FINC B8378-001 Value Investing with Legends
Tuesday/Thursday 5:45pm – 7:15pm
Uris 301

(** Tentative spring 2017 syllabus: All information below is subject to change**) 

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REQUIRED COURSE MATERIAL
Textbooks

There are two main textbooks:

- **The Intelligent Investor: The Definitive Book on Value Investing.** A Book of Practical Counsel (Revised Edition) [with comments by Jason Zweig and introduction by Warren Buffet].

There is of course excellent literature on the subject of value investing and related topics. Some interesting books that immediately come to mind are:


REQUIRED PREREQUISITES AND CONNECTION TO THE CORE
Co-requisite: Capital Markets

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>
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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. 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-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 AND OBJECTIVES**

This class, taught in Term A, is intended to teach students the fundamentals of the value approach to investment management developed by Graham and Dodd. This will be done through a combination of formal lectures, cases and in-class valuation discussions. The substantive areas covered will include (1) the fundamental assumptions and approaches to value investing, (2) techniques for assessing
fundamental value – balance sheet and earnings power approaches, (3) structuring value-based portfolios to control risk and (4) designing strategies for searching efficiently for value investing opportunities.

### ASSIGNMENTS

<table>
<thead>
<tr>
<th>Date</th>
<th>Topics</th>
<th>Readings and assignments</th>
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</thead>
<tbody>
<tr>
<td>Tu., Jan. 31</td>
<td>Basic Valuation</td>
<td>II, Chpts. 12.20; VI Chpts 6-8.</td>
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<tr>
<td>Th., Feb. 2</td>
<td>Hudson General Valuation</td>
<td>Hudson General 1998 Annual Report</td>
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<tr>
<td>Tu., Feb. 7</td>
<td>Magna International</td>
<td>Magna 2008 Annual Report; Value Line</td>
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<tr>
<td>Th., Feb. 9</td>
<td>Franchises</td>
<td>Annual Report, Value Line</td>
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<tr>
<td>Tu., Feb. 14</td>
<td>Amazon</td>
<td>Annual Report, Value Line</td>
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<tr>
<td>Th., Feb. 16</td>
<td>Valuing Growth</td>
<td>II, Chpts. 12.20; VI Chpts 6-8;</td>
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<tr>
<td>Tu., Feb. 21</td>
<td>Walmart</td>
<td>Annual Report; Value Line</td>
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<td>Th., Feb. 23</td>
<td>Dell, American Express</td>
<td>Annual Report; Value Line</td>
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<tr>
<td>Tu., Feb. 28</td>
<td>Risk Management, Marco 1, Nestle</td>
<td>Annual Report</td>
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<tr>
<td>Th., Mar. 2</td>
<td>Macro2, Ferrovial</td>
<td>Annual Report</td>
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The value investing process

Whenever you are analyzing the different cases ask yourself the following questions:

1. Search
   - Why are we looking at this company? What brought it to my attention?
   - Is this company in the news?
   - Is this company in my circle of competence?

2. Valuation
   - What does this company do?
   - What is the company’s position in its industry relative to competitors, customers and suppliers?
   - Can the management team be trusted with my capital?
   - What is the asset and earnings power value of this company?
   - Is there a franchise value to this company?
   - How do these values compare to the company’s market value? Why are they different?

3. Review
   - What are the key issues regarding this company?
   - Did I let personal biases affect any of the steps in the analysis?
   - If this case represents a good investment opportunity, why is this opportunity available to me? Why is someone selling when I am buying?

4. Risk Management
   - If the company represents a good investment opportunity, is there enough of a margin of safety?
   - How does this investment fit with the rest of my portfolio?
   - What kind of risks, other than the ones inherent to the business, am I exposed to when I invest in this company? Can I, and should I, hedge these risks?
   - Do I need to invest?

METHOD OF EVALUATION:

Term A

1. (35%) Class attendance and participation

2. (30%) Homework assignments – students will submit 3 (three) short papers on 3 (three) cases of their choice. Each paper will consist of a maximum of 1 (one) page of text and 1 (one) page of exhibits. This assignment is an exercise on valuing the company featured in the case.
3. (35%) Mandatory final project – students will self select into groups of 4 (four) students. Each group will submit 1 (one) final project, a company valuation. The final project will consist of a maximum of 5 (five) pages of text and 5 (five) pages of exhibits from a list of about 30 companies provided by the professors. Different groups can select the same company. All final projects will be submitted as candidates for the Sonkin Prize.

Term B (Legends)

1. (50%) Class attendance and participation

2. (50%) For at least 8 of the 12 speakers, submit 1 page written summary of reading materials provided by the speaker and a list of 3 to 5 relevant questions for the speaker. These must be submitted by 8 p.m. the evening prior to the speaker or they will not be considered for credit.

CLASSROOM NORMS AND EXPECTATIONS

Class Participation:
Preparation, Discussion, Organization

Guest Speakers:
This course will involve high profile guest lecturers; class participation will be crucial to the success of the course.