Darden capital management

Countries

The total assets under management for the Darned Capital Management program were over $3 million and were held in three funds: the Darned Fund, Monticello Fund, and Jefferson Fund. Each fund was managed independently by a small team of MBA students, with some guidance from a faculty advisor and a board of trustees. Etc The investment strategy of the Monticello Fund was to use fundamental analysis to identify and invest in companies that were well-positioned for growth but inexpensively valued. The fund team looked for stocks that would generate above- normal returns over a one- to four-year horizon.

The new team replaced a team that had generated returns of 42. 9% on their equity positions over the 12 months ending March 31, 2004. Such return performance was impressive both in absolute terms and withrespectto the strong 35. 1% returns over the same period on the S&P 500 market index. Exhibit 1 shows the current composition of the fund portfolio. The new team was unified in its resolve to once again beat the market index in the coming year; however, there was some debate on the most appropriate strategy to accomplish this goal.

No The Portfolio Allocation Decision Prior to the meeting, Senior Manager Steve Majorca solicited from the team a list of securities for consideration as investment candidates. This request generated a list of six stocks for which there was mixed enthusiasm: Boise Cascade, Boston Beer, Micron Technologies, New York Times, and Placer Dome. Exhibit 2 shows the monthly return performance of each of the six stocks over the past five years. Exhibit 3 provides various return statistics and other risk measures.

For each stock, the team had developed a financial forecast and an estimate of the fair-value of the stock in 007. Based on these figures, the team had calculated the anticipated rate of return implied This case was prepared by Professor Michael J. Chill. It has some fictionally content and was written as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. Copyright O 2004 by the University of Virginia Darned School Foundation, Charlottesville, VA.

All rights reserved. To order copies, send an e-mail toCom. No part of this publication may be reproduced, stored in a retrieval system, used in a broadsheet, or transmitted in any form or by any means? electronic, mechanical, photocopying, recording, or otherwise? without the permission of the Darned School Foundation. This document is authorized for use only by Demise Laziness until June 2012. Copying or posting is an infringement of copyright.Arvada. Due or 617. 783. 7860. -2- by the current stock price. Exhibit 4 contains the anticipated return estimates. Mocha's suggestion that the team narrow the list to two or three stocks had generated a heated discussion. Indian Bose and Brian Maguire were strong represents of buying Micron Technologies stock. The stock had declined dramatically from its 2000 peak, and they now felt it was well positioned to rebound. The team agreed that Micron offered the greatest expected return potential.

David Isthmian, however, insisted that Micron's strong potential required accepting substantially greater risk. He backed up his claim by comparing the standard violations AT past returns. For can stock, en calculated ten orator AT anticipate return to the standard deviation of returns, and found

that Boise Cascade and New York Times maintained the best returns for the commensurate level of risk. Charles Hill agreed with Isthmian that the anticipated returns should be normalized by the associated risk of the stock.

He claimed, however, that a better measure of the risk faced by the investor was the correlation of the returns of the firm's stock with those of a diversified portfolio. This correlation could be measured as the slope of a linear-regression line, commonly called the " beta. " Hill suggested that Mylar Labs and Placer Dome maintained the highest bedsteads returns (the anticipated turn less than expected by the return model that incorporated beta, the Capital Asset Pricing Model).

Isthmian disagreed strongly, claiming that it made no sense to invest in a high-risk Canadian gold stock that was expected to generate a return of less than 9%. Hill countered that the attractiveness of Placer Dome stock was primarily in its diversification effect. He claimed that a 50-50 weighted portfolio with Mylar Labs and Placer Dome would prove to be better than simply holding Mylar Labs stock alone. Majorca was due at a fund managers meeting in the morning and needed to be able o communicate a coherent portfolio strategy for the Monticello Fund.