STUDENT–MANAGED PORTFOLIO AT ILLINOIS WESLEYAN UNIVERSITY

College is a place to master the theories of a field and to apply those theories to real-world questions and issues. So the chemistry major has her organic lab; the piano student, his studio; the student teachers, their classrooms. And at Illinois Wesleyan University, students studying business have the student-managed portfolio where, by investing real money, they test out investment theories and test themselves in the exciting, fast-paced world of professional portfolio management.

Many colleges give students practice in portfolio management through computer-generated assignments where students “pretend” to invest. But not at Illinois Wesleyan. Here, by enrolling in the Portfolio Management class offered each semester, you have the chance to manage part of the university’s endowment fund.

You’ll see the profits from your good decisions translate directly into student scholarships — and, when some investments don’t do as well as you’d hoped (a sad but inevitable occurrence!), you’ll worry about how to compensate with other investment decisions you must make.

The student investment fund began at Illinois Wesleyan when C. Leroy Benner of Savannah, Georgia, heard a radio program about such a fund at another college. At his next weekly lunch with his friend Jack Liston ’49, Benner discussed the idea, and soon they were talking about such a fund at Illinois Wesleyan. Liston raised the idea with the university, did research on funds elsewhere, and designed the plan for its operation.

In September 1992, Benner made a generous gift of $100,000 to start the program. Elmo Franklin, a long time member of the Board of Trustees, heard about these plans in the early phase. He, too, thought college students needed more experience with investments and added $50,000 to the fund in November 1992 and another $50,000 a year later. Benner, in turn, was so pleased by the early results that he gave an additional $50,000 in 1996. From these visionary friends and this basic $250,000, the current fund has grown.

The results have been dazzling, and few small colleges have such a program. The experience managing an investment portfolio which may set you apart from others as you plan for your future in graduate school, business, or family management.

HOW DOES IT WORK?

At the beginning of the semester, you’ll meet with a Client Board composed of members of the Board of Trustees and Illinois Wesleyan administrators. Since student-managers must understand and follow the investment policies for the university as a whole, the Client Board will discuss with you the importance of understanding the investments you choose.

Then, you’ll take over where the previous group of student-managers left off. Working under the guidance and supervision of an IWU faculty member, you’ll monitor each investment in the current portfolio (typically consisting of between 15 and 25 stocks) and research investments that you think might be even better. You’ll collect economic forecasts and create spreadsheets, graphs, and electronic presentations. You’ll use the course website to get up-to-the-minute information on the financial markets, including price changes for the existing portfolio and any additions you’re considering. You’ll interview professional portfolio managers who have agreed to serve as mentors to the class. Finally, toward the end of the term, you’ll debate and argue (sometimes heatedly) with your classmates about what to buy, what to sell, and what to hold.

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After your group of student managers has reached consensus, you present your recommendations formally to the Client Board. They question you rigorously to be sure you’ve done your homework. If they agree to your recommendations (and they will if you’ve done your research and analysis well), the portfolio will then be changed to reflect your decisions. A new class will then take up the challenge the next semester.

You will find yourself avidly following the portfolio long afterwards. The course website makes it easy to keep track of what current classes are doing, and you can even be in regular e-mail contact with current and former student-managers if you like. Being a student-manager is a tie that will bind you to the university in a special way for the rest of your life.

THE RISKS ARE REAL, BUT SO ARE THE REWARDS

As part of the University endowment, the Student-Managed Portfolio provides cash support for student scholarships each year, currently at about 5%. Since there is no guarantee of new money coming into the portfolio each semester and there is a bank custodian fee to be paid, the student managers, while making buying and selling decisions, also have to come up with the money to meet the financial obligations of the portfolio. The risks you face and the decisions you make as a student-manager are the same ones as stock analysts and fund managers face in the “real world”.

But so are the potential rewards of wise investing. Since the first semester of the class in Spring 1993, the results of the student-managers’ collective decision have been spectacular. Start-up money donated from 1992-1996 totaled $250,000, but by May 2004, the portfolio value had climbed to about $480,000 - after paying all expenses, providing well over $100,000 for scholarships, and surviving the market’s drop — as a result of students’ excellent research and security analysis skills. It has been very common for the student-managers to outperform every one of the professional managers who handle the rest of the University’s endowment. According to data provided by the Association of Student Managed Investment Program (ASMIP), Illinois Wesleyan University’s fund is one of the largest in terms of market valuation exclusively managed by undergraduate students.

Although the program isn’t very old, its impact on graduates’ success is already evident. IWU alumni who served as student portfolio managers have enrolled in some of the nation’s best graduate business schools (for example, Columbia University, University of North Carolina, Vanderbilt University, and Thunderbird School of International Management) or are employed as analysts or managers for major firms (for example, State Farm Insurance Companies, Lexmark International, and KPMG Peat Marwick). The Student-Managed Portfolio often figures prominently in these graduates’ comments about their IWU experience, as this statement from Lon Erickson, Class of 1997, shows:

“Studying the market, researching and analyzing companies and managing other people’s money are all part of an investment professional’s workday. Portfolio Management students get the unique opportunity to perform this real world work in an academic setting.”

Lon Erickson ’97
Investment Analyst, State Farm Insurance Companies