Team Project Description

You are a managing partner of a prestigious investment counseling firm that specializes in individual rather than institutional accounts.  The firm has developed a national reputation for its ability to blend modern portfolio theory and traditional portfolio methods.  You have written a number of articles on portfolio management and you are considered an authority on the subject of establishing investment policies and programs for individual clients tailored to their particular circumstances and needs.

Dr. and Mrs. A.J. Vanderlay have been referred to your firm and to you in particular.  At your first meeting on August 1, 2021, Dr. Vanderlay explained that he is an electrical   engineer and long-time professor at a local university.  He is also an inventor and, after 30 years of teaching, the right to one of his patented inventions has just been acquired by a new electronics company, ACS, Inc.

In anticipation of the potential value of his invention, Dr. Vanderlay has followed his accountant’s advice and established a private corporation, wholly owned by the Vanderlay’s to hold the title to the patented invention.  It was this private corporation that sold the right to Dr. Vanderlay’s invention to ACS, Inc.  ACS, Inc. has agreed to pay $2 million in cash, payable at the closing on September 30, 2021, for the right to Dr. Vanderlay’s invention.  In addition, ACS, Inc. has agreed to pay royalties to Dr. Vanderlay’s private corporation on its sales of systems that utilize the invention.

 While all parties are optimistic about prospects for success, they are also mindful of the risks associated with any new firm, especially those exposed to the technological obsolescence of the electronics industry.  The management of ACS, Inc. has indicated to Dr. Vanderlay that he might expect royalties of as much as $200,000 in the first year of production and maximum royalties of as much as $500,000 annually thereafter.

 During your counseling meeting Mrs. Vanderlay expressed concern for the proper investment of the $2 million initial payment.  She pointed out that Dr. Vanderlay has invested all of their savings into his inventions.  Thus, they will have only their Social Security retirement benefits and a small pension from the local university to provide for their retirement.  Dr. Vanderlay will be 65 at September 30, 2023.  His salary from the local university is currently $85,000 per year and he does not expect this amount to change between now and his planned retirement on his 65th birthday.  After retirement Dr. Vanderlay expects to continue earning $10,000 - $25,000 annually from consulting and speaking engagements.    The expected Social Security benefits are expected to be $2000 per month beginning in October, 2023 and the annual pension from the local university is expected to be $18,000 per year beginning at the same time.

Assuming the royalty payments from ACS, Inc. are equal to $200,000 in the first year and an average of $300,000 per year thereafter, the Vanderlays are planning to help with   the education of their six grandchildren.  The grandchildren range in age from 8 to 12 years old.  In addition, the Vanderlays wish to establish a scholarship fund in the name of Dr. Vanderlay at the local university that would provide $3,000 per year to one selected electrical engineering student.  This scholarship should be self- sustaining with its own investments.

Both Dr. and Mrs. Vanderlay have strongly indicated during the first appointment that they are conservative investors and want a minimum risk of any losses.

1. Provide an annual growth after all withdrawals and fees of 5%-7%.
2. Provide funding for the six grandchildren’s education that will total $40,000 each when they reach the age of 18.
3. Provide for a continuing scholarship at the local university in the amount of $3,000 per year.