

College of Business Administration Student Investment Fund







ANNUAL REPORT 2006

Mission Statement

"As members of the University of Tulsa's Student Investment Fund, we will meet for the purpose of furthering our knowledge of financial management, elevating our experience in the investment arena, promulgating our objectives and purposes to the public, mastering the practices, habits, and ethics of finance professionals, and for the promotion of social and professional relationships amongst our members. This background will provide us with superior knowledge and competitive ability in our professional field.

We will also, as beneficiaries, endeavor to provide superior returns to our shareholders; those individuals who have enabled us to enjoy this experience by donating to the Finance Excellence Fund."

-Adopted January 23rd, 2001

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Student Investment Fund Board of Advisors

Roger Bey, The University of Tulsa
Bob Boyd, Boston Street Advisors
Keith Goddard, Capital Advisors, Inc.
Jack Koehle, New York Life
Brett Kramer, Pinnacle Investment Advisors
Mike Thesenvitz, The University of Tulsa
Ed Thomas, Thomas Engineering

This report is submitted for the general information of the fund's donors.

Letter to Our Shareholders

Dear Shareholders,



From previous experience I know that the success of a team is determined not only by the actions of its individual members but also is dependent on constructive cooperation among the individual

members. Therefore, my first statement as Student Executive Officer to the class was that my main goal was to enhance the flow of information between the committees and its members.

As the second largest class in the history of the Student Investment Fund we set high goals at the beginning of this semester and started projects the very first week. make it possible for future classes to work more efficiently and reach a higher performance level, we wanted to create sustainable improvements. Some of our achievements are: (1) the creation of a completely new website which was filled with a great deal of useful information; (2) a review of the investment policy to help implement a long-term investment strategy; (3) the introduction of a four-week in-depth review cycle for each industry (two or three industries per week and the associated securities); and (4) the creation of a uniform class presentation template to provide the same information about each security, the most important news pertaining to the security, and a personal buy and sell recommendation. All of these accomplishments will help future SIF classes to be both more efficient and effective in managing the portfolio.

For my part, I have tried to attend the meetings of each committee and thereby enhance the flow of information. I looked for possible opportunities to improve cooperation and to reduce redundant work.

I am confident that due to the concerted efforts of all SIF students, we have built a strong base for future classes and the continued growth of the SIF.

Atahan Tosun Fall 2006 SEO

Faculty



Dr. Roger P. Bey is the first holder of the J. Bradley Oxley Endowed Chair in Business Administration. He joined The University of Tulsa faculty in 1983 and has served as

professor and chair of Finance Operations Management since 1984. He has been published in leading finance journals including Journal of Finance, Journal of Financial and Quantitative Analysis, The Journal of Financial Research, Financial Management, and Engineering Economist, among others. Dr. Bey has served in leadership roles in professional organizations, was instrumental in the founding and development of The University of Tulsa Friends of Finance and has received both research and teaching awards. University of Tulsa he has been the recipient of the Graduate Student Professor of the Year Award, the FMA Professor of the Year Award, the Dean's Innovation in Teaching Award, and the Mayo Excellence in Research Award, which he has received Dr. Bey holds a BSEE from twice. Michigan State University, MBA from the University of Pittsburgh, and a Ph.D. from Pennsylvania State University.

Jim Arens, Senior Vice President of the Trust Company of Oklahoma, joined the company in 1997 after working with KPMG Peat Marwick as a manager in the strategic services consulting group. He holds the Chartered



Financial Analyst designation and is past president of the Oklahoma Society of Financial Analysts and is active in the CFA Institute. Mr. Arens is an adjunct professor at The University of Tulsa, a member of the Board of Directors at the Gilcrease Museum and The University of Tulsa Friends of Finance organization. He also served as Vice Chairman of the Board of Trustees at First Presbyterian Church of Tulsa. Arens holds a BBA in Finance and Accounting from Southern Methodist University and an MBA from The University of Texas at Austin.

Guest Speakers

Each semester several business professionals are invited to speak to the Student Investment Fund students as a means of enriching the base curriculum. The knowledge imparted by the professionals from the business community is an essential element in building the student's knowledge base and exposing the students to real-world issues and topics. The speakers have a variety of different backgrounds and are each able to bring a unique perspective to the class.

The 2006 guest speakers were:

James Arens Senior Vice President, Trust Company of Oklahoma

Tulsa, Oklahoma

Brett Cramer Principal, Pinnacle Investments Advisors

Tulsa, Oklahoma

Jake Dollarhide Co-founder and CEO, Longbow Asset Management Company

Tulsa, Oklahoma

Jean-Claude Gruet Senior Vice President & Chief Investment Officer - Equities, AXIA

Investment Management Inc., Tulsa, Oklahoma

Jeff Holman Assistant Treasurer, Magellan Midstream Partners, L.P.

Tulsa, Oklahoma

Jay Matlock Portfolio Manager, Longbow Asset Management Company

Tulsa, Oklahoma

Jeff Watkins President, Prescott Group Capital Management, LLC.

Tulsa, Oklahoma

From the Spring 2007 Officers







Ryan Campbell

Current Position

We are very excited to serve as the SEO and Portfolio Manager for the Spring 2007 class. During 2006, the SIF exceeded expectations. The portfolio was able to outperform the S&P 500, new systems and processes were adopted to facilitate future decisions, and an invitation was extended by Warren Buffet to attend Berkshire Hathaway's shareholders meeting. We are very proud of the 2006 classes.

Our predecessors did a wonderful job facilitating The main goal for SIF this our success. semester is to improve the knowledge base of future students. First, we will develop a database of economic information services. This will make acquiring information more efficient and effective. Second, a trade log will be will be developed to allow future students to examine primary reasons for buying and selling securities. Finally, we will update the existing webpage with new content and features. These features will allow SIF members and the community to remain abreast of our investments and outlook.

Investment Outlook

The bulls continued to run in 2006, although 2007 could prove to be where they lose their momentum; at least during the first half of the year. Driven by the Federal Reserves' promise to control inflation, fiscal policy in the shortterm continues to keep investors guessing as the U.S. GDP is expected to decline to 2.2% from 2006's 3.3% performance while inflation is expected to steadily rise over the next year,

averaging 2.3%, due to robust consumer spending through utilization of solid household balance sheets and personal income growth. All-in-all a steady

hold on rate hikes is expected with little, if any, easing over the next year. This interest rate holding pattern coupled with current valuations and earnings outlooks are expected to allow for slow moderate growth in the markets over the next 12 months. When taking into account the fact that corporate earnings are at all time highs and the slightly inverted yield curve may be forecasting overall slower economic growth, investors should be preparing for a conservative showing from the market as regression to the mean pulls back the past 6 year trend of gains.

The student analysts of the University of Tulsa Student Investment Fund expect a good showing in the Healthcare, Telecommunication, and Materials sectors of the S&P 500 this year, driven by corporate expenditures of deep cash reserves on expansion efforts and the continuing need for investments in healthcare as the baby boomer generation nears retirement age. These sectors have shown strong growth in the first quarter and are forecasted to be the frontrunners in terms of growth for the S&P throughout 2007.

Over this past year the SIF students have worked hard and made significant improvements upon the structure and performance of the fund. Previous classes laid the groundwork for us to succeed and we hope our hard work improves the class for future students. We thank those of you who have supported SIF over the years and look forward to seeing your continued support.

Charles Bostic Student Executive Officer Spring 2007

Ryan Campbell Portfolio Manager Spring 2007

My Callen

SIF History, Goals and Organization

SIF History and Purpose

The University of Tulsa Student Investment Fund (SIF), started in the Fall semester of 1997, provides unique opportunities to outstanding undergraduate and graduate students in their study of finance. Some of these opportunities include gaining practical experience in financial modeling, portfolio management, making fundamental analysis, investment decisions with real consequences understanding the effects of macroeconomic forces on industries and firms. Thanks to the generous donations of TU friends and alums, TU have gained valuable hands-on students, experience that has helped prepare them for the challenges faced in their financial careers.

The TU SIF is completely funded by donations to the Finance Excellence Fund. Since its inception in 1990, the Finance Excellence Fund has provided more than \$204,000 in scholarships to 123 outstanding students and the operating funds for the SIF. Furthermore, the Finance Excellence Fund has allowed the University of Tulsa to advance toward its goal of national academic recognition. Frank M. Engle made the first contribution to the Finance Excellence Fund in 1990. Since then more than 325 TU alumni and friends of the University have generously contributed more than \$1.0 million. Without Friends of Finance, the TU SIF would not be possible.

SIF Goals and Management Style

As of December 31, 2006, the TU SIF had \$1,365,311 under management. The goal of the SIF is to outperform the S&P 500 index using an enhanced index methodology. At least 30% of the assets under management are allocated to a SPDR 500 ETF. The remaining 70% is allocated to individual securities and cash. SIF student managers adhere to a diversified portfolio approach. No more than 25% of the fund's assets may be allocated to any one sector, and no more than 7% can be allocated to any single security. The fund is moving toward value securities in an attempt to stabilize returns over the long-run. The short-term goal of the SIF is to hold assets in excess of \$1.5 million by May 2008.

Class Organization

The TU SIF has a hierarchal organizational structure with students serving in all of the functional roles. Each student is required to take an active role in two of the seven SIF committees. The SIF organizational structure is as follows:

Board of Advisors: The SIF Board is comprised of six professionals. They ensure that the SIF is managed in a prudent and responsible manner.

Faculty Advisors: Dr. Roger Bey and Jim Arens serve as faculty advisors. Dr. Bey ensures that the SIF class is operated in accordance to the standards set forth by the Board and the University of Tulsa. He does not make any investment decisions concerning the management of the fund's assets but retains a right to veto any student decision. Jim Arens provides professional insight and real-world investment guidance.

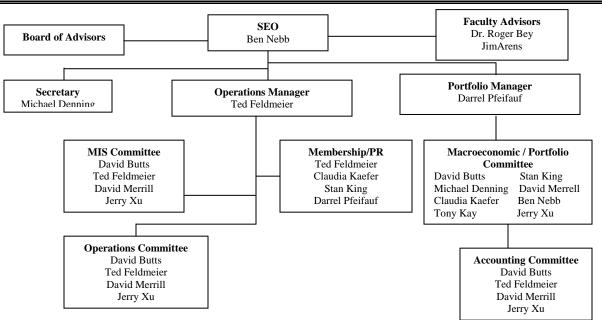
Student Executive Officer (SEO): The SEO is responsible for the day-to-day management of the SIF class activities. He leads class discussions, ensures SIF committees are functioning properly, monitors the SIF portfolio, and assures that the SIF members are acting in accordance with the SIF Constitution and Bylaws.

Portfolio Manager: The portfolio manager ensures that the Portfolio Committee, Accounting Committee, and Macroeconomic Committee all perform their duties consistently and effectively.

Operations Manager: The operations manager ensures that the Operations Committee, MIS Committee, and Membership/Public Relations Committee all perform their duties consistently and effectively.

Secretary: The Secretary ensures that the minutes of class meetings are recorded, manages all SIF documentation, and distributes all annual and quarterly reports.

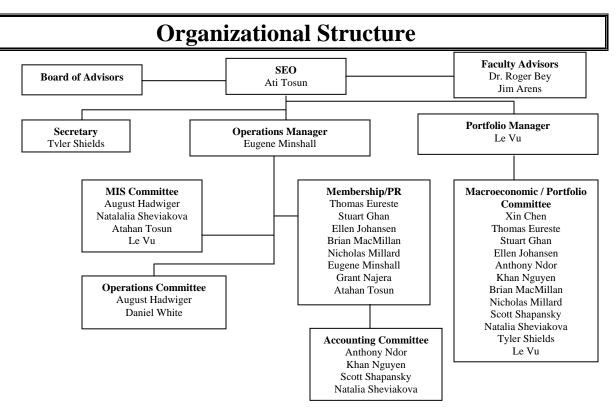
Organizational Structure







<u>Back Row (left to right)</u>: Dr. Roger Bey, David Merrill, Darrel Pfeifauf, Ben Nebb, David Butts, Stan King <u>Front Row</u>: Jim Arens, Tony Kay, Claudia Kaefer, Ted Feldmeier, Jerry Xu, Michael Denning



Fall 2006 Class



<u>Back Row (left to right)</u>: Xin Chen, Le Vu, Daniel White, Stuart Ghan, Dr. Roger Bey, Eugene Minshall, August Hadwiger, Grant Najera, Anthony Ndor, Nicholas Millard, Thomas Eureste <u>Front Row</u>: Atahan Tosun, Scott Shapansky, Ellen Johansen, Natalia Sheviakova, Tyler Shields, Khan Nguyen, Brian MacMillan

Committee Updates

Accounting

The goal of the Accounting Committee for 2006 was to track and report all cash flow activities of the SIF. The committee has updated all transactions the SIF has performed since 2005 in the CAPTOOLS accounting program. In addition to the regular responsibilities of the accounting committee, the committee investigated the formulation of a stock performance report to track the performance of all individual stocks in the SIF over time.

MIS

The MIS committee has taken a few initiatives The committee has begun the upon itself. development of an entirely new SIF website. This website will include updated information on the fund, weekly economic conditions, pictures of the class, and many other features that will be implemented over time. The committee also established a Google Finance portfolio so students can easily track the performance of the fund from anywhere. The MIS committee has also created a security update template to streamline the weekly security update process. The MIS committee is committed to help the SIF run more efficiently and to spread our name throughout the collegiate community as one of the best student-operated investment funds in the country.

Membership

The Membership committee is dedicated to effectively promoting the opportunities SIF offers to qualified undergraduate and graduate students. The committee has taken several steps to insure a high number of qualified students are exposed to SIF. Among these are classroom visits, emails to undergraduate and graduate students, and an informational luncheon.

Economics

The Economics Committee worked to present the class on a weekly basis with timely and salient economic news of both endogenous and exogenous origin. In general, the reports covered the factors that the Fed and the U.S. markets have marginal

control over, i.e. the Fed funds target rate, the money supply, as well as factors that are outside of U.S. control, such as foreign markets, currencies, and policies. The overall goal is to provide a comprehensive analysis that will give the class a transparent idea of the market's environment, behavior, and possibly shed some inkling of clairvoyance as to the momentum we anticipate the market exhibiting in the near future.

Portfolio

The Portfolio Committee focused on achieving an optimal portfolio which exceeds the performance of the S&P 500. The committee compared our fund to the student investment funds of both Stetson University and Baylor University in order to see where we stand and the other possibilities available. Furthermore, we have revised the investment policy and considered making changes to it in the near future. The committee attempted to identify those securities that offer the best opportunities for gain with the least amount risk in order to construct an optimal portfolio.

Operations

The Operations Committee is primarily involved in strategic support of the members of the Student Investment Fund through maintenance and oversight of the Williams Risk Management Center. Recently, the Operations Committee has been involved in the coordination of the Bloomberg certification process, as well as the updating of Bloomberg certification guidelines. The Operations Committee also handled the distribution of relevant materials to the appropriate committees as well as the coordination of SIF group photos. New clocks were purchased for the WRMC.

Public Relations

The Public Relations committee focused on scheduling business professionals to attend class and present a topic relevant to the students of SIF. The objective of scheduling numerous influential speakers was achieved over the year. Topics varied greatly but centered on investments.

Strategy Considerations

Large Blend Portfolio Orientation

The underlying strategy of the SIF is to combine both growth and value approaches to portfolio management. Our objective in utilizing this approach is to reduce the volatility from shifting markets that would normally result in a loss when only using a single style.

An analysis was conducted using the Morningstar standard to determine our portfolio compilation. The results showed that our recent portfolio holds 50% growth stocks, 21% value stocks and 29% core stocks. In order to uphold the delicate balance between growth and value stocks in the future, our executive officers will determine the appropriate level of each category which must be added to the portfolio. This will provide a more defined guideline for new securities selection.

SIF II Incorporation

The SIF II students serve as an advisory as well as educational base for the existing SIF students, most of whom are new to the concept of portfolio management and financial markets. The SIF II students are looked upon as leaders in the classroom due to their previous experience in SIF. They offered valuable experience to the class. In addition to this, SIF II provided valuable insight to the other members about the structure of the class, various assignments, and performance of the portfolio in Fall 2005 in manners that were relevant to managing the portfolio in Spring 2006.

In the future, SIF II students need to continue taking a proactive stance in mentoring the other members of the SIF. Diving head-first into a portfolio worth over one million dollars can be very intimidating to those not well-versed in the field of investments. Many students are not aware that truly effective fund managers constantly monitor not only the securities they hold, but those of its competitors, the macroeconomic environment, and the global political spectrum as well. These members have helped the new members substantially as they became acclimated to their new lifestyle as fund managers.

Improved Public Relations

Recruiting qualified, well-rounded students for upcoming semesters is vital to the success of the SIF portfolio. In 2006, SIF placed a specific focus on diversifying the class. In previous years the class was composed almost entirely of undergraduate Finance students. Both the Fall and Spring classes in 2006 consisted of a wide range of students, allowing the class to make well-informed decisions based on an array of knowledge.

The classes of 2006 were composed of undergraduate students, graduate students, and many foreign exchange students. Including students of different nationalities, levels of work experience and education greatly contributed to the success of the class. In 2006, SIF diversified the class by broadening our base for recruitment. The SIF Membership and Public Relations committees visited not only undergraduate Finance classes but also graduate classes and events such as Friends of Finance, Beta Alpha Psi, and Student Finance Association meetings. To further our exposure our MIS committee made great advances in the SIF website (www.cba.utulsa.edu/sif.com), allowing potential members to easily address any questions they may have.

Security Holdings

University of Tulsa SIF Holdings December 31, 2006

Unrealized						
<u>Security</u>	Symbol	Quantity	<u>Cost</u> <u>Basis</u>	<u>Market</u> <u>Value</u>	<u>Gain</u> (Loss)	% of Portfolio
Merrill Lynch Money Market Cash	VMFXX	33,687	33,687 33,687	33,687 33,687	<u>0</u>	2.47 2.47
Best Buy	BBY	675	11,277	33,203	21,926	2.43
Cheesecake Factory	CAKE	375	9,232	9,225	-7	0.68
Coach	COH	933	26,705	40,082	13,377	2.94
MGM Mirage	MGM	618	14,155	35,442	21,287	2.60
O'Reilly Automotive	ORLY	497	<u>16,813</u>	<u>15,934</u>	<u>-879</u>	1.17
Consumer Discretionary			78,182	133,886	55,704	9.81
Diageo	DEO	370	22,126	29,345	7,219	2.15
Pepsico	PEP	375	21,560	23,456	1,896	1.72
Con Staples VIPER's	VDC	395	22,394	25,217	2,823	1.85
Consumer Staples			66,080	78,018	11,938	5.71
Apache	APA	434	18,609	28,865	10,256	2.11
ConocoPhillips	COP	540	20,295	38,853	18,558	2.85
Exxon Mobil	XOM	285	10,579	21,840	11,261	1.60
Schlumberger	SLB	400	<u>25,748</u>	25,264	<u>-484</u>	1.85
Energy			75,231	114,822	39,591	8.41
American Capital Strategies	ACAS	362	12,825	16,746	3,921	1.23
Bank of America	BAC	655	26,059	34,970	8,911	2.56
FactSet	FDS	276	12,235	15,588	3,353	1.14
Goldman Sachs	GS	295	32,416	58,808	26,392	4.31
Mack-Cali	CLI	279	12,639	14,229	1,590	1.04
Legg Mason	LM	200	20,918	19,010	-1,908	1.39
UBS AG	UBS	400	24,132	24,132	0	1.77
Financials			141,224	183,484	42,260	13.44
Amgen	AMGN	300	20,883	20,493	-390	1.50
Bard C. R.	BCR	580	40,182	48,123	7,940	3.52
Gilead	GILD	250	5,782	16,233	10,451	1.19
Zimmer	ZMH	598	41,631	46,871	5,240	3.43
Health Care			108,478	131,719	23,241	9.65
Caterpillar	CAT	900	41,889	<u>55,197</u>	13,308	4.04
Industrials			41,889	55,197	13,308	4.04

Security Holdings (continued)

University of Tulsa SIF Holdings December 31, 2006						
<u>Security</u>	Symbol	Quantity	<u>Cost</u> Basis	<u>Market</u> Value	Unrealized Gain (Loss)	<u>% of</u> Portfolio
Apple Computer	AAPL	400	33,960	33,936	-24	2.49
Electronics Arts	ERTS	600	21,900	30,216	8,316	2.21
EMC Corp	EMC	1,413	20,036	18,652	<u>-1,385</u>	1.37
Information Technology			75,896	82,804	6,907	6.06
International Paper Vulcan Materials	IP VMC	329 400	11,413 22,343 33,756	11,219 35,948 47,167	-194 <u>13,605</u> 13,411	0.82 2.63 3.45
Telecommunication			0	0	0	-
Exelon	EXC	260	14,149	16,091	1,942	1.18
ONEOK	OKE	600	25,152	25,872	720	1.89
TXU Corp	TXU	350	10,678	18,973	8,295	1.39
Utilities			49,979	60,937	10,958	4.46
iShares MSCI EAFE	EFA EEM	239 79	14,806 _7,804	17,500 _9,019	2,694 _1,21 <u>5</u>	1.28 0.66
International	LLIVI	75	22,610	<u>26,519</u>	3,909	1.94
SPDR 500	SPY	2,945	341,216 341,216	417,071 417,071	75,855 75,855	30.55 30.55
Total			1,068,229	<u>1,365,311</u>	297,082	100.00

2006 Leaders

Leaders	Returns	Purchase Date
Goldman Sachs	57.31%	05.03.2005
MGM Mirage	56.59%	05.05.2004
Diageo	40.06%	12.09.2005
Exxon Mobil	38.83%	12.09.2005
Vulcan	39.94%	05.03.2005

Goldman Sachs

Goldman Sachs continued to do well as the U.S. economy picked up during the latter part of 2006 after struggling in the summer (the Dow rose almost 1000 points in the third quarter) and as global capital markets performed well. Goldman Sachs continues to issue a solid dividend and its expertise in M&A activity has served it well in 2006.

MGM Mirage

MGM Mirage grew quite well in the third quarter, likely a result of MGM's perceived mid-single digit increase in revenue per available room and double-digit takes in slot machines and table games. In 2006, MGM secured a 50/50 partnership to build a \$1.1 billion casino in China. Deals such as these in other countries such as the United Arab Emirates and the UK and expansion in its domestic properties have helped MGM grow substantially in the past year.

Diageo

Diageo offers a regular dividend and is serving a burgeoning US market as well as expanding markets in India and China. Diageo is increasing production capacity due to these growing markets, as evidenced by its issuance of \$1.5 billion of 5, 10, and 30-year SEC-registered securities in September and another \$1 billion in March 2006. Barclays has increased its holding in the firm, which now represents 4.99% ownership of Diageo. The firm continues to release new products that cater towards a more "mature" US market while offering a product mix of specialty beverages that cater to local markets as well as marketing traditional products such as Crown Royal. Smirnoff, and Dom Pérignon to these new markets as well.

Exxon Mobil

Exxon Mobil is finally beginning to deliver on some long-anticipated growth, as combined oil and natural gas production was 6% higher through the first nine months of 2006, an impressive figure considering how large Exxon Mobil's production base is. Exxon Mobil's returns have been long-awaited but worth it, as Exxon Mobil's undertakings are more promising than its peers'. Exxon Mobil also maintains development expenses that are the most competitive in its field, which means tighter operations and added value. A solid dividend helps as well.

Vulcan

Vulcan did well in 2006 largely due to increased aggregate prices, which grew 15% in the last quarter of 2006 and 14% for the year. Despite the housing market's decline, asphalt and concrete prices remain on the rise, on the heels of double-digit price increases combined with steady volume. These stacking prices combined with Vulcan's healthy California market, where a \$20 billion bond referendum was passed which will likely entail highway construction, has helped Vulcan grow in 2006.

2006 Laggards

<u>Laggards</u>	Returns	Purchase Date
Cheesecake Factory	-34.28%	01.02.2003
Legg Mason *	-14.16%	05.01.2006
Electronic Arts	- 3.74%	04.24.2003
EMC Corp	- 3.09%	12.09.2005
Apache	- 2.28%	04.24.2003

^{*} Returns are from purchase date to 12/31

Cheesecake Factory

Cheesecake Factory suffered losses this year primarily due to an internal error of incorrectly applying measurement dates with respect to certain option grants. In order to correct this error, Cheesecake Factory will restate previously issued and record financial statements after-tax compensation expenses of \$5.5 million, in addition to \$1.2 million in expenses due to the associating audit, in which Cheesecake Factory was absolved of any apparent wrongdoing. Management expects additional expenses revolving around this review, SEC inquiry, and shareholder lawsuits. These conditions obviously are not helpful to the firm's stock price.

Legg Mason

Legg Mason had cited lower revenues for the third quarter of 2006 than expected, with revenues approximately 1% less than the firm's revenues in the June quarter, attributable in part to changes in the mix of the firm's mutual fund assets under management during the quarter toward lower revenue-generating fixed income assets. The firm's integration of Citigroup's asset management business has caused some hiccups in operations which have attributed to the firm's lower-than-expected performance.

Electronic Arts

Electronic Arts faced reorganization problems and unexpected expenses related to the establishment of an International Publishing Headquarters in Geneva. These problems were both reflected in Electronic Arts' first-quarter earnings, which were below analysts' estimates. Electronic Arts had signed several publishing deals with Sony for its

new Playstation 3 (PS3) video game console. The introduction of the PS3 in the third quarter hurt holiday sales due to the console's high price relative to the price of its competitors' offerings (Nintendo's Wii and Microsoft's Xbox360), which led to below-average holiday sales. More Wii games were sold than PS3 games, which hurt Electronic Arts' bottom line.

Apache

In 2006, oil and gas production, up from 10% for the year, was relatively strong, which led to good year-over-year revenue comparisons. However, rising industry service costs, especially in North America, held back the bottom line for many independents such as Apache, who do not have a retail presence like the majors do to hedge exploration and production activities, which they compete with. A significant portion of these expenses were from restoring production hurt by bad weather in the Gulf of Mexico. Rising costs elsewhere in the firm, such as a 10% tax hike by the British government which took effect in the third quarter of 2006, have kept costs high.

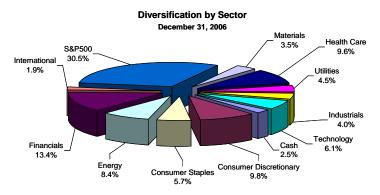
O'Reilly Automotive

Cheaper gas prices initially aided O'Reilly for a little in mid-2006, but lower customer traffic levels and less favorable pricing hurt the firm in the fourth quarter of 2006. O'Reilly leveled off somewhat late in the fourth quarter, as oil and gas prices declined further, freeing up customer money for repairs and maintenance.

Performance Analysis

Student Investment Fund vs. S&P 500

In 2006, the Fund gained 17.8%, compared to the S&P 500 gain of 15.8%. The first quarter of 2006 was returned 6.8%. Additionally, SIF had returns of -1.78% in Q2 of 2006, 4.46% in Q3 of 2006 and 7.49% in Q4 of 2006. The major contributors to the SIF portfolio in 2006 were Consumer Discretionary, Energy, Financials and Utilities.



Consumer Discretionary

The fund currently holds five securities in this sector which is 9.81% of the portfolio. Most of these securities have provided extremely high returns, especially Best Buy and MGM Mirage.

During the third quarter, Gross Domestic Product (GDP) rose 1.6%, the smallest increase during the past few years. The biggest contributor to the slowdown was housing construction. Spending in this sector decreased more than 17% in the summer, after an 11% falloff in the spring. The latest decline is the largest the sector has experienced since 1991. However, this will likely not hurt the economy as much as it might have in the past since many individuals have built up substantial equity values in their homes. For the year, Value Line is targeting GDP growth of 2%-2.5%. Also, the unemployment rate, currently at 4.6%, has not moved much since the start of the year and is still below levels that had raised concerns in the past.

Energy

The three energy securities the SIF held in 2006 were Apache, ConocoPhillips and Exxon Mobil (8.41% of portfolio). Including dividends, they returned -2.28%, 27.41% and 38.83% respectively while the S&P 500 energy sector returned 22.22%.

The Energy Industry in 2006 benefited from high selling prices. High prices have provided the motivation to increase oil production, and it appears as though more oil supplies will be forthcoming in 2007. Strong returns have also made a variety of non-conventional fuel sources practical. Although the oil market seems more focused on what could go wrong, an increase in supplies may eventually bring oil prices down. The latest supply constraint has arisen not from hurricanes or terrorism, but from pipeline corrosion in Alaska. While not a knockdown punch, the incident has potentially important repercussions. The refining business has been a star performer lately. Changes in consumer behavior and increased investment in new capacity may serve to slowly erode margins. Signs of a peak in chemicals margins could soon make profit comparisons tougher. The industry remains timely, and prospects for comparatively high oil prices well into the future imply a level of long-term investment interest.

Financials

The SIF had seven securities and 13.44% of the portfolio in the Financial sector. The industry is coming off a seasonally low summer cycle, but stands ready to benefit from several positive underlying trends including increasing mergers and acquisitions (M&A) activity, stronger debt underwriting volumes, and improving equity Meanwhile, securities exchanges markets. continue to build out their electronic platforms and prepare for upcoming regulatory changes. Many of the stocks in this industry have performed very well over the past year, and on the whole, are poised to continue to do so in 2007. Interest rates and the yield curve will, undoubtedly, play a central role in determining the level of profitability these companies will achieve.

Performance Analysis

Utilities

The SIF utility sector had a 16.87% return in 2006. The major contributor was TXU Corp. which returned 11.37% in 2006.

Since mid-summer, the broader stock indexes have posted solid gains as investors are more confident about the prospects of the domestic economy. Though business activity has eased somewhat, the long-running expansion continues and inflation is not a big concern. In the past three months, the utilities have lagged behind the overall stock Economists have assigned a low probability to the likelihood of an easing of the Federal Reserve's monetary policy in early 2007 (rate cuts usually lend a boost to utility stocks). We expect 2007 to be a fairly good year for the electric utilities. Mild weather in most of 2006 makes next year's revenue and earnings comparisons less arduous. Still, the utilities' capital budgets have increased because of the need for more capacity and improved service reliability. Recovery of these outlays (and high fuel costs) via electricity tariffs pose some risk. We should stick with firms that have decent growth prospects, lowcost generation, good access to regional power supplies and strong finances.

Holdings Style

The following is a breakdown of the SIF equity holdings in terms of investment styles based on Morningstar's categorization of equity investments. This delineation of styles provides SIF valuable assistance in monitoring the portfolio. Most important is the use of this information in determining the diversification of the fund's holdings. Alternatively, this criteria is not solely relied upon in making investment decisions but merely looked upon as a guideline.

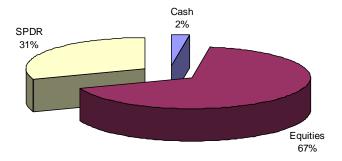
SIF Holdings by Style

	Value	Core	Growth	Total
Large-Cap	16.5%	22.7%	39.8%	79.0%
Mid-Cap	4.6%	6.1%	10.3%	21.0%
Total	21.1%	28.8%	50.1%	100%

Asset Allocation

The preceding diagram displays the distribution of the Student Investment Fund's assets into three categories: Equities, SPDR's (Index Funds), and Cash Equivalents. According to the SIF investment policy the Equity portion consists of investments in common stocks. The Index Fund portion consists of investments in S&P Depository Receipts and the Merrill Lynch S&P 500 Index Fund. The Cash Equivalent portion consists of cash in the Operating Budget and shares of the Merrill Lynch Money Market Account

SIF Asset Allocation December 31, 2006

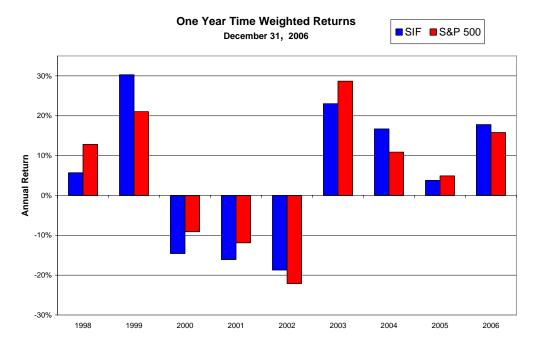


Performance Analysis

Time-weighted Returns

The following is a comparison of the annual total returns for the SIF and the S&P 500. The SIF outperformed the S&P 500 in 1999, 2002, 2004,

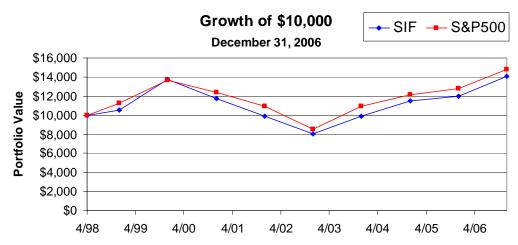
and 2006. The best year for SIF in comparison to the S&P 500 over this period was in 1999 with a 9% differential. In 2006, SIF outperformed the market by 2%.



Growth of \$10,000

The graph below demonstrates the cumulative result of a hypothetical \$10,000 investment at the inception of the Student Investment Fund. At the end on 2006 SIF would have gained approximately

40.81% and be valued at \$14,081. Alternatively, if the same \$10,000 was invested directly into the S&P 500, an investor could have made 47.71% on their initial investment and amassed a total wealth of \$14,771.



Portfolio Risk and Return

Returns and Alpha

The following are the annualized returns for the SIF portfolio from 2006 as well as for the preceding 3 and 5 year periods. The SIF had superior returns compared to the S&P500 for 2006, and for the last 3 and 5 years. In 2006, the SIF alpha was -1.82%. That is, on a risk basis, beta, the SIF underperformed its S&P500 benchmark. A return of 19.60% was required, given the portfolio beta, to have an alpha of zero.

Annualized Returns as of 12/31

	1-Year	3-Years	5-Years
SIF	17.78%	12.76%	8.52%
S&P500	15.80%	10.44%	6.19%

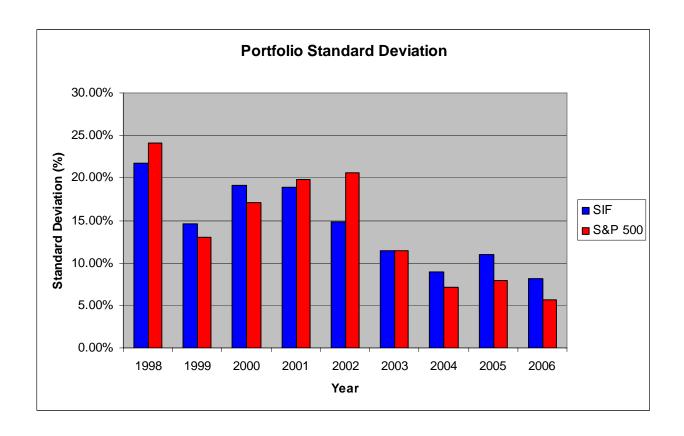
The SIF Sharpe Ratio, a risk-adjusted performance measure, was less than the S&P500 Sharpe Ratio in the short term, 1 and 3 years, but exceeded the S&P500 Sharpe Ratio for the long-term, 5 years.

Sharpe Ratio as of 12/31

	1-Year	3-Years	5-Years
SIF	1.49	1.04	0.58
S&P500	1.91	1.14	0.45

Standard Deviation

The subsequent graph illustrates the standard deviation of the SIF versus the S&P 500 over the period of 1998 to 2006. The standard deviation is used to measure the risk or more specifically the volatility of the portfolio's returns. Over the life of SIF, the fund has had a greater volatility than the S&P 500 in 5 separate years (1999, 2000, 2004, 2005 and 2006). In 2006 the fund had a standard deviation which was 2.49% above that of the S&P 500. This coincides with the fact that the SIF portfolio beta of 1.353 is substantially above the S&P benchmark.

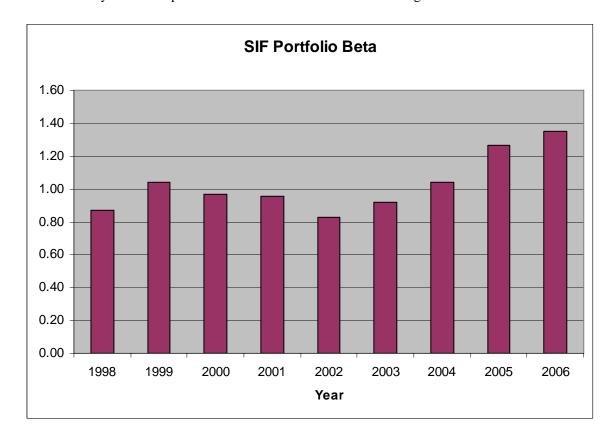


Portfolio Risk and Return

Portfolio Beta

The yearly betas for the student investment fund portfolio over the life of fund are displayed below. In the last 5 years the portfolio beta has

consistently increased, indicating an increasing level of volatility of the fund. In 2006 the portfolio recorded its highest beta of 1.353.



Transactions

Securities Purchased							
1/01/2006-12/31/2006							
Security Date Quantity Cost Bas							
American Capital Strategies	03/07/06	510	\$	18,069			
Amgen	12/19/06	300	\$	20,910			
Apple Computer	12/19/06	400	\$	33,996			
Coach	05/01/06	183	\$	6,059			
FactSet	05/01/06	276	\$	12,235			
International Paper	05/01/06	121	\$	4,408			
iShares MSCI EAFE	03/07/06	239	\$	14,806			
Ishares MSCI EEM	03/07/06	51	\$	4,826			
Ishares MSCI EEM	05/01/06	28	\$	2,978			
Kennametal	05/01/06	503	\$	31,206			
Legg Mason	05/01/06	101	\$	12,008			
Legg Mason	11/02/06	99	\$	8,910			
Mack Cali Realty	05/01/06	279	\$	12,639			
Maverick Tube	05/01/06	371	\$	20,576			
ONEOK	10/27/06	600	\$	25,206			
O'Reilly Automotive	05/01/06	497	\$	16,814			
Phelps Dodge	05/01/06	342	\$	30,298			
Schlumberger	12/19/06	400	\$	25,784			
UBS AG	12/19/06	400	\$	24,168			
Vanguard Consumer Staples ETF	05/01/06	130	\$	7,539			
Total	_		\$;	333,434			

Securities Sold 1/01/2006-12/31/2006							
Cost Total Gain Security Date Quantity Basis Proceeds (Loss)							
American Capital Strategic	05/01/06	148	\$5,244	\$5,167	(\$77)		
Apache	05/01/06	280	\$8,589	\$19,893	\$11,304		
Bank of America	05/01/06	255	\$9,351	\$12,686	\$3,335		
Dell	03/07/06	664	\$24,044	\$19,229	(\$4,815)		
Exxon Mobil	05/01/06	200	\$7,424	\$12,702	\$5,278		
First Data Corporation	10/09/06	637	\$26,507	\$26,906	\$399		
Goldman Sachs	03/07/06	62	\$6,477	\$8,907	\$2,431		
Goldman Sachs Group	05/01/06	30	\$3,134	\$4,830	\$1,696		
Harley Davidson	04/25/06	450	\$16,415	\$23,021	\$6,607		
Home Depot	04/25/06	400	\$17,172	\$16,024	(\$1,149)		
Kennametal Inc	11/02/06	503	\$31,206	\$30,275	(\$931)		
Maverick Tube Corp	10/03/06	371	\$20,576	\$24,115	\$3,539		
MGM Mirage	05/01/06	382	\$8,750	\$16,888	\$8,138		
Phelps Dodge	12/04/06	342	\$30,298	\$41,702	\$11,404		
Symantec Corp	04/25/06	1,241	\$29,064	\$19,843	(\$9,221)		
United Parcel Service	04/25/06	250	\$21,683	\$20,344	(\$1,338)		
Vanguard Health Care EFT	12/19/06	382	\$20,135	\$21,724	\$1,589		
Total		<u>-</u>	<u>\$244,249</u>	<u>\$282,187</u>	<u>\$38,189</u>		

SIF Watch List

The securities on the Watch List have been reviewed by the SIF students and are approved for purchase. A decision of whether or not to make the purchase has not been reached but each security is followed and analyzed by an assigned student.

Adobe Systems Inc. (ADBE)

Adobe Systems Incorporated offers business and mobile software and services worldwide. Creative Solutions segment provides software tools for professional publishing, Web design, professional photography, video production, animation, and motion graphic production, as well as printing visually rich information. company's Knowledge Worker Solutions segment offers Acrobat family of products for the creation and exchange of electronic documents; and enables the user to collaborate on documents with electronic comments and to tailor the security of a file in order to distribute reliable Adobe PDF documents that can be viewed, printed, or interacted. Adobe Systems Mobile and Device Solutions segment provides solutions for the creation and delivery of content, user interfaces, and data services on mobile and non-PC devices, such as cellular phones, consumer devices, and Internet connected hand-held devices. company's Enterprise and Developer Solutions segment offers server-based enterprise interaction solutions that automate people-centric processes. Adobe Systems distributes its products through distributors and dealers, resellers, systems integrators, and independent software vendors; directly to end users; and through its Web site.

Anheuser Busch (BUD)

Anheuser-Busch Companies, Inc., through its subsidiaries, engages in the production and distribution of beer worldwide. It operates through four segments: Domestic Beer, International Beer, Packaging, and Entertainment. The Domestic Beer segment offers beer under Budweiser, Michelob, Busch, and Natural brands in the United States. It also offers specialty beers, non alcohol brews, malt liquors, specialty malt beverages, and energy drinks. This division, through a joint venture agreement with Kirin Brewing Company, Ltd.,

brews Kirin-Ichiban and Kirin Light. The International Beer segment markets and sells Budweiser and other brands outside the United States, as well as operates breweries in the United Kingdom and China. The Packaging segment engages in manufacturing beverage cans and can lids for drink customers, and pressure sensitive moralized plastic and paper; buying and selling used aluminum beverage containers; and recycling aluminum containers. The Entertainment segment owns and operates theme parks.

Baker Hughes Inc. (BHI)

Baker Hughes is a global leader in down-hole tool technologies and the reservoir information area of the oil and gas equipment and services industry. Baker Hughes operates in 2 major segments, drilling and evaluation, and completion and production. Baker Hughes is comprised of 7 divisions: Centrilift, INTEQ, Baker Hughes Drilling Fluids, Baker Atlas, Baker Petrolite, Baker Oil Tools, and Hughes Christensen. Each division provides products and services to meet the needs of two major market segments: Drilling and Evaluation, and Completion and Production. Drilling and Evaluation provide short-cycle products and services that improve efficiency, acquire accurate information, and reduce operating risk. Completion and Production includes longcycle products and services that focus on field production, transportation and refining processes, and well completion.

SIF Watch List

Merrill Lynch & Co. Inc. (MER)

Merrill Lynch & Co., Inc., through its subsidiaries, provides broker-dealer, investment banking, financing, wealth management, advisory, asset management, insurance, lending, and related products and services on a worldwide basis. Its Institutional Business segment provides equity, debt, and commodities trading; capital market services; and investment banking services to corporations. financial institutions. governments. The company's Retail Wealth brokerage, Management segment provides investment advisory and financial planning services. The Asset Management segment offers various investment management capabilities, which include equity, fixed income, money market, index, enhanced index, and alternative investments to retail and institutional investors. It offers these capabilities through vehicles, such as mutual funds, privately managed accounts, and retail and institutional separate accounts. The company primarily operates in the United States, Canada, Europe, the Middle East, Africa, the Pacific Rim, and Latin America.

RPM International Inc. (RPM)

RPM International, Inc. and its subsidiaries engage in the manufacturing, marketing, and sales of specialty paints, protective coatings, roofing systems, and sealants and adhesives for industrial and consumer markets worldwide. operates through two segments: Industrial and Consumer. The Industrial segment provides products such as sealants, institutional roofing systems, heavy-duty corrosion control coatings and exterior insulating finishing systems. segment sells its products directly to contractors, distributors, and end-users. The Consumer segment provides coating products, specialty products for surface preparation and hobby paints and cements. This segment sells its products to mass merchandisers, home improvement centers, hardware stores, paint stores, automotive supply stores, and craft shops through a network of RPM markets its products in distributors. approximately 151 countries and territories. The Company's family of products includes those marketed under brand names, such as Carboline, DAP, Day-Glo, Flecto, Rust-Oleum, Stonhard, Tremco and Zinsser.

Sonic Corp. (SONC)

Sonic Corp., together with its subsidiaries, engages in the operation and franchising of a chain of quick-service drive-in restaurants in the United States and Mexico. Currently the Company operates 3,039 Sonic Drive-Ins consisting of 574 Partner Drive-Ins and 2,465 Franchise Drive-Ins, principally in the southern two-thirds of the United States. Partner Drive-Ins are those Sonic Drive-Ins owned and operated by either a limited liability Company or a general partnership. The Company has two operating subsidiaries, Sonic Industries Inc. and Sonic Restaurants, Inc. Sonic Industries Inc. serves as the franchisor of the Sonic Drive-In chain, as well as the administrative services center for the Company. Sonic Restaurants, Inc. develops and operates the Partner Drive-Ins. The Company's objective is to maintain its position as, or to become, an operator in terms of the number of quick-service restaurants within each of its core and developing markets.

2007 Economic Outlook

Currently, we are in the second-longest-running bull market since 1928. This is accompanied by the 15th consecutive quarter of double-digit yearover-year earnings growth in the 3rd Quarter of 2006. Recent economic statistics suggests the beginning of a healthy economic rebound, yet as we move into the first half of 2007 the effects of the slowing economy will gradually materialize. The increase in real GDP amounted to an annual rate of 3.5% in the fourth quarter of 2006. Decreasing unemployment rates, wage gains, and, hence, higher personal consumption expenditures, as well as lower energy prices and a rebounding housing market contributed to this development. Moreover, the jobless rate is expected to fall to 3.5% by the end of this year. As a result of these factors we expect that consumer spending will remain strong. Since we believe that productivity growth will keep the unit labor costs stable, inflation risks should diminish further. In addition, productivity growth will enhance compensation for workers, which will lead to higher consumer spending. As a result of these factors we believe these conditions will be quite beneficial to the Consumer Discretionary and Consumer Staples sectors of the S&P 500.

With inflation risks kept in check, we expect the Federal Reserve to start reducing the federal funds rate by the second half of 2007. The expectation for a favorable change in Fed policy combined with moderating, but still positive, earnings growth should keep the market rally alive, although the market could pull back to consolidate its gains at some point in the first half of 2007. Since the European Central Bank will start to increase rates in the near future, the interest rate differential between the US and Europe will narrow. As a result, net gains in the American financial and capital account will be reduced, putting pressure on the value of the US dollar. Additionally, expectations of continued strong economic growth in overseas markets, particularly those in developing economies. combined

weakening U.S. dollar reflecting a narrowing interest rate differential with overseas yields, should support continued strong earnings growth from overseas markets and expansion in equity markets globally. We believe the aforementioned expectations will directly benefit large-cap stocks, which derive a significant portion of their earnings from overseas operations.

In addition, we are bullish concerning Health Care and Industrials, especially Airlines, Air Freight & Logistics and Aerospace & Defense due to energy prices and recent the geopolitical environment.

2006 Financial Statements

Ral	lance	Sh	eet

Balance Sheet		
Year Ended December 31	2005	2006
Amounts in US Dollars		
Assets		
Cash/Cash Equivalent	\$ 13,132	\$ 33,687
Total Cash/Cash Equivalents	\$ 13,132	\$ 33,687
Common stocks, at value	<u>\$ 1,136,868</u>	\$ 1,331,624
Total Assets	\$ 1,150,000	<u>\$ 1,365,311</u>
Capital		
Paid in capital	\$ 1,009,039	\$ 1,019,039
Cumulative capital gains/(losses)	<u>\$ 140,961</u>	<u>\$ 346,272</u>
Total Capital	<u>\$ 1,150,000</u>	\$ 1,365,311
Income Statement		
Year Ended December 31	2005	2006
Amounts in US dollars		
Investment Income		
Interest/Dividend	\$ 11,515	\$ 14,367
Total Income	<u>\$ 11,515</u>	<u>\$ 14,367</u>
Expenses		
Annual Fee	\$ (150)	\$ (150)
Supplies and Expenses	\$ -	\$ (125)
Printing and Duplication	\$ -	
Membership and Subscriptions	<u>\$</u>	\$ -
Total Expenses	\$ (150)	<u>\$ (275)</u>
Realized and unrealized Gain (loss)		
Unrealized Gain (loss)	\$ 191,461	\$ 72,285
Realized Gain (loss)	\$ 39,197	\$ 26,127
Net gain (loss)	\$ 230,658	\$ 98,412

\$ 242,023

\$ 112,504

Net Income