An Interview with Richard Pzena

We recently had the opportunity to sit with Rich Pzena, head of Pzena Investment Management. Founded in 1996 after heading the US Equities group at Sanford C. Bernstein, Pzena Investment Management’s Value fund has compiled an annualized compounded return of 16.3% since inception, compared to a compounded annualized return of 9.3% for the S&P 500.

Pzena’s investment approach is very straightforward: he purchases shares in good businesses that are selling at a low price. He understands that it is often unrealistic to expect such opportunities to be available absent some sort of problem which causes the price of the shares to drop. The question Pzena and his team try to answer is whether the issue that caused the drop in price is temporary or permanent.

A typical scenario will see a company’s earnings and business chugging along, and then get hit with a problem. It isn’t always clear, says Pzena, if a downturn is cyclical or secular in nature. He cites Kodak and the newspaper industry as examples where he passes on trying to understand how their core businesses are going to unfold in the years ahead. By contrast, housing and auto part companies are clear examples of firms experiencing cyclical downturns.

Welcome to “Graham and Doddsville”

We couldn’t be more pleased to present the first edition of Graham and Doddsville, Columbia Business School’s student-led investment newsletter. Co-sponsored by the Heilbrunn Center for Graham & Dodd Investing and the Columbia Investment Management Association, our goal is to provide students, alumni, and the investment community a forum for exchanging ideas and keeping abreast of what is happening at Columbia – the longtime home of value investing. We aim to provide readers with content whose insight is timeless, alongside specific investment ideas that are relevant today.

Our thanks go first to Rich Pzena, who sat down with us for an extended period to provide a truly remarkable interview. Luciano Ferreira and David Bernfeld, leaders of the school’s Best Ideas Club, helped coordinate the inclusion of our student write-ups on International Coal Group (ICO) and Strattec Security Corp (STRT). And, of course, special thanks go out to the staff of the Heilbrunn Center
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for Graham & Dodd Investing, and to Burak Alici and Kevin H. Byun, Co-Presidents of CIMA for their support and constructive feedback throughout the process of putting all the pieces together.

Please feel free to contact us if you have comments or ideas about the newsletter, as we continue to refine this publication for future editions.

Enjoy! -G&Dsville

Richard Pzena (continued from page 1)

“...you have to listen for things which are going to tell you that the senior management thinks the margin structure of the industry in the future is lower than it was in the past.”

As asked to provide an example of when his team misread an impaired business’ problems as temporary rather than permanent, he offered the example of Tenet Healthcare.

“Tenet Healthcare was a business whose margin structure went from being the best to the worst in the industry” for several reasons, explains Pzena, including a government lawsuit and a management team in turmoil due to alleged Medicare insurance fraud.

Pzena and his team reasoned that there was no structural reason why Tenet’s margins should remain the lowest in the industry, and projected that if margins simply reverted to the industry average that the firm had about $2/share in normalized earnings power.

Pzena: Here’s a good example. A company says, “We have local expertise and local presence but we’re now going to go national or global and we’re going to have a sales force dedicated to calling on national accounts.” The only thing that can mean is that you’re lowering the price.

It really is the only thing that can mean because you’re either going to bundle things together and lower the price or you’re going to say “If you have my business in California you should have it in New York also, and to incent you to have it in both places I’ll cut the price.” Because that’s the only way you’re going to incent them to do it; somebody has a business relationship here and they have a different business relationship here and you’re saying “I can offer you one-stop shopping.” Well, what do I want one-stop shopping for unless there’s something in it for me, like a lower price!

So you have to listen for things which are going to tell you that the senior management thinks the margin structure of the industry in the future is lower than it was in the past. And either assess whether it’s still cheap or not, or decide to pass.

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Russo advised young investors starting out to think and act globally, remain generalists, and to concentrate their portfolios.

Or to make value-destroying acquisitions.

But be careful which family you get into bed with. Asked how an investor can distinguish families that are running public companies for the benefit of all shareholders, from those who view the assets of the companies they control as their own private piggy bank, Russo replied that the family’s ability to attract and maintain high-quality management is an important indicator. He also suggested focusing on potential conflicts of interest, providing the example of the Riga family ownership of cable systems outside of the holdings of Adelphia as a situation that raises a red flag.

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Graham and Dodd Breakfast with Thomas A. Russo

On October 27th hundreds of private investors, alumni, and investment management professionals converged on the Marriott Marquis to attend the 16th annual Graham & Dodd Breakfast. Organized by school’s Heilbrunn Center for Graham & Dodd Investing, the crowd included a veritable “Who’s Who” of value investing greats, including Mario Gabelli ('67), Jean-Marie Eveillard, Walter Schloss, William von Mueffling ('95), David Winters, Curtis Jensen, and keynote speaker Thomas Russo.

The topic of this year’s gathering was Global Value Equity Investing, an activity Russo has been engaged in for years, much to the benefit of his clients. Since December 31st 1992 through September 30th 2006, his Semper Vic Partners LP has generated a 16.3% compounded annualized return on its equity holdings, compared to a 10.5% and 12% return, respectively, for the S&P 500 and Dow Jones Industrials.

Russo’s global perspective was shaped early in life. He described how as a child his mother thought it would be a good idea for him to subscribe to newspapers from around the world (despite the fact that he couldn’t read them). While pursuing his joint MBA/JD at Stanford in the early 80’s, he was also encouraged to think globally by Jack McDonald, the legendary professor of finance. Warren Buffett came to McDonald’s class to talk to students, and told them to think about the tax break the government allows investors by allowing them to defer taxes on their gains until they sell. Buffett also advised the students to “find people you can do business with.”

Clearly Russo absorbed both lessons. Not only is his investment style characterized by a long-time horizon and low portfolio turnover, he has also taken positions in several family-run businesses over the years. He observed that family-run businesses didn’t seem to get the same valuation as similar franchises, yet reasoned that family-run businesses might actually be less prone to engage in foolish behavior. Russo felt that if a family was truly focused on running the business to maximize long-term gains that they would be less apt to grant large option grants that would dilute their equity, or to make value-destroying acquisitions.

But be careful which family you get into bed with. Asked how an investor can distinguish families that are running public companies for the benefit of all shareholders, from those who view the assets of the companies they control as their own private piggy bank, Russo replied that the family’s ability to attract and maintain high-quality management is an important indicator. He also suggested focusing on potential conflicts of interest, providing the example of the Riga family ownership of cable systems outside of the holdings of Adelphia as a situation that raises a red flag.

Russo advised young investors starting out to think and act globally, remain generalists, and to concentrate their portfolios.

The Graham & Dodd breakfast, a long standing tradition at the school attracted over 300 investors in New York and was telecast to London to an audience of about 50 people, hosted by GAMCO Investors at the Dorchester Hotel.

-G &Drille
Richard Pzena (continued from page 2)

Question: When you talk about ranking companies from top-to-bottom based on the ratio of their current price to what you project their EPS will be in 5 years, do you adjust for industries that always seem to trade at a discount to the market, like financials?

Pzena: I don’t think financials always trade at discounts to the market. Certain industries like insurance companies might, but that’s because their return on equity is below the market’s return on equity based on their profit structure.

The answer is that we adjust based on the business quality rather than on how they’ve traded in the past. So for example let’s take 2 extremes: take a paper company that on average has produced a 6% return on equity through its history, and take Microsoft, which has produced a 50% return on its equity through its history. One unit of growth or one percent of growth at Microsoft is worth way more than one percent of growth in a paper company.

So the way we adjust is to make the assumption that the high return nature, or the low return nature of the business will continue for some period of time. Therefore when you’re extrapolating the future earnings power of this business a company with a high ROE you want to adjust your view of value upward. I’m talking about normal ROE, rather than current ROE. And one with a low normal ROE you want to adjust your view of value downward. So you need to have a cheaper P/E to buy a lower quality company. And that’s the way we adjust.

Take Microsoft: we adjust our view of its normal earnings power upward because of its high ROE. We actually go out and project another 5 years to figure out year 10 earnings, and because Microsoft earns a 47% return on equity the cash that this business is generating, even if it grows slowly, is in excess of the needs of the business. And so because that excess cash is available for share buybacks, the earnings of the company will actually grow faster than the growth rate of the company.
Richard Pzena (continued from page 4)

And if I compare that to a paper company, it's a downward adjustment but it's the same concept. It's extrapolating the earnings and saying if the business grows 5% a year, the earnings will actually grow slower than that because I'm not generating enough internal cash to fund that growth. So I'll have to either issue equity or raise debt.

The growth rate is somewhat deceiving. If you have two companies, one that has a 5% ROE and is growing 10% a year, and another that has 30% ROE and is growing 2% a year (top-line growth), and the margins are going stay the same, the earnings per share increase on the 2% grower could be higher than on the 10% grower. That's simply because the 10% grower is not self-sustaining because it only has 5% ROE so whatever capital it requires it's going to have to raise, while the other one can buyback stock.

Question: Do you think one of the reasons your methodology has proved successful is because you look at earnings 5 years out, while other investors or sell-side analysts are looking at earnings and earnings revisions over a 2-3 year period?

Pzena: Shorter than that. I think they're looking over a 1-2 year period, or even less than 1 year. Just read the research: “We're changing the buy to a sell because we're expecting the quarter to be weak.” There's a lot of that going on out there. People are overly sensitive to short-term results.

It's not just the sell-side, it's also the hedge fund community.

“Just read the research: “We're changing the buy to a sell because we're expecting the quarter to be weak.” There's a lot of that going on out there. People are overly sensitive to short-term results.”

If you're running a business where if you have a bad year half of your business will go away, you'd be very focused on the short-term, even if you're a long-term oriented kind of person. It's hard not to be. Better to run a business where you promise your clients you're going to have bad years, which is what we do, we promise them.

If they ever ask us, “What about investing in value traps or investing in dead money,” we promise them we're going to do that too. If I knew which one was going to be value trap in advance I would avoid it! But how do you know in advance?

That's how I define value trap: you buy something and your thesis is wrong. You thought it was value but it wasn't value. But you just don't know. Sometimes maybe you could have known, and I'll call that a research mistake (like Tenet). Others you couldn't have known. You make a judgment based on probabilities, it turns out not to be what you expected, and you lose money. We expect to lose money in about 40% of the stocks we invest in. And I think that's how you win: by not being afraid to lose.

So long as you can understand how much you're going to lose. If you think there's some prob-

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ability that the company is going to be wiped out, then that's another story. But making the judgment that the margin structure for the hospital industry should be about 15%, you're not going to be that far off, and even if you're wrong and it turns out to be 11 or 12% you're not going to lose a whole lot of money.

Take a situation like Tenet where you completely blew it, and you still can get out at the same price you bought in on. It's because you bought at a low enough price because everybody else was looking at this and saying, "Oh my God, look at this mess. Their customers are pissed off at them, the government's going to sue them, the management is in turmoil, you don't know what's going to happen," and people therefore avoid it. And because they do you're buying at such a low price that even if it turns out to be a value trap you don't lose a whole lot of money, and if it turns out not to be a value trap you make a lot.

I think most smart investors, if you have a 50% chance of doubling your money, and a 50% chance of losing a quarter of it, you would just take that investment any day of the week. But when it comes to the stock market people say, "Oh my god, I might lose 25% of my money I'm not going to touch it," and they don't do the risk-reward trade-off.

Take Fannie Mae and Freddie Mac: nobody would touch these stocks. Why? There was potentially bad accounting, and the government could have pulled the plug because of the bad accounting. Did anybody ever sit there and say, "Does the accounting matter in this business." I mean how many people looked at this and said, "You can't use generally accepted accounting principles for this business."

You can't. The fact that anybody is even looking at GAAP earnings is ludicrous, including Congress by the way, because it's a hedge fund. What are Fannie and Freddie? They're a small number of people sitting in Washington DC who buy mortgages and fund them with debt. And the reason they make more money than anybody else doing this is because their status allows them to borrow long-term, and no financial institution can borrow long-term. Not even Citibank.

If you look at Citibank's balance sheet there's not a lot of long-term debt on it. Fannie and Freddie's long-term debt is callable debt, so they can pretty much match the duration of the asset and the liability side and take very little interest rate risk. Nobody else can do that so they make a spread. The regulators understand that nobody else can do that so they have a low capital requirement and earn a high return on equity.

So if you invested in that fund, let's say it was a fund instead of a stock, if you invested in that fund it would have returned 20-25% per year after-tax for the last 20 years. Pretty good business.

Now along comes somebody and says, "You know what, I'd like to understand the results of your fund on GAAP. Forget how much money you've made for me, just give me your GAAP statements." And the person scratches their head and says, "Ok, but GAAP tells me I have to mark-to-market the asset side of the balance sheet, but not the liability side of the balance sheet. So I'm going to have unbelievable crazy results on GAAP, so I better do something about it if somebody's going to analyze me on GAAP." So I try and qualify for the exemptions to the asset/liability separation, and that's hedge accounting. Under hedge accounting you can net the two. So I'm going to engage in all kinds of stuff to net the two, and then I report my financials.

By the way, I'm still reporting what I earned on the portfolio in real terms, the mark-to-market valuation of the whole
portfolio. Even though it’s not generally accepted accounting principles to do that, it’s the right way of doing it.

And now a regulator comes along and says, “You didn’t do that right, and you cheated because you wanted to make your bonus.” And so they blow the whole thing up. Congress gets all upset and says “I’m going to pull the plug on Fannie and Freddie because they’re out of control.” This is effectively what’s happened, right? And the stock gets killed. So where does it go? It actually trades below the liquidation of their portfolio. Forget accounting, I could stop the business and earn a profit. And people are saying, “Oh my god, the business is going to stop. I don’t want to own the stock.” But it’s already selling for below what it’s worth if the business stops. And if doesn’t stop, you’re making a fortune.

Now can I tell you I know what’s going to happen? How could anybody know what’s going to happen, if it’s going to stop or not stop? But I would still make that bet every day of the year. And they’re now going through the process of coming up with new financials, and they’re going to be just as crappy as the old ones. And anybody that relies on them should be shot because it’s a stupid way of looking at the earnings power of that business. And either the government will pull the plug or they won’t. I would bet they won’t, but I don’t really know. But I know if they don’t I’m making a lot of money. And by the way they’re still making that 20-25% while we’re sitting here waiting. They didn’t stop investing in their mortgage portfolio, so the liquidation value is actually accreting over time, so it’s an even better investment. This is without knowing what the outcomes going to be, without knowing if it’s a value trap.

**Question: What was it like to be a value manager in the late 90’s?**

**Pzena:** It was not fun. You had 2 things going on. One is you saw all these great things you wanted to buy, and you saw how much everything else was valued at, but then you talked to your clients. My favorite story is I sat down across the table from somebody who said to me, “My grandmother’s a better investor than you. This is very easy. She gets it, you don’t. All you have to do is buy Cisco. How come you won’t buy Cisco? How does my grandmother know this, and not you?”

That was the kind of conversation we were having, so it was not fun. And just as everything you ever read about cycles will tell you, right at the peak, I’m talking about February of 2000, that’s when we had the biggest outflows of money. They timed it exactly: sell the value stocks and buy the NASDAQ, right at the peak.

And you know we were a young firm, so we didn’t have a long track record to fall back on. From 1/1/96 to 2/28/2000, so about 4 years, we were 6000 basis points behind the S&P 500 (since our inception). And here you are trying to run an investment management firm trying to beat the S&P, and what are the odds that you could ever in your life make up 6000 basis points? It’s pretty depressing. I’ve got to tell you it’s pretty depressing.

12/31 of 2000, 9 months later, we were ahead of the S&P 500 cumulatively because the market collapsed, and our stuff went up. I think we were up 40% or something like that in 2000, and the market was down 30. And all of a sudden you’re now ahead of the S&P, which is where we’ve been ever since. But believe me it’s not fun. It’s not fun thinking that I’ve started a business and it’s going to fail. I’ve hired a whole staff and they’re going to lose their jobs. You’ve let down your clients. You’re questioning yourself, although I never totally did, because I never could understand it. My response to the grandmother comment was, “Can I just walk you through some arithmetic, because Cisco has a $500 billion market cap. Let’s say you’re going to buy the whole
company. You’re rich and you’re going to write a check for $500 billion, and you want to make a 15% return on your investment. That’s $75 billion; they have to make $75 billion every year. They’re making $1 billion! I mean something’s wrong, isn’t it?” And they would just look back and say, “You just don’t get it.” And I would agree, “Obviously I don’t get it.”

Question: How do you deal with the emotional ups and downs where your investment results can vary so dramatically, and for such an extended period of time, from the quality of your investment process?

Pzena: Well, first of all that was a very unusual environment. It was 2 and a half years of being completely out-to-lunch relative to what was going on in the world. It’s not normal that you have to go through that.

We just went through a mini-version of it this past year with the energy stocks being so strong, and us not being involved in them, and looking at it and saying “This doesn’t make any sense.” That’s more normal: when you get it wrong, you’re getting it wrong for 12 months, 18 months, and you trail the benchmarks by 4 or 5 percentage points. It’s not 2 and a half years at 60 percentage points. It’s a big difference, so you can take it a little better. And you just defend it and say, “This is why I don’t own energy, this is the logic.” And after the clients or your staff hear it for 18 months then it starts to get old, and they say “Well now you’re just wrong. You’ve missed it and you’re just wrong.” That’s why having that ranking, having that discipline is so important. Because I’ll pull up Exxon on the screen and say, “What do I have to believe for this to be a cheap stock?” I’ll plug it in and then I’ll say, “I just can’t believe this. It’s too fanciful to believe that this is what could happen.” And you try and stay anchored in the facts as much as possible.

Question: You’ve already talked about using margin structure to think about how much downside an investment could have. In addition to margin structure, can you talk about how you wrap your arms around how much you can lose in an investment?

Pzena: Sometimes it’s easy, as it’s just the underlying value of the assets of the company. The assets have some value outside of the business. Take a life insurance company, simple example. It’s a bond portfolio. How much below book value can a bond portfolio go, unless they totally screw it up? Probably not much. It doesn’t mean I’m going to make a whole lot of money. But if I can buy a liquid portfolio at book value, then I can say I have some downside protection. That’s an easy example.

Take a tougher example, one that nobody would have viewed had downside protection, Computer Associates. They’re a software company that had some accounting issues, some management issues, and the stock went from 79 to 8. I bought it at around 15, thinking that at 15 I didn’t have a whole lot of downside. And it did go to 8 but I still was right, it went to 8 for a short period of time.

Here was a business that had a customer base. They sold software that ran the back office systems tools for large-scale data centers. So it was job processing, network administration, security and those kinds of tasks in a large data center. They had one real competitor in the world, which is IBM, and what’s interesting about that business is that the switching costs are astronomically high. What are the odds that you’re going to shut your system down and replace the tools? That’s like saying I don’t like Con Ed doing my lights, I’m going to try some start-up company to supply electricity. Nobody even thinks about it, is the point. Nobody ever thinks that we should change the job processing software: it’s not of...

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strategic importance, it’s a utility. So they have a renewal rate on their contracts in the 90’s.

Now this is an accounting irregularity concept, but when you sell a software license under GAAP, if it’s a multi-year software license you still book all the revenues in the first year because you have no on-going obligation. If I give you a disc, and you promise to pay me $100 a year for 3 years and then send me back the disc, I book the present value of the $300, I book $280 of revenue, and that’s it.

So the way I can manipulate my results in that environment is, let’s say I have a $100/year in business and I say “Let’s sign a 3-year contract” and you give me a 3-year contract and I book $280. Next year I go to this other guy and say “Can we sign a 4-year contract?” So I sign a 4-year contract with him and book $360 in revenues, and then I report 30% revenue growth. And they did that for a decade, extending the average life of their contracts and reporting earnings in excess of their cash flow. Now because it’s not a growing business, it’s all a renewal business, you’ve now renewed all of your customers to one of these long-term contracts, now there’s nothing to do. So you’re done, and all of a sudden your earnings collapse. The earnings went from $3/share to zero, or negative, and the stock went down. The cash flow per share did not move by even a dollar. It’s such a steady business. The customers never cancel, they just keep sending you a check. This is the greatest business in the world: I collect checks and put them in the bank. And you can see the bank account. That’s one thing it’s hard to screw up on an audited financial statement, is what the cash balance is, because I think that’s one thing the auditors have figured out how to check.

So you’ve got this business producing $2.50/share of current cash flow, as it had each year for the prior 5, and then you talk to the customers and (Continued on page 10)

Tracking the Superinvestors

As the academic center for the philosophy and principles of value investing, Columbia Business School has built a strong network within the investment community. Beginning with Benjamin Graham and David Dodd, continuing with Roger Murray, and with Bruce Greenwald continuing this tradition, Columbia Business School continues to attract inspiring investors who seek to learn the disciplined philosophy of Value Investing.

Columbia students are known for searching the universe of stocks to discover undervalued stocks. As taught by Professor Greenwald, the first step in discovering undervalued securities is to develop an appropriate search strategy. One resource that students have found to be fertile soil for ideas are the SEC Form 13Fs that are published quarterly by money managers with $100 million or more under management.

Each issue of “Graham and Doddsville” will highlight recent investment decisions of successful alumni, professors, and other prominent investors who are admired by Columbia Students and adhere to a value-oriented philosophy. (See page 18 for the investors highlighted in this issue.)

-G&Dsville

Edwin and Walter Schloss

Columbia Business School would like to wish longtime friend Walter Schloss a Happy 90th Birthday. Walter, a former colleague of Benjamin Graham, was recently honored by New York Society of Securities Analysts.

Visit the public section of the Schloss Archives for Value Investing to read the 2003 Bottom Line interview with Walter and Edwin Schloss by Eli Rabinowich (’04).
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they all tell you they’re going to renew their contracts because they have no choice.

They’re very clear about it: they don’t like Computer Associates, but there’s nothing they can do about it. And you have the history of the contract renewal.

So I say, here’s $2.50/share of cash flow that’s going to go on forever, and the stock is 15. Do I have downside protection? I think so. So when the stock goes to $8, we double-checked to make sure we didn’t get the $2.50 wrong, and we didn’t get it wrong. We bought a 2% position at 15, so at 8 it’s a 1% position (that’s what happens), and we quintupled up (5% is the maximum we hold, so we took it up to a 5% position). The stock went all the way back up to 20-something.

I think that’s downside protection. Did I know what was going to happen? I didn’t have to believe anything other than that most of the people would renew their contracts every year. I didn’t even have to believe that all of them would renew it.

Question: When do you start considering when to trim or eliminate a position?

Pzena: Eliminating a position is a straight, simple rule for us. We have that ranking system, in large cap there’s 500 stocks, and if it gets ranked 250 or below we have to sell it. Period. That discipline is so important, because otherwise the emotions rule and you say, “I think I’m going to ride this for another week because it’s got great momentum, I love the management team, this guy from Goldman Sachs is about to publish a positive report.” This is the kind of stuff that goes on in people’s head, and we just take that out of the process. So once it’s at fair value, ranked 250 out of 500, it’s a sell. And we’ll start to trim it as it gets close to that if we have something more attractive to put the money into. Because if you’ve got all your money invested and you come up with another idea, you have to sell something. So we sell whatever is getting close to that fair value point.

And the same thing is true when you blow it. We use the same ranking system, but instead of the stock price going up to get a higher P/E ratio we cut the earnings estimates and decide we just got this wrong. Tenet didn’t have $2/share of earnings power, it had $1/share of earnings power, so at $15 we thought it was cheap but now we think it’s fully priced, so we got out.

Question: Can you discuss the best investment you’ve made in your career, and whether you realized the upside potential at the time you made it?

Pzena: The best in terms of percentage terms was one where I didn’t realize the upside. But I think the best and the worst are rare. For me, making 10 times my money is rare, and losing all of my

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money is rare, but that would be the best and the worst.

The best was Quest Diagnostics. A simple business that takes your blood and sends you results of your blood tests back. They were owned by Corning, who spun them off. They went into this massive roll-up of all these labs across the country, and they just let them run the way they were being run. And Medicare shook things up. They went public right before Medicare things shook things up, so Corning got out ok, but then Medicare came in and said, "We don't need all these blood tests that you're doing. You know a doctor wants one and you do 12 and bill us for 12. Well we're only paying for 1."

It killed the business, and then the HMO's all went along and said "We're not paying for all these blood tests either."

The stock got killed, the earnings got killed, and we went and started researching it. We watched the HMO pricing stabilize, watched the Medicare pricing stabilize, and asked the company what they were going to do. "You used to make 25% margins, now you're making 3% margins, and you have this price that you're never going to be able to raise, so what are you going to do?" And they showed us unbelievable data. One of their big labs is in Teterboro, and they showed us the cost for processing a blood test in Teterboro and the cost for processing the same test in Chicago. It cost $3 in Teterboro and $27 in Chicago. They said, "We're just going to figure out what we do right in Teterboro and do it in Chicago."

That was exaggerating, but there were massive differences. The guy said "Here's our business strategy. We did this whole roll-up, and then we never employed the best practices. So I'm going to systematically go and adopt the best practices, and I think we can get the margins higher."

So we bought into that, figuring that they must know how to do it. And we really explored what gave rise to $3 here versus $20 there, and there was nothing structurally different about those two markets. Nothing.

But you used to not care when you sold the blood test for $50, but when you sell it for $20 you care, or you sell it for $18 and you're actually losing money in Chicago you care.

So they actually pulled it off. I became very friendly with the guy who was running it over the course of 2 years that we owned it. Then they started saying, "Look what we've got here. We have all this data on people's blood tests. I bet you we can sell this to the drug companies." That never occurred to me when we made the investment. Never occurred to me at all. Then they went out with the story, and the stock went up even without them selling anything to the drug companies. So that was a huge home run, totally unanticipated. It was anticipated that it would be a success, that we would double our money, but not that it would be a huge home run.

The worst investment of my life was Fruit of the Loom. Great business, temporary problems, or so we thought. The underwear business is a great business, particularly mens and boys through the discount channel, because that's where 70% of underwear is bought. There are 2 players, Hanes and Fruit of the Loom. They each have about half the market, and they both make a lot of money because they have cost structures that nobody else can compete with due to of their volume and their sourcing and manufacturing operations. They print money.

On top of that they have a commodity fleece and t-shirt business for screen printers. They had warm weather in the winter, and got stuck with a lot of excess fleece inventory. They marked it down, and shut down their factories (which were big fixed cost operations) to work off the inventory. The earnings got killed, the stock got killed, went from like $45 to $14. We bought it at $14 thinking there was about $3 of

"I offer this advice whether you’re going into investment management or not. Find something that you really like doing because, if you’re forcing yourself to go into something that you’re really not turned on by then it’s not going to work, even if you get paid a lot of money or it’s prestigious."
International Coal Group
Rookie Slump Masks Homerun Potential

Jonathon Luft
jluf08@gsb.columbia.edu

At $4.20, International Coal (ICO:N) is significantly undervalued based on the value of the company’s reserves, and superior production growth profile. The value of the equity has declined from $14 at a year ago, due to consecutive quarters of lowered guidance caused by technical problems with some of their assets, higher raw materials and extraction costs, and the tragedy at the Sago Mine in early January. As investors have sold the stock based on these near term factors an opportunity has been created for those with a longer time horizon to own these assets at a ridiculously cheap valuation. Furthermore, as the company builds up their mining capabilities, operating cash flow should ramp up accordingly and based on my 2008 EBITDA estimates, ICO trades at 3.3x EV/EBITDA. At current levels, an investment in ICO offers investors both a margin of safety and significant upside potential.

Company Profile
ICO was formed in May 2004 by WL Ross with the purpose of restructuring and consolidating key coal assets in Appalachia and the Illinois Basin. The company purchased select assets from Horizon in September 2004 through a bankruptcy auction, and then added Anker and Coalquest assets in November 2005. These assets were all union-free organizations with limited legacy liabilities. Combined, these assets have 918m proven tons of reserves, and using 2006 estimated production of 17m equals 54 years of production capability. Furthermore, of these reserves, the company’s Central Appalachian coal is a premium product (due to higher heat and lower sulfur content) and 65% of their reserve life is steam coal (used by utilities), with the remaining high priced metallurgical coal (used in the production of steel). Lastly, industry dynamics for coal producers going forward look positive, as the EIA estimates scrubber installations will nearly triple this decade increasing NAPP and CAPP coal pricing.

Valuation
In evaluating ICO, I first attempted to look at the value of the reserves to determine the margin of safety. To do so, I looked at other publicly traded Eastern Appalachian competitors to determine what the market is paying for current reserves and found the weighted average price/ton to be $1.85. Understanding that the market is skeptical of the quality of the company’s reserves (given the problems at their Sago Mine and high capital expenditure required to bring them up to speed), I think it is appropriate to discount this average by 1/3 to determine a reasonable margin of safety, which equates to $1.20/ton or $6.53/share. At the current valuation, this is about a 50% premium to the current share price.

The second valuation I looked at was to model the company’s increased production capabilities going forward and their shift towards higher priced met coal. Going forward I have priced in an average future price/ton of $47 in 2007, and $49 in 2008 with cash costs of $42, for an operating margin of $5/ton and $7/ton. In determining average future realized price/ton, I use the EIA CAPP 2007 and 2008 average monthly futures price. To determine EBITDA, I estimate 2007 production at 20m, and 2008 at 23m which represents the Beckley complex coming online (2007), and Tygart coming online (2008). Depreciation is constant at 67m/year, or ½ of CAPEX. This results in 2007 EBITDA of 167m, and 2008 EBITDA 228m or an EV/EBITDA of 4.5x and 3.3x. To compare that to its peers historically, coal companies from 2002-2005 have traded from 4.1x-7.4x forward EV/EBITDA which equates to an ICO price of between $3.80 and $7.42.
An important element in this valuation is that the company has the second longest reserve life in the industry, is transitioning towards higher priced met coal, has no significant pension and union liabilities, and has several potential mines and opportunities for production growth. The company, behind the backing of WL Ross has committed to invest approximately $850m (following the Q3 call this was scaled back down to $665m) in capex over the next four years, which is greater than the entire current market capitalization of the company. With WL Ross (owns 16% of the s/o) as chairman I believe this capex adds a free call value in the sense that given his financial acumen investors can have confidence that the present value of these projects are greater than repurchasing shares at this level (and thus creating opportunities for current investors).

Risks
As with any commodity product, the risk is in future coal pricing and concurrently the high raw material costs (such as diesel fuel, excavation equipment) that have compressed margins this past summer. Furthermore, the company has significant unpriced production (45% compared to peers between 20%) for 2007, and a concentrated customer base (with 65% of production going to the top five customers). As well, the company has had production problems including the tragedy at the Sago mine in January (determined to be due to natural causes which cost the company $15m), and the fire at the Vindex mine in Illinois. Lastly, from a financial markets perspective Wall Street has no faith in current management due to the consecutive downgrades in future guidance. As WL Ross is the chairman and current equity prices are near his purchase price, I believe he will provide appropriate stewardship to realize significant capital appreciation for shareholders.

Summary
At current prices, ICO offers investors a significant margin of safety based on the value of its reserve base, which I estimate to be worth at least $6.50/share. Looking forward, I think that the delta of production growth will be on the upside, as the company spends $650m in capex to build out its existing reserve base and transitions towards producing higher priced met coal (the company estimates 2010 production to be about 4m tons of met coal compared to 100K in 2006). As the company executes its production plan I believe it is reasonable to project 2008 EBITDA at 228m, which represents a current valuation of 3.3x EV/EBITDA.

The catalyst going forward to recognize this value is twofold: first is simple execution, as Wall Street regains confidence in the company and quality of its reserves the equity should be valued in line with peers. Secondly, with the Beckley and Tagart mines producing, tons sold per year should increase substantially from 17m to 20m and 23m, which will more than double EBITDA.

Q3 Follow-Up
Following the third quarter earnings report, ICO equity increased to approximately $5/share as the company was able to meet EBITDA estimates and boost fourth quarter guidance by 5m. Furthermore, the company announced reduced capex plans for the next four years from approximately $850 to $650m by deferring investments in some higher cost mines. My sense is that investors simply rewarded the company for meeting their target and applauded the company’s prudence in investing in higher margin projects going forward. Lastly, natural gas prices have moved upwards in the past two months (from the mid
Strattec Security Corp. (NasdaqNM: STRT) **BUY** at $42

Luciano Ferreira
LFerreira07@gsb.columbia.edu

**Summary Thesis**
Strattec Security Corp. (STRT) is a great business in an out of favor industry. Concerns over declining sales; dependence on the big 3 U.S. auto manufacturers; bankruptcy of an important customer; increasing raw materials cost; and unfavorable industry dynamics have driven down the stock price, creating an attractive buying opportunity for long-term investors. STRT is trading at less than 7x depressed LTM operating income and at 1.4x tangible book value. In very difficult times, STRT is still quite profitable (LTM EPS equals ~70% of peak earnings); generates $15-$20 mm in cash per year (12% LTM FCF yield); and produces high returns on capital (32% ROTC and 20% ROIC, LTM). The Company has a solid balance sheet with no debt and $64 mm in cash (~40% of current market cap).

There is a clear turnaround strategy, which is starting to present results. STRT has repurchased 49% of issued shares and patient investors will be rewarded once the business recovers. Should my conservative assumptions materialize, and STRT continue to use its cash wisely, the stock could trade or $58 three years from now, yielding a 12% annual return.

**Background**
STRT was spun off from Briggs & Stratton in 1995. Its traditional products are mechanical and electronic locks and keys for cars and light trucks. STRT also produces ignition lock housings (mating part for ignition locks and typically part of the steering column), and markets latches made by Witte, a German parts supplier. These latches are used in several car parts: trunk, liftgate, tailgate, hood and side doors. The Company’s main customers are DaimlerChrysler (32% of FY 2006 sales), GM (18%), Ford (15%), and Delphi (15%). Export sales (primarily to auto manufacturing plants in Canada and Mexico) represent ~20% of total revenues.

STRT has been one of the world’s largest producers of automotive locks and keys since the late 1920s, and currently has a 46% share of the North American market. In FY 2006, STRT supplied 93% of DaimlerChrysler’s production, 52% of GM’s and 66% of Ford’s. Direct competitors include Huf North America, Ushin-Ortech, Tokai-Rika, Alpha-Tech Valeo, Methode, Shin Chang, and Pollak. STRT’s main manufacturing facility and headquarters is located in Milwaukee, Wisconsin. Finishing and assembly take place at the Company’s other two plants, located in Juarez, Mexico. Detailed

**Thesis**
The key issues are:
1) Will STRT be able to replace lost revenues and sustain current businesses?
2) Can the Company adjust prices to offset increases in raw materials cost?
3) What is STRT going to do with the cash?

These are my answers:
1) JVs, new products, new contracts, and geographical diversification can offset the two causes of revenue decline: Big 3 market share losses; and de-contenting (lower number of locks per car)

VAST China *can generate* ~$18 mm in additional revenue. STRT teamed up with Witte and ADAC Plastics to create VAST (Vehicle Access Systems Technology). This partnership is the only true global one-stop shop for lock products (Ushin and Methode do not have a presence in Latin America; Tokai does not offer latches nor handles). Automakers are looking increasingly to buy parts from fewer, larger suppliers that are capable of shipping components to factories anywhere in the world. The alliance enables companies to bundle together locks and keys made by Strattec, latches made by Witte, door handles made by ADAC and a keyless entry system developed by STRT and Witte. The partnership can support global automakers from 11 locations around the world. Strattec and Witte each own a 40% stake in the alliance, while ADAC holds the remaining 20%. See pages 10 and 11 of STRT’s 2006 annual report for details on the partnership’s structure. VAST JVs in China yielded ~$12 mm of business in 2006 (year-to-date) with Volkswagen, GM and Ford. Management expects VAST China sales to exceed $30 mm by 2009.
Take over of competitor’s lockset business can bring ~$10mm in additional sales volume: In October 2006, STRT announced that it is actively engaged in discussions to takeover $10 mm worth of competitors’ lockset business, starting January 2007. The contracts involve supplying locksets for 11 branded models (5 vehicle platforms), mostly passenger cars. Pricing for these contracts already includes readjustments for increased raw materials cost. Several automotive suppliers are in financial distress and some have been forced into filing for bankruptcy protection. Since STRT is one of the few companies in the industry that still have a solid balance sheet and strong cash generation, the Company is in a good position to quote takeover business from both distressed and bankrupt suppliers.

Strattec recently became the exclusive supplier of re-codeable locks to Master Lock: Also in October 2006, STRT and Master Lock Company announced the introduction of re-codeable lock technology developed by STRT in some of Master Lock products. Re-codeable technology allows the consumer to have one single key for a variety of lockable items. This type of lock codes the first key inserted and turned in the lock. STRT has patented this technology and is the exclusive manufacturer of re-codeable lock cylinders for Master Lock applications. This product also gives STRT an opportunity to diversify beyond its core automotive OEM market. (See http://graphics.jsonline.com/graphics/bym/img/nov06/onekey24g.jpg for more details.) Master Lock is a subsidiary of Fortune Brands (NYSE:FO), has annual sales of $250 mm and is the #1 padlock worldwide.

STRT has production facilities in low cost countries and is one of the most innovative companies in the industry: STRT has 2 plants in Mexico and, through VAST Alliance, the Company also controls 2 production facilities in China and 1 in Brazil. Therefore, there is no risk of losing business or suffering price pressure because of imports from China or India. STRT is also moving its Milwaukee service assembly operations to Mexico, where labor costs are ~50% lower than in the US. This move is expected to generate cost savings starting in January, 2007. STRT and Witte have developed a keyless (non-cylinder) door opening system. Non-cylinder locks are being used in many of the new vehicles. STRT also expects to generate future businesses from residual magnets, a device that prevents undesirable motion in ferrous objects (applications encompass various industries, from automotive to medical equipment).

Even the most pessimistic investors would probably agree that the Big 3 will not cut production forever: They are starting to fix their cost structures, but need to address the product side. GM, Ford and Daimler-Chrysler still have strong brands. A restructuring will occur, but there will always be a need for some type of automotive lock system. Over the last 36 years, the U.S. light truck industry has only experienced 8 years of declining sales, with no consecutive declining 4-year period ever. STRT is also striving to win businesses from the Japanese OEMS. A sales and engineering branch office in Tokyo, established with VAST Alliance partners, will become operational in January, 2007.

2) Alternative raw materials, and contract renewals will facilitate cost reduction and price readjustments, respectively

There are lower cost alternatives to current zinc and brass components: A significant part of STRT’s products could be manufactured in magnesium, aluminum, plastic, steel, etc. Since zinc and brass have more than doubled in cost during the past year, both OEMs and suppliers are working together to find viable alternatives.
Strattec Security Corp. (Continued from page 15)

Customers are starting to accept potential raw material adjustments going forward: Many of the new contracts being awarded already include pricing adjustments for changes in raw materials cost, but it will take most of FY 2007 to make an impact on STRT’s results.

3) STRT will use its cash balance to buy-back shares at attractive prices and opportunistically seek an acquisition
   a. STRT has repurchased 3.3 mm shares (49% of issued shares) at an average cost of $37
   b. The Company has never paid dividends and there is no clear indication of any change in this policy
   c. Based on a conversation with the CFO, STRT will pursue a conservative acquisition policy: will only consider a business that is smaller than STRT, at a cheap price; target has to make similar products, to maximize use of existing distribution channels and benefit from STRT’s engineering experience; use low leverage (if any).

Valuation
Management’s expectations should always be taken with a grain of salt. Therefore, let’s assume that only 50% of management’s forecasted new businesses materialize. Moreover, let’s consider that Master Lock’s $250 mm revenue base stays unchanged until 2009. The details of STRT’s supply contract with Master Lock aren’t public. Based on Master Lock’s price list, the average price for a re-codeable padlock is $30. According to my independent research, the average price for a lock cylinder is $10. Let’s suppose that STRT’s receives 1/5 of every $1 the worth of recordable products sold by Master Lock, although my research supports a higher percentage. The re-codeable locks seem to have good market potential. However, let’s conservatively assume that, 3 years from now, only 10% of Master Lock’s revenue will come from this type of product. STRT’s LTM revenue was $175 mm. Let’s assume no growth in this revenue base for 3 years. The sum of these 3 revenue streams results in $190 mm of sales by 2009. Despite STRT’s efforts, it is unlikely that margins will recover to historical levels. However, on-going initiatives (alternative raw materials, price readjustment, increased production in low cost countries) should generate some improvement in margins. Let’s assume a 9% normalized EBIT margin and consider maintenance capex equal to depreciation. On a revenue base of $190 mm, this yields an EBIT of $17 mm. Assuming a 37.5% tax rate, which does not give full credit to STRT’s foreign sales tax benefit, NOPAT is $11 mm. STRT currently generates about $20 mm per year of FCF and has $64 mm in net cash. Let’s consider that over the next 3 years, STRT will accumulate an additional $45 mm in cash. Applying a reasonable multiple of 10x and adding the estimated cash balance results in a $58 stock, representing ~40% upside to the current share price of $41.

Investment Catalysts
Reasonable results from new businesses; take over of competitors’ business; cost reduction and price readjustments; share repurchases; improved industry conditions.

Risks
Management does not have much “skin in the game” (~5% collective ownership); loss or financial distress of important clients (Mitsubishi, ~2% of sales, will no longer be a client as of 2007); expanding presence of non-client OEMs; fluctuations in the price of earnings power there. What could be more temporary than the weather?

Then they proceeded to muck up the manufacturing during the period that the factories were down. A company with a 100-year reputation as a brand and as one of the best manufacturers in the industry, decides to re-jigger their logistics to try and lower their manufacturing costs. They started moving equipment around during the down period while they were working off this excess inventory, which was between sweatshirt and t-shirt seasons. When they went to start-up for t-shirt season it was all screwed up, and they were about 8 weeks delayed. But they had all these delivery commitments to the Wal-Marts of the world for t-shirts, so they decided to go out on the spot market to try and acquire spot cotton fabric. But they caused the market price to go through the roof because they were the biggest cotton spinner in America. They had quality problems and logistics problems, and they wound up over-running their manufacturing budget by something like $200 million. The banks pulled the plug.

We got out before it went bankrupt, but not before we lost most of our money. Then Warren Buffett bought it. He got a much better deal than we did, but I think he saw the same quality business in the mens and boys underwear business that we saw.

Richard Pzena (continued from page 11)
Richard Pzena (continued from page 16)

Question: What advice would you offer an MBA student going into investment management?

Pzena: I offer this advice whether you’re going into investment management or not. Find something that you really like doing because, if you’re forcing yourself to go into something that you’re really not turned on by then it’s not going to work, even if you get paid a lot of money or it’s prestigious.

You’ve got to really be turned on in investment management by figuring this stuff out. And I think you should not go into this business thinking that you want to be a portfolio manager or running a hedge fund, even if that might happen. I think you should go into this business saying, “I like figuring things out. I want to be an analyst.” Because if you decide your whole life you’re going to be an analyst, no matter what job you actually have that’s what this business is all about: figuring things out. Sitting around while other people figure things out and you just decide, without engaging yourself in that process, I think you fail. So you better like that part of it.

Thank You. -G&Dsville

The Value Investing Program at Columbia gives second year MBA students the opportunity to interact with the world’s top investors such as Mario Gabelli (’67) (right)

10th Annual
Columbia Investment Management Conference

Confirmed Speakers include: Bill Miller, Lee Cooperman, David Winters, Professor Bruce Greenwald, and more...

Details and updates will be posted on our website

When: Friday, February 2, 2007

Where: Columbia University
       Alfred Lerner Hall
       New York, NY

For additional information contact: Ahmar Ahmad (AAhmad07@gsb.columbia.edu) or Andrew Ewert (AEwert07@gsb.columbia.edu)

For the most recent agenda and updated information please visit our website at: www0.gsb.columbia.edu/students/organizations/cima/ (click on 2007 Columbia Investment Management Conference)
Cantillon Capital Management was founded in September of 2003. Prior to Cantillon, Mr. Von Mueffling was with Lazard Asset Management where he was best known for the European Opportunities Fund he began in 1998. Starting with roughly $600 million, Cantillon has grown to over $9 billion in its 3 years in operation. William Von Mueffling graduated from Columbia Business School in 1995 and is an adjunct professor teaching a very popular Seminar in Applied Value Investing class.

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Data obtained from SEC Form 13F filed for period ending 6/30/06
Pricing Information as of 11/21/06
13F filings include only U.S. holdings
## Top Buys

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## Top Sells

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<th>Hi</th>
<th>Lo</th>
</tr>
</thead>
<tbody>
<tr>
<td>APPLICA INC</td>
<td>655,200</td>
<td>$3,734,640</td>
<td>$5.70</td>
<td>$5.95</td>
<td>$1.24</td>
</tr>
<tr>
<td>STANDARD MICROSYSTEMS CORP</td>
<td>236,269</td>
<td>$7,730,722</td>
<td>$32.72</td>
<td>$34.97</td>
<td>$20.36</td>
</tr>
<tr>
<td>MEDICAL PPTYS TRUST INC</td>
<td>1,418,200</td>
<td>$19,911,528</td>
<td>$14.04</td>
<td>$15.25</td>
<td>$8.75</td>
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</table>

## Top Holdings Change

<table>
<thead>
<tr>
<th>Company</th>
<th>Shares</th>
<th>Value</th>
<th>Last</th>
<th>Change (shares)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FREESCALE SEMI CLB</td>
<td>11,130,350</td>
<td>$443,210,534</td>
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<td>-3,383,191</td>
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<tr>
<td>FREESCALE SEM CL A</td>
<td>9,830,409</td>
<td>$391,545,208</td>
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<tr>
<td>AMERIPRISE FINL INC</td>
<td>6,400,000</td>
<td>$346,687,988</td>
<td>$54.17</td>
<td>-750,000</td>
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<tr>
<td>MICROSOFT CORP</td>
<td>8,900,000</td>
<td>$266,020,995</td>
<td>$29.89</td>
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</tr>
<tr>
<td>M D C HLDGS INC</td>
<td>4,221,550</td>
<td>$228,343,640</td>
<td>$54.09</td>
<td>-208,450</td>
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<tr>
<td>MI DEVS INC</td>
<td>4,730,000</td>
<td>$200,788,500</td>
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<tr>
<td>HOSPIRA INC</td>
<td>5,971,200</td>
<td>$192,451,773</td>
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<td>WASHINGTON GROUP INTL INC</td>
<td>2,762,000</td>
<td>$161,245,563</td>
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<tr>
<td>NEW CENTURY FINANCIAL</td>
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<tr>
<td>CF INDS HLDGS INC</td>
<td>5,137,400</td>
<td>$116,207,992</td>
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<tr>
<td>D R HORTON INC</td>
<td>3,000,000</td>
<td>$73,980,000</td>
<td>$24.66</td>
<td>1,000,000</td>
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<tr>
<td>AMERICAN HOME MTG INVT COR</td>
<td>1,920,000</td>
<td>$67,680,000</td>
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<tr>
<td>FLAMEL TECHNOLOGIES SA</td>
<td>1,547,045</td>
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<tr>
<td>GENWORTH FINL INC</td>
<td>2,576,900</td>
<td>$25,872,076</td>
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<tr>
<td>MERCER INTL INC</td>
<td>1,894,830</td>
<td>$20,521,009</td>
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<td>FIELDSTONE INVT COR</td>
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<tr>
<td>INTERNATIONAL COAL GRP INC</td>
<td>2,668,361</td>
<td>$12,674,715</td>
<td>$4.75</td>
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</tr>
</tbody>
</table>

Data obtained from SEC Form 13F filed for period ending 9/30/06
Pricing Information as of 11/21/06

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### Greenlight Capital

Greenlight Capital is a “value oriented, research driven” asset management firm founded in 1996 by David Einhorn. The company focuses on US corporate debt and equities, both long and short. Prior to founding Greenlight Capital, Mr. Einhorn worked as an investment analyst at Siegler, Collery & Co. and as an analyst in the Investment Banking Group of Donaldson, Lufkin & Jenrette. Mr. Einhorn received his Bachelor of Arts in Government from Cornell University.

David Einhorn

Greenlight Capital, Inc.

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### Top Buys

<table>
<thead>
<tr>
<th>Company</th>
<th>Shares</th>
<th>Value</th>
<th>Last</th>
<th>Hi</th>
<th>Lo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baidu Com Inc ADR</td>
<td>1,224,839</td>
<td>$134,989,505</td>
<td>$110.21</td>
<td>$111.85</td>
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<tr>
<td>Bed Bath &amp; Beyond Inc</td>
<td>3,586,238</td>
<td>$142,875,722</td>
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<td>$44.10</td>
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<tr>
<td>Grupo Televisa SA de CV ADR</td>
<td>2,227,600</td>
<td>$54,999,445</td>
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<td>$25.43</td>
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<tr>
<td>ITT Educational Services Inc</td>
<td>94,100</td>
<td>$6,592,646</td>
<td>$70.06</td>
<td>$70.98</td>
<td>$55.70</td>
</tr>
<tr>
<td>Las Vegas Sands Corp</td>
<td>619,700</td>
<td>$55,711,031</td>
<td>$89.90</td>
<td>$92.90</td>
<td>$38.07</td>
</tr>
<tr>
<td>Marriott Intl Inc New</td>
<td>3,153,688</td>
<td>$144,060,469</td>
<td>$45.68</td>
<td>$45.74</td>
<td>$31.62</td>
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<tr>
<td>Schlumberger Ltd</td>
<td>5,773,099</td>
<td>$365,148,512</td>
<td>$74.75</td>
<td>$74.75</td>
<td>$46.77</td>
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<tr>
<td>Southwest Energy Co</td>
<td>8,218,512</td>
<td>$82,970,549</td>
<td>$45.68</td>
<td>$45.68</td>
<td>$23.66</td>
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<tr>
<td>Starbucks Corp</td>
<td>2,257,702</td>
<td>$86,860,538</td>
<td>$88.76</td>
<td>$93.85</td>
<td>$65.76</td>
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</table>

### Top Sells

<table>
<thead>
<tr>
<th>Company</th>
<th>Value</th>
<th>Last</th>
<th>Hi</th>
<th>Lo</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIA Vale Do Rio Doce-ADR</td>
<td>$290,554,330</td>
<td>$26.04</td>
<td>$29.10</td>
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<tr>
<td>Cognizant Tech Solutions CR</td>
<td>$49,637,269</td>
<td>$80.08</td>
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<tr>
<td>Copart Inc</td>
<td>$37,252,992</td>
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<td>First Data Corp</td>
<td>$61,425,569</td>
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<td>$48.88</td>
<td>$21.93</td>
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<tr>
<td>Ford</td>
<td>$8,236,331</td>
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<tr>
<td>Hong Kong Land Holdings Ltd</td>
<td>$5,157,460</td>
<td>$3.94</td>
<td>$3.98</td>
<td>$3.92</td>
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<tr>
<td>Research In Motion</td>
<td>$321,862,459</td>
<td>$137.41</td>
<td>$138.90</td>
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<tr>
<td>Vertex Pharma</td>
<td>$22,370,495</td>
<td>$45.12</td>
<td>$45.34</td>
<td>$24.55</td>
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</table>

### Top Holdings

<table>
<thead>
<tr>
<th>Company</th>
<th>Value</th>
<th>Last</th>
<th>Change (shares)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brookfield Asset Mgmt Inc</td>
<td>$630,648,696</td>
<td>$54.23</td>
<td>796,153</td>
</tr>
<tr>
<td>Google Inc</td>
<td>$553,539,649</td>
<td>$495.05</td>
<td>-340,101</td>
</tr>
<tr>
<td>Comcast Corp New</td>
<td>$479,879,309</td>
<td>$40.79</td>
<td>4,714,176</td>
</tr>
<tr>
<td>Qualcomm Inc</td>
<td>$427,290,142</td>
<td>$37.15</td>
<td>1,701,766</td>
</tr>
<tr>
<td>America Movil S A de C V</td>
<td>$419,739,401</td>
<td>$45.08</td>
<td>-4,379,800</td>
</tr>
<tr>
<td>Schlumberger Ltd</td>
<td>$365,148,512</td>
<td>$63.25</td>
<td>5,773,099</td>
</tr>
<tr>
<td>SLM Corp</td>
<td>$299,643,305</td>
<td>$47.20</td>
<td>-935,800</td>
</tr>
<tr>
<td>Apple Computer Inc</td>
<td>$321,952,545</td>
<td>$86.47</td>
<td>1,801,979</td>
</tr>
<tr>
<td>Advance Auto Parts Inc</td>
<td>$298,841,531</td>
<td>$37.95</td>
<td>-2,166,669</td>
</tr>
</tbody>
</table>

Data obtained from SEC Form 13F filed for period ending 9/30/06
Pricing Information as of 11/21/06
13F filings include only U.S. holdings
What’s Happening at CBS

Upcoming Events

1/23/2007 Stock Pitch 301

2/2/070.-2.0. 10th Annual CIMA Conference – watch for a list of speakers on the CIMA website

Additional Upcoming Events (see website for updated dates and times)

January
Distressed Investing Panel
Hedge Fund Panel
Party to welcome incoming J-Term students

February
Mutual Fund Panel
Private Wealth Management Panel

March
VP Elections

Semester In Review

9/12/06: CIMA Kick Off for 2006 – 2007
First year students were introduced to the many opportunities of being a CIMA member

9/14/06: Panel Discussion: “An Overview of Various Hedge Fund Strategies.”
Jonathon Fox (’03) of Lehman Brothers, David Lichtman (’01) of SAC Capital and David Schwartz (’05) of Argonaut Capital Management, and Jason Jones who is starting his own firm shared their thoughts on current hedge fund strategies and answered questions from CIMA members.

10/10/06: Stock Pitch 101
Second year students Ahmar Ahmad (’07) and Matthew Robinson (’07) helped eager first years to get an early start on preparing their stock pitches.

10/12/06: Mutual Fund Panel
Sott Winters (’05) an analyst with Oppenheimer Capital, Kathryn Mak (’05) an analyst with UBS Global Asset Management and Milu Komer a vice president with Lehman Brothers Investment Management shared their thoughts and answered questions about the industry as well as how to be successful in the recruiting process.

10/27/06 16th Annual Graham and Dodd Breakfast
Featuring Thomas A. Russo, Partner, Gardner, Russo & Gardner

10/27/06 Golf Outing
CIMA teamed up with the CBS Golf Club to enjoy a round at Great George Country Club

11/2/06 Fidelity Investments Stock Game
Sammy Simnegar (’98), Ben Hesse (’05) and Vincent Montemaggiore (’05) flew in from Boston to guide and challenge CIMA members in preparing a stock pitch.

11/3/06 Mutual Fund Trek
Twelve members of CIMA traveled to Boston together. Organized by Matt Loesch (’08), the group spent the morning with investment professionals from Wellington Management (including Jeffrey Kripke (’95)), and met with investment professionals from Fidelity Investments (including Peter Saperstone (’95), and Sammy Simnegar (’98)) in the afternoon.

11/7/06 Stock Pitch 201
Gregory Monahan (’05), Vice President of Crescendo Partners gave first year students more advice on preparing stock pitches.

11/9/06 Distressed Investing Panel
Marc Sole, Head of Distressed Research at D. E. Shaw, Robert Stark, Partner in the bankruptcy practice at Brown Rudnick Berlack Israels LLP, Dan Krueger (’02), Adjunct Professor Seminar Distressed Value Investing and Head of Distressed debt at Owl Creek Asset Management, Steven R. Strom, Managing Director of Recapitalization and Restructuring Group, Jefferies & Company shared their views on the distressed markets.

Please visit http://www0.gsb.columbia.edu/students/organizations/cima/ for details and updates
Get Involved:

To hire a Columbia MBA for an internship or full-time position, contact Bruce Lloyd, assistant director, outreach services, in the Office of MBA Career Services at (212) 854-8687 or valueinvesting@columbia.edu. Available positions also may be posted directly on the Columbia Web site at www.gsb.columbia.edu/jobpost.

Alumni

Alumni should sign up via the Alumni Web site. Click here to log in, (www6.gsb.columbia.edu/alumni/emailList/showCategories.do), then go to the Centers and Institutes category on the E-mail Lists page.

To be added to our newsletter mailing list, receive updates and news about events, or volunteer for one of the many opportunities to help and advise current students, please fill out the form below and send it in an e-mail to: newsletter@grahamanddodd.com

Name: ____________________________
Company: _________________________
Address: __________________________
City: ___________ State: _______ Zip: _______
E-mail Address: _______________________
Business Phone: _______________________

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Would you like to receive e-mail updates from the Heilbrunn Center? __ Yes __ No

Please also share with us any suggestions for future issues of Graham and Doddsville: