Student Managed Investment Fund

Automatic Data Processing

In S&P 500

TECHNOLOGY GROUP

NYSE Symbol **ADP**

STOCK REPORT

Phillipe Paulino, Sona Dave, Manuel Labindao

Nov-26-2002

Primary Industry: Business Software & Services **Secondary Industry:** Data Processing Services

Summary: We believe that ADP is the leader globally providing computerized data processing and employer services such as payroll, benefits administration and tax filling among its four more lucrative sectors. We contend that ADP will bring value and will weigh the technology section of our diversified portfolio.

Snapshot Report

SMIF Opinion: BUY♣♣♣♣

12 Month P/E ▪ 24.7
Estimate EPS ▪ 1.85

52 Week High ▪ 60.37
52 Week Low ▪ 31.15

Dividend Yield
▪ 1.1%
60 Month Beta
▪ 1.01
Buy Order
▪ 500 shares
Price to Purchase
▪ $40.00
Outstanding Shares
▪ 598.9 (million)
Market Cap
▪ $25,296.3 (billion)
50-Day Avg Price
▪ 40.01

RECOMMENDATION, NOV 26 2002

Our recommendation for the purpose of our portfolio is to purchase ADP stock. As this paper will outline, in spite of the impact of stiff economic conditions, ADP is 'BUY'. In light of the weak economy, the firm will see its 41 consecutive years of double-digit earnings-per-share growth end in 2003, however, it still forecasts mid single-digit revenue and EPS growth for the year. Based on ADP's earning history, we believe these lowered results are achievable.

Furthermore, for the benefit of our portfolio, a solid stock that does not fall into the sub-industry of any existing investment will allow diversification.

The remainder of 2002 and future of 2003 will be a challenge for the IT services industry, at least relative to past growth rates. The overhang of a weak global economy has increased competitive pressures that have led to further scrutiny of IT spending initiatives. As a result, this has resulted in prolonged sales cycles and less visibility related to revenue and earnings per share expectations. Orders are still coming in, but the bidding process is sometimes taking longer. In addition, some projects are being held in backlog, as clients have delayed implementation. According to the S&P, these factors are expected to keep growth rates in the mid-single digit range in 2002, which equals industry revenues of $430–$440 billion. For 2003, the economic picture should improve benefiting the industry, resulting in growth rates reaching low double digits and sales of approximately $480 billion.

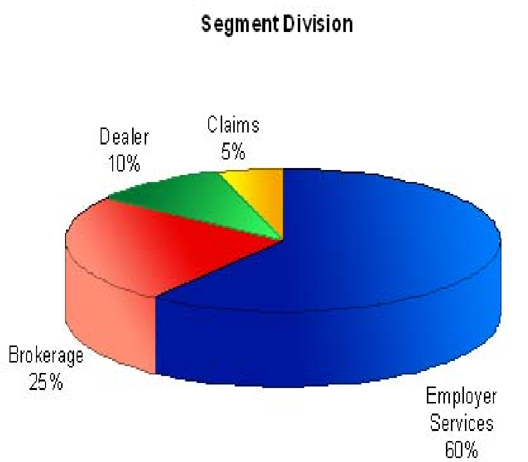
TECHNOLOGY GROUP

STOCK REPORT **Automated Data Processing** NYSE Symbol **ADP**

BUSINESS SUMMARY, NOV 26 2002

ADP is the largest computing services companies in the US (and one of the largest worldwide), providing a wide range of data processing services. It is broken down into four business segments: employer, brokerage, dealer and claims.

The employer services unit, accounting for 60% of revenues, is the leading world provider of payroll, processing paychecks of over 30 million employees. It is also the leading provider of human resources services; including benefits administration, time and attendance, tax filing and reporting services. Its client base consists of 455,000 customers in the US, Canada, Europe and Latin America. ADP is the second largest Professional Employer Organization (PEO), providing a bundled outsourcing solution including the services mentioned. The market drivers for this segment are interest rates, the unemployment rate, internal growth and mergers and acquisitions.



The brokerage services unit, accounting for 25% of revenues, is the leading provider of securities transaction processing applications, broker desktop productivity applications and investor communications services to the financial services industry worldwide. On average they process 1.3 million trades per day, and 780 million shareholder mailings. Over the past 30 years, there has been a 15% growth in trades, and a 30% growth in the past 5 years. Their key clients are Paine Webber, Quick & Reilly, Charles Schwab, Legg Mason and Lehman Brothers.
The dealer services division is the leading provider of transaction systems, data products, and professional services to over 16,000 auto and truck dealer clients and more than 30 vehicle manufacturers. These customers use their communication networks and on-site systems to manage sales and operations. Major trends within this division have been industry consolidation, Internet auto purchases, still competition and slow growth.
The claims services segment is a leading international provider of claims information to the property and casualty insurance industry serving more than 20,000 clients. It offers a broad line of products to aid insurance adjusters, collision repair shops and auto part recycling facilities in accurately estimating auto damage, bodily injury and property claims

INDUSTRY OVERVIEW, NOV 26 2002

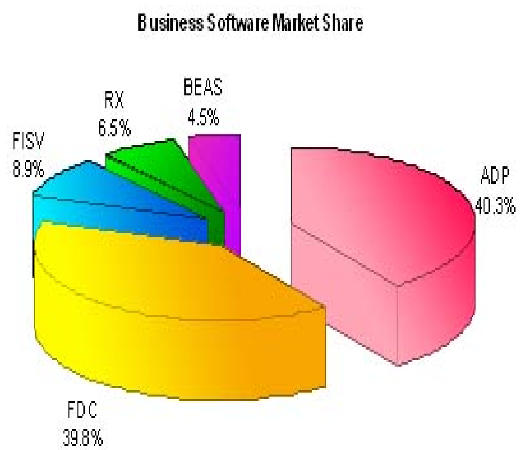
The Data Processing industry can be linked to multiple sectors, and is most often associated with the High Technology or the Industrial Services industries. A positive aspect of the Data Processing industry is that it is not too dependent on its Technology counterpart. In light of the plunge in tech-stocks and the risk associated with companies' unreliable practices, data processors have enjoyed a defensive position in the market. Investors feel comfortable pouring money into data processing firms because they do not involve an unseasoned business model. Furthermore, their valuations are solid and dependable.

TRENDS, NOV 26 2002

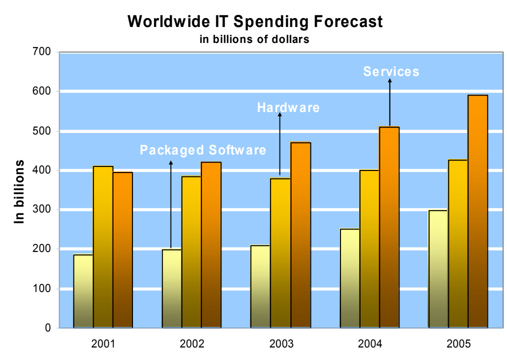
Two significant trends which data processors depend on are outsourcing and e-commerce. Most data processors experience recurring revenues due to the constant outsourcing from business that are looking to cut costs associated with in house systems. By outsourcing the portion of the business to data processors that have the technology and means to complete the task, companies can lower costs and focus on their core products and services. To illustrate, IBM may outsource its payroll functions to a data (payroll) processor such as ADP. Short-term growth for this industry has been impeded by economic conditions; however the need to cut costs and increase efficiency has resulted in a continuous demand for outsourcing.

INTENSIVE COMPETITIVE ANALYSIS, NOV 26 2002

There are times at which competition results in being so aggressive that companies tend to lose market share and profit margins. In the case of ADP, it kind of hard to pin point which is its stronger archrival because it is so well diversified in so many different sectors of the industry that per each sector, a competitor arises. This is the case with PAYCHEX, the most dominant payroll processor in the United States. If it measures against ADP, Paycheck will seem extremely powerful in that sector of the industry because Paycheck specialized on this niche of the market. Nevertheless, a large share of this market is still up for grabs so ADP has still plenty of growth potential. Competitors that resemble ADP in its operations and services are few and First Data Corp. is the biggest one.

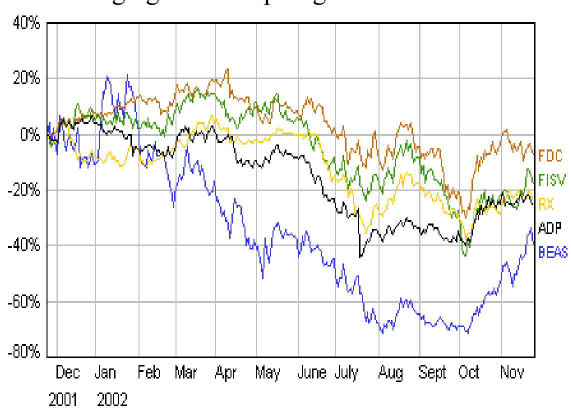


It is possible to contend that the diversification of ADP in the industry is such that the main core products of its competitors are as follows.
Bea Systems basically leads in the application infrastructure provider sector of the industry with only 13,000 customers including Citigroup, NASA and Wells Fargo. Its product is used in mainframe to support transaction processing, billing and customer services capabilities.
It is necessary to keep in mind that Bea depends on the Internet to succeed that the reason it was one of the few dotcom companies that overcome the debacle. Bea benefits from the buildout of Internet infrastructure that is required for some applications such as JAVA. In the case of ADP, its operations are not contingent on the Internet because this payroll processor utilizes as a mean and not the end. ADP was founded way before the creation of the Net unlike BEA which lives on it.
IMS Health (RX) is practically not even close to ADP's standards but on account of its sales management services and information solution which ADP partially touches to provide additional revenues for its operations, RX is considered another competitor. IMS Health customers are exclusively drug companies and other companies in the health care industry. Its nucleus operations are intended to provide its customers with market research report, professional development and research and development services. The only service that RX offers and intertwines with ADP's business is its venture capital unit that deals with Information Technology and software development for e-business. Those units are still in a process of survival and barely hurt ADP's bottom line.



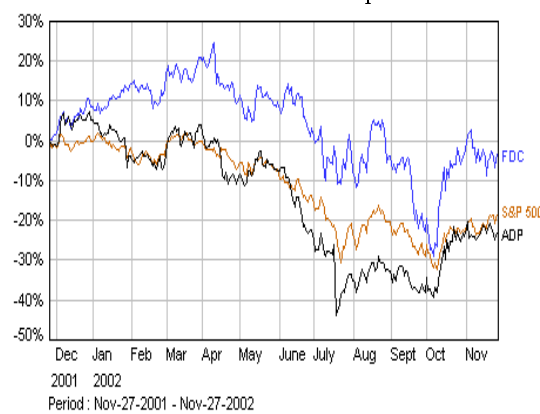
The Business Software Industry has a lot of potential in the Technology market because relatively new and few players are capable of getting their feet wet with some profits. Many analysts on Wall Street have forecasted that while the Hardware sector will be pulling back in spending, Services and the Packaged Software sector will spend much more in new technology. Nevertheless, Services will outgrow in spending in the next upcoming three years, making much clearer that a rebound in the sector will occur. When that rebound occurs, ADP will be the first one benefiting from it.
The newest competitor in such market is Bea System Inc., which went public on 1995 at the very beginning of the dotcom bubble. This company has a lot of growth prospective over the next 5 years but it doesn't seem to outperform the overall competition until then.

However, let's digress from Bea Systems and go back to FDC because there are some areas in which this player is ahead of ADP.
When we scrutinize thoroughly this company's future, we happen to see that FDC has a brighter future than ADP when long term growth and relative strength is concerned. Perhaps, the stock is viewed by investors a well-priced having into consideration the rate of relative risk it holds. The ROE for FDC is way higher than ADP and corroborates how profitable is the company when it efficiently uses its investors' money. First Data Corp.'s bread and butter is essentially Payment Services, which is the opposite of ADP, Employee Services. Payments Services are comprised of one main champion of all titans, Western Union. Western Union International has almost doubled its profits this year. In other words, while ADP deals with payroll checks, First Data Corp. handles independent money orders. They practically collide in the Data Processing business because First Data Corp. is the largest provider of credit and debit card transaction processing services in the US. FDC got the leadership in such business after acquiring NYCE or best known as ATM networks. ADP doesn't even lay a hand on that business because it is pretty saturated with Concord EFS which is the backbone company of the government's food stamp and Fiserv, which will be bringing into the spotlight now.



Fiserv's main business is processing financial transaction, which s already dominated by ADP. If ADP has gotten hurt by the lost of business in the financial industry just think about Fiserv, whose market share is merely a 8.9%. This company also provides e-commerce technology solutions, ATM and debit card processing and electronic transfers. FISV is obviously well diversified in the industry but it doesn't have any leadership, thus, it doesn't meet the prerequisites to be compared against other leaders such as ADP and FDC when we talk about healthy cash flows. As we can observe ADP's competition is serving other customers, ranging from health care and Internet-based companies to ATM users and money orders buyers. None of these customers ADP services at least directly.

The relative strength for FDC is also pretty high when it is compared to ADP. Relative Strength is the stock's price movement, compared to the change in a relevant market index, such as the S&P 500. The typical timeframe is 12 months. Momentum investors like to buy stocks with high relative strength because they believe a stock that has a strong P/E rating will continue to move higher. The strategy has worked well in bull market, but it is a high-risk approach because these stocks are also likely to fall hard when the market tumbles. In other words, the FDC stock has a bullish trend compared to ADP.



As we can see in the above graph, FDC stock hasn't gone below the S&P 500 trend on a year basis. It is trading way above the market expectations and it has outperformed ADP by far. ADP and the S&P 500 are trading below 15% while FDC is 15% above from them. Perhaps, the FDC stock is riskier because based on its beta; it is the highest after Bea Systems. Finally, let's take a look at the PEG ratio which offers a more efficient gauge of growth than the P/E ratio. The PEG ratio is an accurate indicator of determining whether a stock is undervalued or overvalued but also accounting for growth.

Peer Group		Current Price	50-Days Avg Price	200-Days Avg Price	60-Month Beta	Market Cap	12 Month P/E	12 Month EPS	12 Month Relative Strength	Last FY PEG ratio
Automatic Data Processing	**ADP**	**42.79**	**40.01**	**45.38**	**1.01**	**$25,296.32**	**24.7**	**$1.75**	**34.30%**	1.6
First Data Corp.	FDC	33.68	32.4	37	1.18	$25,332.07	22	$1.10	47.40%	1.4
Fiserv Inc.	FISV	32.77	29.81	37.22	1.04	$6,270.50	25.4	$1.09	39.70%	1.2
IMS Health Inc	RX	16.1	15.51	18.18	0.69	$4,522.73	27.3	$0.62	35.90%	1.2
BEA Systems Inc.	BEAS	10.38	7.35	9.42	2.54	$4,251.26	69.2	($0.90)	24.40%	1.2

One interpretation of this PEG ratio being greater than 1 (a fairly valued stock would have a PEG ratio of 1) is that the stock retains its "growth" classification, despite the recent bad news surrounding ADP, because it is still expected to outperform the rest of the market. It could also mean that the stock is overvalued and that the market expects future EPS growth to be greater than what is currently in the Street consensus number. ADP’s latest EPS is $1.75 and three year from now will be $2.03. Growth stocks, such as ADP, typically have a PEG ratio greater than 1 because investors are willing to pay more for a stock that is expected to grow rapidly.

SWOT ANALYSIS, NOV 26 2002

Strengths and Opportunities

- ADP is amazingly profitable. It generated more than $1 billion of free cash flow in fiscal 2002, thanks to low capital-spending needs and high operating margins.
- The company is the model of consistency having delivered an unprecedented string of 164 consecutive quarters of record sales and earnings, and 41 straight years of double digit EPS growth.
- ADP has strong fundamentals with significant recurring revenues, notable operational leverage, a strong balance sheet, little debt, and strong cash flows.
- The firm is using its substantial free cash flow to repurchase shares to boost stock price.
- Strategic acquisitions may add to the company’s business and strengthen its competitive position.
- ADP has plenty of opportunities for growth due to firms increasing use of outsourcing.
- ADP's businesses have substantial barriers to entry, limiting competitive threats.

Weakness and Threats

- Revenue growth was lower than targeted in 2002, and the firm expects only single-digit growth in 2003. This is below ADP's historical performance.
- ADP operates in a tough environment, where competition in ADP's core payroll-processing niche seems to be heating up.
- Credit/debit cards are increasingly displacing cash/checks in payment stream for employers.
- Lower interest rates will further pressure interest income earned on the float of client and corporate funds, pressuring both revenue and corporate interest income.
- Near term declines in employment followed by a more prolonged recovery period will mean fewer checks to process per client, weakening both core payroll revenue growth and HR processing fees.
- Payroll processors continue to be impacted by the weak economic environment and uncertainty regarding the pace of recovery.

VALUATION, NOV 26 2002

Since ADP has been negatively affected by the economic slowdown, it is expected to generate annual earnings growth in the mid to high single digits over the short term as opposed to the double digit gains that they have been historically known for. They have also been practicing a strong corporate strategy by continuing to acquire businesses to strengthen their competitive position and increase market share. Growth in payroll is expected to be in mid-single digits despite their huge base of more than 455,000 clients. However, the market for payroll outsourcing is still relatively untapped, thus representing opportunities for growth

PROFITABILITY RATIOS measure how efficiently the company uses its resources. The more efficient the company, the greater its profitability. By comparing a company's profitability against its major competitors, you can tell whether the company is operating more efficiently than its rivals. Profit ratios over time indicate whether a company's performance is improving or declining.

Gross Profit Margin:
2001: (Sales Revenue – Cost of Goods Sold) / (Sales Revenue) = (6,853,652-2,970,645) / (6,853,652)
2002: (Sales Revenue – Cost of Goods Sold) / (Sales Revenue) = (7,004,263-2,900,124) / (7,004,263)

YEAR	2001		2002	
GROSS PROFIT MARGIN	ADP	INDUSTRY	ADP	INDUSTRY
$\frac{\text{Sales Revenue - COGS}}{\text{Sales Revenue}}$	**57.7%**	**32.9%**	**57.6%**	**35.7%**

Gross profit margin indicates how efficiently a company manages its largest assets and greatest costs. A company that boasts a higher GPM than its competitors and industry is more efficient. It shows the percentage of net sales remaining after subtracting cost of goods sold. This means that for every $1 in sales revenue, ADP needs $0.58, to cover its costs. (58% Sales cover expenses) This is good because it indicates that a greater % of their revenues are being used to cover costs. ADP's GPM is greater than the industry, which indicates it is more efficient in the production and distribution of its product than most of its competitors. This can be explained by their ability to achieve record earnings, revenues and cash generation in 2002.

Even though their GPM is better then their industry, revenue growth slowed to 2% growth as compared to 11% growth in 2001. This was due to weakened economic conditions affecting ADP's Brokerage and Employer services. Discretionary spending and new investments declined in Brokerage services because of softness in the Financial Services industry. The decline in Employer Services was the result of weakened economic conditions causing lower client retention (because of bankruptcies), slower sales, and fewer employees for payrolls. The trend of declining interest rates the past two years also had a major impact on their interest earnings from client funds. (See revenue growth table)

Net Profit Margin:
2001: (Net Income / Sales Revenue) = (924,720 / 6,853,652)
2002: (Net Income / Sales Revenue) = (1,100,770 / 7,004,263)

YEAR	2001		2002	
NET PROFIT MARGIN	ADP	INDUSTRY	ADP	INDUSTRY
$\frac{\text{Net Income}}{\text{Sales Revenue}}$	**13.5%**	**(2.8%)**	**15.7%**	**(11.9%)**

Net profit margin tells you how much profit a company makes for every $1 it generates in revenue. This basically means that Steve Madden makes 13.5 cents profit from every dollar of revenue. Net profit margin measures the ability to earn a return after meeting interest and tax obligations. The company's Net Profit Margin is more than the industry average meaning that ADP has a better ability to earn returns than their competitors and survive in the long run.
Once again, this increase can be explained by their 2% revenue growth despite a negative industry environment. The increase can also be attributed to a series of cost-cutting initiatives the company has been instituting to survive in the weak economy. The increase can also be the result of ADP adopting new accounting practices which required that goodwill no longer be amortized in the balance sheet (SFAS 142)[i], which decreased their amortization expense. In their 2002 annual assessment, ADP indicated no impairment of goodwill.

Return on Total Assets:
2001: (Net Income Avail. to Com. Stockholders / Total Assets) = (924,720 / 17,899,090)
2002: (Net Income Avail. to Com. Stockholders / Total Assets) = (1,100,770 / 18,276,522)

YEAR	2001		2002	
RET. ON TOTAL ASSETS	ADP	INDUSTRY	ADP	INDUSTRY
Net Income Common / Total Assets	**5.2%**	**(1.9%)**	**6.0%**	**(9.4)%**

Return on assets tells an investor how much profit a company generated for each $1 in assets. The lower the profit per dollar of assets, the more asset-intensive a business is. The higher the profit per dollar of assets, the less asset-intensive a business is. All things being equal, the more asset-intensive a business, the more money must be reinvested into it to continue generating earnings. This is a bad thing. In other words, ROA measures the firm's asset-use efficiency.

ADP's ROA is higher than the industry average, which may indicate that it is using its assets much better than its competitors have. As mentioned in the NPM, by lowering their cost structure, they have been able to save approximately $100 million in lower annual expenses as of June 30, 2002. In 2001, they were able to reduce expenses by $150 million. ADP was able to cut costs while continuing to increase overall efficiency and productivity. ADP has also been continuing to pursue several promising opportunities which are based mainly in new and improved products and services. These measures can increase asset-use efficiency even further. The negative industry numbers indicate that their competitors are having a tough time trying to survive in the depressed environment. ADP's numbers indicate their management team is doing a good job.

Return on Stockholders' Equity:
2001: (Net Income Avail. to Com. Stockholders/ Stock. Equity) = (924,720 / 4,700,997)
2002: (Net Income Avail. to Com. Stockholders/ Stock. Equity) = (1,100,770 / 5,114,205)

YEAR	2001		2002	
RET. ON SHLDR EQUITY	ADP	INDUSTRY	ADP	INDUSTRY
Net Income Common / Stockholder's Equity	**19.7%**	**(5.4%)**	**21.5%**	**(31.3%)**

Return on equity reveals how much profit a company earned in comparison to the total amount of shareholder equity found on the balance sheet. A business that has a high return on equity is more likely to be one that is capable of generating cash internally. For the most part, the higher a company's return on equity compared to its industry, the better. Return on Equity is generally used to measure a firm's performance.

ADP's ROE is higher than the industry average, which may indicate that it has turned shareholders' equity into profits much better than its competitors have. ADP's much higher ROE, basically means that their financial condition and balance sheet remain exceptionally strong. The increase in ROE can be attributed to the fact that the company has been known for purchasing their own shares to increase stock price. In 2002, they purchased 17.4 million shares of common stock at an average price per share of $50. The company also has the right to purchase up to 35.9 million additional shares if needed. Once again, this enhances the company's reputation of having superb management.

LIQUIDITY RATIOS indicate the ability of the firm to meet future short-term financial obligations. An asset is deemed liquid if it can be readily converted into cash. Liquid assets are current assets such as cash, marketable securities, accounts receivables, etc.

Current Ratio:
2001: (Current Assets / Current Liabilities) = (2,817,257 / 1,411,102) = 5.18
2002: (Current Assets / Current Liabilities) = (3,083,460 / 1,336,273) = 5.18

YEAR	2001		2002	
CURRENT RATIO:	ADP	INDUSTRY	ADP	INDUSTRY
Current Assets / Current Liabilities	**2.3**	**1.2**	**2.0**	**1.2**

The current ratio measures the company's ability to pay short-term creditors by assets that can be quickly converted into cash. Most companies have a ratio of 1.0 indicating a reasonably liquid position, but as the ratio declines, the firm must rely increasingly on converting inventories to sales to meet current liabilities as they come due. ADP's current ratio indicates that they have more liquidity that the industry. This can be attributed to the high amount of cash the company generates. The company's cash flows generated from operations were $1.5 billion for 2002 contributing to their strong cash position. They spent $1.1 billion of that cash in investing activities, mainly in acquisitions and capital expenditures. They also used $0.9 billion in financing activities.

Quick Ratio:

2001: (Current Assets – Inventory / Current Liabilities) = (2,817,257- NA) / (1,411,102)

2002: (Current Assets – Inventory / Current Liabilities) = (3,083,460- NA) / (1,336,273)

YEAR	2001		2002	
QUICK RATIO:	ADP	INDUSTRY	ADP	INDUSTRY
Current Assets - Inventory / Current Liabilities	**2.0**	**0.7**	**2.3**	**0.6**

The quick ratio measures the company's ability to pay off short-term creditors without relying on the sale of its inventories. This measure is important because it excludes the sale of inventories, which might be difficult to sell. This is preferable because it relates current liabilities to relatively liquid assets. However, in ADP's case this does not apply because their type of business is not inventory intensive.
ADP's quick ratio is higher than the industry average, once again indicating that company has strong liquidity.
If you compare this to the industry average of 0.6, this means that the company is performing much better than its industry while its competitors struggle to reach a relatively liquid position of 1.0. The higher value of their current and quick ratios as compared to the industry can mainly be attributed to high amount of cash they generate and the purchase of their own shares to increase liquidity.

LEVERAGE RATIOS indicate whether a company uses more debt than equity. The balance between debt and equity is capital structure. This measure the extent to which borrowed or debt funds are used to finance assets, as well as the ability of the firm to meet its debt payment obligations.

Debt-To-Assets Ratio:
2001: (Total Debt / Total Assets) = (13,188,093 / 17,889,090)
2002: (Total Debt / Total Assets) = (13,162,317 / 18,276,522)

YEAR	2001		2002	
DEBT-TO-ASSETS RATIO:	ADP	INDUSTRY	ADP	INDUSTRY
Total Debt / Total Assets	**0.74**	**0.70**	**0.72**	**0.70**

The leverage ratio gives some indication of how highly leveraged a company is. In other words, the total assets of a company per dollar of stockholders' equity. This ratio shows that for every $1 in Total Assets, the company borrows $0.72, to finance its operations. In other words, 72% of total assets are financed. The higher ratio means that their assets far exceed stock equity, indicating higher financial leverage. This can be lucrative during good times, when borrowed assets earn more than they cost, but if things go bad the company could have trouble servicing the debt implied by all this leverage.

ADP's leverage ratio is a little higher than the industry meaning that its total assets per dollar of stock equity are more than their competitors. ADP's higher leverage can be attributed to the company's use of short-term financing through commercial paper and repurchase agreements. The company authorized a short-term commercial paper program in April 2002 that provided for the issuance at any given time, up to $4.0 billion in aggregate maturity value of commercial paper. S&P rated their commercial paper A-1+ and Moody's rated it Prime 1. (High-investment grade quality securities) Since the inception of these securities, the weighted average of these borrowings was $667 million at an interest rate of 1.8%. ADP plans on using commercial paper issuances as a primary instrument to meet short-term funding needs. Overall, ADP is basically in tune with the rest of their industry in terms of this ratio.

Debt-To-Equity Ratio:
2001: (Total Debt / Total Equity) = (13,162,317 / 4,700,997)
2002: (Total Debt / Total Equity) = (13,188,093 / 5,114,205)

YEAR	2001		2002	
TOTAL DEBT/EQUITY RATIO:	ADP	INDUSTRY	ADP	INDUSTRY
$\frac{\text{Total Debt}}{\text{Total Equity}}$	**2.8**	**1.9**	**2.6**	**2.3**

The Debt to Equity Ratio measures how much money a company should safely be able to borrow over long periods of time. The result you get after dividing debt by equity is the percentage of the company that is indebted or leveraged. Generally, any company that has a debt to equity ratio of over 40-50% should be looked at more carefully to make sure there are no liquidity problems. ADP's debt-to-equity ratio is higher than the industry meaning that they are using their debt to expand their operations. However, if you take into account ADP's recent use of short-term financing then the ratio is more plausible. With the recent declines in interest rates, this strategy makes more sense because they have the opportunity to borrow funds at much lower rates that before. It is important to remember that their long-term debt-to equity ratio was 2% for 2002, and that this past year they have actually decreased their long-term debt. This reinforces the notion that ADP has strong liquidity and shouldn't have any trouble with repaying any short-term or long-term loans.

ANALYSIS OF FUTURE GROWTH, NOV 26 2002

To gauge how much growth is possible for this company, one must analyze its industry thoroughly. The computer services industry, which had experienced a prolonged period of strong growth, slowed to a more modest pace of approximately 7% in 2001. This primarily reflected the broad economic slowdown, which was affected by the technology sector as companies across all industries reduced their information technology (IT) spending budgets. However, following the slowdown in 2001-2002, we believe that IT spending will at least approach normal levels in the beginning of 2003. We are also assuming that the amount of spending will periodically increase to healthier levels thereafter. This is based on the cyclical nature of IT spending, because historically, it has been characterized by intense periods of growth and decline. An example of this was the Internet boom of the late 1990s, now being followed by a decreased period of spending. To back up this claim with statistics, we turned to the International Data Corporation (IDC), an IT market research firm that specializes in forecasting figures for the IT industry. They are the industry's most comprehensive resource on worldwide IT markets, products, vendors, and geographies. IDC projects a rise of about 9% in 2002, to $450 billion. Afterwards, the IT services market is expected to grow at a compound annual rate of 11%, reaching approximately $683 billion by 2006 in sub-sequent years. In 2001, the United States accounted for nearly 50% of the worldwide market for IT services, a percentage that is expected to remain steady over the next several years. Now that we have a good picture of what the future environment could possibly look like, let's take a look specifically at ADP. The consensus among analysts is that ADP appears to have entered the mature stage of its life cycle. The company's well documented history of posting 41 consecutive years of double-digit share-net gains will probably come to an end. The recent problems that ADP has been experiencing this past year were due mainly to a number of macroeconomic factors. The poor economy meant that the company's payroll-processing unit had fewer checks to process per These factors have greatly affected ADP and the entire service industry, forcing many of the major companies to adjust to slower growth rates through realignment and cost reducing measures. This is in response to the industry trend of companies scrapping spending on projects requiring a large amount of initial funding, with long payback times, in favor of less intensive ventures. This has fostered an environment with increased competition among service providers because they are competing for fewer contracts. Last year, the firm instituted cost-cutting measures to facilitate earnings growth and will probably do the same in 2003 and future years. However, despite these problems, the earnings per share and pretax income of ADP still grew more than 10% in 2002. Even though this might result in them spending less on growth initiatives, we believe they are on the right path in their decision making. One of the contributing factors that led us to select this security, was the firm's ability to maintain its market leadership position and still produce positive returns despite everything that is going on. It is important to remember that most data processors like ADP have notable operational leverage, significant recurring revenues, and strong balance sheets. They also generate significant free cash flow and have good earnings visibility. Thus, these qualities and reasonable valuations have appeal, making it an attractive buy. Therefore, we believe that once IT spending does pick up, ADP is well positioned to take advantage of the positive benefits.

Even with the negative environment, ADP still has significant opportunities for growth in the future. Areas of particular strength include the government sector and the growing focus on outsourcing. Data processors should continue to garner interest as they position themselves to take advantage of these trends. client, which lowered profit margins. These negative conditions also caused some clients to be driven into bankruptcy, which made it tougher for ADP to pick up new clients. Another major problem has been the recent pattern of declining interest rates, which has contributed to lowered payroll tax float income. The extremely high-margin characteristics of float income cut quickly into ADP's bottom line. ADP's brokerage services segment, (which processes stock trades and distributes proxies and corporate communications) got hurt by the depressed stock market and the issuing of fewer equities. This segment suffered along with the negative conditions in the financial services industry.

The thing that makes these types of stocks so attractive is that they provide investors with an opportunity to participate in the upside of the technology revolution without taking the risk associated with companies with questionable business models and/or valuations.

Over the next few years, federal, state, and local government agencies are projected to be among the fastest growing segments for IT services. This sector has been negatively impacted by the economic slowdown just like the corporate world, resulting in a rising number of layoffs eroding its revenue base. As a result, cost cutting and budget tightening efforts have become necessary strategies. This presents a significant opportunity for IT service providers like ADP because they can capitalize on their value-added premise. ADP's services can help them operate more efficiently, and reduce overall costs simultaneously.

Now that a greater emphasis is being placed on defense as a result of 9-11, the federal government has realigned its priority list. The U.S. is suddenly faced with the problem of homeland security, after dealing with terrorism in other parts of the world. Congressional leaders have focused on the bureaucracy and inefficiency associated with U.S. intelligence gathering agencies in an attempt to answer how and why this happened, as well as to prevent future attacks. Proposals have included changes in the way sensitive information is tracked coordinated, and appropriately distributed. If the restructuring does happen, it is a potential boon to the IT services industry. This is because their expertise in efficiently integrating and managing various information gathering sources could be a major benefit to the government's new directive.

Another important trend to remember is that companies are increasingly outsourcing tasks to cut the growing costs associated with in-house systems. Healthy long-term revenue and earnings growth are expected for data processors as a result. Outsourcing is helpful to a company because it allows them to focus more on its core strengths, while the third-party out-sourcing firm (ADP) provides the technology at a reasonable cost. Even though the sluggish economy has affected growth potential in the near-term future, the need to improve efficiencies and reduce expenses remains even greater. The result is in increasing demand for outsourcing services.

According to the IDC, worldwide spending on information system (IS) outsourcing services totaled an estimated $64 billion in 2001, up 14% from the last year. S&P projects a continued steady growth rate at an average compound annual rate of 12.3%. They also project that by 2006, the percentage lf the market will reach a total of $114 billion. The IDC also reports that slightly less than half of all outsourcing business world-wide takes place in the United States.

Net Income Quarterly Breakdown	
June 30, 2002	$287,310,000
March 31, 2002	$352,260,000
December 31, 2001	$264,600,000
September 30, 2001	$196,600,000

A number of different factors such as globalization, deregulation, privatization, and technological innovation are driving demand upwards. Directly resulting from these factors is increased global competition which has forced companies to focus more on cost-cutting measures. Another positive attribute of outsourcing growth is that companies are not just using it to cut costs and get out of trouble. Now we are also seeing the trend of firms using outsourcers to prepare for the future in order to avoid problems down the road. All of this adds up to increased growth opportunities, which could eventually lead to higher profit margins.

Detailed Quarterly Financials Income Statement All dollar amounts in millions except per share amounts.	Quarter Ending Sep 02	Quarter Ending Jun 02	Quarter Ending Mar 02	Quarter Ending Dec 01	Quarter Ending Sep 01
Revenue	1646.7	2176.5	1762.2	1571.0	1494.7
Cost of Goods Sold	776.2	618.7	845.7	760.4	745.8
Gross Profit	870.5	1557.8	916.5	810.6	748.9
Gross Profit Margin	52.9%	71.6%	52.0%	51.6%	50.1%
SG&A Expense	567.9	512.5	485.6	511.1	572.4
Depreciation & Amortization	0.0	279.1	0.0	0.0	0.0
Operating Income	302.6	766.2	430.9	299.5	176.5
Operating Margin	18.4%	35.2%	24.5%	19.1%	11.8%
Nonoperating Income	37.7	(301.2)	141.0	130.5	150.7
Nonoperating Expenses	0.0	0.0	0.0	0.0	7.0
Income Before Taxes	340.3	465.0	571.9	430.0	320.2
Net Income After Taxes	210.3	287.3	352.3	264.7	196.6
Continuing Operations	210.4	287.3	352.3	264.6	196.6
Discontinued Operations	0.0	0.0	0.0	0.0	0.0
Total Operations	210.4	287.3	352.3	264.6	196.6
Total Net Income	210.4	287.3	352.3	264.6	196.6
Net Profit Margin	12.8%	13.2%	20.0%	16.8%	13.2%
Dividends per Share	0.12	0.12	0.12	0.10	0.10
Balance Sheet	Sep 02	Jun 02	Mar 02	Dec 01	Sep 01
Cash	545.8	798.8	1204.0	1327.0	1415.1
Net Receivables	971.4	1045.2	1053.3	929.4	926.0
Inventories	0.0	0.0	0.0	0.0	0.0
Net Fixed Assets	582.3	596.5	590.3	603.1	609.4
Total Assets	15696.0	18276.5	19228.2	17621.3	16664.1
Accounts Payable	134.7	148.7	155.1	150.1	156.3
Short-Term Debt	0.0	0.0	0.0	0.0	0.0
Other Current Liabilities	1241.8	1262.4	1212.7	1115.4	1187.3
Total Current Liabilities	1376.6	1411.1	1367.9	1265.5	1343.5
Long-Term Debt	83.8	90.6	91.0	94.9	106.3
Other Noncurrent Liabilities	9154.1	11422.9	12583.9	11155.5	10378.1
Total Liabilities	10947.0	13162.2	14231.1	12754.2	12094.0
Preferred Stock Equity	0.0	0.0	0.0	0.0	0.0
Common Stock Equity	4748.9	5114.2	4997.0	4867.1	4570.2
Total Equity	4748.9	5114.2	4997.0	4867.1	4570.2
Shares Outstanding (mil.)	598.9	626.3	620.1	620.3	616.6

Student Managed Investment Fund

TECHNOLOGY GROUP

STOCK REPORT **Automated Data Processing** NYSE Symbol **ADP**

FUNDAMENTAL ANALYSIS, NOV 26 2002

Automatic Data Processing is pretty well known over the industry because of premium valuations, its low debt and strong balance sheet. ADP cash holdings totaled 2.3 billions at the end of Q2, making a fearful rival in the industry. ADP's 2002 pretax income and earnings per share still grew more than 10%. The company generated earnings growth with cost-cutting last year, and it probably could do the same in 2003. However, this would result in reduced spending on initiatives that are meant to produce growth. Since ADP does have significant growth opportunities, we believe it is making the right decision. For example, it recently introduced a product aimed at companies that do payrolls in-house, the greatest competition to outsourcers like ADP. This product strengthens ADP's arsenal and helps it sell to companies that it otherwise wouldn't have dealt with. The firm also has a lot of growth ahead of it in the small-business market, where penetration rates are much lower than in other segments of the payroll-processing market.

With conservative revenue growth estimates of 8% for 2003 and 11% for 2004, I believe ADP will be able to meet the expectations embodied in our forecasting calculations.

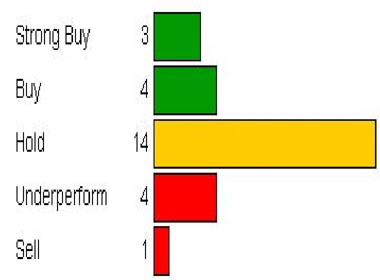
This business software company is getting hurt due to a weakened economic outlook. Unlike many other companies in other industries, ADP’s revenues have been trimmed by the interest rates cuts and the lack of new employment opportunities. This has negative implications for the payroll processors as the weak job market will further weigh on the number of paychecks processed per client while interest rates will further reduce the interest income earned out of the float of funds held for clients. That’s basically the reason ADP’s revenues were just a poorly 2% growth for this year, based on our forecast analysis.

When it comes about long term debt, ADP doesn’t have anything to worry about because rather than increase it, it has been reduced from 110.227 to 90.648. Furthermore, that cash available which stems from net income has been invested in long-term marketable securities. This means that ADP has been buying back its shares at an average price below the premium for a total of about $640 million.

ADP shares are priced less expensively than at any time since at least 1990, therefore its management has been determined to buy back its company stock.

ANALYST RATING, NOV 26 2002

Based on analyst recommendations, Automatic Data Processing is considered a HOLD or NEUTRAL. Many believe that results are respectable but they call into question the company’s sustainable growth rate. They say that stock looks kind of expensive and its fundamentals haven't bottomed yet. Nevertheless, analysts from JP Morgan state that ADP provides potential double barrel benefit from an improving economy via stabilizing employment and rising interest rates.



There is a mood in the air that feels the interest rates will actually go up in within the next 6 months because Fed rates are intended to be brought into play short term to stimulate the economy and no long-term. They are being practically lowered since the moment the dotcom bubble popped and they have spurred on certain industries such as the real estate but not the spending in technology like three years ago. Companies are not willing to spend more money because they want to get rid of their capital expenditures and the companies that are taking advantage of the Fed rates are already so highly leveraged that their balance sheets shows more liabilities than assets, making these companies riskier. The rates are at the lowest since the 1950’s, and are not helping anymore like they were expected. They may remain unchanged for a few more months but soon after they will have to start increasing, and then it will be the time for ADP’s revenues to soar back in the sky.

Student Managed Investment Fund

TECHNOLOGY GROUP

STOCK REPORT Automated Data Processing NYSE Symbol ADP

Last 50 Trading Days as of October 25,2002

Closing Prices of the Stocks Held in the Student Managed Investment Fund and ADP

	ADP	AMGN	AOL	BK	C	FNM	GE	G	HD	ITC	JNJ	MINI	NOK	PFE	SBUX	TAPA	TAPB
1	43.33	49.79	14.7	27.22	35.7	68.5	26.24	28.77	30.58	16.59	57.76	13.22	16.89	31.9	23.93	15	14.99
2	42.1	48.68	14.55	26.48	34.67	68.1	26	28.12	29.89	15.63	57.71	12.68	16.15	30.57	22.45	13.6	13.84
3	43.95	50	13.2	27.38	35.49	70.05	26.9	28.7	30.44	16.16	57.95	12.39	16.29	31.03	23.12	14.53	14.69
4	41.96	49.8	13.5	27.17	35.53	70	27.07	29.9	29.57	15.12	59.82	12.17	16.3	31.3	22.59	14.37	14.55
5	41.94	50.38	13.05	27.43	35.52	69.86	27.15	31.52	29.85	15.45	61.11	12.12	16.72	32.15	23.11	14.5	14.89
6	40.5	50.48	12.57	27.02	34.98	71.89	26.65	31.11	30.41	14.46	59.35	12.39	16.39	33.49	22.33	14.45	14.83
7	42.2	50.15	12.4	26.74	35.75	68.5	26.89	30.89	29.15	14.23	60.2	12.19	16.6	32.75	21.72	15.2	15.45
8	39.31	50.38	12.2	25.06	33.85	69.6	25.6	30.61	28.45	13.54	58.9	11.51	15	31.91	23.41	14.82	15.15
9	41.26	50.48	12.13	24.79	34.14	70.98	26.2	30.5	29.4	16.52	59.56	11.85	15.62	31.79	23.54	15.38	15.75
10	39.24	49.19	11.32	23.13	30.31	66.48	24.35	31.1	26.55	15.1	57.83	10	14.48	30.93	23.09	14.6	14.91
11	38.34	48.09	11.79	23.58	30.4	65.08	24.21	30.87	26.21	15.22	56.7	10.15	14.44	30.15	22.65	14.8	14.9
12	36.38	48.24	11.45	22.87	28.57	63.75	22.6	30.3	24.6	14.18	56.8	10.07	13.78	29.98	22.19	14	14.29
13	34.65	45.62	10.74	21.34	26.89	61.7	22	30.06	23.66	13.46	56.2	9.88	12.98	29.25	21.53	12.78	13.09
14	35.47	45.79	10.67	22.63	27.84	63.93	23.35	30.68	25.25	13.22	58.49	10.02	13.39	29.7	21.74	13.65	13.97
15	33.96	44.7	11.2	20.69	26.73	61.7	22.95	30	24.21	13.82	56.7	9.96	13.02	28.3	21.11	13.82	14.17
16	34.43	43.66	11.81	22.41	27.98	63.15	24.01	29.83	25.8	13.71	56.95	9.99	13.03	28.55	21.22	13.92	14.3
17	35.25	45.75	12.49	23.77	28.51	64.7	24.62	29.85	24.96	13.84	57.98	10.45	13.85	29.64	21.1	13.91	14.21
18	35.01	44.75	12.32	26.56	29.6	64.62	24.8	29.5	24.95	14.3	58.3	11.38	14.05	29.99	20.94	13.75	14.11
19	36.75	44.56	11.93	28.86	31	65.22	26.2	30.07	26.38	14.67	56.3	12	14.24	30.5	21.4	13.85	14.05
20	34.77	41.7	11.7	28.52	29.65	59.54	24.65	29.6	26.1	13.89	54.08	12.95	13.25	29.02	20.66	13.2	13.53
21	35.25	42	12.12	28.66	29.02	61.51	24.47	30.01	26.76	14.62	55.1	12.85	13.7	28.58	21	13.2	13.43
22	35.78	43.66	11.91	29.37	29.51	64.87	26.39	30.96	28.27	15.15	55.54	12.74	13.81	30.25	21.18	13.4	13.71
23	34.77	44.06	11.85	28.88	28.08	63.23	27	29.87	27.6	15.2	53.65	13.37	13.25	29.3	20.68	12.6	12.62
24	34.65	42.07	11.99	27.58	27.2	63.6	25.72	29.84	28.41	14.34	53.61	13.58	12.46	28	19.98	12.8	12.64
25	35.12	40.01	12.01	28.83	27.57	65.5	26.22	30.51	29.88	14.13	52.85	13.66	12.5	28.64	20.29	13.4	13.27
26	35.42	41.72	12.53	28.8	26.83	64.6	26.56	30.8	31.23	14.9	52.3	14.34	12.84	28.74	20.78	12.67	12.86
27	35.25	42.01	12.27	29.48	27.65	66.5	26.37	30.4	32.21	14.98	51.96	14.58	12.42	29.05	20.37	13	12.5
28	35.77	45.48	12.83	30.82	29.11	67.6	27.16	30.77	33.18	15.28	53.85	15.05	12.94	29.45	20.34	13.34	13.47
29	36.39	45.17	12.58	31.71	29.8	66.25	27.51	30.63	33.16	15.57	53.59	15.08	13.28	29.51	20.11	13.61	13.9
30	37.64	45.29	12.67	32.12	29.88	70.98	26.86	31.2	34.02	15.7	54.14	15.55	13.49	29.77	20.57	13.97	14.14
31	37.16	45.67	12.89	32.32	29.38	72.7	27.81	31.11	33.45	16.03	53.97	15.61	14.04	29.95	20.56	14.2	14.45
32	38.25	45.08	12.5	31.81	29.15	72.99	28.8	31.35	32.48	15.7	55.48	16.22	13.97	30.85	20.18	14.02	14.25
33	38.28	45.65	13.25	33.13	30.14	75.33	28.88	31.66	33.23	16.62	55.39	16.45	14.61	30.95	20.49	14.15	14.39
34	38.3	46.05	13.36	33.19	30.87	75.15	28.58	32	33	16.47	55.2	16.14	13.87	30.62	21.05	14.04	14.34
35	37.66	44.95	13.33	33.44	31.07	76.72	28.1	31.8	33.26	16.08	54.92	15.61	14.18	30.75	20.9	14.01	14.31
36	36.31	44.75	13.13	33.06	30.28	74.62	27.81	30.88	33.25	16.22	54.42	14.65	13.95	31.93	20.88	13.69	13.96
37	37.15	43.2	12.11	32.42	29.3	74.31	28.5	31.34	32.1	15.11	54.34	14.6	13.34	32.28	20.23	13.88	14.25
38	35.94	44.12	12.59	32.93	30.3	74.48	28.26	31.47	32.59	16.11	52.68	14.3	13.1	31.28	20.7	14.08	14.29
39	37.66	42.94	12.09	32	29.39	72.91	29.94	31.05	31.86	15.86	54.31	15.35	12.49	33.08	19.98	14.4	14.83
40	37.76	45.03	12.65	34.88	32.75	75.78	30.14	31.53	32.88	16.67	54.16	15.48	13.29	32.81	20.1	15.72	16.29
41	37.54	45.38	13.06	34.43	32.82	75.99	31.08	31.47	32.99	17.14	54.36	15.25	13.42	33.11	20.45	15.5	16.16
42	38.43	45.18	12.3	34.58	33.15	75.91	31.73	31.64	32.65	16.84	54.75	16.04	13.45	33.24	19.86	14.97	15.6
43	38.85	45.21	12.68	35	34.2	75.39	31.85	31.92	33.01	17.18	55.71	15.12	13.97	34.55	20.32	14.8	15.68
44	38.82	46.84	12.3	35.15	34.4	76.81	32.03	31.37	33.88	18.13	54.82	15.06	14.15	34.54	20.99	14.1	14.95
45	39.68	47.27	12.76	34.58	34	76.4	32.47	31.37	33.48	17.96	56.2	15.09	14.04	34.92	21.03	15.1	16
46	38.11	48.54	14.07	35.23	35.18	76.08	32.08	31.98	33.81	19.15	54.89	15.01	14.77	34.22	21.13	16.1	16.97
47	37.73	47.7	14.33	34.73	34.35	76.7	32.03	31.5	32.63	19.59	54.9	15.05	14.55	33.69	20.87	16.5	17.59
48	38.73	46.67	13.36	34.24	35.79	76.45	32.66	31.38	30.2	18.97	55.9	15.22	14	34.07	21.05	17.25	18.74
49	38.71	46.42	13.33	34.4	36.35	77.33	31.33	31.05	28.99	19.46	55.32	14.2	14.29	33.12	21.81	16.45	
50	37.45	47.53	12.56	33.3	34.9	76.3	32.07	30.99	28.06	18.75	55.29	12.11	13.58	33.1	20.82	16.16	
Standard Deviation	2.4853826	2.6753878	0.8552188	4.262953925	3.0152797	5.3210281	2.8493302	0.8706568	3.1213145	1.63043	2.160583	2.0114541	1.1815679	1.8912875	1.0426387	1.0414241	1.234385
Correlation against		0.8030509	0.5616167	**0.0999304**	0.8347361	0.4408075	0.2935523	**-0.0322**	0.306108	0.3513855	0.5887934	0.0811967	0.8772566	0.5711423	0.6350956	0.5042846	0.4698679
r^2 (%)		64.489081	31.541332	0.998608443	69.678443	19.431124	8.6172973	0.103681	9.3702084	12.347176	34.667768	0.6592906	76.95792	32.620349	40.334639	25.430292	22.077583

STOCK REPORT Automated Data Processing NYSE Symbol ADP

Analyst Opinion

	Current	1 Mo. Ago	3 Mo. Ago
Strong Buy	7	7	7
Moderate Buy	6	5	5
Hold	21	18	14
Moderate Hold	3	3	0
Sell	1	1	1
Mean	HOLD	HOLD	HOLD

CORRELATION, NOV 26 2002

In reference to the correlation against the entire portfolio of the SMIF, this leader in outsourcing payroll is positive correlated against almost every stock in our portfolio. If AGP goes down, there is 28% probability of determination that other stocks in the portfolio would go down too. The average mean of the correlated portfolio is 0.46 backing up what I aforesaid in regards to the relationship of ADP and other stocks in the portfolio. Gillette is negative correlated, which means otherwise. If ADP goes down, Gillette will most likely go up. On the other hand, Bank of New York has a correlation of 0.01 so it won't move consequently as ADP moves. We have to bear in mind that this variation in the portfolio is only truth when the entire market is affected by outside news not pertaining to the company itself. All the calculations for the following stock are based upon statistical and historical data so it is not mean to be taken without corroboration of other useful tools.

RECENT NEWS, NOV 26 2002

NEW YORK, Nov. 25, 2002
ADP Brokerage Services Group announced today that Edward Jones, a leading US investment firm, has signed a multi-year contract to continue outsourcing its securities transaction processing to ADP.

WHEAT RIDGE, Colorado, Nov. 25, 2002
Brokerage Services Group, announced today that four new clients have recently outsourced their securities transaction processing to ADP/SIS. Currently, the four firms use the ADP real-time straight through processing Brokerage Accounting System (BAS). BAS automates brokerage accounting and back office functions and is a real-time online system that customizes features to a firm's unique business requirements. The four firms have signed a contract with ADP's industry famous Order Management System (OMS) and for POSSEsm, ADP's leading web-based broker desktop application. OMS allows firms process orders efficiently in real-time to the back office. POSSE provides sales executives with client and product information in real-time as well as data on portfolio's and research for all types of securities.

NEW YORK, Nov 19, 2002
ADP Brokerage Services entered into an agreement with The Depository Trust & Clearing Corporation (DTCC) to provide ADP's clients with the depository's Domestic Tax Reporting Service (DTax). DTax provides important year-end tax reclassification information to the financial services industry by streamlining their 1099 reporting to customers. It supplies information on more than 10,000 mutual funds, real estate investment trusts (REITs) and other securities whose tax status is frequently reclassified at year-end. DTax incorporates the manual collection of this information by fax and phone, making it easily accessible to customers. DTax information will flow directly into ADP's year-end reporting system where ADP clients can view the information and use it to make adjustments on the affected transactions.

NEW YORK, Nov 18, 2002
ADP Brokerage Services Group, announced today its acquisition of the business of Vantra Group, Inc. a leading provider of Internet-based brokerage solutions. Vantra enables brokerage firms to outsource the hosting and maintenance of their Internet-based investor websites. Th solution that Vantra offers allows the registered representative and the back office personnel to view the same account level information on their desktops simultaneously with an investor while servicing the investor's needs. This technology supports ADP's movement towards the one-stop-shopping center.

ROSELAND, N.J.,Nov. 12, 2002
The board of directors of ADP authorized the buy-back of 35 million shares of its common stock. This is in addition to the approximately 16 million shares remaining to be purchased under previous share repurchase authorizations. As of July 1, 2002 ADP has purchased approximately 20 million of its shares. ADP currently has approximately 599 million common shares outstanding.

TECHNOLOGY GROUP

STOCK REPORT Automated Data Processing NYSE Symbol ADP

ROSELAND, N.J, Nov. 12, 2002
The board of directors of ADP approved a 4% increase in the cash dividend to an annual rate of 48 cents per share. This increased dividend will be distributed on January 1, 2003 to shareholders of record December 13, 2002.
The new quarterly dividend of 12 cents per share compares with the previous quarterly dividend rate of 11.5 cents per share. The increased cash dividend marks the 29th consecutive year in which the company has raised its dividend.

JERSEY CITY, N.J. Oct. 28, 2002
ADP Graphic Communications, the printing and communications division of the Investor Communication Services unit of Automatic Data Processing announced today the formation of ADP Graphic Communications Japan.
ADP Graphic Communications Japan offers printing and communications services to banks, brokerage firms and mutual fund companies throughout Japan. The company also produces documents authored throughout the world that are to be distributed in Japan, using ADP's World Research Link.
The new unit, located in Tokyo, began conducting business on October 15, 2002, and already has an impressive list of clients including many of the world's largest and most prestigious financial institutions.

About ADP Graphic Communications
ADP GC (formerly Cunningham Graphics International) is a leader in its industry, providing time-sensitive graphic communications services and outsourcing solutions to a blue chip client base that includes many of Wall Street's major investment banks, mutual funds, major insurance companies and many Fortune 500 corporations. The unit operates in strategic geographic markets.

DU PONT ANALYSIS, NOV 26 2002

We believe that the Du Pont Analysis is one of our measurements of ratio valuation but owing to the importance of its significance when it comes to ROA and ROE, we decide to take a separate column for it. As we said in prior columns, FDC has a better ROE than ADP or the best bang for the buck. FDC's ROE tells us how well the company utilizes investors' dollars against ADP's. It's how well the company produces earnings with the capital entrusted to it by its owners (shareholders). Nevertheless when it comes to ROA, ADP is the winner. ADP's ROA states what earnings were generated from invested capital (asset). Having said that, let's move to the Du Pont Analysis with combine both at the same time.

Dupont Analysis:

(Net Income/Common Equity) = (Net Income/Net Sales) * (Net Sales/ Total Assets) * (Total Assets/Common Equity)

(Net Income/Common Equity) = (Net Profit Margin) * (Total Asset Turnover) * (Financial Leverage)

Year	Net Profit Margin	Total Asset Turnover	Return on Assets	Financial Leverage	Return on Equity
2001	13.5%	0.38	5.2%	3.8	19.7%
2002	15.7%	0.38	6.0%	3.6	21.5%

The importance of ROE as in indicator of performance makes it desirable to divide the ratio into several components that provide insights into the causes or changes of a firm's ROE. The breakdown of these components is called the DuPont system.

1) The asset turnover ratio was stable form 2001-2002 at 0.38.
2) The profit margin series experiences a stable increase from 13.5% to 15.7%.
3) The product of total asset turnover and the net profit margin is equal to ROA, which experienced an overall increase from 5.2% to 6.0%.
4) The financial leverage multiplier (total assets/equity) experienced a small decline from 3.8 to 3.6.
5) Finally, as a result of the increasing ROA and the decreasing financial leverage, the form's ROE has been constant in its positive increase.

Student Managed
Investment Fund

TECHNOLOGY GROUP

STOCK REPORT **Automated Data Processing** **NYSE Symbol ADP**

Ticker	Number Shares	Proportion	Price Nov 26 2001	Purchase Amount	Price Nov 26 2002	Market Value	Gain or Loss in thousands	% Change	Portfolio Return	Standard Deviation	Portfolio Stand Dev.	Beta	Portfolio Beta
AMGN	800	0.07	66.43	53,144.00	47.02	37,616.00	(15,528.00)	-0.29	-0.02	8.11	0.54	0.89	0.06
AOL	750	0.06	34.9	26,175.00	15.36	11,520.00	(14,655.00)	-0.56	-0.03	7.97	0.50	2.65	0.16
BK	1,000	0.08	39.24	39,240.00	29.35	29,350.00	(9,890.00)	-0.25	-0.02	5.36	0.44	1.24	0.10
C	300	0.02	47.9	14,370.00	37.16	11,148.00	(3,222.00)	-0.22	-0.01	6.04	0.15	1.40	0.03
CSCO	1,000	0.08	20.44	20,440.00	14.45	14,450.00	(5,990.00)	-0.29	-0.02	2.99	0.25	2.00	0.17
FNM	500	0.04	78.6	39,300.00	62	31,000.00	(8,300.00)	-0.21	-0.01	5.24	0.22	0.32	0.01
G	1,000	0.08	32.7	32,700.00	30.34	30,340.00	(2,360.00)	-0.07	-0.01	2.05	0.17	0.55	0.05
GE	1,000	0.08	38.5	38,500.00	26.35	26,350.00	(12,150.00)	-0.32	-0.03	5.22	0.43	1.05	0.09
HD	500	0.04	46.65	23,325.00	25.02	12,510.00	(10,815.00)	-0.46	-0.02	9.27	0.38	1.37	0.06
INTC	500	0.04	32.66	16,330.00	20.2	10,100.00	(6,230.00)	-0.38	-0.02	7.28	0.30	1.77	0.07
JNJ	500	0.04	58.25	29,125.00	56.41	28,205.00	(920.00)	-0.03	0.00	4.46	0.18	0.47	0.02
MINI	500	0.04	31.99	15,995.00	15.85	7,925.00	(8,070.00)	-0.50	-0.02	9.98	0.41	1.21	0.05
NOK	1,125	0.09	23.01	25,886.25	18.55	20,868.75	(5,017.50)	-0.19	-0.02	4.56	0.42	1.96	0.18
PFE	600	0.05	42.68	25,608.00	31.81	19,086.00	(6,522.00)	-0.25	-0.01	4.52	0.22	0.63	0.03
SBUX	2,000	0.17	17.72	35,440.00	21.83	43,660.00	8,220.00	0.23	0.04	2.05	0.34	1.06	0.18
	12075	1.00		**435,578.25**		**334,128.75**	**(101,449.50)**		**-0.20**		**4.97**		**1.26**

Ticker		Proportion	Price Nov 26 2001	Purchase Amount	Price Nov 26 2002			% Change	Portfolio Return	Standard Deviation	Portfolio Stand Dev.	Beta	Portfolio Beta
AMGN	800	0.06	66.43	53,144.00	47.02	37,616.00	(15,528.00)	-0.29	-0.02	8.11	0.52	0.89	0.06
AOL	750	0.06	34.9	26,175.00	15.36	11,520.00	(14,655.00)	-0.56	-0.03	7.97	0.48	2.65	0.16
BK	1,000	0.08	39.24	39,240.00	29.35	29,350.00	(9,890.00)	-0.25	-0.02	5.36	0.43	1.24	0.10
C	300	0.02	47.9	14,370.00	37.16	11,148.00	(3,222.00)	-0.22	-0.01	6.04	0.14	1.40	0.03
CSCO	1,000	0.08	20.44	20,440.00	14.45	14,450.00	(5,990.00)	-0.29	-0.02	2.99	0.24	2.00	0.16
FNM	500	0.04	78.6	39,300.00	62	31,000.00	(8,300.00)	-0.21	-0.01	5.24	0.21	0.32	0.01
G	1,000	0.08	32.7	32,700.00	30.34	30,340.00	(2,360.00)	-0.07	-0.01	2.05	0.16	0.55	0.04
GE	1,000	0.08	38.5	38,500.00	26.35	26,350.00	(12,150.00)	-0.32	-0.03	5.22	0.42	1.05	0.08
HD	500	0.04	46.65	23,325.00	25.02	12,510.00	(10,815.00)	-0.46	-0.02	9.27	0.37	1.37	0.05
INTC	500	0.04	32.66	16,330.00	20.2	10,100.00	(6,230.00)	-0.38	-0.02	7.28	0.29	1.77	0.07
JNJ	500	0.04	58.25	29,125.00	56.41	28,205.00	(920.00)	-0.03	0.00	4.46	0.18	0.47	0.02
MINI	500	0.04	31.99	15,995.00	15.85	7,925.00	(8,070.00)	-0.50	-0.02	9.98	0.40	1.21	0.05
NOK	1,125	0.09	23.01	25,886.25	18.55	20,868.75	(5,017.50)	-0.19	-0.02	4.56	0.41	1.96	0.18
PFE	600	0.05	42.68	25,608.00	31.81	19,086.00	(6,522.00)	-0.25	-0.01	4.52	0.22	0.63	0.03
SBUX	2,000	0.16	17.72	35,440.00	21.83	43,660.00	8,220.00	0.23	0.04	2.05	0.33	1.06	0.17
ADP	**500**	0.04	**45.72**	**22,860.00**	**41.36**	**20,680.00**	**(2,180.00)**	**-0.10**	**0.00**	**8.25**	**0.33**	**1.01**	0.04
	12575	**1.00**		**458,438.25**		**354,808.75**	**(103,629.50)**		**-0.22**		**5.10**		**1.25**

This above chart explains how the SMIF portfolio would look like if ADP is purchased. Notice that the portfolio beta will go down and the volatility return of the portfolio will increase. What it surprising of this diagram is that if we would have bought ADP a year ago our losses will be way lesser than the average stocks held.

With all the fluctuation and volatility in the market for the past year ADP stock price decreased 10% while the average is 24% in losses. With exception of SBUX, which is making a gain, JNJ and ADP would be trading with least losses in the portfolio. That proves how steady is the stock.

Student Managed Investment Fund

TECHNOLOGY GROUP

STOCK REPORT Automated Data Processing NYSE Symbol ADP

Beta Calculations

ADP Beta

ADP Std. Deviation	9%
S&P 500 Std. Deviation	15%
Correlation based on 1 year	0.964
Covariance	0.013
Variance S&P 500	2.25%
Beta	0.59

Average Portfolio Beta

Stock	Proportion	Beta
AMGN	0.07	0.89
AOL	0.06	2.65
BK	0.08	1.24
C	0.02	1.40
CSCO	0.08	2.00
FNM	0.04	0.32
G	0.08	0.55
GE	0.08	1.05
HD	0.04	1.37
INTC	0.04	1.77
JNJ	0.04	0.47
MINI	0.04	1.21
NOK	0.09	1.96
PFE	0.05	0.63
SBUX	0.17	1.06
Total	1.00	
Average Beta	1.26	

Required Rates of Return

Capital Asset Pricing Model

(1) Using Beta Calculated Above

Risk free rate	1.6%
Exp. market return	12.0%
Beta	0.59
Market risk premium	10.4%
Stock risk premium	6.2%
Required return	7.8%

Capital Asset Pricing Model

(2) Using User Supplied Beta

Risk free rate	1.65%
Exp. market return	15.00%
Beta	1.01
Market risk premium	13.35%
Stock risk premium	13.48%
Required return	15.13%

Expected Rates of Return

Dividend Growth Model

(1) Past Dividend (D_0) Given

Past dividend (D_0)	$0.48
Dividend growth rate	14.4%
Current stock price	$42.24
Expected dividend (D_1)	$0.55
Expected return	15.7%

Dividend Growth Model

(2) Expected Dividend (D_1) Given

Expected dividend (D_1)	$0.53
Dividend growth rate	14.4%
Current stock price	$42.24
Expected return	15.7%

Common Stock Valuation (non-constant growth rate)

(1) Past Dividend (D_0) Given

Past dividend (D_0)	$0.48	
Abnormal div. growth rate	7.80%	
Abnormal growth period	1	(1-10 years)
Constant div. growth rate	14.00%	
Required Return	15.14%	
PV of abnormal dividends	$0.45	
PV of constant dividends	$44.94	
Stock value	$45.39	

(2) Expected Dividend (D_1) Given

Expected dividend (D_1)	$0.53	
Abnormal div. growth rate	7.80%	
Abnormal growth period	1	(1-10 years)
Constant div. growth rate	14.00%	
Required Return	15.14%	
PV of abnormal dividends	$0.46	
PV of constant dividends	$46.03	
Stock value	$46.49	

Student Managed Investment Fund

TECHNOLOGY GROUP

STOCK REPORT # Automated Data Processing **NYSE Symbol ADP**

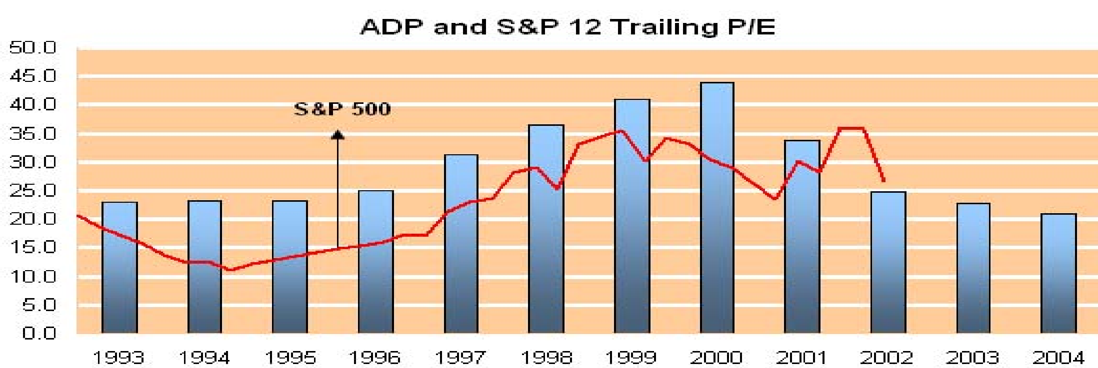
Automatic Data Processing, Inc.

Detailed Annual Financials
Income Statement

All dollar amounts in millions except per share amounts.	Jun 98	Jun 99	Jun 00	Jun 01	Jun 02	**Jun 03**	**Jun 04**
Revenue	4,798.1	5,540.1	6,287.5	7,017.6	7,004.3	**7,594.3**	**8,450.2**
Cost of Goods Sold	2,063.1	2,376.2	2,564.5	2,900.1	2,970.6	**3,209.05**	**3,390.43**
Gross Profit	2735.0	3163.9	3723.0	4117.5	4033.7	**4,385.25**	**5,059.77**
Gross Profit Margin	57.0%	57.1%	59.2%	58.7%	57.6%	**57.7%**	**59.9%**
SG&A Expense	1582.0	1787.6	2103.7	2179.7	2081.5	**2,204.88**	**2,229.46**
Depreciation & Amortization	244.6	272.8	284.3	320.9	279.1	**292.62**	**286.94**
Operating Income	908.4	1103.5	1335.0	1616.9	1673.1	**1,892.52**	**2,060.36**
Operating Margin	18.9%	19.9%	21.2%	23.0%	23.9%	**24.9%**	**24.4%**
Nonoperating Income	0.0	0.0	(32.4)	(77.6)	114.0		
Nonoperating Expenses	24.0	19.1	13.1	14.3	0.0		
Income Before Taxes	884.4	1084.4	1289.5	1525.0	1787.1	**1,887.75**	**2,543.37**
Income Taxes	278.9	387.7	448.8	600.3	686.2	**726.78**	**979.20**
Net Income After Taxes	605.5	696.7	840.7	924.7	1100.9	**1,160.96**	**1,564.17**
Diluted EPS from Total Net Income ($)	0.99	1.10	1.31	1.44	1.75	**1.85**	2.49
Dividends per Share	0.25	0.29	0.33	0.38	0.44	**0.53**	**0.63**

Stock History

	Stock Price ($)				Per Share ($)		
Year	**FY High**	**FY Low**	**FY Close**	**P/E**	**Earns.**	**Dividend**	**Book Value**
6/1/04	?	?	?	21.0	2.01	0.63	
6/2/03	?	?	?	22.8	1.85	0.53	
6/2/02	60.37	41	43.55	24.9	1.75	0.44	8.17
6/1/01	69.94	48.47	49.7	33.7	1.44	0.38	7.53
6/1/00	57.94	37.38	53.56	44.0	1.31	0.33	7.29
6/1/99	46.88	31.75	44	41.1	1.1	0.29	6.43
6/1/98	36.44	22.19	36.44	36.4	0.99	0.25	5.64
6/1/97	25.06	17.81	23.5	31.3	0.86	0.22	4.54
6/1/96	21.69	15.47	19.31	25.1	0.77	0.19	4.02
6/1/95	16.5	12.69	15.72	23.1	0.68	0.15	3.64
6/1/94	14.22	11.75	13.28	23.3	0.57	0.13	3.01
6/1/93	14.03	9.69	12	23.1	0.52	0.12	2.65

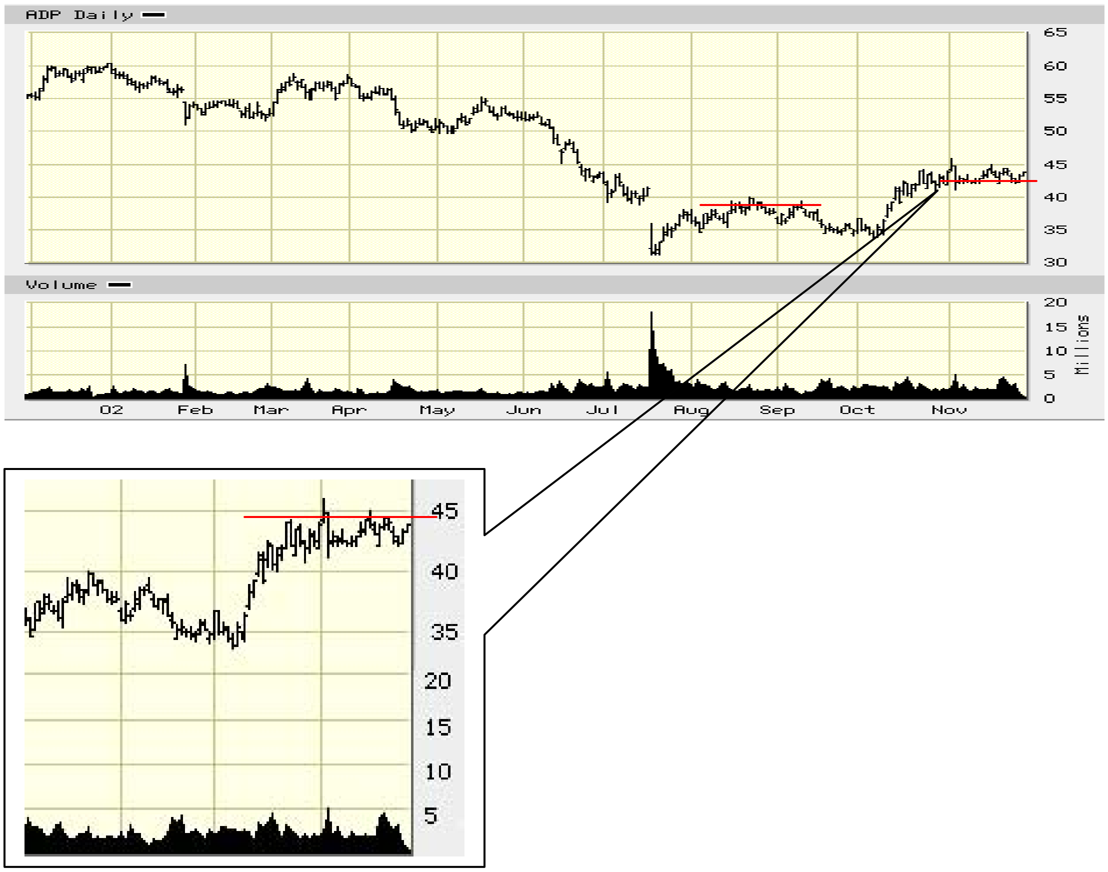


Student Managed
Investment Fund

TECHNOLOGY GROUP

STOCK REPORT Automated Data Processing NYSE Symbol ADP

TECHNICAL ANALYSIS, NOV 26 2002



The use of resistance lines on a stock graph is one of the most basic technical analysis tools and they're also quite easy to use. When these horizontal lines are drawn across the tops of the prices on a stock graph they indicate what price level the stock is having trouble penetrating.
On the one year graph below I've drawn lines of resistance for two areas starting in mid July through mid September and beginning of October through all of November. Notice that in each of the cases the stock continually hit a ceiling and when it finally crashed through the resistance it moved up smartly to a new high. We should be able to identify two others not marked which are on the bottom left starting in February and the other starting in March.
This is where I hope you'll see the benefit of using both technical and fundamental analysis to help you decide which stock to buy and at what point to enter the trade. In general terms the resistance of ADP is there, because investors have decided in that particular ceiling as target to selling the stock. Until the selling dries up the stock is not going to any higher. Once there are no more sellers, supply and demand takes over to push the price up to a new level. The resistance level in this case is 42.6 while the ceiling level barely makes it to 43.7. There is an intermediate bullish trend in the stock since October and the stock has hit that resistance level twice during the past month and three times its support level during the past four weeks. This indicates that the breakout target would be 11% or basically 48.

Sources of the Stock Report

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Yahoo.com
Standard and Poor's Stock Report
Smartmoney.com
Multexinvestor.com
Bondpage.com
Morningstar.com