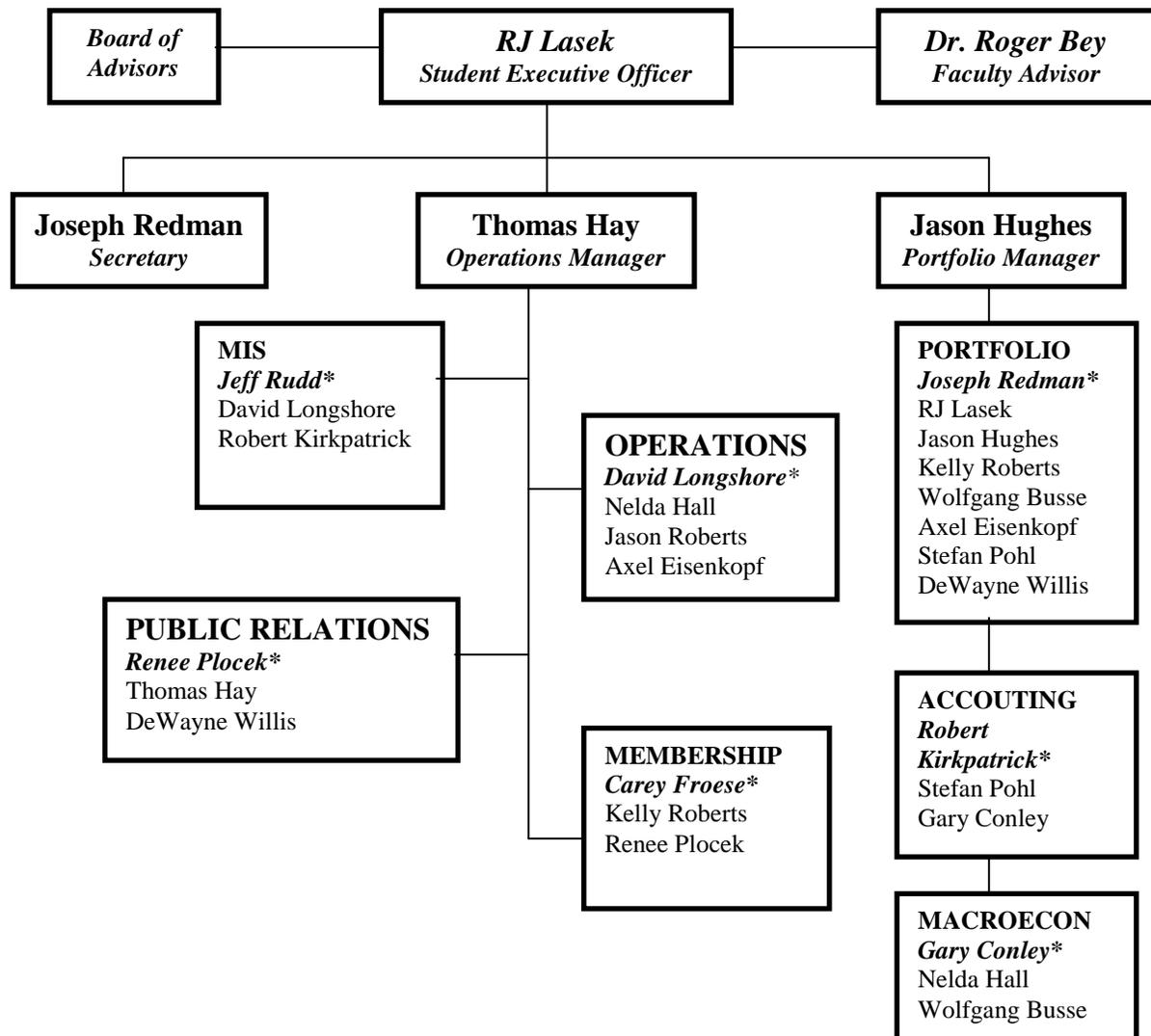
Actively managed funds constitute 50% - 60% of the total value, while the rest is placed in a mutual fund that mimics the S&P 500 performance. This strategy gives the fund sufficient diversification overall, while the actively managed funds are invested in a manner that leans towards a growth strategy. Securities are large-cap firms exceeding \$3 billion in value, and are usually leaders in their industries. The actively managed funds are invested in a variety of industries, from growth opportunities such as telecommunications and technology, to value-based assets such as pharmaceuticals, energy, and consumer staples.

We are also subject to other constraints established by the Board of Advisors and the class to ensure prudent management and diversification. Specifically, the fund cannot invest in more than 7% of any particular asset, nor can it buy more than 25% of any one industry. Currently, our largest asset holding is approximately 6%, and we hold no more than 13% in a particular industry.

Class Organization

The class is organized in such a way that each student serves in a multi-disciplinary role. This allows for a broad learning experience across business functions.

As can be seen by the chart below, the fund management is organized in a committee structure. The fund is headed by an SEO (Student Executive Officer), who is responsible for the class and overall portfolio performance. Acting as Vice-Presidents, the Portfolio Manager and Operations Manager report directly to the SEO, and are responsible for the performance of the committees under their authority structure. The Secretary is responsible for various administrative functions, including minutes and record keeping. This Executive committee of management meets weekly with the Faculty Advisor to set goals and monitor class performance.



The Board of Advisors is composed of half a dozen area businesspeople. The class is responsible to them for fund performance and quarterly reports. The Faculty Advisor serves as an advisor to the SEO and the class, as well as a final arbitrator. This person also leads classroom discussions, establishes standards and requirements, and serves as a liaison between the class and the Board of Advisors.

Every class member is responsible for serving on at least two of the seven committees, which handle all of the class activities from membership selection and asset allocation to accounting statement preparation and marketing. Each committee elects a chairperson, and they facilitate the goals and work of the committee.

In the TU tradition, the class is well diversified in terms of the student body. The students are both graduate and undergraduate, spanning a variety of disciplines. International students add to the global perspective of finance.

Within this annual report, you will find examples of some of the work that the students do, in the form of industry and equity reports. I hope that you enjoy reviewing them.

Performance

After significant gains in 1999, the fund experienced losses in 2000 that were greater than that of the S&P 500. The funds orientation to tech type stocks caused a loss of value during 2000 in the amount of 14.5%, compared to a 9.1% loss for the market. So far in 2001, the class has managed, through reallocation, to close that gap, trailing the market index by only 1.8%. The detailed performance report is included in this report, as well as the financial statements for year ending 2000.

At the end of 2000, the portfolio consisted of 13 securities, with the largest holdings in Nokia (NOK), and Amgen (AMGN). The S&P 500 index fund represented 58% of the total portfolio. Our largest industry holdings were in Technology and Communications; those two combined industries representing over 25% of the fund.

The two classes in 2000 made significant contributions to the portfolio by adding and removing equity positions. They are outlined further in this report. The class members have also made strides in improving the learning experience in the class by improving efficiency and establishing standards and benchmarks. One example is the creation of the new macroeconomic committee, charged with following and reporting upon the various changes in domestic and international economic conditions.

Conclusion

After incredible growth in 1998 and 1999, 2000's markets were defined by turmoil and loss of value, especially on the technology front. As investors reconsidered the valuation of these stocks, many portfolios experienced double-digit declines. While the SIF portfolio lost more than the market index, it was diversified enough to prevent any extreme loss that some investors experienced (more than 25%). In addition, the class members have been quick to react and reallocate, insulating the fund from further losses in these markets.

The future holds a great deal of opportunities and threats. In the ever-increasing global market, efficiency and an understanding of fundamentals are more important than ever. Will the growth in the telecommunications and technology markets appear again? How will the current growth slowdown affect the markets? What role will international conditions play in the future? The students

within the SIF class are being well equipped to answer such pressing issues.

This class, made possible by donations from our shareholders, is providing an invaluable experience to business students at the University of Tulsa. This is a unique opportunity enjoyed by only a few schools in the country. As such, the class would like to extend their gratitude to all of the donors and

faculty members who have made the vision of the Student Investment Fund possible.

Sincerely,

RJ Lasek
Student Executive Officer, Spring 2001

Spring 2001 SIF Class



From left to right – back row: Dr. Roger Bey, Axel Eisenkopf, Nelda Hall, Wolfgang Busse, Joseph Redman, Thomas Hay, Gary Conley, Stefan Pohl, DeWayne Willis, Jason Roberts, Jeffrey Rudd, Carey Froese, Renee Plocek. Front row: Kelly Roberts, Jason Hughes, RJ Lasek, Robert Kirkpatrick, David Longshore

Performance

INVESTMENT POLICY

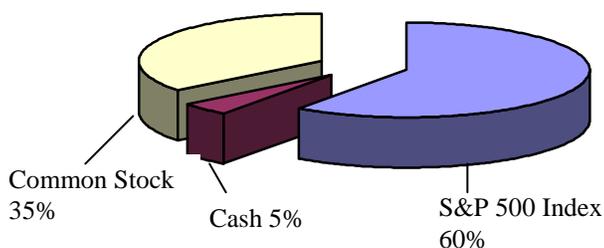
The SIF Investment Policy is:

- No more than 7% of the portfolio can be invested in an individual stock
- No more than 25% of the portfolio can be invested in any one industry
- No less than 45% can be invested in an S&P 500 Index fund
- Financial derivatives cannot be used
- Short sales are not allowed
- Securities cannot be purchased on margin
- Individual securities must have at least \$3 billion in market capitalization

PORTFOLIO DISTRIBUTION

As shown in the graph below, the fund was 95% invested at the end of 2000. The S&P 500 Index percentage includes the Merrill Lynch S&P 500 Index fund and the SPDR.

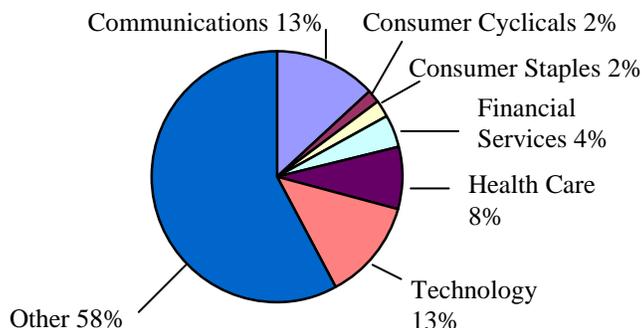
Asset Allocation



SIF ASSET ALLOCATION

The sector percentages reported below include both the individual securities held and the ownership of these securities held through the S&P 500 Index fund. The 'Other' sector includes all of the sectors not currently represented with individual securities (Basic Materials, Capital Goods, Transportation, Utilities, and Energy).

Diversification by Sector



On December 31, 2000, the fund held 13 securities. The percentage of the SIF invested in each of these securities is listed in the following table.

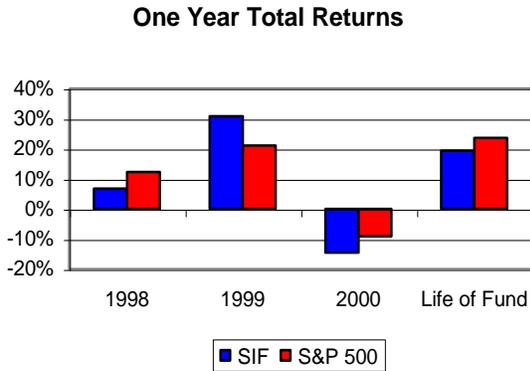
Table 1 – Equity Distribution

Company	Percent
Advanced Micro Devices	1.54%
Amgen	5.16%
Anheuser Busch Companies	1.96%
Bristol Myers Squibb	1.99%
Citigroup	2.75%
Cisco Systems	2.27%
Harley Davidson	1.78%
Microsoft	2.14%
Motorola	1.36%
Nextel	1.78%
Nokia	6.25%
Oracle	3.53%
Qwest	2.93%

PERFORMANCE SUMMARY

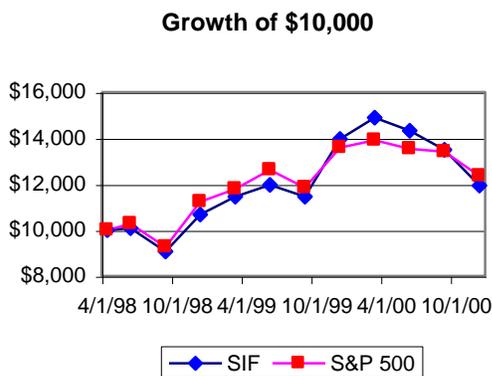
As of December 31, 2000 the SIF portfolio consisted of 13 common stocks, a Merrill Lynch S&P 500 Index fund, a SPDR, and a Money Market fund. The combination of the Merrill Lynch S&P 500 Index fund and the SPDR resulted in 60% of the portfolio invested in the S&P 500. For 2000, the SIF portfolio's total return was -14.46%, compared to the S&P 500's total return of -9.1%. Over the life of the SIF, a total return

of 19.41% has been realized, compared to 23.55% for the S&P 500. A comparison of the annual total returns for the SIF and the S&P500 is provided in the following graph.



The SIF has under-performed the S&P 500 every year except 1999. The losses during 2000 can largely be attributed to the demise of the technology sector, which comprised 13% of the fund value at the end of 2000. At the end of 1999, the technology sector represented 24% of the SIF portfolio.

The graph below illustrates the cumulative result of a hypothetical \$10,000 investment at the beginning of the SIF fund. At the end of 2000, the SIF would have been valued at \$11,941 while an investor could have earned \$12,355 in the S&P 500.



Stocks Purchased in 2000

- Advanced Micro Devices SPDR
- Amgen WorldCom
- Microsoft

These purchases totaled \$127,352. The purchases of the SPDR were the largest, totaling \$89,307.

Stocks Sold in 2000

- America Online Lucent
- Bestfoods Oracle
- Biogen Southwest Airlines
- Computer Science Warner Lambert
- Intel WorldCom

The sale of the securities listed above provided proceeds of \$98,170. The realized gain on these sales was \$13,678.

Portfolio Risk

A comparison of the riskiness of the SIF and the S&P500, as measured by the standard deviation of monthly returns, is given in Table 2. The SIF has had more total risk than the S&P500 in 2 out of 3 years and since inception. The SIF’s beta was 0.85 versus 1.0 for the S&P500.

Table 2. Risk Measures

Year	SIF Std. Dev.	S&P500 Std. Dev.
1998	6.28%	6.95%
1999	4.23%	3.77%
2000	5.54%	4.95%
Inception	5.61%	5.35%

2000 Security Holdings

Advanced Micro Devices (AMD)

It would come as no surprise if AMD developed an inferiority complex. Though it has closed the gap, Advanced Micro Devices (AMD) still ranks a far-distant second behind Intel in the microprocessor market. It is also the world's #2 maker (and losing ground) of flash memory ... also behind Intel. AMD's microprocessors, including the superfast Athlon (K7) and the inexpensive Duron, have helped cut Intel's commanding share of the PC market. The company derives 10% of sales from embedded processors, networking chips, and chipsets. PC giant Compaq accounts for 11% of sales, and three-fifths of sales come from outside the US. After more than 30 years at AMD's helm, flamboyant founder Jerry Sanders is due to retire in 2002.

Amgen, Inc. (AMGN)

The biggest of the biotech big'uns, Amgen makes and markets therapeutic products for nephrology, cancer, inflammatory disorders, and metabolic and neurodegenerative diseases. Anti-anemia drug Epogen and immune system stimulator Neupogen account for nearly 90% of sales. Its Infergen has been commercialized as a treatment for hepatitis C, and Stemgen is approved for stem cell therapy in Australia, Canada, and New Zealand. The company has a pipeline of promising drugs in various stages of development. Amgen has research and marketing alliances with several companies, including Hoffmann-La Roche, Johnson & Johnson, and Kirin, the Japanese brewer that also operates a fast-growing pharmaceuticals unit.

Anheuser-Busch Companies, Inc. (BUD)

If you like beer and amusement parks, Anheuser-Busch Companies loves you, man. The largest beer maker in the US, with about 48% of the market, Anheuser-Busch is also

the world's largest brewer. The company makes leading brands Budweiser, Bud Light, Busch, and Michelob, as well as specialty beers such as Red Wolf Lager, ZiegenBock Amber, and O'Doul's (nonalcoholic). The company has investments or licensing agreements in Asia, Europe, and Latin America and sells its products in more than 80 countries. It also operates theme parks (Busch Gardens, SeaWorld) and water parks (Water Country USA, Adventure Island). Chairman August Busch III is the fourth generation of the Busch family to run Anheuser-Busch.

Bristol-Myers Squibb Co. (BMY)

Bristol-Myers Squibb is perhaps best known to the public as a stalwart of the personal care industry. Among its market-leading products are Clairol and Excedrin, but a majority of sales come from pharmaceuticals. The company focuses its efforts on cardiovascular treatments and related products, such as cholesterol-reduction drugs (Pravachol is its best-selling drug), anticancer treatments (#2 TAXOL), and anti-infective drugs. Bristol-Myers Squibb also makes baby formulas, wound treatments, and orthopedic products. As the pharmaceutical industry consolidates, the company is considering a possible merger, not only to expand its drug pipeline and R&D efforts but also to strengthen its marketing.

Citigroup, Inc. (C)

One of the world's biggest banks and one of its biggest insurers have joined forces to create -- what else? -- the biggest financial services company. Citigroup, formed from the merger of Citicorp and Travelers Group, has retained Travelers' red umbrella logo, from beneath which it offers credit card, banking (primarily through subsidiary Citibank), insurance, and investment services in some 100 countries.

Subsidiaries include Salomon Smith Barney (brokerage), Primerica (life insurance and mutual funds), and Travelers Property Casualty. Citigroup's e-Citi unit develops online financial service products. The firm acquired the investment banking business of Schroders PLC and Associates First Capital.

Cisco Systems, Inc. (CSCO)

Cisco Systems routes data and routs competitors. One of the world's most valuable companies, Cisco controls more than two-thirds of the global market for routers and switches that link networks and power the Internet. It also makes dial-up access servers and network management software. Cisco traditionally targets service providers and corporations, but it is moving into rival 3Com's small business and consumer territories, and into the optical telecommunication market dominated by companies such as Nortel and Lucent. Market conditions have caused Cisco to decelerate its typically frenzied acquisition pace (more than 70 acquisitions since 1993), a strategy that nets both engineering talent and the latest technologies.

Harley-Davidson, Inc. (HDI)

The #1 road hog and proud of it, Harley-Davidson is the only major US maker of motorcycles and the nation's #1 seller of heavyweight motorcycles. Harley-Davidson offers 24 models of touring and custom Harleys through a worldwide network of more than 1,300 dealers. The company's legendary high-powered Harley motorcycles include the Electra Glide, the Sportster, and the Fat Boy. Besides its bikes, Harley-Davidson sells attitude -- goods licensed with the company name include a line of clothing and accessories (MotorClothes). Harley-Davidson also makes motorcycles under the Buell nameplate and offers financial services to dealers and consumers in the US and Canada through Harley-Davidson Financial Services.

Motorola, Inc. (MOT)

Motorola's wireless hand has been bested, but it's still at the table with a stack of chips. Once the world leader in mobile phone sales, the company has fallen to #2 behind Nokia. Personal and network communications products such as phones, pagers, and two-way radios account for almost a third of sales. Motorola, a top maker of embedded processors, generates about 20% of sales through its semiconductor operations. Core communications infrastructure equipment for global wireless and fixed networks makes up another 20% of sales. Bad technological moves in recent years have left Motorola outsourcing manufacturing, shedding staid businesses, and cutting jobs to lower costs. It continues to build up its broadband line.

Nextel Communications, Inc. (NXTL)

Radio dispatch company Nextel Communications has blossomed into a major digital mobile phone operator. Already providing business users with wireless phone service, two-way radio dispatch, paging, and text messaging on one handset, Nextel has added wireless Internet access and international roaming. The company has used specialized mobile radio (SMR) spectrum to build its position as a leading US mobile phone operator. Nextel also has wireless holdings in Canada, Latin America, and the Asia/Pacific region. Overall, the company has more than 7.6 million proportionate subscribers worldwide. Equipment provider Motorola holds a 14% stake in Nextel, and Craig McCaw owns 13%.

Nokia Corp. (NOK)

Mobile phone users are saying "yes" to Nokia. Much of Nokia's strength is in the booming mobile handset market, where it is the world's #1 seller (ahead of Motorola and Ericsson), but it is aiming for the top of the nascent mobile Internet market. Its products are

divided among three divisions: mobile phones (66% of sales), networks (wireless and Internet protocol infrastructure), and other operations (TV set-top boxes, Internet software and services, home networking, and mobile displays). One of Europe's largest companies by market capitalization, Nokia is focusing on high-speed data connections through third-generation wireless systems, digital subscriber lines, and interactive television networks.

Oracle Corp. (ORCL)

Oracle's orations leave little room for speculation -- the world's second-largest software company is driven to displace #1. Oracle has ventured into new markets in hopes of unseating Microsoft, but databases remain its cash cow. An application server for running e-commerce applications that tie into its databases has strengthened its Web-based Oracle9i database management system software, which is used by more than 8,500 companies to store and access data across numerous platforms. Oracle is also taking aim at Siebel Systems in the customer relationship management software front with its Oracle 11i suite. Consulting and support services account for more than half of sales. Larry Ellison owns 24% of Oracle.

Qwest Communications International, Inc. (Q)

A Qwest at the speed of light: Qwest Communications International provides Internet access, data, multimedia, and voice services over its 25,500-mile broadband fiber-optic network. Covering 150 US metro areas and reaching into Mexico (1,400 miles), the network uses Internet protocol and traditional technologies. Qwest more than doubled in size and gained 25 million local phone service customers in 14 states in the US with the acquisition of Baby Bell U S WEST; it serves 29 million customers overall. Through its joint venture with Dutch telecom provider KPN, the

company operates an ISP in Europe and is developing a fiber-optic network there. Founder Philip Anschutz is the company's largest shareholder.

SPDR Trust, Series One (SPY)

Arachnophobia investors need not apply. The SPDR Trust, Series 1 is a unit investment trust that issues Standard & Poor's Depository Receipts (SPDRs or "spiders"), a tracking stock for the Standard & Poor's 500 Composite Stock Price Index (the S&P 500), which consists of the US's largest companies. SPDRs are worth about one-tenth of the index and are designed to mirror its daily undulations. Some of the trust's most heavily weighted components include General Electric, Cisco Systems, Microsoft, Exxon Mobil, Pfizer, and Intel; about 20% of its value lie in the technology sector. Standard & Poor's, a subsidiary of publisher McGraw-Hill, is not affiliated with The SPDR Trust but does receive trademark-licensing fees.

Class Activities

The SIF class is run as a meeting following Robert's Rules of Order, led by the SEO, or Student Executive Officer. A typical agenda is presented below. Also included are several activities that may be conducted during the different segments of class time.

A typical semester demands completion of various assignments ranging from stock reports and presentations to committee work such as investment policy and portfolio allocation modeling.

During the course of the semester, the class hosts several guest speakers, listens to conference calls, and researches financial publications to get a feel for the everyday activities of money managers.

Every student is responsible for the following:

- Each student follows an individual security during the course of the semester, acting as an analyst, providing updates and news to the class and portfolio committee
- Every student must prepare three in-depth reports during the semester, analyzing two securities and one industry.
- Students each serve on two of the seven committees that perform the class functions such as membership selection, portfolio construction, marketing, etc.
- Students give presentations to the class, recommending the purchase of individual equities.
- The class participates in weekly discussions concerning asset allocation, valuation, trend analysis, etc.

I. Call to Order

II. Secretary - Role and Minutes

III. Reports of Officers, and Standing Committees

- 1. Student Executive Officer
- 2. Portfolio Manager
- 3. Operations Manager
- 4. Committees
 - Executive
 - Portfolio
 - Accounting
 - Macro Economic
 - Membership
 - Operations
 - Public Relations
 - MIS
- 6. Faculty Advisor

IV. Unfinished Business and General Orders

- 1. Individual Security Tracking
 - Portfolio Manager will call for reports
- 2. Constitution
- 3. Security Presentations

V. New Business

- 1. Vote on Securities presented before the class

VI. Voluntary Remarks

VII. Faculty Advisor Lecture and Comment

The Economy in 2000

Some economists have dubbed the current economic growth in the United States “The New Economy.” This is due to the fact that the U.S. is in the longest period of continuous growth in history. The last trough (or period in which decline switched to growth) was in March 1991 or 116 months ago. As of November 2000, the expansion appeared to still have steam left. The last record was set during the 1960s. The following four economic indicators are important in determining the health of the economy:

1. Unemployment and Inflation Rates
2. Private Domestic Spending
3. Monetary Policy (interest rates)
4. Equity Markets

Unemployment & Inflation Rates

For the most part, 2000 marked another year in which the unemployment rate remained very low without generating excessive inflation or inflationary expectations. The unemployment rate averaged 4.0 percent in the first 11 months of 2000. Sharp increases in oil prices beginning in early 1999 did push up the overall consumer price index (CPI) by 3.4 percent in the 12 months ending December, 2000. Until very recently, however, the rise in oil prices did not feed into most other prices, and core inflation (which does not include changes in oil prices) rose only 2.6 percent over the same period. On the other hand, import prices are no longer as much of a restraint on overall inflation as they were for several years in the late 1990s. In contrast to earlier years when import prices (including oil prices prior to 1999) were falling, non-petroleum import prices are now on a rising trend, although the rates of increase have so far been modest. Wages and compensation registered solid increases in nominal terms in

2000. From the standpoint of businesses, however, these wage increases were more than offset by strong productivity gains, with the result that unit labor costs (compensation per unit of output) did not put upward pressure on product prices. From the standpoint of workers, increases in the CPI associated with higher energy prices have meant smaller increases in real wages and compensation than in some recent years.

Private Domestic Spending

The rich technological opportunities and booming stock market that characterize the New Economy have affected the shape of aggregate demand in recent years. The effect of these technological opportunities can be seen most directly in the very high rates of investment in business equipment and software. And it is the expectation of substantial payoffs from those investments that has funded much of the increase in the stock market. The surge in the stock market between 1994 and 1999, in turn, generated enough wealth to affect consumption noticeably. And even though the stock market stumbled in 2000, consumption retained considerable momentum from the buildup of wealth in prior years.

Households

Consumer spending was exceptionally strong in the first quarter of 2000 and then slowed somewhat in the second and third quarters. Even with the slowdown, real consumer expenditures rose 5.3 percent between the third quarter of 1999 and the third quarter of last year, continuing to outpace growth in disposable personal income. Purchases of motor vehicles and parts, which surged in the first quarter, fell back later in the year. Even

so, through November at least, 2000 was on track to become the best-selling year ever for light motor vehicles. After growing at a very rapid pace in 1998 and 1999, residential investment was lower in the third quarter of 2000 than it had been a year earlier, as higher mortgage interest rates contributed to slowing demand. The increase in consumption expenditures in 1999 and 2000 is generally explained by the sharp increase in household wealth since 1994. According to the standard life-cycle model of consumer behavior, increases in wealth are not spent all at once; instead, people generally aim to raise their living standards over the remainder of their lives by spending only a portion of that new wealth each year. Historical evidence suggests that each \$1 change in stock market wealth leads to a permanent change in future consumer spending of about 3 1/2 cents per year, with most of the effect phasing in by the third year. The rate of growth in consumption is affected during the transition from one permanent level to another, but persistent changes in the rate of growth of consumption require persistent changes in wealth. The increase in stock market wealth from 1994 into early 2000 raised consumption growth by about 1 1/3 percent per year. The lagged effects of these past increases in stock market wealth probably continued to boost consumption in 2000. Increased consumption due to this wealth effect reduces saving out of current income, and in fact the household saving rate as conventionally measured in the national income and product accounts fell below zero in the third quarter of last year. However, this measure of saving does not include capital gains, because these gains do not represent income earned from current production. When income and savings are augmented by savings, the picture is quite different: the resulting "wealth-adjusted saving rate" jumped up in 1995 and has generally stayed high since. To the extent that these changes in household net worth reflect

revised views of the future productivity of the underlying assets, the low official personal saving rate is not evidence that households are overextended or living beyond their means. It does mean, however, that households are contributing little or nothing to the pool of national saving available for new investment. Looking more closely at the financial condition of households, there is little question that, even with some stock market setbacks last year, the overall picture of household net worth remains strong. Within this sector, however, some households are net creditors, while others are net debtors and could be subject to financial stress. The Federal Reserve's Survey of Consumer Finances shows, for example, that 14.5 percent of families in 1998 (up from 13.6 percent in 1995) owed annual debt payments exceeding 40 percent of their income. Other indicators of the financial condition of households, such as credit card delinquencies and bankruptcies, show less potential stress. Although these indicators suggest that some households could find themselves in trouble if economic conditions weakened sufficiently, the kinds of credit imbalances that could precipitate financial problems for the macro economy are not in evidence.

Monetary Policy

Between June 1999 and May 2000 the Federal Reserve raised its target for the Federal funds rate by 175 basis points, from 4.75 percent to 6.5 percent. In the second half of 1999, when the Fed began its rate hikes, both Treasury yields and corporate bond yields rose as the Federal funds rate rose. Yields on Treasury and other fixed-income securities of all maturities increased. Beginning in early 2000, however, the Treasury yield curve (which plots the yields of Treasury securities of different maturities, from shortest to longest) began to exhibit atypical behavior. Instead of displaying its normal, upward sloping shape,

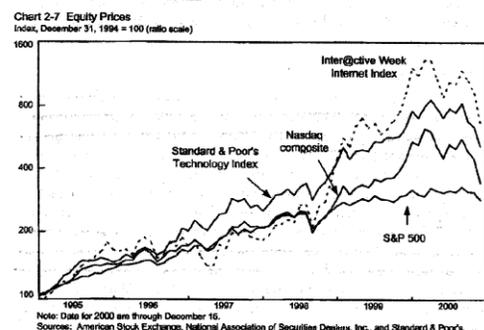
the yield curve became inverted: yields on longer-term securities fell below those on shorter-term securities. This development appears to have been determined mostly by supply conditions in the market for Treasury securities, associated with a growing recognition that substantial Federal budget surpluses were likely to emerge, and therefore that the stock of Treasury securities might decline. This perception was reinforced in January 2000, when the Treasury detailed plans for buying back Federal debt.

Equity Markets

The 1990s saw a remarkable bull market in stocks. At the end of 1999 the market value of U.S. stocks was over \$17 trillion—more than \$10 trillion higher than at the end of 1995. Indicative of the importance of the New Economy, technology stocks, and particularly Internet stocks, showed spectacular gains in 1998-99. The market capitalization of Internet companies increased from \$145 billion in December 1997 to \$1.6 trillion in December 1999. Internet stocks alone accounted for about 23 percent of the total increase in stock market wealth over that period. The sharp increase in stock prices came to a halt in 2000. The Standard & Poor's 500 Index of large-company stocks was down 11 percent as of December 15, while the NASDAQ Composite Index, after climbing 22 percent between January and its peak in March, fell sharply and was down 35 percent as of December 15. Total stock market wealth had fallen by 10 percent as of November 30, compared with an average annual increase of around 17.34 percent over the past decade. Reversing their previous pattern of outperforming the overall market, technology and Internet stocks did even worse than stocks generally in 2000. Internet stocks were particularly notable for their roller-coaster ride. Instead of being a major contributor to growth in market capitalization as in 1999, Internet stocks

subtracted \$630 billion from the broader market in 2000. In the absence of irrational investor behavior, stock market prices reflect the discounted present value of future corporate cash flows, where the discount rate includes a risk factor. Thus, rational explanations for the performance of the stock market last year are likely to be found in the factors affecting such a valuation. For example, a rise in interest rates reduces the present value of future cash flows; hence the rise in interest rates since last summer was probably a dampening factor. Increasing expectations that Federal Reserve tightening and other factors would slow the economy could also have reduced expectations of future profits and hence of future cash flows. Disappointing earnings reports may have reduced expectations of future profitability as well.

After leading stock market growth in 1998-99, Internet and technology stocks fell in 2000; the broader S&P 500 Index was flat.



Industry Analysis - Biotechnology

Industry Overview

Representing a watershed event in the history of science, the recent sequencing of the human genome is expected to revolutionize the field of medicine by creating new genetic-based therapies for ailments ranging from cancer and heart disease to the common cold. Genomic discoveries lay groundwork for the biotechnology boom. Biotechnology companies who work with government and educational institutions have made great strides in science's understanding of molecular genetics. This field has already facilitated the development of more than one hundred drugs since the inception of the biotechnology industry in the mid 1970's. Many of those products are already generating hundreds of millions of dollars in annual sales.

The U.S. biotechnology industry comprises more than 1,300 public and private enterprises with some 151,000 employees. More than 200 million people throughout the world have been helped by FDA approved biotech drugs and vaccines so far. According to the (PhRMA) Pharmaceutical Research and Manufacturers of America there are about 370 drugs and vaccines that are in late clinical trials for a large number of chronic ailments including: cancer, AIDS, Alzheimer's, heart disease, multiple sclerosis, obesity, and other conditions. Biotechnology products are also expected to find widening applications in the fields of agriculture, food processing, environmental control, and forensics. Biotechnology is also playing an increasingly important role in crime detection in the form of DNA testing. Standard & Poor's estimates that human therapeutics accounted for about 75% of industry sales in 1999, human diagnostics for 20%, agriculture products for 5%.

Scholars and analysts have widely recognized the usefulness of Michael Porter's model, which incorporates five primary factors in evaluating the attractiveness of an industry. The factors are bargaining power of suppliers, bargaining power of buyers, threat of new entrants, threat of substitute products, and competitive rivalry. It will prove useful to use Porter's model to evaluate the attractiveness of the biotechnology industry.

Risk of New Entry

This industry is a hard one when it comes to producing successful firms and profitable companies. The life cycle of a drug is short in the scheme of things. One day your drug may be the messiah, the next it is worthless. Constant research is a necessity, no matter the cost; the livelihood of the firm depends on it. Research and development continually requires an immense amount of capital. Many start-up biotechnology companies invest 80% of their revenues into research and development, as opposed to the 15-30% average investment by the industry leaders. Though much of the innovation essentially comes from the smaller companies, the amount they spend on R&D makes it difficult to survive. In addition, government regulations restrict entry into this industry to those who do not meet the stringent qualifications.

Bargaining Power of Suppliers

The bargaining power of biotechnology companies is very high. The life-blood of this industry is the introduction of new-patented products, which protect the manufacturer from substitute products for the duration of the patent, thus eliminating much of the buyer's ability to reach new suppliers.

Bargaining Power of Buyers

The bargaining power of buyer's is very low, due to the low number of manufacturers in the biotechnology sector who have ample financing to discover, develop, and market new drugs. Being independent and entrepreneurial, biotechnology firms pursue high-risk opportunities. They become increasingly dependent on technology to further their quest and encounter many hurdles that they cannot overcome. Smaller companies tend to be acquired by larger firms who have established financing or they contribute to the very high bankruptcy rate amongst the industry.

Existing Rivalry between Firms

The fight for biotechnology companies to get FDA approval for their product increases the rivalry between firms. Patents are among the most important benchmarks of progress in developing new biotechnology products. When a company obtains a patent for a new process or product, competitors are prohibited from commercial use of that discovery. In the biotechnology industry, patents are critical to raising the capital for research and development.

Threat of Substitutes

The threat of substitutes is limited, due to FDA approval and product licensing. The life expectancy of a patent is eight to ten years. Once this patent expires, substitute products make their way into the market and diminish returns of the branded drug. The duration of patents on drugs provides protection against substitute products and enables the branded drug to capture the market.

Macroeconomic Factors

Biotechnology stocks are considered by analysts as sunshine stocks, that is they tend to

do well in a strong market environment. The revolution and valuation of biotechnology should create a strong foundation over the next several years. JP Morgan's Franklin Berger looks at three reasons for this occurrence:

- The amount of new and practical biology
- The accelerating pace of clinical development
- The pharmaceutical industry, with strong cash flow and lifeless pipeline looks to become a strong partner and consumer of biotechnology output. These four reasons place the biotechnology in a position for strong growth and advancement at an astounding pace for the future. Several other fundamentals are exerting a long-term positive influence. The demographic growth in the middle-aged and elderly segments of population is boosting demand, as these groups consume close to two-thirds of prescription medications.

The following are statistics for the increase in elderly population:

- Americans between 45 – 64 year olds will expand by 34% compared to a 10% increase of the total population by 2010
- Over-65 population is expected to more than double by 2030
- Proportion of senior citizens to the U.S. population is projected to be over 20% by 2030
- Over-60 population is expected to rise from 593 million to 2 billion by 2050

Baby boomers provided the expansion of consumer spending for the U.S. over the past two decades and will over the next few decades represent a robust market for

biotechnology products. The strongest growth coming from drugs specifically targeted at heart disease, stroke, arthritis, cancer, depression, impotence, osteoporosis, and other conditions afflicting the elderly.

Biotechnology products reviewed by the Food and Drug Administration have expeditiously increased and are projected to rise due to the aggressive research and development spending. The biotechnology industry is one of the most research-intensive sectors of the U.S. economy, with R&D of \$11 billion representing 54% of industry revenues in 1999. The biotechnology industry spent an average of about \$134,000 per employee on R&D in 1999, compared to \$94,000 spent per employee by the pharmaceutical industry, based on the Pharmaceutical Research and Manufacturers of America.

SIF's Currently Held Biotechnology Stock

Amgen is the largest Biotechnology Company and is a bellwether stock for the biotechnology group. They are a global biotechnology company that discovers, develops, manufactures, and markets human therapeutics based on advances in cellular and molecular biology. The Company manufactures and markets four human therapeutic products: Epogen, Neupogen, Infergen and Stemgen. Epogen stimulates the production of red blood cells and is marketed by Amgen in the United States for the treatment of anemia associated with chronic renal failure in patients on dialysis. Neupogen selectively stimulates the production of neutrophils, one type of white blood cell. Infergen is a non-naturally occurring type-1 interferon, which stimulates the immune system to fight viral infections, and is indicated for the treatment of chronic hepatitis C viral infection.

SIF's Recommended Buy Stock

Genentech, Inc. is a biotechnology company that uses human genetic information to discover, develop, manufacture and market human pharmaceuticals for significant unmet medical needs. Genentech manufactures and markets seven products directly in the United States and the Company is preparing to begin manufacturing and marketing its eighth product. Their products include Herceptin, Rituxan, Activase, Protropin, Nutropin, NUTROPIN AQ, Nutropin Depot, Pulmozyme, and Actimmune. As well, many consider them to have the finest combinations of pipeline and revenue growth in their industry.

Future Outlook

The Biotechnology industry is, and will continue to change the world we live in. This industry is expected to experience wonderful future growth. It is one of a very few industries that is not affected by ordinary economic alterations. The baby boom is a major contributor to the demand for the products of the biotechnology industry, along with the growth in the population. J.P Morgan's Franklin Berger sees "a correction in valuations" soon then "powerful appreciation" over the next several years. Each year new companies are added to the biotech industry, and each year the bankruptcy rate increases in this sector. The smaller firms tend to become consumed by the larger firms, or they file for bankruptcy. Those who do not fall into one of these two categories continue struggling to find the necessary funds to continue operations, and obtain the patents, which are vital to the welfare of each firm.

Security Analysis - Boeing

In 1910, the thought of providing global air travel, space communication and military support via the aviation industry was an after thought to many scholars and businessman. However, the Boeing Company facilitated modern aviation history at the turn of the century with the dream and vision of its founder, William Boeing.

In 2001, the Boeing Company has come full circle and is now the largest aerospace company in the world. It is the world's largest manufacturer of commercial jetliners and military aircraft, and the nation's largest NASA contractor. In terms of sales, Boeing is the largest U.S. exporter. Total company revenues for 2000 were \$51 billion. The Company operates in three principal segments: commercial airplanes, military aircraft and missiles, and space and communications.

Boeing is a company that is continually expanding its products and taking advantage of new technologies - from creating new versions of its family of commercial airplanes, to developing new aircraft for the U.S. military, to building launch vehicles capable of lifting more than 14 tons into orbit, to improving communications for people around the world with an advanced network of satellites. Figure 1 depicts Boeing's stock price compared to the S&P 500 and its competitors, which include General Dynamic (GD), Northrop (NOC), Lockheed Martin (LMT) and Litton Industries (LIT).

Aerospace Comparative Stock Performance



Most recently, the Company has decided to move its 85-year headquarters' from Seattle, Washington amidst political pressure and the increasing turmoil in the Seattle area. In addition, Phil Condit, Chief Executive Officer, indicated that the Company is moving toward a transformation in which they plan to increase flexibility in moving capital and utilizing talent opportunities to maximize shareholder value.

The Boeing Company is transforming its corporate architecture by continuing to pay close attention to operational performance improvements and by investing wisely in new growth projects. Furthermore, the Company has promoted its current leaders of its largest operating units to Chief Executive Officers with the expectation that the restructuring will give them more freedom to deliver the aforementioned operational improvements.

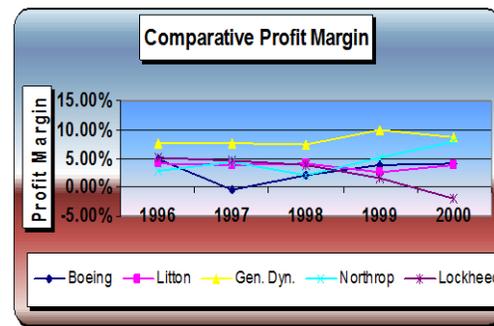
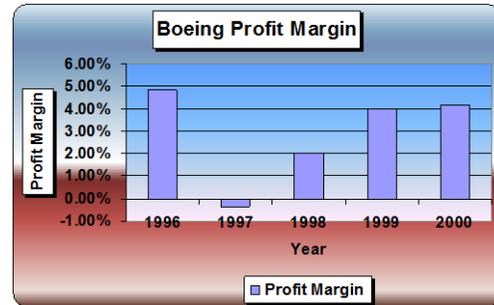
To affirm that the airplane is going to revolutionize the future, is to be guilty of the wildest exaggeration...Scientific American Magazine, 1910

In the last six months, Boeing has established a communications business; Connexion by Boeing and the Company has acquired Jeppesen as the hub of an information services business. Additionally, Boeing has put emphasis on its financial services business, Boeing Capital Corporation, and Boeing is setting up a business to service the increasing needs of the air traffic control and management industry. Finally, the Company has recently decided to drop its plans to compete with Airbus' A380 aircraft. The 747 enlargements originally designed to address the A380 have been canceled and instead Boeing plans to focus its efforts on designing a mid-size jet that flies 15 percent faster than current civil aircraft.

The following analysis will explain the Company's successes and difficulties with an examination of the economic and environmental conditions currently existing in the market.

Financial Performance

Boeing's revenues have increased dramatically over the course of the past five years, specifically in 1997. However, this extraordinary increase in revenue was driven by extraordinary events. By acquiring another aerospace giant (McDonnell Douglas) in 1997, Boeing doubled 1996 revenue. Unfortunately, the company was not able to provide shareholders an equal gain in income. In fact, the company recorded a loss in 1997 and has yet to return to pre-merger profit margins. Profits have been climbing since 1997's loss suggesting that the Company may still be developing synergies and shedding some inefficiency that arose from the 1997 mega-merger. On the surface, however, a casual observer may wonder if bigger means better. In this case so far, the answer would be no. It is important to evaluate Boeing's performance in light of the performance of the competition and the industry. Unfortunately,



Boeing's primary competitor Airbus Industrie is a private company and its financial statements are not readily available. Several other large aerospace companies were selected for this analysis as a basis for comparison. The competition has clearly outperformed Boeing at converting sales to profits. As mentioned earlier, Boeing's profit margins suffered considerably in 1997. The fact that profit margins of Boeing's competitors did not fall accordingly suggests that the Company's poor performance was due to its own actions not issues relating to the industry or the competitive environment. Ratio analysis should provide additional insight supporting an ultimate conclusion concerning management effectiveness.

Boeing's Return on Equity has been quite volatile over the past several years, bottoming out in 1997 at -1.4% and peaking in 1999 at 20.10%. The Company's average ROE over the observation period is 9.99% compared to an industry average of 11.63%. During the past two years, however, Boeing's ROE has far outpaced the industry average suggesting that management has at least temporarily found a way to provide superior return to its shareholders.

Boeing's Return on Assets has been much less volatile than its ROE simply because the Company's assets are considerably greater than its equity. Therefore, changes in ROA are of less magnitude as income changes compared to changes in ROE. The company's average ROA during the observation period is 3.41% compared to 3.79% for the industry. In general, Boeing has been outperformed by the competition on both ROE and ROA.



Portfolio Analysis

While it is important to evaluate Boeing in isolation, it is equally if not more important to explore its contribution to the existing portfolio or lack thereof. In order to evaluate Boeing's potential contribution to the existing SIF portfolio, a more technical approach was needed. The basis for this approach is the Markowitz model.

Boeing Risk / Return Ratios & Industry Comparison

Year	ROE	ROA	Long Term Debt/Equity	Total Debt/Equity
1994	8.80%	4.00%	0.27	0.27
1995	4.00%	1.80%	0.24	0.26
1996	10.00%	4.00%	0.36	0.36
1997	-1.40%	-0.50%	0.47	0.53
1998	9.10%	3.10%	0.5	0.57
1999	20.10%	6.40%	0.52	0.59
2000	19.30%	5.10%	0.69	0.8
BA Avg.	9.99%	3.41%	0.44	0.48
Industry Average *	11.63%	3.79%	0.56	0.64

In order to perform this analysis, a set of monthly returns was needed for each security. Data was acquired through Standard & Poor's Research Insight. A 36-month observation period (March 1998 through February 2001) was considered to be sufficient to determine performance. A detailed spreadsheet that calculates the slope of the capital market line was created. Excel solver was used to maximize the slope of the capital market line by changing the weights of individual securities and ultimately determine portfolio allocation given certain constraints. The approximate weights of each of the existing securities were constrained to be equal to or greater than their current weights while no single security could be more than 7% of the total portfolio.

The idea behind this exercise is to determine if solver will include Boeing in the portfolio due to its contribution in terms of either diversification or excess returns. The sum of the weights of the existing securities is less than one because some funds are held as cash. The solver calculation required that the sum of the weights equal 1. Therefore, in order to fully invest, solver could either add some Boeing stock or add more of existing securities. Ultimately, solver concluded that Boeing does not add value to the existing

portfolio and available funds should be invested in existing securities (specifically Amgen, Budweiser, and Pfizer) in the absence of other options.

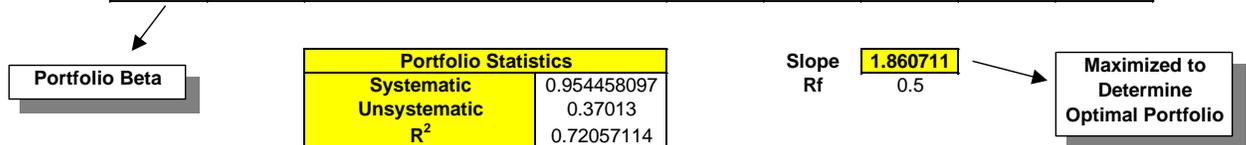
Recommendation

Based on the aforementioned qualitative and quantitative analysis, we recommend that the Student Investment Fund program not take a position in the Boeing Company. While Boeing is an American staple, it has failed to keep pace with the aerospace industry at providing return to shareholders. The Company's major competitor is privately held Airbus Industrie, which makes it significantly difficult to obtain financial/performance information in order to make a direct comparison. This increases risk due to the uncertainty of the environment in which they are competing.

The quantitative analysis shows significant sensitivity to the estimated average earnings growth rate. In order to justify Boeing's current stock price of \$55.71, a 17.74% average earnings growth rate would be required over the next 10 years. This seems to be a high number for a fairly mature company. When evaluating a security it is important to not only evaluate that security in isolation, but also determine its contribution to the overall portfolio. Utilizing the Markowitz model, we can conclude that Boeing does not add value to the existing Student Investment Fund portfolio. Although the Boeing Company is taking strides to diversify its product line and reinvent its overall strategy, the aerospace industry remains uncertain and the future success of the Company's new ventures is unknown.

Boeing Portfolio Contribution Analysis (Based on Monthly Returns for 36 Months)

Intercept	Slope	Weight	Company	Ticker	Data Hidden for Presentation			Variance	St. Dev.
					Mar-98	Feb-01	Mean		
1.951804	-0.95899	0.00%	Boeing	BA	0.568	5.854	0.52597	6.7078	2.589942
9.386325	-2.91993	2.73%	Advanced Micro Devices	AMD	-2.498	0.826	5.04494	118.033	10.8643
5.198709	0.794029	7.00%	Amgen	AMGN	0.746	0.473	6.37928	17.01659	4.125117
1.778491	0.372354	3.83%	Anheiser-Busch	BUD	1.229	3.222	2.33211	3.95398	1.988462
-0.631821	1.419664	1.80%	Bristol Myers Squibb	BYM	6.683	1.065	1.47894	4.69928	2.167782
3.953009	2.803114	1.20%	Cisco Systems	CSCO	9.427	-5.347	8.12069	20.86631	4.567966
1.948165	0.678544	4.55%	Citigroup	CSCO	7.436	2.321	2.95703	5.24529	2.29026
2.747799	1.175567	1.96%	Harley-Davidson	HDI	7.865	2.297	4.49564	4.25087	2.061764
-1.490424	3.107394	2.76%	Microsoft	MSFT	7.936	-2.832	3.12967	17.95462	4.237289
3.547484	3.077058	1.52%	Nextel	NXTL	12.693	-5.401	8.12247	114.3717	10.69447
13.53515	-1.37099	1.99%	Oracle	ORCL	1.896	-4.068	11.49675	171.9064	13.11131
1.062068	1.247987	7.00%	Pfizer	PFE	11.627	3.44	2.91758	11.59466	3.405093
1.876657	0.457643	2.57%	Qwest Communications	Q	5.851	-0.76	2.55708	3.30445	1.817815
0.040043	1.056692	3.47%	SBC Communications	SBC	5.717	2.335	1.61114	4.72969	2.174785
0	1	57.62%	S&P 500	I0003	3.997	-0.683	1.48681	1.1265	1.061367
0.5	0	-	Risk Free Rate	N/A	0.5	0.5	0.5	0	0
0.920476	100.00%	Monthly Portfolio Return			4.672416	-0.04777	2.6415	1.32459	1.15091



Financial Statements

Balance Sheet

Year Ended December 31

2000

Amounts in US Dollars

Assets

Total Cash/Cash Equivalents	\$ 25,996.24
Index Funds, at value (cost \$ 320,310)	\$ 333,975.00
Comon stocks, at value (cost \$ 164,982)	\$ 197,486.00
Total Assets	\$ 557,457.24

Capital

Paid in capital	\$ 503,000.00
Capital gains (losses) (cumulative)	\$ 54,457.24
Total Capital	\$ 557,457.24

Income Statement

Year Ended December 31

1999

2000

Amounts in US dollars

Investment Income

Interest	\$ -	\$ 241.78
Dividends	\$ 8,488.99	\$ 3,298.93
Total Income	\$ 8,488.99	\$ 3,540.71

Expenses

Annual Fee	\$ 150.00	\$ 150.00
Supplies and Expenses	\$ 852.81	\$ 205.13
Postage and Shipping	\$ 45.38	\$ 45.38
Printing and Duplication	\$ 708.20	\$ 987.50
Telecommunication	\$ 0.16	\$ -
Membership and Subscriptions	\$ 311.46	\$ 268.93
Entertainment	\$ 282.00	\$ -
Other Expenses	\$ 6.40	\$ -
Total Expenses	\$ 2,356.41	\$ 1,656.94

Realized and unrealized Gain (loss)

Unrealized Gain (loss)	\$ 133,560.00	\$ (87,391.00)
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