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As U.S. Moves Toward War with Iraq, Finance Students Re-Evaluate $2 Million Stock Portfolio Holdings

University of Dayton

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AS U.S. MOVES TOWARD WAR WITH IRAQ, 
FINANCE STUDENTS RE-EVALUATE $2 MILLION STOCK PORTFOLIO HOLDINGS

DAYTON, Ohio — University of Dayton finance students managing $2 million of the University’s endowment are taking a second look at their portfolio and being conservative — in light of a possible war with Iraq.

The rest of us should, too.

That’s their recommendation to investors whose portfolios have already been battered in the past year by terrorism, corporate scandals and an economic downturn.

“A war with Iraq has come up several times in class. It’s certainly at the forefront of a lot of investors’ minds, but it’s not the overall driving decision maker. Historically, wars can be a catalyst for the market, but they also cause a lot of volatility,” said John Shoup, a senior finance major from Beavercreek, Ohio, who’s one of 15 undergraduates managing the portfolio in the University of Dayton’s Center for Portfolio Management.

With a ticker board displaying stock trades, televisions tuned to CNN and CNBC and two Bloomberg News terminals providing securities information, the center simulates a Wall Street investment firm. The students have outperformed the Standard & Poor’s 500 Index by 5.5 percentage points in each of the past three years, according to David Sauer, associate professor of finance and founding director of the center. University of Dayton trustees will increase the fund to $3 million by spring, with plans to raise it to $5 million if the students perform well.

“We’ve always looked at our firms carefully and done a lot of fundamental research,”
said Sauer, who holds veto power over the students’ stock picks but has never used it. “These are unprecedented times for investors, but I always sing the same tune. It’s important to diversify your portfolio, conduct ongoing risk analysis and back your security selections with thorough fundamental research.”

As part of assessing current holdings and re-evaluating industries, the students plan to look at aerospace and other defense-related stocks, according to Shoup. “Some industries might receive a boost, including those that have some flexibility with their pricing,” he said.

They’re also keeping an eye on accounting reforms and the plight of Martha Stewart, who’s become an emblem for corporate dishonesty. “Every day is a new adventure,” said Shoup with a smile.

Since the U.S. has already weathered one war with Iraq in 1991, a new war is not expected to have the same financial impact — unless the U.S. attacks without the support of the international community, according to Sauer and Shoup.

“If there is a long drawn-out war and consumers are expecting a short one, confidence can lag,” Shoup said. “If you make the global environment worse in terms of foreign affairs, are we setting the stage for another 9/11?”

The University of Dayton has gained a national reputation as a leader in investment management education. According to preliminary survey results by UD’s Center for Portfolio Management, UD’s fund ranks among the top 15 student-managed portfolios in the country. The University of Dayton also annually stages a national portfolio management competition for college students and brings in nationally known investment strategists to share best practices with students who travel here from around the country and Canada. The next event is slated March 26-28. For the past two years, the winning teams have opened the Nasdaq MarketSite in New York and this year appeared on CNBC’s “Squawk Box.”

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For media interviews, contact David Sauer at (937) 229-4761, 229-2757 or David.Sauer@notes.udayton.edu. John Shoup can be reached at (937) 229-3384 or John.Shoup@notes.udayton.edu.