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To: Department of Financial Services, Essay Contest
C/O Ms. Tami Torres, Communications Office

If I had \$100,000 to invest, I would place 25% or \$25,000 into fixed income (bonds) and the remaining 75% or \$75,000 into equities. Presently, I am a freshman at Florida High and plan to attend college in four years. Besides paying for college, I would also like to purchase a used car in the medium term. My stock portfolio would be invested for the long term and could help me someday buy a house and have a comfortable retirement.

First, I would plan on having diversified portfolio, balanced between defensive and higher risk investments. Investing in bonds would give my portfolio some security in difficult times. With my limited knowledge of bonds, I would invest in several bond mutual funds for diversification, leaving it to professionals. Since I am more familiar with stocks, I would actively manage this portfolio by investing \$40,000 into eight stocks that I have researched, and the remaining \$35,000 into S&P 500 iShares. These iShares are individual stocks that give the investor exposure to the 500 different companies in the S&P 500. iShares for the S&P 500 are cheaper from a management fee perspective, and just as safe as an S&P 500 index fund, which I would normally consider.

For my bonds (25% allocation), I would place \$10,000 into the **Schwab YieldPlus Select Money Market Fund** (Ticker: SWYSX), \$10,000 into the **Calvert Income A Fund** (Ticker: CFICX), and \$5,000 into the **Templeton Global Bond C Fund** (Ticker: TEGBX). These three funds have been selected because of their high Morningstar ratings (ranked four or five out of five stars), low management fees, and above average annual returns over an extended period of time. The Schwab money market fund is ultra safe, while both the Calvert Income fund and the Templeton Global Bond Fund are conservative. The two greatest risks to bonds are from: (1) rising interest rates; and from (2) defaults.

My equity portfolio (75% allocation) would include eight stocks that I have personally researched. In the interest of conservatism, I would purchase \$35,000 in **S&P 500 iShares** (Ticker: IVV) to get broad market exposure in an exchange traded fund (ETF), which is basically like an index fund. This ETF is designed to reproduce the return from the overall S&P 500 index, with a low expense ratio of 0.09%.

The remaining \$40,000 equity allocation would be divided among the eight stocks that I have researched in detail. I would invest approximately \$5,000 in each of the individual stock picks that I have outlined below. Before describing the specific stocks that I would purchase, I outline the steps for successful stock picking. An investor will not go wrong when using Warren Buffet's winning strategy. Warren Buffet has been one of the best investors ever, and he routinely shares his thinking with others. He looks for companies with good growth prospects, strong management, pricing power, good cash flow, and low

debt. When you are buying an individual stock for a long-term play, don't pay a lot of attention to the economy at the time, that is according to Warren Buffet. The economy will go through many cycles over the years. In ten years, the economy will be totally different. And long-term investing is normally more profitable than short-term trading. Exercise patience when buying stocks, and wait until the right entry point is at hand. Always maintain an appropriate balance between defensive and speculative stocks. No more than 15% of a portfolio should be in speculative companies, the remaining cash should be invested in lower risk companies, which are typically S&P components.

Intel is my first stock. It makes over \$8 billion in net income. Therefore, this is a buy and hold company. Intel has a 21% net profit margin. Believe it or not, the semiconductor giant has a P/E of 19, compared to a P/E of 27 for its peer group, and a P/E of 19 for the S&P 500. That is a huge discount, because Intel's earnings are expected to grow 15% annually over the next five years. So you really can't go wrong with this one. In today's world everyone is searching for a cheap stock with long-term growth prospects on a global basis, so Intel is a hidden gem right under our noses.

My next stock is **Irobot** (IRBT), a small firm in a rapidly growing industry, robotics. IRBT manufactures commercial robots and Small Unmanned Ground Vehicles (SUGV). These robots are often used for military IED (improvised explosive device) disposal missions, in which a road side bomb must be taken down to prevent our soldiers from getting maimed or killed. Irobot will benefit from future Pentagon expenditures relating to the war on terror and robotics directly. The company has over 200 robots in Iraq and

the Middle East. The robots have already saved hundreds of American lives from IEDs and suicide bombers. IRBT also has a presence in the consumer sector with its automated vacuum cleaners. The company has already proved to be a leader in home robotics, by selling 1.5 million Roombas to the general public. Here in Tallahassee, Roombas have sold very well this Christmas season at Bed Bath & Beyond and Home Depot. IRBT only has a 0.2% net profit margin, but as new innovations roll in I expect their margins to take off. That would accelerate net income, making it a takeover target. The future is coming, and Irobot will be there leading the way years from now.

My next equity is **Valero (VLO)**. VLO is North America's largest oil refiner. Because of environmental issues the U.S. has not built a new refinery in decades. This shortage of refining capacity results in higher profit margins and stronger cash flow for VLO. With this healthy cash flow, the dividend will likely grow, along with the stock price. World oil demand continues to rise as China and India expand their economies. Valero has and will continue to benefit from high oil prices. According to the UN, global demand for fuel will continue to grow at a steep level worldwide. In fact, you are likely to make money in any oil stock over the long-term.

Wal-Mart (WMT) is my next pick. Wal-Mart is America's largest retailer, making over \$300 billion in sales. Wal-Mart expects earnings to grow at a brisk 15% over the next five years. How many companies can say that? Wal-Mart is a defensive stock; it won't go out of business any time soon. Buying WMT gives my wealth security for the long haul. WMT is perhaps the safest stock you can own anywhere.

Southern Company (SO) is the South's largest utility, and another equity I would purchase. SO's customer base is growing rapidly with immigration and new business development. Additionally, the public service commissions (regulators) are more business friendly in the South than elsewhere, and that means SO can more easily pass on price increases from fuel costs, etc. to consumers. Besides, we all know everyone needs electricity. That means more cash flow, a steady dividend yield, and a stable stock price. Southern Company also has some nuclear power generation plants that are very efficient. In contrast, Southern Company's rivals are more reliant on using expensive oil and natural gas.

Under Armour (Ticker: UARM) would be another stock in my portfolio. The company just had an IPO and is a niche manufacturer of high-end sports apparel and outdoor clothing. This company grew earnings at 180% last year. This happened because they are expanding, and going into women's apparel now. Even my mom loves their clothes. I own and frequently wear Under Armour anti-sweat shirts for high school football. Moreover, this company has a great CEO, Kevin Plank, who has guided the firm from the beginning in 1995.

I would also buy **UPS (Ticker: UPS)**. UPS is benefiting from secular growth. People are buying more things online than they were in years past. Everything bought on the Internet must be shipped somehow. That's where UPS comes in. In fact, online sales rose 25% this holiday season compared to last year. UPS will benefit with lower gas prices at

the pump. Next, UPS has very little debt compared to its rivals. UPS will grow earning at 14% annually for the next five years, according to estimates.

Finally, **Wells Fargo** (WFC) would be another stock for my portfolio. It's a consumer bank with a large presence in mortgage lending business. The bank has a strong management team and has avoided many mistakes that have plagued its rivals. WFC did not lose money in Enron or other scandals that are common on Wall Street. It's a best-of-breed bank that claims the great Warren Buffet as a shareholder.

In summary, my portfolio would allow me to achieve my intermediate term goal of attending college, and my longer-term goal of buying a house and saving for retirement. The bond allocation (\$25,000) would help me attend college, and the equity allocation (\$75,000) would provide for the longer term. Young investors are best advised to invest the bulk of a portfolio in stocks (or stock mutual funds), which have historically outperformed bonds over the long term. With investing, higher risk comes higher return. But bonds provide a rainy day nest egg that will survive even if the U.S. faces a recession or is again attacked by terrorists.