

FIN-444 Value Investing

Spring 2009

Tuesdays, 6:30 pm to 9:30 pm Jacobs Center, Room: G03

Contact Information:

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Course Overview

This course will be of interest to those who are interested in a career in money management, and those who are interested in managing their own money. It will also benefit those who are aiming for a general management or consulting career, where they will have to interact with money managers.

The course will build on what you have learned in the various Kellogg courses, especially Fin-Decisions. At the same time, it will be different from the other courses in some important ways: I will focus on the Graham and Dodd framework (modified to suit today's conditions) for identifying investment opportunities that involves, among other things, answering the following two questions.

1. There are thousands of stocks/securities available for investment; how do you narrow the choice to a few that you want to study more in detail?
2. How do you get sufficient confidence in your valuation to back your analysis with your own money? When you buy a stock (or sell, short sell a stock) someone else is on the other side -- why do you think they are wrong and you are right?

There is no one unique framework for answering these questions. Each framework will correspond to a particular investment philosophy. In this course we will look at one particular framework for answering these questions that I will call as the "Value Investing" framework. The first four weeks will introduce you to the framework through mini cases and readings. You will then apply the method by identifying and evaluating a value investment opportunity (to be done in groups of 4 or less).

There will be six outside speakers, and their talks will help clarify several issues associated with Value Investing. Following the talk by each outside speaker, we will spend some class time discussing what we learned from that talk.

Readings

The two main texts for the course will be:

Bruce Greenwald, Judd Kahn, Paul D. Sonkin and Michael Van Biema, Value Investing: from Graham to Buffett and Beyond, John Wiley, New York, 2001 (**VI**)

Benjamin Graham, Updated with new commentary by Jason Zweig, The Intelligent Investor, 4th edition, revised 2003, Harper Collins, New York, 2003 (**II**)

There will be several additional readings that will be handed out in class.

Course Grade

Grades will be based on Class Participation, Mini-Valuation Exercises (Homeworks), and the Final Valuation Project Report where you identify and evaluate an investment opportunity. You will do the homeworks by yourself (Kellogg honor code applies), and the final project in groups of 4.

Class Participation: 10 pts

Three Mini Valuation Exercises (Homework Assignments): 30 pts

Final Valuation Project Report: 60 pts

There is no final exam. Final Valuation Project Reports are due on the last day of class, Monday June 4th 2007.

Week 1, Tuesday March 31st.

Fundamentals approach to Value Investing. Computing Asset value & Earnings Power value. Example: Trump Entertainment (TRMP).

Readings: II, Chapters 1, 8, 15; VI, Chapters 1-4 (till page 65 of Chapter 4).

HW1: Mini Valuation Exercise: Hudson General, based on the 1998 annual report, and VI, Chapters 4-5. Due: Week 2.

Week 2, Tuesday April 7th.

Discussion of HW1. Earnings Power (continued), Barriers to entry, Role of Intangibles, Risk, Winner's Curse, and the Margin of Safety. Examples: Microsoft, WD40, Intel.

HW2: Mini Valuation Exercise: Liz Claiborne, based on the 1999 annual report. Due: Week 3.

Readings: Selected Journal Articles to be given in class, II, Chapters 12, 20; VI Chapters 4-5, 6-8.

Read: Lyrica case and come prepared to discuss in class

Week 3, Tuesday April 14th. (Speaker: Amy Diamond, Northwestern University)

First half: Amy Diamond will share with you her insights from the Lyrica case.

Second half: Discussion of HW2-Liz Claiborne. More on Earnings Power. Valuing Growth.

HW3: MEMC case based on annual report; due: Week 7

Readings: Selected Articles to be given in class

Week 4, Tuesday April 21st. (Speaker: Todd Pulvino, CNH Partners)

Todd Pulvino will speak on “Value investment opportunities in the hedge fund space, and the effect of the financial crisis on prime brokers and the spillover effects on several convertible bond arbitrage strategies.”

Readings: Selected Articles to be given in class

Week 5, Tuesday April 28st. (Speaker: Peter Grondin, OSS Capital Management)

Peter Grondin will discuss a few value investment cases from his experience with a focus on short selling, the current financial crisis, and its effect on the future of asset management

Readings: Selected Articles to be given in class

Week 6, Tuesday May 5th. (Speaker: Greg Obenshain, Stone Tower Capital)

Greg Obenshain will speak on “Identifying value investing opportunities in the bank loan and utilities space.”

Readings: Selected Articles to be given in class

Week 7, Tuesday May 12th

Discussion of HW3 (MEMC.) More on Earnings Power. Valuing Growth.

Readings: Selected Articles to be given in class, VI chapters on valuing growth

Week8, Tuesday May 19th. (Speaker: Tony Elavia, Madison Square Investors)

Tony Elavia will give an introduction to the “Quant approach to Value Investing and its relevance given the current financial crisis.”

Readings: Selected Articles to be given in class

Week 9, Tuesday May 26th (Speaker: Tom Forester, Forester Value Fund (??))

Tom Forester will share his thoughts on value investing in the current environment and the importance of risk control in value investing (tentative)

Reading: Will be given out in class

Week 10, Tuesday June 2nd

Final Project Presentations