

SAINT JOSEPH'S UNIVERSITY
The Erivan K. Haub School of Business

STUDENT MANAGED INVESTMENTS
SMI

ANNUAL REPORT

DECEMBER 2005

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LETTER FROM PORTFOLIO TEAM

The extent of your own abilities is not fully realized until you put them to the test. Investing is a daunting task for an individual to tackle. We met this challenge head on, by systematically applying our analytical skills, education in finance and economics, and common sense. We worked together as a team to conquer this challenge.

Student Managed Investments (SMI) offered a unique opportunity to invest money without the constraints of liquidity and taxes. Saint Joseph's University provided us with \$58,200 two years ago; today this sum has grown to over \$71,278. We were honored to be given the responsibility to manage the University's funds. Our decisions would reflect our ability to apply the analytical skills and financial knowledge that we have acquired in the past three years. This drove us to work harder and bring all aspects of our education to the table.

Our education prepared us to face the challenges of Student Managed Investments. However, the application of our knowledge was only the beginning. Our Professor, Dr. Tezel, outlined the investment process and gave us the hands-on education we needed to invest in a systematic fashion. He taught us the proper methods of screening, fundamental analysis, statistical analysis, and portfolio management. We worked through each step; this gave us an in-depth lasting knowledge. Our experience has been invaluable; it has boosted our confidence in investing, honed our skills, and shown us that we have what it takes to get the job done.

PORTFOLIO TEAM

Dr. Ahmet Tezel - Faculty Advisor

Jonathan C. Trotto - Portfolio Manager

Christopher Callanan - Supervising Director of Research

Kevin McLoughlin - Market Strategist, Technical Analyst

Jessica Swanderski - Technical Analyst



From left to right: Kevin McLoughlin, Jessica Swanderski, Jonathan Trotto, Christopher Callanan, and Ahmet Tezel

Wall Street Trading Room: www.sju.edu/hsb/wstr

MISSION STATEMENT

SMI's goal is to outperform the market index on a risk-adjusted basis and to provide real world learning experience using funds provided by the University. The portfolio consists of about twenty to thirty stocks that may be viewed as a diversified mutual fund enhanced by a chosen style as well as by quantitative techniques, fundamental and technical analysis.

Each semester students adopt a style of investing to evaluate and choose from a universe of stocks, and manage the portfolio. The style follows a long-term investing policy and ignores liquidity and tax considerations. SMI diversifies and may consider sector weights that differ from the S&P 500.

CHOOSING AN INVESTMENT STYLE

The SMI Team used an investment style of blend plus momentum. SMI had the challenge of implementing their blend strategy while trimming the existing value portfolio. The economy is near the end of economic expansion on the business cycle; growth stocks typically do better during this phase. The SMI team felt that it would be more challenging and profitable to invest in growth stocks. They believed that selling some of the previous portfolio's value stocks and buying growth stocks would provide a solid blend portfolio. Momentum stocks, stocks that have been performing above average the past three to six months, tend to outperform the market in the subsequent six months to a year.

PORTFOLIO PERFORMANCE

SMI's year to date returns total 16.5%, compared to the 3.0%, 1.37% and 4.37% returns of the S&P 500, Nasdaq, and Russell 1000 respectively.

The beginning value of the portfolio in December 2003 was \$58,200. At the end of August 2005 the portfolio was valued at \$70,842. On December 31, 2005 the value of the portfolio was \$71,278. In August and September the portfolio showed an increase of 3.15% and 0.93%, while the S&P showed returns of -1.12% and 0.52%.

October was a transition month where most of the buying and selling activities took place. The portfolio's returns in October were lower than expected because of poor market performance and high transaction costs. SMI saw a decrease in returns of -3.86% in October, while that of the S&P also declined -1.61%.

In November the portfolio returns of 4.98% outperformed the S&P 500 by 1.46%. In December, the S&P 500 outperformed the portfolio by 1.13% as SMI saw returns of -1.23% and the S&P 500 of -0.10%.

Quarterly returns for the year 2005 are shown in the chart on page 8. Returns were 0.5%, 6.7%, 9.0% and -0.3%. The SMI portfolio had positive returns eight out of the twelve months of 2005. The S&P 500 had positive returns six out of twelve months in 2005. Using the twelve month returns the portfolio beta was 1.3 and annualized standard deviation was approximately 13%. The market's risk was 7.5%. The portfolio was riskier than the market. However, on a risk adjusted basis, the portfolio still outperformed the market. The Sharpe and Treynor ratios were 1.23 and 0.13 for the SMI portfolio; the market ratios were 0.43 and 0.32. This strong risk-adjusted performance is mostly the result of superior stock selection; the portfolio had an alpha of 0.99% or one

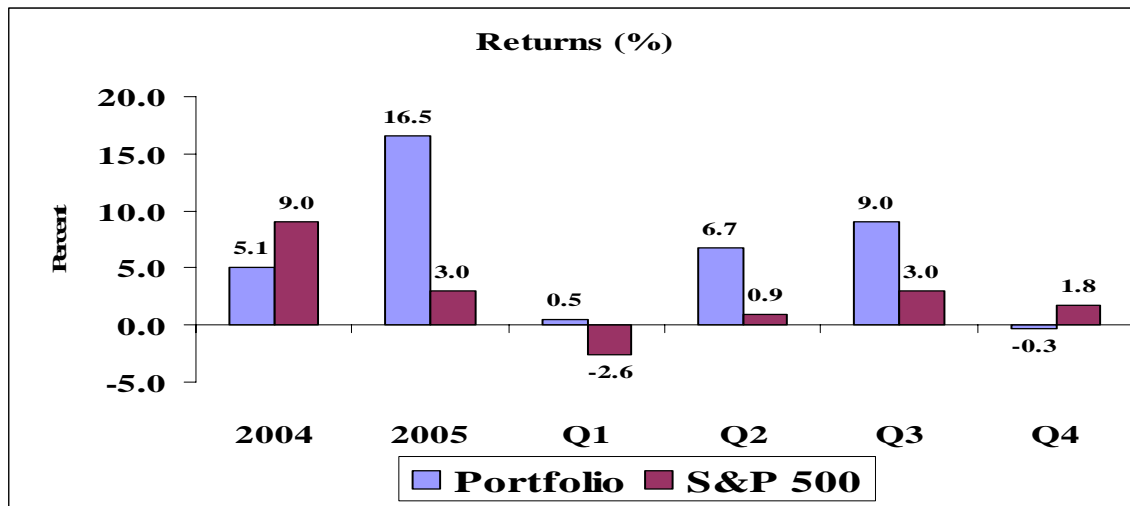
percent per month. Sector allocations had very little effect on performance; there is little deviation from S&P 500 sector weights.

Chesapeake Energy (CHK), Sunoco (SUN), Coventry (CVH), Quality Systems (QSII), Aetna (AET), and Building Materials (BMHC) were the strong performers with returns of 92.3%, 91.8%, 61%, 57.7%, 51.2%, and 49.4%. Navarre (NAVR), Biosite (BSTE), SEI Investments (SEIC), and Energen (EGN) were the weakest performers showing negative returns of -28.6%, -16.6%, -6.5% and -6.3% respectively.

Detail information about the portfolio (gain/loss, prices, portfolio weight, and sectors) can be located in following table entitled Current Portfolio.

PERFORMANCE

Beginning Date	Ending Date	Beginning Value	Ending Value	Periods	% Return Portfolio	% Return S&P 500
12/31/2003	12/31/2004	\$ 58,200	\$ 61,160	2004	5.1	9.0
1/1/2005	12/31/2005	61,160	71,278	2005	16.5	3.0
1/1/2005	3/31/2005	61,160	61,468	Q1	0.5	-2.6
4/1/2005	6/30/2005	61,468	65,606	Q2	6.7	0.9
7/1/2005	9/30/2005	65,606	71,502	Q3	9.0	3.0
10/1/2005	12/31/2005	71,502	71,278	Q4	-0.3	1.8



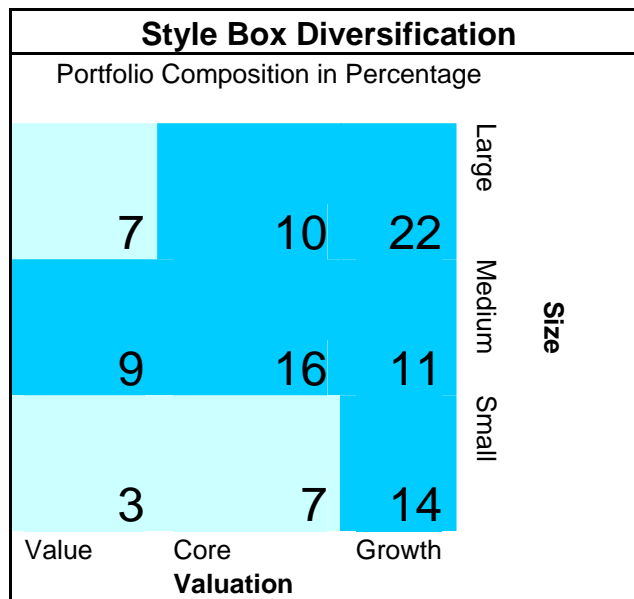
CURRENT PORTFOLIO (12/31/2005)

Name	Ticker	Beginning Date	Beginning Prices	Number of Shares	Beginning Value	Current Prices	Current Market Value	Gain Loss	Return	% of Portfolio	% of SPX	% Over (-Under) SPX	
Consumer Discretionary											15.0%	10.88%	4.11%
Building Materials	BMHC	3/29/05	45.40	37	1,690	68.21	2,524	834	49.4%	3.5%			
ITT Educational	ESI	3/29/05	49.24	60	2,973	59.11	3,547	573	19.3%	5.0%			
Stanley Works	SWK	12/31/04	48.99	50	2,450	48.04	2,402	(48)	-1.9%	3.4%			
Navarre	NAVR	6/9/05	7.70	400	3,099	5.53	2,212	(887)	-28.6%	3.1%			
Consumer Staples											4.7%	9.44%	-4.79%
Pilgrim's Pride	PPC	11/29/05	32.25	100	3,244	33.16	3,316	72	2.2%	4.7%			
Energy											10.5%	9.50%	1.02%
Chesapeake Energy	CHK	12/31/04	16.50	60	990	31.73	1,904	914	92.3%	2.7%			
Sunoco	SUN	12/31/04	40.86	40	1,634	78.38	3,135	1,501	91.8%	4.4%			
Tesoro	TSO	10/25/05	59.39	40	2,394	61.55	2,462	68	2.8%	3.5%			
Financials											14.2%	21.19%	-7.03%
Allstate	ALL	12/31/04	51.72	30	1,552	54.07	1,622	71	4.5%	2.3%			
Merrill Lynch	MER	11/1/05	64.46	30	1,953	67.73	2,032	79	4.1%	2.9%			
SEI Investments	SEIC	11/1/05	38.93	30	1,187	37.00	1,110	(77)	-6.5%	1.6%			
UnionBancal	UB	11/1/05	67.61	40	2,723	68.72	2,749	26	0.9%	3.9%			
Bank of Hawai	BOH	11/1/05	51.06	50	2,572	51.54	2,577	5	0.2%	3.6%			
Healthcare											19.6%	12.81%	6.74%
Amedisys	AMED	10/25/05	37.61	40	1,523	42.24	1,690	166	10.9%	2.4%			
Amgen	AMGN	10/25/05	75.71	20	1,533	78.86	1,577	44	2.9%	2.2%			
Coventry	CVH	12/31/04	35.39	30	1,062	56.96	1,709	647	61.0%	2.4%			
Caremark	CMK	6/9/05	44.47	35	1,575	51.79	1,813	237	15.1%	2.5%			
Aetna	AET	12/31/04	62.38	30	1,871	94.31	2,829	958	51.2%	4.0%			
Biosite	BSTE	10/25/05	66.57	20	1,350	56.29	1,126	(224)	-16.6%	1.6%			
Well Point	WLP	12/31/04	57.50	40	2,300	79.79	3,192	892	38.8%	4.5%			
Industrials											6.2%	11.25%	-5.03%
Labor Ready	LRW	3/29/05	18.98	150	2,866	20.82	3,123	257	9.0%	4.4%			
Ceradyne	CRDN	10/25/05	40.30	30	1,228	43.80	1,314	86	7.0%	1.8%			
Information Technology											15.3%	15.53%	-0.27%
Arrow	ARW	12/31/04	24.30	50	1,215	32.05	1,603	388	31.9%	2.2%			
Quality Systems	QSII	3/29/05	48.36	30	1,460	76.76	2,303	842	57.7%	3.2%			
United Online	UNTD	10/25/05	13.02	150	1,972	14.22	2,133	161	8.2%	3.0%			
Motorola	MOT	11/1/05	22.14	110	2,454	22.59	2,485	31	1.3%	3.5%			
Microsoft	MSFT	11/1/05	26.04	90	2,362	26.15	2,354	(9)	-0.4%	3.3%			
Materials											5.8%	3.03%	2.78%
Lafarge	LAF	12/31/04	51.32	30	1,540	55.02	1,651	111	7.2%	2.3%			
Ipsco	IPS	10/25/05	70.44	30	2,132	82.98	2,489	357	16.8%	3.5%			
Telecommunication											4.3%	3.09%	1.25%
Vimpel Comm	ADFVPI	10/25/05	39.00	70	2,749	44.23	3,096	347	12.6%	4.3%			
Utilities											3.6%	3.29%	0.28%
Energen	EGN	10/25/05	38.48	70	2,712	36.32	2,542	(170)	-6.3%	3.6%			
					\$ 62,363	Stocks	70,618	8,255					
						Cash	\$ 659						
						Portfolio	\$ 71,278						
										0.9%			
										100.0%			

PORTFOLIO CHARACTERISTICS

I. DIVERSIFICATION

The stock diversification is slanted towards growth. Half of the portfolio are growth stocks broken down into three sizes: small (14%), medium (11%), and large (22%). Twenty percent of the portfolio resides in value stocks and thirty percent in core stocks.

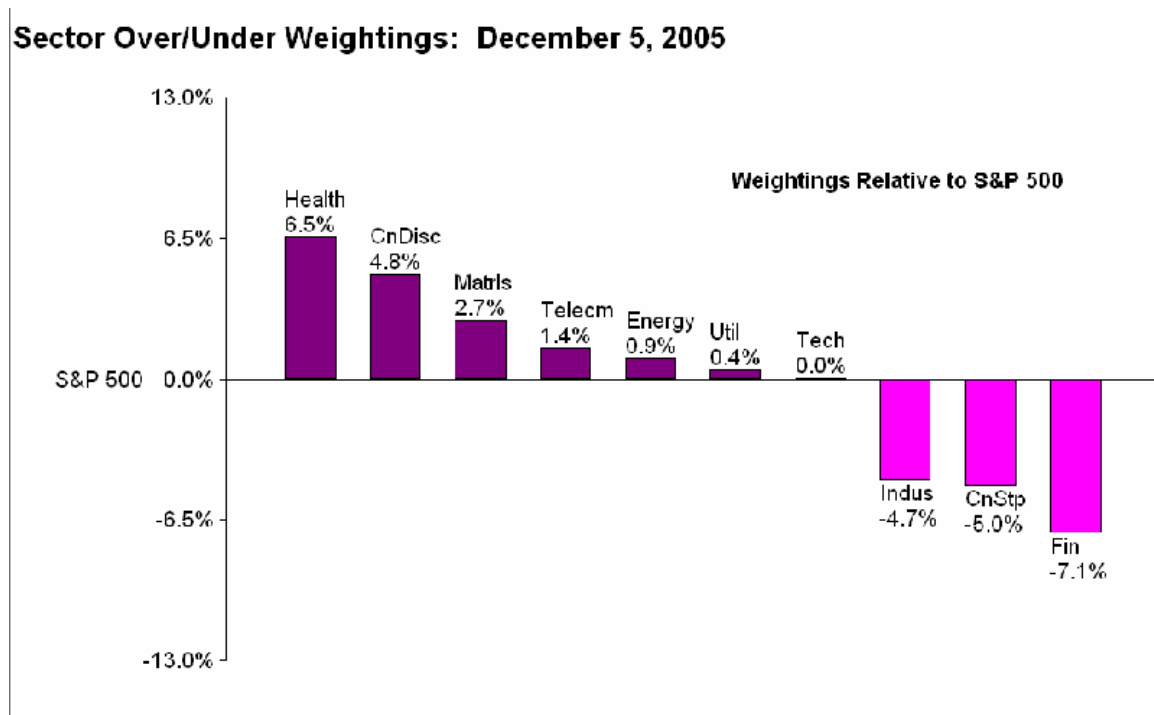


The growth stocks are broken down into four categories: slow growth, classic growth, aggressive growth, and speculative growth. SMI's Portfolio has a higher proportion of slow growth, aggressive growth, and speculative growth; and a lower percentage of classic growth stocks than the S&P 500. Overall, 70.11% of stocks are growth in the SMI Portfolio, compared to the S&P 500 with 67.36% of stocks in growth. The SMI Portfolio lacks high yield stocks.

II. SECTOR ALLOCATION

Student Managed Investments benchmarks its performance against the S&P 500. SMI's continuing goal is to outperform this index. Sector weighting has played a crucial role in this undertaking. The team monitored sector over and under weighting. SMI allowed for ten percent margin between the SMI portfolio sector weights and the S&P 500 sector weights.

Many factors influence the overall state of the economy: interest rates, environmental factors, world conflict, inflation, and growth. SMI considered these factors when determining sector allocation. The portfolio is overweight in health care, consumer discretionary, materials, and telecom. The portfolio is underweight in financials, consumer staples and industrials.



III. FUNDAMENTAL CHARACTERISTICS

Fundamental analysis used five factors to evaluate securities: relative valuation, momentum, profitability, growth, and risk; these are reported in the table below. The forward P/E shows that the SMI portfolio is 15.8 compared to the S&P 500 of 16.1. This indicates that the SMI portfolio has a similar value position. The portfolio has more momentum than the S&P 500; the price percent change ratio of the SMI Portfolio is 26.4% compared to the S&P 500 of just 6.9%.

Return on Equity of the SMI portfolio is 24% compared to 18% of the S&P 500, this shows that the SMI portfolio has a higher profitability than the S&P 500. The earnings growth rate L4Q vs. a year ago was 36% for the SMI and 15% for the S&P 500; indicating the SMI portfolio has an earnings momentum. In addition, long term expected growth of 13% for the SMI portfolio is 4% higher than the S&P 500.

SMI Team's unweighted beta is 0.95 while the actual 12 month beta previously mentioned is 1.3. This difference is due to riskier stocks that were in the portfolio until August 2005. The portfolio characteristics support SMI's investment style of blend with momentum.

Portfolio Characteristics

COMPANY NAME	MRKT CAP (MILS) 11/14/05	P/E FORWA RD 4 QTRS	P/E LATEST 4 QTRS	PRICE TO BOOK	P/E TO LT FUTURE GR RATE	PRICE % CHG 6 MTHS	ROE	REVENUE YEAR AGO	EARNINGS L4Q VS A YEAR AGO	ERNS LT FUTURE GR RATE	BETA SPX
CERADYNE	1101	18.2	27.3	7.3	1.2	1.243	0.306	1.041	0.8	0.2	0.69
QUALITY SYSTEMS	1039	42.3	52.8	12	2.2	0.592	0.271	0.334	0.54	0.3	0.86
IPSCO	3288	6.7	6	2.1	1.5	0.576	0.374	0.41	1.45	0.04	0.84
SUNOCO	10187	8.5	11.5	4.9	1.7	0.555	0.467	0.409	0.99	0.06	0.78
CHESAPEAKE ENERGY	9617	8.4	13	3	1.4	0.516	0.289	0.734	0.42	0.08	0.85
TESORO	3847	6.1	8.5	2.1	1.7	0.463	0.289	0.421	0.33	0.04	1.03
BUILDING MAT HLDGS	1132	13.9	10.1	2.6	0.7	0.457	0.303	0.336	1.64	0.12	1.14
ITT EDUCATIONAL	2824	23.8	26.9	11.8	1.3	0.423	0.458	0.131	0.31	0.2	1.16
MOTOROLA	56442	18.6	21.8	3.6	1.7	0.41	0.175	0.198	0.06	0.12	1.23
AMGEN	100740	23.1	26.9	4.9	1.7	0.314	0.185	0.208	0.32	0.15	0.9
LABOR READY	1240	18.2	21.2	3.8	1.1	0.287	0.226	0.147	0.67	0.19	1.54
COVENTRY HEALTH	8833	15.9	18.2	3.9	1.2	0.281	0.334	0.218	0.3	0.15	0.85
VIMPEL COMM ADR	8666	11.4	17.4	3.6	0.6	0.268	0.28	0.562	0.24	0.24	1.27
MERRILL LYNCH	61713	12.2	13.5	1.9	1.1	0.265	0.148	0.196	0.14	0.12	1.46
SEI INVESTMENTS	4048	20.7	23.2	9.8	1.5	0.249	0.433	0.118	0.12	0.15	1.59
AETNA	26270	17	21.2	2.8	1.2	0.224	0.135	0.129	0.31	0.16	0.67
ARROW ELECTRONICS	3720	13.2	15.3	1.6	1.1	0.215	0.113	0.033	0.15	0.13	1.55
ENERGEN	2586	11.1	16	3	2.1	0.21	0.201	0.128	0.37	0.07	0.46
UNITED ONLINE	841	12.7	12.7	2.7	1.3	0.206	0.247	0.208	0.12	0.1	1.82
CAREMARK RX	22810	22.7	27.3	2.9	1.3	0.177	0.109	0.616	0.41	0.2	0.69
AMEDISYS	620	16	21.4	3.6	1.1	0.17	0.248	0.597	0.31	0.18	0.65
WELLPOINT	45690	16.6	19.6	2.2	1.2	0.129	0.167	1.249	0.2	0.15	0.39
STANLEY WORKS	3931	13.4	14.7	2.9	1.2	0.112	0.217	0.06	0.1	0.12	1.01
UNIONBANCAL	9718	12.8	13.6	2.2	1.3	0.105	0.169	0.043	0.14	0.1	0.81
MICROSOFT	292993	20.3	21	5.7	1.8	0.081	0.224	0.067	0.02	0.12	1.12
BANK OF HAWAII	2678	14.5	15.7	3.8	1.7	0.078	0.236	0.034	0.13	0.09	0.74
LAFARGE NORTH AMER	3859	11.1	13.3	1.2	1.3	0.025	0.095	0.146	0.11	0.1	0.76
ALLSTATE	37673	9.3	25.2	1.9	2.4	0.018	0.074	0.06	-0.44	0.1	0.75
BIOSITE	999	19.2	20.1	3.6	1.3	0.006	0.202	0.253	0.4	0.15	0.98
NAVARRE	123	-	6.8	1.2	0.6	-0.467	0.226	0.159	0.07	0.1	1.01
SMI Portfolio	24308	15.8	18.7	4	1.4	0.264	0.24	0.308	0.36	0.13	0.95
S&P 500	89914	16.1	17.3	2.8	1.8	0.069	0.181	0.118	0.15	0.09	1

SELL DECISIONS

Throughout the semester, the Team made sell decisions based on three different circumstances. As stated above, with the decision to have a blend portfolio it was

necessary to eliminate stocks that did not fit our new strategy. Stocks were also sold if their weights became more than seven percent of the total portfolio. Stocks were sold if they had been performing poorly and had a weak future outlook based on assessment from the class. External factors to the companies operations were taken into consideration for all sell decisions. Hurricanes influenced the performance of these sectors: energy, materials, insurance, and financials.

The previous SMI Team maintained a value style portfolio. The current SMI Team wanted to construct a blend portfolio, therefore including growth stocks. The current SMI Team sold stocks that were not consistent with their investment objectives. Equity Office Properties (EOP), Safeco (SAFC) and Johnson & Johnson (JNJ) were sold because they did not fit the new style and were not expected to have higher returns than the selections.

A stock's weight in the portfolio triggered sell decisions if a particular stock constituted over seven percent of the portfolio. These stocks were sold based on the criteria: Aetna (AET), Building Materials Holding Corp. (BMHC), Sunoco (SUN), Chesapeake Energy (CHK), Quality Systems (QSII), and Coventry (CVH) were among them.

Other stocks were sold because of significant losses and weak future expectations. They included: Autodesk (ADSK), Vishay (VSH), Olympic Steel (ZEUS), Bluegreen (BXG), Ashworth (ASHW), Alvin (ALV), Brunswick (BC), General Maritime (GMR), Hovnanian (HOV), and Limited (LTD). The Appendix includes the complete list of securities sold.

SELECTION PROCESS

SMI implemented a seven step process to select equities that fit their blend style of growth and value. Economic analysis was performed to assess the general state of the economy. Initial screening was used to identify about 200 stocks. The factor weights model was used to rank each stock and reduce the sample to about 40 stocks. Then fundamental analysis was used to value the stocks and evaluate past and current performance. The efficient set was used to efficiently diversify the portfolio. Technical analysis was conducted to time the purchases and carefully monitor recent performance that may indicate changes in the fundamentals of the stock. Finally, the sector allocation was evaluated and final adjustments to sector weights were made.

I. ECONOMIC EXPECTATIONS

The SMI team used economic analysis to decide whether or not to fully invest in the market. Economic indicators were used to predict the economic conditions (favorable, unfavorable, and neutral) for the upcoming year.

The table below shows the percentage change of various indicators over the previous four quarters to determine the state and the direction of the economy. For example, the last indicator on the table, “percent change in corporate profits after tax,” allows us to interpret how corporations in the U.S. economy are performing. Based on the major gain in corporate profits it is given a score of positive one. Other possibilities are zero for neutral indicators and negative one for unfavorable indicators. A total score of 15 indicators is positive one. This score of one gives us a neutral economic condition.

Neutral economic conditions are consistent with the informed analyst view that the economic expansion may be approaching its peak.

Growth stocks typically do better during this phase of economic expansion. This played a role in choosing our style of investing biased toward growth securities.

ECONOMIC INDICATORS FROM BASELINE					Scores
% Change Nominal Gross Domestic Product	6.1	7	6	7	1
% Change Industrial production	4.3	3.8	3	2.7	-1
% Change Index of Leading Indicator	5.2	3.74	2.24	1.73	-1
% Change Disposable Income	7.3	5	5	4.6	-1
% Change Retail sales	8.3	7.3	8.4	8.3	1
% Change M2 money supply growth rate	5.2	5.3	3.8	3.9	-1
% Change PPI: Core	2	2.7	2.5	2.6	1
% Change CPI: Core	2.1	2.3	2.2	2.1	0
% Change Employment Growth	1.6	1.7	1.6	1.7	0
Unemployment rate	5.4	5.3	5.1	5	-1
Housing starts mill units	1.97	2.08	2.04	2.07	0
Change in Federal funds rate	1.95	2.47	2.94	3.46	1
Corporate BAA spread	0.7	0.65	0.83	0.89	1
Federal Budget Surplus/Deficit in bill	-118	-177	45.2	-69.2	0
% Change Corporate profits after tax	6.4	7.1	31.5	31.6	1
	TOTAL SCORE				1
	OVERALL ECONOMIC OUTLOOK:				Neutral

II. INITIAL SCREENING

The first step was the initial screening. Individual sector screens and a global screen were run. The screening was based on the criteria of SMI's style: blend based on growth and value. Industry screens were run for each sector of the S&P 500. Three absolute values were used in all sector screens; Market Value: minimum of \$200 Mil, Volume 60-Day Average: minimum of 100,000 shares, and Price: minimum of \$5 per share. Sector screens included the following ratios: PEG relative to industry, EPS

Growth LFY relative to the industry, and % Price Change 26-Weeks relative to the industry.

The global screen included the following ratios: EPS Growth LFY, Revenue Growth LFY, Asset Growth Rate 3 years, EPS Growth Rate 3 years, Revenue Growth Rate 3 years, Price to Earnings T4Q/Growth Estimate Net, PE FY1/Growth Rate Estimate, PE F12M Estimate, % Price Change 13 Weeks, EBITDA LFY (Mil), and Market Value (Mil).

III. FACTOR WEIGHTS MODEL

The initial screening provided SMI with prospective stocks from each of the S&P 500 sectors. These stocks were inputted into the Factors Baseline Model. The model allowed SMI to select and weigh the relative importance of specific variables on a scale of one to five, which are listed in the table below. In addition to ratios that measured momentum and growth, we also used complementary value variables such as Price to Book. The model computes a composite score. SMI looked at the top fifteen percent of the composite factor score. A sensitivity analysis was run with a series of five similar screens. Stocks that were repeatedly highly ranked by the model were selected as potential buys to be considered in the next three steps.

Factors and Weights

StockVal Variables	Weight - 1(low) to 5 (high)	1 if higher numbers are more favorable 0 if low numbers are more favorable
Month End P/B	3	0
P/E Rel to 5 Yr Avg	2	0
Forward P/E (FTM)	4	0
Tot. Ret.: 3 Mos vs SPX	3	1
Tot. Ret.: 6 Mos vs SPX	3	1
Price % Chg:3 Months Ago	5	1
Price % Chg:6 Months Ago	4	1
Earnings Surprise as a %: Qtrly	4	1
Revenue Gr Rate: 5 Yrs	5	1
EPS % Growth Rel to Ind	5	1
Earnings Momentum Value	5	1
ROE	5	1
ROC	3	1
% Lt Debt to Tot Cap	3	0

IV. FUNDAMENTAL ANALYSIS

Fundamental data analysis was used to narrow down stocks among each individual sector. Comparative stock analysis of each S&P 500 sector was run using the following: comparative analysis, DuPont snapshot analysis, and fundamental ratio analysis. (See Appendix)

SMI considered Value Line's Timeliness ranking i.e., preferring timeliness rankings one and two. SMI calculated expected returns from two valuation models: Stock Val's propriety G-Model and SMI's discounted residual income model. The latter model estimated the expected returns given beta, future growth rates, and return on invested capital, and a ten year high growth horizon. These expected returns gave SMI a basis in forming an opinion about potential securities.

From the comparative analysis and the expected returns, stocks were eliminated based on their performance relative to their individual sector. Currents events, such as

natural disasters, war, company specific events; along with past and predicted performance were taken into consideration in this elimination process.

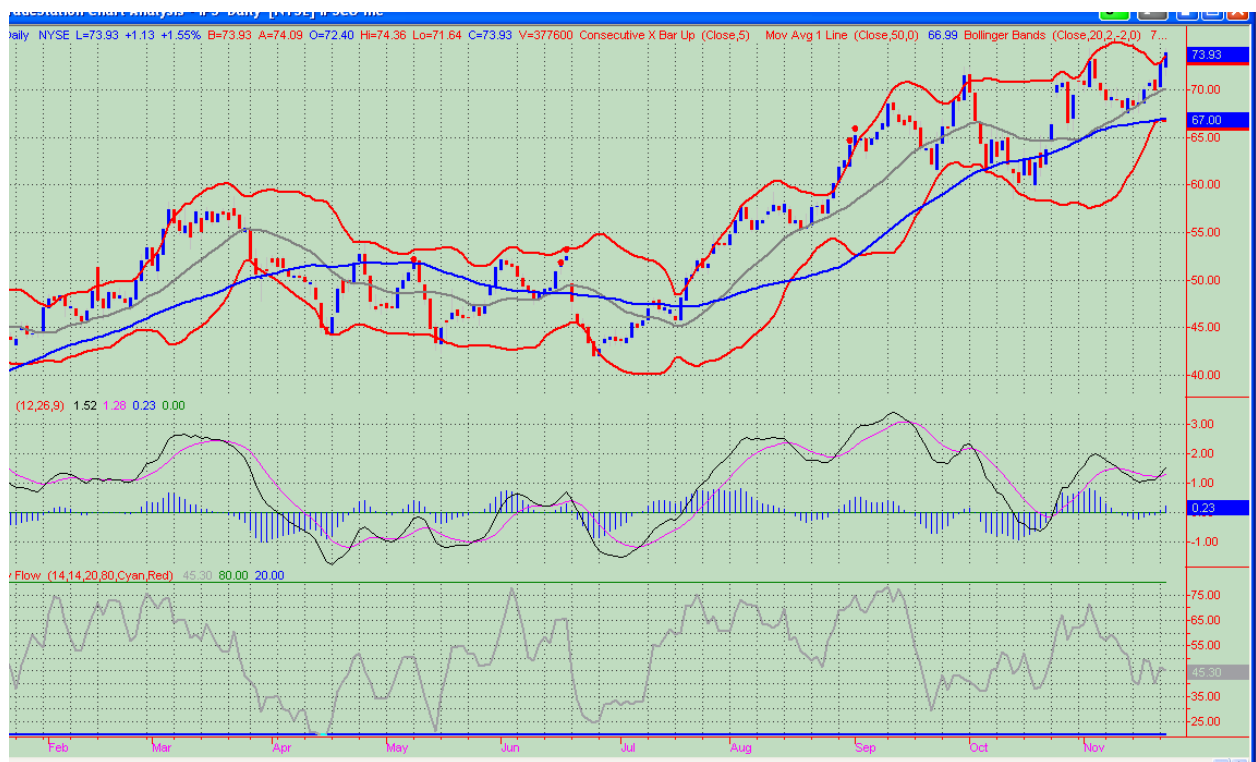
V. EFFICIENT SET

The next step was to determine the portfolio weight of each stock from the existing portfolio and the selected stocks from the previous three steps. The efficient set was calculated to maximize return for a given amount of risk, no short sales were allowed. The four year monthly returns, risks, and correlations were inputs for the efficient set calculations. The base case used equal returns for each stock with a maximum of seven percent constraint to find the minimum risk portfolio. The second case used the same assumptions as the base and to find the tangency portfolio (a straight line from the risk free rate to the efficient set). We based our final weights using the two cases. These calculations allowed us to slightly overweight and underweight each selection rather than use equal weightings. For example, the efficient set calculated the percentage of the portfolio that Tesoro (TSO) should constitute. For the minimum risk portfolio TSO was at 0% of the portfolio. For the tangency portfolio TSO was at 5% of the portfolio. SMI took the average of the two percentages, 2.5%, and used it as the percentage weight for TSO.

Efficient Set					
	Sum = 1	ARW	AET	ALL	SWK
Same returns, 7% constraint, Tangency Portfolio	1.000001	0.0406453	0.01798951	0.049571045	0.01798951
same returns, 7 % Constraint, MIN risk portfolio	1	0	0.07	0.07	0.07

VI. TECHNICAL ANALYSIS

Technical Analysis is the study of predicting future patterns through historical prices and market activity rather than analyzing the intrinsic value of securities. The Team evaluated the potential buy/sell decisions by using technical indicators such as: moving average convergence and divergence line (MACD), the money flow indicator (MFI), and Bollinger Bands. Due to our emphasis on momentum, these indicators permitted us to judge if the upward momentum would continue.



The SMI group acquired 30 shares of Ipsco Inc. (IPS) stock on October 25, 2005 at \$70.44 per share. This security allows us to vividly display the importance of technical analysis. The MACD line is a momentum indicator that shows the relationship between two moving averages of prices. Our interpretation of the MACD line in late October showed a divergence and dramatic rise in security price. The divergence is when the line crosses the MACD and translates to an end in the current movement. IPS stock was

ending its trend of decreasing and was crossing the MACD with an upward move in security price.

The second indicator was the money flow index. The MFI index measures the potency of cash in and out of a security. The analysis shows the start of an upward trend in the strength of cash in the IPS security. The third indicator was Bollinger Bands, which were used to assess if a stock was over-bought or over-sold. The Bollinger Band showed that our shares of IPS were trading near to the lower band. This meant that the stock was not overbought and potentially could move up. Narrowing bands (lower volatility) indicate a breakout; we anticipated that this break would be up. These three indicators allowed the SMI team to acquire a stock that was on the verge of upward momentum. SMI prediction of an upward breakout for IPS was correct, it grew 16.8%.

VII. BALANCING THE PORTFOLIO

The initial screening process was completed and prospective stocks were purchased: Tesoro (TSO), Amedisys (AMED), Amgen (AMGN), Biosite (BSTE), Ceradyne (CRDN), United Online (UNTD), Ipsco (IPS), Vimpel Comm (VIP), and Energen (EGN). The Team had approximately \$14,000 in cash remaining. Technology and financial stocks in these two sectors were underweight in SMI's sector allocation in relation to the S&P 500. The stocks from the initial screens from the technology and financial sectors were entered into the Factors Baseline Model. From the model's results, SMI purchased several Technology and Financial stocks: Merrill Lynch (MER), SEI Investments (SEIC), UnionBancal (UB), Bank of Hawaii (BOH), Motorola (MOT), and Microsoft (MSFT). In addition we bought Pilgrims Pride (PPC) to have at least one stock in the consumer staples sector.

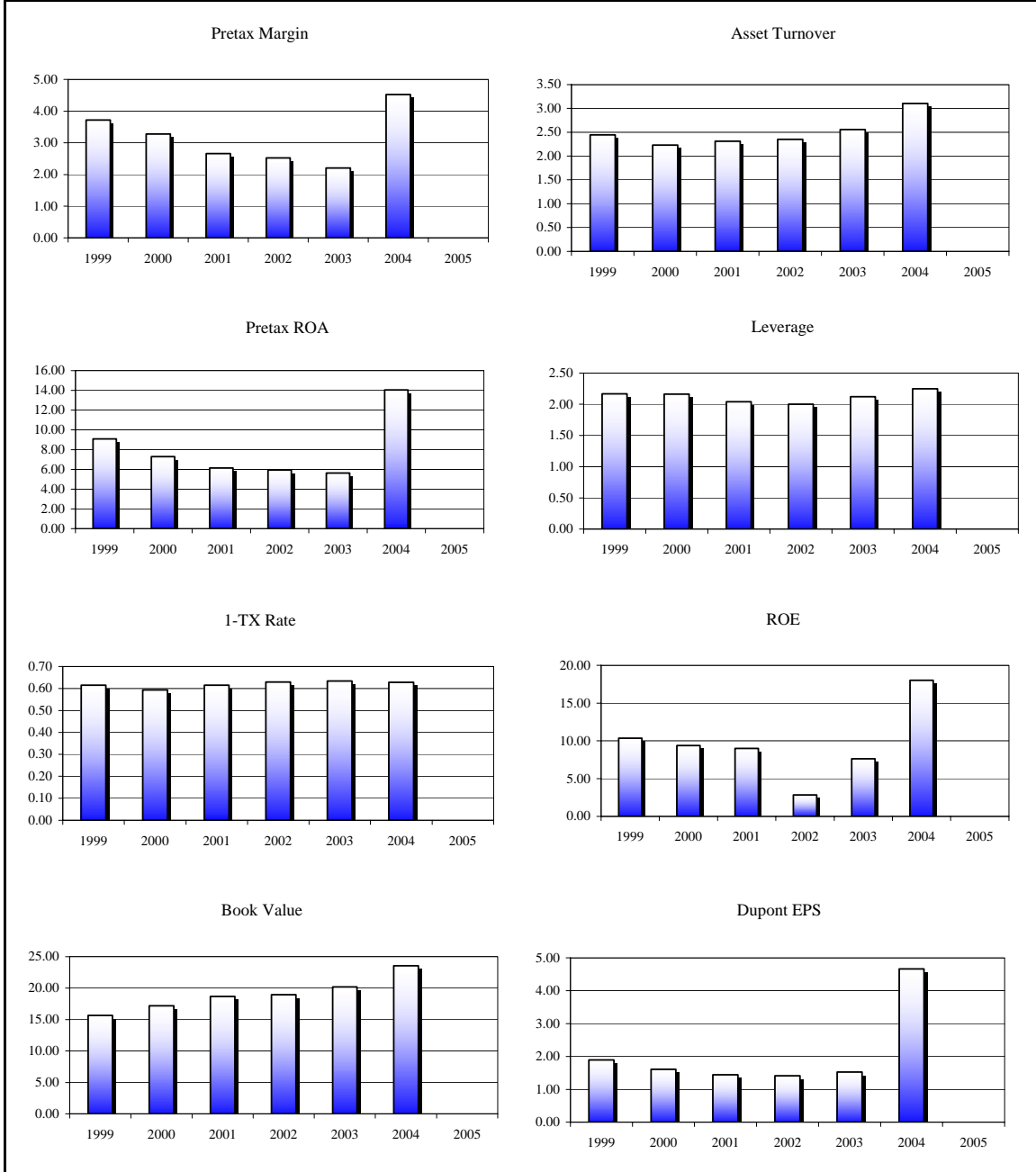
APPENDIX

A. SOLD SECURITIES

Name	Ticker	Beginning Date:	Beginning Prices	Number of Shares	Beginning Value	Selling Date	Selling Value	Gain (Loss)	Percent Gain (Loss)
Autodesk	ADSK	12/31/04	37.95	80	3,036.00	3/21/05	2,322.78	(713.22)	-23.49%
Vishay	VSH	12/31/04	15.02	120	1,802.40	3/21/05	1,477.60	(324.80)	-18.02%
Bluegreen	BXG	12/31/04	19.83	200	3,966.00	3/21/05	2,577.16	(1,388.84)	-35.02%
Olympic Steel	ZEUS	12/31/04	26.51	100	2,651.00	3/21/05	2,081.18	(569.82)	-21.49%
Aetna	AET	12/31/04	62.38	30	1,871.25	6/9/05	2,443.54	572.29	30.58%
BMHC	BMHC	3/29/05	45.40	33	1,507.04	6/9/05	2,140.32	633.28	42.02%
Ashworth	ASHW	3/28/05	11.93	200	2,404.75	6/9/05	1,801.00	(603.75)	-25.11%
Petrokazakhstan	PKZ	12/31/04	37.10	100	3,710.00	8/22/05	5,401.02	1,691.02	45.58%
Alvin	ALV	12/31/04	48.30	40	1,932.00	9/28/05	1,702.37	(229.63)	-11.89%
Brunswick General	BC	12/31/04	49.50	30	1,485.00	9/28/05	1,116.70	(368.30)	-24.80%
Maritime Equity Office	GMR	3/29/05	47.85	60	2,889.75	9/28/05	2,175.95	(713.80)	-24.70%
Properties	EOP	3/29/05	29.51	150	4,445.25	9/28/05	4,781.04	335.79	7.55%
Sunoco	SUN	12/31/04	40.86	20	817.10	9/28/05	1,546.78	729.68	89.30%
Chesapeake Energy	CHK	12/31/04	16.50	40	660.00	9/28/05	1,470.38	810.38	122.78%
Coventry	CVH	12/31/04	53.08	30	1,592.40	9/28/05	2,515.84	923.44	57.99%
Limited	LTD	12/31/04	23.02	100	2,302.00	10/13/05	1,899.58	(402.42)	-17.48%
Constellation	STZ	12/31/04	23.26	100	2,325.50	10/13/05	2,234.16	(91.34)	-3.93%
JNJ	JNJ	12/31/04	63.42	40	2,536.80	10/13/05	2,494.74	(42.06)	-1.66%
Hovnanian	HOV	6/9/2005	61.31	30	1,858.05	10/13/05	1,331.49	(526.56)	-28.34%
Safeco Quality Systems	SAFC	12/31/04	52.24	50	2,612.00	10/13/05	2,566.64	(45.36)	-1.74%
	QSII	3/29/05	48.36	30	<u>1,460.33</u>	11/29/05	<u>2,612.48</u>	1,152.16	78.90%
					47,864.61		48,692.75		
Total Realized Gain (Loss)								828.14	

B. DUPONT ANALYSIS OF BUILDING MATERIALS (BMHC)

DUPONT ANALYSIS FOR BUILDING MATERIALS HOLDING CORP (BMHC)															
	Pretax Margin	X	Asset Turnover	=	Pretax ROA	X	Leverage	X	1-TX Rate	=	ROE	X	Book Value	=	Dupont EPS
1999	3.72		2.44		9.09		2.17		0.61		12.11		15.64		1.89
2000	3.28		2.23		7.31		2.16		0.59		9.37		17.20		1.61
2001	2.66		2.31		6.15		2.04		0.62		7.72		18.67		1.44
2002	2.52		2.35		5.93		2.00		0.63		7.46		18.95		1.41
2003	2.20		2.56		5.63		2.12		0.63		7.56		20.16		1.52
2004	4.52		3.10		14.04		2.25		0.63		19.83		23.54		4.67
2005															



C. COMPARATIVE ANALYSIS

Comparative Analysis					
Symbols	057A	BMHC	HOV	PHM	WLS
Company Name	HOME BUILDING	BUILDING MATERIALS HOLDING CORP	HOVNANIAN ENTERPRISES INC	PULTE HOMES INCORPORATED	LYON WILLIAM HOMES
Fiscal Year End	12	12	10	12	12
Valuation					
Latest Price	79.92	83.67	50.09	42.16	112.50
PE T4Q	8.10	10.50	7.50	8.30	5.50
PE F12M Estimate	6.20	9.90	6.00	6.90	5.20
PE FY1	7.00	9.30	7.10	7.80	5.80
PE FY2	6.10	10.00	6.00	6.80	5.10
Price/BV	2.59	2.83	2.02	2.04	2.16
Price /Adj CF	7.83	8.70	6.90	8.06	5.48
Price /Sales	0.82	0.46	0.66	0.80	0.58
Dividend Yield Indicatd	0.27	0.72	0.00	0.38	0.00
Sales					
RPS Growth LFY %	28.85	42.89	29.60	25.81	111.27
Rev T4Q % Chg YTY	25.14	33.56	31.20	30.67	11.38
Revenue Growth LFY	32.39	47.76	29.94	29.95	105.10
EPS					
Q-1 Mean Estimate (Lst Qtr)	3.14	2.13	1.78	1.39	3.15
Q1 Mean Estimate (Fwd Qtr Est)	3.74	2.42	2.42	1.98	7.48
EPS Adj T4Q % Chg	39.78	160.33	40.00	57.57	55.84
EPS F12M (Forward 12 Mons)	12.88	8.41	8.39	6.09	21.73
EPS Growth LFY %	39.74	153.85	37.96	55.69	145.24
FY1 Mean Est % Chg /LFY	45.73	127.27	29.07	41.78	8.55
FY2 Mean Est % Chg /FY1 Me	14.64	-7.22	18.84	13.44	13.99
Fundamentals (T4Q)					
Revenues T4Q (\$M)	8029.00	2634.00	4990.00	13892.00	1738.00
EBITDA T4Q (\$M)	1364.00	238.00	803.00	2229.00	305.00
EBIT T4Q (\$M)	1331.00	213.00	754.00	2172.00	303.00
Net Inc Reported T4Q (\$M)	784.00	115.00	437.00	1315.00	183.00
EPS Adjusted T4Q	9.84	7.94	6.72	5.05	20.40
Cash Flow Adj T4Q (\$M)	856.00	134.00	473.00	1360.00	201.00
- Capital Expend LFY (\$M)	44.00	28.00	105.00		18.00
- Dividends	15.44	5.96	0.00	26.29	0.00
= Free Cash Flow	796.56	100.04	368.00	1333.71	183.00
Free Cash Flow Per Share	9.34	6.76		5.05	21.05
Market Value					
Latest Price	79.92	83.67	50.09	42.16	112.50
* Shrs Out Last Qtr (Thou)	80.77	14.37	61.79	263.91	8.65
= Market Value	6454.90	1201.92	3095.11	11126.36	973.35
+ STD + LTD	2448.97	273.55	1413.43	3972.91	789.02
+ Min Int + Pref Equity	204.04	11.44	110.33	0.00	276.47
- Cash & Equiv	254.26	50.16	55.50	214.90	33.33
= Enterprise Value	8853.65	1436.75	4563.37	14884.37	2005.51
Entrprs Value /Sales		0.60		1.10	
Entrprs Value /EBITDA		6.10		6.70	
Entrprs Value /EBIT	6.65	6.75	6.05	6.85	6.62
Profitability					
Gross Margin LFY	23.54	20.32	26.83	23.59	25.89
EBITDA Margin LFY	18.19	6.29	15.94	15.26	18.96
EBIT Margin LFY	16.59	5.17	15.09	14.86	18.89
Net Prof Marg Adj T4Q	10.09	4.37	8.81	9.56	10.49
FCF Margin LFY	1.78	0.29	-7.04		3.84
Asset Turnover LFY	1.67	3.10	1.52	1.27	1.72
* Pre-Tax Margin LFY	13.09	4.52	13.21	13.67	15.65
= Pretax Return on Assets	21.86	14.01	20.08	17.36	26.92
* Tax Rate	62.15	62.77	63.42	62.35	60.20
= Net ROA	13.59	8.80	12.73	10.82	16.20
* Equity Leverage (Assets/Eq)	2.41	2.27	2.65	2.30	3.67
= Net ROE	32.76	19.92	33.72	24.91	59.54
* Retentn Rate LFY	98.24	92.93	100.00	97.39	100.00
= Reinvestment Rate	32.18	18.51	33.72	24.26	59.54
Leverage and Liquidity					
LT Debt /Total Capital%	41.06	38.20	51.31	38.75	
Total Debt /Assets	35.32	25.22		32.34	46.08
Interest Coverage (EBIT/Int)	22.84	15.71	15.85	36.26	
Current Ratio Last Qtr		1.92			

D. RATIO ANALYSIS OF BUILDING MATERIALS (BMHC)

BUILDING MATERIALS HOLDING CORP (BMHC)												
	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Short-Term Liquidity												
<i>Current Ratio</i>	2.51	2.75	3.19	3.77	3.32	3.01	2.74	3.04	3.36	3.44	2.48	2.79
<i>Quick Ratio</i>	1.45	1.67	1.82	2.03	1.90	1.69	1.49	1.60	1.65	1.75	1.15	1.34
<i>Cash Ratio</i>	0.12	0.16	0.12	0.09	0.07	0.11	0.12	0.14	0.15	0.15	0.10	0.05
Capital Structure												
<i>Total Debt to Capital</i>	38.8%	41.1%	38.0%	40.8%	42.8%	46.9%	39.5%	41.8%	39.4%	56.7%	48.3%	54.6%
<i>LT Debt to Equity</i>	63.0%	68.9%	62.6%	68.9%	74.8%	85.2%	65.4%	70.5%	62.2%	128.3%	91.2%	115.5%
<i>Times Interest Earned</i>	8.0x	4.4x	4.0x	3.1x	2.9x	3.8x	3.4x	2.8x	2.7x	2.2x	4.5x	4.2x
Return on Investment												
<i>Return on Equity</i>	18.5%	8.1%	9.2%	9.8%	10.3%	12.1%	8.9%	6.2%	8.9%	8.5%	20.9%	21.1%
<i>Return on Capital</i>	11.0%	4.8%	5.5%	5.7%	5.7%	6.9%	5.3%	3.7%	4.7%	4.0%	10.4%	9.9%
<i>Return on Assets</i>	8.2%	3.8%	4.6%	4.8%	4.8%	5.6%	4.2%	3.0%	3.9%	3.2%	7.8%	7.5%
Operating Measures												
<i>Operating Income to Sales</i>	6.3%	4.3%	5.0%	5.7%	6.7%	6.4%	5.5%	4.9%	5.4%	5.2%	6.4%	5.7%
<i>Gross Margin</i>	20.3%	20.5%	24.0%	24.9%	26.7%	25.0%	24.4%	23.1%	22.1%	21.9%	21.8%	21.0%
<i>Pretax Margin</i>	4.5%	2.2%	2.5%	2.7%	3.3%	3.7%	2.8%	2.2%	2.5%	2.0%	4.2%	3.7%
<i>Net Income Cont. Ops to Sales</i>	2.6%	1.5%	2.0%	2.1%	2.1%	2.3%	1.7%	1.3%	1.5%	1.2%	2.6%	2.2%
Efficiency Ratios												
<i>Receivables Turnover</i>	9.8	8.8	9.5	9.8	9.2	10.0	9.9	9.4	10.6	10.5	11.2	11.2
<i>Days Receivables</i>	42	48	42	38	40	40	38	43	36	38	36	40
<i>Inventory Turnover</i>	12.6	11.2	10.1	10.0	9.3	9.5	8.5	7.2	7.8	7.4	7.6	8.2
<i>Days Inventory</i>	34	36	37	38	39	39	43	51	50	49	56	54
<i>Sales to Cash</i>	101.5	98.5	161.3	224.1	168.7	128.2	106.7	95.5	109.9	112.8	162.1	353.5
<i>Working Capital Turnover</i>	8.6	7.3	7.0	7.2	7.2	7.9	7.5	6.4	6.8	7.1	8.0	8.1
<i>Fixed Assets Turnover</i>	12.7	8.2	6.5	6.3	6.3	6.9	6.8	6.6	7.2	7.7	10.0	11.3
<i>Total Assets Turnover</i>	3.1	2.6	2.3	2.3	2.2	2.4	2.5	2.3	2.6	2.6	3.0	3.4
Valuation												
<i>Price / Earnings (T4Q)</i>	9.7	10.4	8.3	6.6	4.9	5.7	9.8	13.1	13.3	16.0	8.6	17.7
<i>Price / Earnings (F12M)</i>	4.3	5.1	9.5	6.4	5.1	6.1	6.4	10.0	15.2	15.5	15.2	12.4
<i>Enterprise Value / EBITDA</i>	5.6	7.5	5.4	5.2	4.0	4.8	5.8	5.9	7.2	8.2	6.0	9.5
<i>Price / Sales</i>	0.3	0.2	0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.4
<i>Price / Book Value</i>	1.7	0.8	0.8	0.6	0.5	0.7	0.8	0.8	1.1	1.5	1.5	3.2
<i>Dividend Yield</i>	1.3%	1.7%	1.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<i>Earnings Yield</i>	10.3%	10.1%	12.2%	15.9%	19.9%	17.6%	11.3%	7.3%	7.6%	5.4%	11.6%	5.7%
<i>Payout Ratio</i>	7.1%	13.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%