Applied Value Investing

Fall 2015

**Below information is subject to change**

Professor Arthur T. Williams III     Professor T. Charlie Quinn

Classroom: Uris TBD

Professor Office Location: Off-Campus

Office hours: by appointment

REQUIRED COURSE MATERIAL

Required reading throughout the term includes:

1. The Wall Street Journal
2. Financial Times
3. *Barrons*
4. SEC filings related to companies we are studying, company call transcripts and other available data
5. There may be other short books or articles assigned related to speakers or topics of interest as the semester progresses.

**There are no good textbooks for this course. We assume because you are in an advanced security analysis class at Columbia you have read at least parts of the following books:**

Greenwald et al, *Graham and Dodd’s Security Analysis, Sixth Addition* OR
Cottle, Murray, and Block, *Graham and Dodd’s Security Analysis, Fifth Addition*
Greenwald and Kahn, *Competition Demystified, A Radically Simplified Approach to Business Strategy*

REQUIRED PREREQUISITES AND CONNECTION TO THE CORE

Prerequisite: Capital Markets

Applied Value Investing is the practice of valuing businesses, a pursuit that will require a holistic application of concepts accumulated during your time at Columbia Business School. Obviously all the valuation tools learned in Corporate Finance will be necessary, but that is just the math. Identifying the appropriate model inputs is the art and will touch most if not all of your classes to date. Financial Accounting provides the language and Global
Economic Environment the setting. How will macroeconomic growth impact the business at hand? Are revenues cyclical or countercyclical? Will a recession put the firm’s financing at risk? Managerial Economics helps inform how a business actually makes money. What are the competitive advantages, if any? How sustainable are they? Clearly lessons from Strategy Formulation are needed to value a business. How is the industry organized and what is the nature of competition? Is management pursuing the correct strategy given their competitive position? Constructs from Marketing Strategy and Operations Management will be required to weigh the relative strength of brand portfolios and efficiency of distribution networks. Insights from Leadership Development will help assess the quality of management and firm culture. Simply put, valuing businesses is the study of business. Please find below some of the more specific topics covered in core courses that you will utilize:

<table>
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<tr>
<th>Core Course</th>
<th>Connection with Core</th>
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| **Corporate Finance**      | 1. Cost of Capital  
                            2. Valuation  
                            3. Financing Options  
                            4. Time value of money  
                            5. Opportunity cost (of capital)  
                            6. The Capital Asset Pricing Model (CAPM)  
                            7. Firm Valuation Model |
| **Financial Accounting**   | 1. The “accounting equation”  
                            2. Revenue and expense recognition  
                            3. Resources and obligations – measurement and disclosure |
| **Global Economic Environment** | 1. Risk Management  
                                2. What is Gross Domestic Product and how is it measured?  
                                3. What causes inflation?  
                                4. What causes changes in exchange rates?  
                                5. What are the causes of business cycles?  
                                6. What are the effects of monetary policy?  
                                7. What are the effects of fiscal policy?  
                                8. What is the role of financial markets in the economy? |
| **Managerial Economics**   | 1. Barriers to entry  
                            2. Maximization and thinking on the margin  
                            3. Analyzing complex decision-making under uncertainty  
                            4. Decision-based cost analysis  
                            5. Pricing with market power  
                            6. Market segmentation and other advanced pricing strategies  
                            7. Understanding market competition and equilibrium thinking (in the short-run)  
                            8. Market equilibrium thinking (in the long-run) and barriers to entry  
                            9. Strategic interaction among firms and Nash equilibrium |
| **Strategy Formulation**   | 1. Trade-offs, value-added, efficiencies  
                            2. Creation of value vs. value capture  
                            3. Competing firms  
                            4. Co-optition and Complementors  
                            5. Strategic interaction analysis |
6. Diversification and scope
7. Ethics & IBS
8. Behavioral and evidence-based strategy
9. Management

Students will be expected to have mastered these concepts and be able to apply them in the course.

COURSE DESCRIPTION & OBJECTIVES

This course combines the methods and teachings of security analysis with practical buy-side methodologies to identify and research attractive value investments. Idea selection methodologies vary materially depending on scope of investment parameters, industry and subsector, investment philosophy and market conditions; several of these approaches will be discussed and practiced. Both long and short methodologies will be covered during the semester.

This course will leverage your theoretical learning in security analysis plus require you to develop business acumen and industry expertise. A combination of fundamental analysis and assessment of intrinsic value will be balanced with thematic thinking and business judgment. The course should arm you with the tools to identify attractive value investments through a variety of methodologies for several alternative fund strategies. Throughout the semester, students will prepare a series of investment memoranda identifying mispriced businesses.

The class will be kept small to take advantage of the instructional method. Class discussions will be complemented by guest discussions from highly regarded investment professionals.

ASSIGNMENTS

TBD

METHOD OF EVALUATION

The workload for this class will be substantial in size and time. If you are not prepared for this commitment, the class will not be enjoyable for any of us. There will be readings and assignments each week and you will be expected to hand in write-ups for these assignments.

Weekly assignments should be e-mailed to us before 12:00 noon on the Monday preceding our Tuesday class meeting (unless otherwise noted). Assignments should be sent in a single PDF document labeled Last name_First name_ Topic. Late submissions will not receive feedback.

Class participation is a major component of your grade – everyone will be expected to contribute to each class discussion.

Class attendance is mandatory.

CLASSROOM NORMS AND EXPECTATIONS

Class Participation:
Preparation, Discussion, Organization
Guest Speakers:
This course will involve several buy-side guest lectures; class participation will be crucial to the success of the course.