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Students Analyze Stocks, and the Professionals Learn to Listen

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BODY:

STOCKS under rocks. They're every investor's dream -- potentially lucrative companies that for one reason or another have failed to garner Wall Street's attention.

But for a group of graduate and undergraduate students at Tulane University in New Orleans, the thrill of unearthing such companies is part of the academic regimen.

The students publish the Burkenroad Reports, which provide investment research on various Southern companies. The program issues an annual compendium, roughly 40 pages long, and individual reports in the fall and winter; quarterly updates are being planned. The students' work looks and reads much like Wall Street analyst reports.

An indication of the program's success is that money managers and individual investors seem to be paying attention.

Consider Bryan Dutt, managing partner at Ironman Energy Capital, an investment firm in Houston, and Jeremy T. Crigler, who runs Trusten Capital Partners, a hedge fund in Durham, N.C. Both have subscribed to Burkenroad Reports for several years. They like the reports' emphasis on small companies that because of their location, size or line of business have received the cold shoulder from most Wall Street analysts. And both say the reports offer an

objectivity they don't find in other sources.

"Wall Street research is virtually meaningless, because it's typically geared toward generating underwriting business," said Mr. Dutt, who typically buys one or two stocks the students recommend each year. "With the students' reports, we at least feel we're getting an unbiased, impartial stock opinion."

Mr. Crigler agreed. "Unlike the rest of Wall Street, the students don't have a 'buy' rating on everything," he said.

The students write the publications, named after William B. Burkenroad, an alumnus and benefactor of the university's A. B. Freeman School of Business, as part of a finance class at the school. Investors can pull the reports off the students' Web page (www.burkenroad.org) or receive a year's paper copies for a \$100 contribution, meant to defray printing and mailing costs.

The reports are mailed to 2,500 professional money managers and 1,000 other subscribers. Charles Hickman, a project director at the International Association for Management Education, which represents 900 business schools worldwide, said Burkenroad Reports may be the only student equity-analysis program to which outside investors subscribe.

THE program was started in 1993 with the encouragement of Peter Ricchiuti, a former Kidder Peabody stockbroker who is still the high-energy director of the program as well as an assistant dean at the Freeman school. The initial goals were to expose Tulane's business students to the rigors of Wall Street-style analysis and to generate some publicity for the school. Since the start of the program, 400 students have contributed to the reports.

Most of the 36 companies covered in the latest reports will not win awards for glamour. The crop includes manufacturers of wrought-iron lawn furniture, rice mixers, auto parts, pool supplies and industrial valves.

The students have a "buy" rating on Cal-Maine Foods, a large producer of eggs. Its stock has shown weakness over the past year, closing on Friday at just \$5.25 a share. But the students say that the company, based in Jackson, Miss., is likely to benefit from consolidation in its industry and that it has a healthy balance sheet.

They also like Rankin Automotive, a regional auto parts supplier in Alexandria, La., that has reduced costs by building a new distribution facility. Another favorite, Bayou Steel, a steel producer in Laplace, La., has managed to

solve nagging labor problems but trades at a low price; it closed on Friday at \$3.875, or just 2.2 times the students' earnings estimate of \$1.75 a share for 2000.

For the students, the analysis means considerable number-crunching, a visit to each company in the fall, and calls to competitors and customers. In their research, the students have run into their share of sweet-talking executives, as well as some adventures: They got lost in a sugar cane field, watched the slaughter of thousands of chickens at a processing plant and visited an offshore oil rig by helicopter as a hurricane approached.

Mr. Ricchiuti typically picks the companies that the students cover, basing his choices on the businesses' long-term prospects. Since 1994, the recommended stocks have returned 12.4 percent a year on average, compared with 10.1 percent for the Russell 2000 index of small-capitalization stocks. But Mr. Ricchiuti said many recommended stocks had suffered recently because so many are small-capitalization or energy stocks -- categories that have been poor performers.

What is the students' secret to success? Paul Vallone, a graduate student, says part of it is the focused approach to investing. "We don't cover the Dells or Intels of the world," he noted.

Mr. Ricchiuti usually chooses companies near New Orleans so that they can be visited easily. But he also sticks to small and medium-sized companies that have less than \$500 million in market capitalization and are being followed by no more than two or three Wall Street firms. In 1993, the reports focused on just six Louisiana companies. Now, the 36 companies they cover are in four states: Louisiana, Texas, Mississippi and Alabama.

One big hit is Books-a-Million, a regional bookseller based in Birmingham, Ala. The students stumbled on it last year, in part because air fares between New Orleans to Birmingham were appealingly low. When the students visited the company in early September, its stock had been trading in the range of \$2 to \$4 a share. In November, however, the company announced that it was broadening its ability to sell over the Internet, and the stock soared from \$3 to \$47 in two days. Lately, the stock has fallen back to earth, closing on Friday at \$10.625, but the students think it still holds value.

The students have yet to issue a "sell" recommendation on any company in their universe, in part because Mr. Ricchiuti's initial screening keeps out marginal companies. But as of last week, they had "market underperformer"

ratings on 6 of their 36 stocks, indicating that they expected them to be laggards over the near term. Among them are Wireless One, a Jackson, Miss., communications company, and Omni Energy Services, a Carencro, La., oil services company.

OCCASIONALLY, the students have stumbled. Some money managers fault them for having been as overly bullish as the rest of Wall Street on energy stocks in 1997; others think the students could benefit from having broader knowledge of the industries they cover.

Last fall, Mr. Ricchiuti began addressing the second concern by rejiggering the research program to include eight former students, who now function as industry experts for the rest of the class.

A pedigree from the Burkenroad program certainly doesn't hurt on the job-hunting front. According to Mr. Ricchiuti, about a third of the students who have produced the reports have landed jobs in stock analysis or corporate finance at firms like Goldman Sachs, Merrill Lynch and Donaldson, Lufkin & Jenrette.

One satisfied alumnus is Michael J. Sison, who graduated from the business school last May and accepted a position as an associate research analyst at McDonald Investments in Cleveland. "The reports were definitely a selling point," Mr. Sison said.

Mr. Crigler at Trusten Capital Partners is looking at hiring a current student in the Burkenroad program. "The students do a pretty good job," he said.

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GRAPHIC: Photo: For Tulane University students, investment research includes company visits. A group led by Peter Ricchiuti, third from left, an assistant dean, traveled to Petroleum Helicopters in Jackson, La., to meet Carroll Suggs, chairman, and her daughter, also Carroll, third and second from right. (David Rae Morris for The New York Times)

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