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Should You Invest in a For-Profit?

By Joshua Kim February 22, 2011 9:45 pm EST

In a 2/18/11 **article in The Motley Fool**, "Why I'm Staying Away From For-Profit Education", Brian Stoffel argues that:

"In the end, it might be unfair to paint the industry with so wide a brush as to include all for-profit schools. There are, I'm sure, schools that are doing exceptionally well by their students. However, with over 5,000 different publicly traded companies to put your money into, I think you'll find better deals with significantly less risk by staying away from this industry."

The question of investing in for-profit education companies is purely an academic one for me. With a mortgage, orthodonture, and the need to put money in 529 plans (offspring to college in 2015 and 2017), we will not be able to invest in individual stocks anytime soon.

But if I had money to invest, I'd be looking first to ***companies that provide educational services and products***, among which would be the ***for-profit colleges***. The reason I'd invest in education is that I understand education, and I think I'd be able to analyze the for-profit providers to find those that "are doing exceptionally well by their students". *And I think you could do this as well.*

As evidence for staying away from for-profit higher ed companies, Stoffel makes 3 arguments:

Deceptive Recruiting Practices: Stoffel describes the 2010 GAO "secret shopper" report in which government investigators posed as potential applicants at a number of for-profit institutions. This report, its fallout and subsequent revisions, has been covered extensively on *Inside Higher Ed.* (See the In Focus section on "**For-Profit Higher Ed**" or search for "GAO" on the IHE site. The risk for investors is tighter government regulations on recruiting, advertising and even accreditation practices.

Student Loan Defaults: 3 year student loan default rates range from 7.6% for private institutions, to 10.8% for public colleges and universities, up to 25% for for-profits, according to Stoffel. Institutions with high student loan default rates risk being losing the ability to receive federal student loan dollars.

Foot-In-Mouth Syndrome: Stoffel argues that executives at for-profit institutions have been tone deaf in responding to the critics, failing to address the issues head on and instead resorting to threatening lawsuits and blaming their customers (students) for their inability to re-pay loans.

Given this critique, and many more just like it, how can an investor figure out which for-profit institutions are good investments? If the Motley Fool represents the conventional wisdom about the for-profit education companies, where can we find the "exceptions" that will offer value (and returns) at higher rates than the market as a whole?

The answer, of course, is to figure out which for-profit schools do not fit Stoffel's description. We need to understand which for-profit institutions practice honest recruiting practices, have low student loan default rates, and which benefit from mission driven and transparent leadership. We should want the market to reward for-profit institutions that "*are*

doing exceptionally well by their students".

So where do we start?

Are you investing in the for-profit education sector?