SECURITY ANALYSIS
Summer 2015

KEITH LUH

Class location: WJW 310
Tuesday: 5:00pm – 9:15pm
Office Hours: By appointment
TA: TBD
TA E-mail: TBD

**Below information is subject to change**

REQUIRED COURSE MATERIAL

Required readings will be selected from the following:

Graham and Doddsville Spring 2011 newsletter: Michael Price Interview
http://www4.gsb.columbia.edu/filemgr?file_id=738505

Cialdini, Robert B., Influence
Graham, Benjamin and David Dodd, Security Analysis – 6th Edition
Greenblatt, Joel, You Can Be a Stock Market Genius
Greenwald, Bruce, Judd Kahn, Paul Sonkin and Michael Van Biema, Value Investing: From Graham to Buffett and Beyond
Greenwald, Bruce and Judd Kahn, Competition Demystified: A Radically Simplified Approach to Business Strategy
Mehta, Ravee, The Emotionally Intelligent Investor
Schilit, Howard, Financial Shenanigans
Schiller, Robert, Irrational Exuberance

RECOMMENDED READING

Berkshire Hathaway Inc. Shareholder Letters
Cain, Susan, Quiet
Einhorn, David, Fooling Some of the People All of the Time
Fisher, Philip A., Common Stocks and Uncommon Profits
Graham, Benjamin, The Intelligent Investor
Houston, Philip, *Spy the Lie*
Kahneman, Daniel, *Thinking, Fast and Slow*
Klarman, Seth, *Margin of Safety*
Lefevre, Edwin, *Reminiscences of a Stock Operator*
Marks, Howard, *The Most Important Thing*
Moore, Keith, *Risk Arbitrage*
Natenberg, Sheldon: *Option Volatility and Pricing*
Rosenberg, Hilary, *The Vulture Investors*

**PREREQUISITES AND CONNECTION TO THE CORE**

Capital Markets is a co-requisite for this course.

The learning in this course will utilize, build on, and extend concepts covered in the following core courses:

<table>
<thead>
<tr>
<th>Core Course</th>
<th>Connection with Core</th>
</tr>
</thead>
</table>
| Corporate Finance               | 1. Cost of capital  
2. Valuation  
3. Financing options  
4. Time value of money  
5. The capital asset pricing model (CAPM)  
6. Real options  
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. Moats  
3. Maximization and thinking on the margin  
4. Analyzing complex decision making under uncertainty  
5. Decision-based cost analysis  
6. Pricing with market power  
7. Market segmentation and other advanced pricing strategies  
8. Understanding market competition and equilibrium thinking (in the short run)  
9. Market equilibrium thinking (in the long run) and barriers to entry  
10. 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-opetition 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 & COURSE OBJECTIVES

The objective of the course is to present a rational disciplined investment philosophy and process for security analysis. The seminar will focus on melding theory and practice using investment examples across industries and geographies. Investing is as much art as it is science, and therefore, particular attention will be paid to both quantitative and qualitative aspects— including financial statement analysis, valuation methodologies, and competitive strategy and behavioral finance, respectively.

Current and past situations will be discussed in order to encompass a broad set of investment cases across varying economic environments and cycles. In addition, analysis of capital structure will be introduced as a valuable tool that informs the mosaic of investing and can help when allocating capital and managing risk.

COURSE STRUCTURE

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lecture – professor and practitioners (portfolio managers/analysts)</td>
<td>60%</td>
</tr>
<tr>
<td>Student participation (Socratic method)</td>
<td>25%</td>
</tr>
<tr>
<td>Student presentation</td>
<td>15%</td>
</tr>
</tbody>
</table>

CLASS SCHEDULE AND MATERIAL

**Addendum to be distributed first day of class with schedule information.**

METHOD OF EVALUATION/COURSE STRUCTURE

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group Investment Thesis/Final Project</td>
<td>25%</td>
</tr>
<tr>
<td>Presentation of Group Investment Thesis/Recommendation</td>
<td>20%</td>
</tr>
<tr>
<td>Assignments</td>
<td>35%</td>
</tr>
<tr>
<td>Class Participation</td>
<td>20%</td>
</tr>
</tbody>
</table>

Factors used to determine grades:

1. Group Investment Thesis/Final Project (in lieu of a final exam, Type A): 25%
Length of report should be 8 – 12 pages, excluding exhibits.
Format/content will be discussed in more detail in class.
Final project submissions due

2. Presentation of Group Investment Thesis/Recommendation (Type A): 20%
   Everyone will be required to participate in the presentation.

3. Assignments (Type C): 35%
   Assignments associated with the investment case studies will be due in advance
   Modeling Assignment: integrating income statement, cash flow statement, and balance sheet
   More details will be provided in class

4. Class Participation: 20%

<table>
<thead>
<tr>
<th>Type</th>
<th>Designation</th>
<th>Discussion of concepts</th>
<th>Preparation of submission</th>
<th>Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>group / group</td>
<td>Permitted with designated group*</td>
<td>By the group</td>
<td>Same grade for each member of the group</td>
</tr>
<tr>
<td>B</td>
<td>group / individual</td>
<td>Permitted</td>
<td>Individually (No sharing of any portion of the submission)</td>
<td>Individual</td>
</tr>
<tr>
<td>C</td>
<td>individual / individual</td>
<td>None of any kind</td>
<td>Individually</td>
<td>Individual</td>
</tr>
<tr>
<td>D</td>
<td>(An optional category to be defined in detail by the individual faculty member)</td>
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</table>

* The designated group can be either an assigned study group or a self-selected one.

CLASSROOM NORMS AND EXPECTATIONS

Attendance is mandatory and the cumulative attendance record will be taken into consideration when determining grades.

Socratic method- interaction is encouraged and expected. Dialogue and debate will enhance the learning environment and students should feel free to challenge and/or share alternate views.