

## FIN-444 Value Investing

Winter 2010

Wednesdays, 6:30 pm to 9:30 pm Jacobs Center, **Jacobs Center 165**

### 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 and pension plan sponsors.

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 about four 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 and the final project in groups of two. You will provide a report evaluating your group members' contribution at the end of the quarter.

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, Wednesday March 10, 2010.

**Assignment for First Class:** Trump Entertainment Resorts Inc.

### *Week 1, Wednesday January 6, 2010*

Discussion of Trump Entertainment Resorts Inc. Fundamentals approach to Value Investing. Computing Asset value & Earnings Power value.

*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, Wednesday January 13, 2010*

Discussion of HW1(Hudson General.) Earnings Power (continued), Barriers to entry, Role of Intangibles, Risk, Winner's Curse, and the Margin of Safety.

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

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

***Week 3, Wednesday January 20, 2010***

Discussion of HW2 (Liz Claiborne.) More on Earnings Power. Valuing Growth.

*Readings: VI Chapters 6, 7 and Part III*

HW3: Mini Valuation Exercise: MEMC. Due: Week 5.

***Week 4, Wednesday January 27, 2010***

Outside speaker: Peter Grondin, OSS Capital Management (Tentative)

Topic: To be announced

*Readings: Selected Articles to be given in class*

***Week 5, Wednesday February 3, 2010***

Discussion of HW3 (MEMC.) More on Earnings Power. Valuing Growth.  
Final Stock Valuation Project: Interim Presentation

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

***Week 6, Wednesday February 10, 2010***

Outside speaker: Greg Obenshain, Stone Tower Capital

Topic: "Investing in the High Yield market"

Assignment for Week 7: Prepare to present your group's approach to picking the stock for your Final Valuation Project

*Readings: Selected Articles to be given in class*

***Week 7, Wednesday February 17, 2010***

Interim Presentation by each group on "Approach to selecting a stock for the Final Valuation Project"

***Week8, Wednesday February 24, 2010***

Outside speaker: Anil Doradla, William Blair & Co.

Topic: "Wireless and Telecom Industry"

*Readings: Selected Articles to be given in class*

***Week 9, Wednesday March 3, 2010***

**Outside speaker: Todd Pulvino, CNH Partners**

**Topic: "Slow Moving Capital: A framework for understanding arbitrage opportunities in today's market"**

*Reading: Will be given out in class*

***Week 10, (Final Presentations) Wednesday March 10, 2010***