Heilbrunn Center for Graham & Dodd INVESTING

COLUMBIA BUSINESS SCHOOL

*Columbia University*
*Graduate School of Business*

# **Security Analysis** B8368-01

Fall 2017 **Bidding Syllabus**

Fall 2016
Warren 310 Phone: (978) 801-0862
Wednesday: 5:45 – 9:00 PM Office Hours: By Appointment

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Teaching Assistant: TBD
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## Course Description and Outline

*Course Content:*

The course's objective is to present a rational investment philosophy and process for equity security analysis and capital allocation. The course has three sections:

(1) **Investment Philosophy and Capital Markets**

- What is the objective of security analysis and investing?
- Why does a value-based methodology win over time?
- Does Modern Portfolio Theory explain empirical evidence?
- What is more instructive for investment analysis – determining value or expected return?
- What is the difference between "cheap" and "mis-priced"?

(2) **Investment Process – Valuation and Competitive Strategy**

- What is the difference between a great business, a good business and a bad business?
- How can we evaluate when a business and/or an industry's mid-long term economics change?
- How can we evaluate company specific structural mis-pricings that exist?

- How can we categorize investment opportunities to improve how we value and define them?
- How can we define a process to source mis-pricings into investment categories?
- What are the commonly used valuation methodologies and which are most instructive for certain situations?
- What is the most effective framework for modeling a business and what are the pitfalls?
- How can we evaluate management's history of capital allocation? How important is it and how do we factor this into valuation?

(3) **Capital Allocation and Global Macro**

- What top-down inputs are instructive for a security analyst?
- What lessons have we learned from previous bubbles?
- Can computing and evaluating asset class expected returns help source where a security analyst might find mis-pricings and compounding opportunities?
- How do we evaluate secular headwinds or tailwinds for industries and businesses?
- What are the pitfalls of consensus thinking and is there a benefit to seeking the edge of the crowd?
- What are the key economic data points that truly inform the analyst where we are in certain cycles?

The curriculum will seek to answer these questions by first reviewing investing principals and concepts. Thereafter we will bring in company executives and investment practitioners to provide real world evidence of these principles in action and allow for students to participate in a thoughtful, factual dialogue.

***Course Structure:***

50% - lecture – professor, company executives, and practitioners - portfolio manager/analysts
20% - student presentations
30% - student interaction

***Grades:***
Grades for the course will be based on 5 factors, as follows:

1. Group Investment Thesis. Length of report should be 8 – 12 pages, excluding exhibits. We will discuss the format and content of the report in more detail in class. These reports are done on a group basis, although a mechanism will be in place to assure that contributions are equal among members. This report is due one week after our last class meeting. **(20%)**

2. Presentation of Group Investment Thesis. Everyone will be required to participate in the presentation. **(20%)**

3. Competitive Strategy and Valuation Reports. This investment process section of the class will be broken out into three parts (compounders, transformations, and workouts) and each student will be responsible for a two page (maximum) write up on an assigned business/investment

opportunity that meets the characteristics of each category. Reports will discuss the business, competitive strategy, why it may be mis-priced, and valuation. These will be due 1 week after completion of class discussions on each category. Students should be prepared to discuss the merits of their assigned investment opportunity with the class. **(30%)**

4. Global Macro Report: Consensus versus Edge or Macro/Micro View Report. In the final section of the class, we will discuss how a security analyst should consider and synthesize global macro information. The report will be no longer than 3 pages and will be discussed at greater length during class. Reports will be due 1 week after assignment and students might be asked to describe notable ideas to the class. **(15%)**

5. Class Participation. All aspects of the course—including the initial lectures—are intended to be interactive. Students are encouraged to challenge, disagree, and pose alternate views. Further, attendance will be taken every class, with the cumulative attendance record contributing to a class participation grade. Required readings will be discussed and students might be asked about assigned reading during classes where material is being discussed. **(15%)**

***EXAMPLE* Class Schedule and Material:**
****subject to change****

| ***Class*** | ***Date*** | ***Material We Will Cover and Your Assignment*** |
|---|---|---|
| 1 and 2 | Sept. 6 | Introduction and Overview of Course – (*Required Attendance)* |
| | | *Section 1: Investment Philosophy and Capital Markets* |
| | | • Multidisciplinary Learning – General Principles<br>• Compounding and Mental Models |
| | | • Value Investing |
| | | • Cheap versus Mis-priced |
| | | • Unified Theory – Returns vs. Values |
| | | • Investment Edge – Infinite Refinement, Perspective, Synthesis |
| | | • Solving Investment Puzzles – Pattern Recognition |
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| | | Review assignment: Global Oligopolies |
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| | | Required Readings: |
| | | • Buffett Partnership Letters – 1960 – 1963 - links in the reading list |
| | | • Security Analysis, Graham, Dodd – 6th Edition – Forward, Preface, Intro's to All Parts (1-8), Chapters 4, 50, 51 |
| | | • Intelligent Investor – Graham – Chapters 8 and 20 |
| | | • East Coast Asset Management, Inc. Client Letters – (2010 – 2014) Christopher Begg, CFA (link) |

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| 3 and 4 | Sept. 13 | *Section 2: Investment Process – Valuation and Competitive Strategy* |
| | | Introduction to Categories – Compounders, Transformations, Workouts |
| | | • Compounders – introduce category, highlight concepts from reading and discuss. |
| | | • Competitive Strategy |
| | | • Competitive Evolution |
| | | • Oligopolies – Review Concept and Assignment |
| | | • Valuing Compounder/Franchises - methodologies |
| | | • Examples of these types of businesses and investment opportunities |
| | | |
| | | Guest Speaker –<br>• Simeon Wallis - ValorBridge |
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| | | Review assignment: Compounder Report |
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| | | Required Readings: |
| | | • Good to Great, Collins – Assigned Chapters /Pages |
| | | • Competition Demystified, Greenwald – Assigned Chapters/Pages |

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| 5 and 6 | Sept. 20 | *Section 2: Investment Process – Valuation and Competitive Strategy* |
| | | Compounder/Franchises – continued |
| | | • Student Presentations of Compounder report – competitive positioning and valuation (class discussion) |
| | | • What are the best ways to source compounders? Review techniques and discuss output. |
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| | | Guest Speaker –<br>• Aaron Wasserman – Baron Capital, Inc. |
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| | | Guest Presenter – TBD – SA 2015 |
| | | (Winning Team Thesis – TBD) |
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| | | Review assignment – Transformation List |
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| | | Required Readings: |

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| | | • Assigned readings and handouts |
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| 7 and 8 | Sept. 27 | *Section 2: Investment Process – Valuation and Competitive Strategy* |
| | | Transformations – introduce category, review required reading, discussion. |
| | | • The Power of Price – conceptual examples |
| | | • Industry Consolidation |
| | | • Demutualizations |
| | | • Review Assignment – List of Transformations Globally |
| | | • Review Examples: Rails – Canadian/US, Credit Card Processors, US Floor Covering, US Solid Waste Industry. |
| | | • Valuing Transformations – review models |
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| | | Guest Speakers –<br>• Peter Kaufman – CEO of Glenair (4pm – 6pm)<br>• Carlos Brito – CEO of AB Inbev (6:15pm – 8pm) |
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| | | Assignment: Transformation Report |
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| | | Required Readings: |
| | | • Assigned readings and handouts |
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| 9 and 10 | Oct. 4 | *Section 2: Investment Process – Valuation and Competitive Strategy* |
| | | Transformations – Continued |
| | | • Student Presentations of Transformation Report and Discussion |
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| | | Guest Speaker –<br>• TBA |
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| | | Assignment – Sourcing List of Assignment Workout Category |
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| | | Required Readings: |
| | | Kaufman, Peter D., ed. *Poor Charlie's Almanac, Expanded Third Edition* |
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| 11 and 12 | Oct. 11 | *Section 2: Investment Process – Valuation and Competitive Strategy* |
| | | Workouts – introduce category, review required reading, discussion. |
| | | • Review types of workouts: spinoffs, post bankruptcy reorganization, "Bernstein Formula", CEO Change, event-driven mis-pricing, etc. |
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| | | Review Assignment – Student Discussions |
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| | | Guest Speaker –<br>• TBA |
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| | | Assignment – Workout Report |
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| | | Required Readings: |
| | | • You can be a stock market genius – Joel Greenblatt |

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| 13 and 14 | Oct. 25 | *Section 2: Investment Process – Valuation and Competitive Strategy* |
| | | Workouts – continued |
| | | • Student Presentations of Workout Reports – competitive positioning, catalyst, time horizon and valuation (class discussion) |
| | | • What are the best ways to source workouts? Review techniques and discuss output of various sourcing categories. |
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| | | Guest Speaker –<br>• Mark Leonard – CEO of Constellation Software |
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| | | Assignment: Group Investment Thesis – formulate groups, deadline for idea submission 1 week. |
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| | | Required Readings |
| | | • Fooling Some of the People All of The Time – Einhorn (assigned chapters and pages) |
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| 15 and 16 | Nov. 1 | *Section 3: Workouts Continued and Global Macro* |
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| | | Guest Speaker –<br>• TBA |

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| | | Capital Allocation and Global Macro – introduce why a security analyst should have a global macro perspective. Importance and pitfalls. |
| | | • Macro Themes |
| | | • Micro Themes |
| | | • Consensus vs. Edge Exercise |
| | | • Asset Class Expected Rates of Return |
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| | | Assignment – Global Macro Report – to be discussed |
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| | | Required Readings: |
| | | • Assigned in class |

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| 17 and 18 | Nov. 8 | *Group Investment Thesis Presentations* |
| | | Group Presentations |
| | | Invited Practitioners to Critique Group Thesis–<br>TBA |

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| 19 and 20 | Nov. 15 | *Section 3: Global Macro and Sourcing/Screening* |
| | | Capital Allocation and Global Macro – continued |
| | | • Student Presentation of Global Macro Reports |
| | | • Discuss *Critical Data Points* that drive where we are versus statistics that serve as noise. |
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| | | Guest Speaker –<br>• TBA |
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| | | Assignment – work on group projects |
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| 21 and 22 | Nov. 29 | *Section 3: Global Macro and Sourcing/Screening* |
| | | Sourcing and Screening – Bloomberg, etc. |
| | | Guest Speaker – Bloomberg Equity Specialist<br>TBD |

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| 22 and 24 | Dec. 6 | *Section 3: Owner Operators – Capital Allocation* |
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| | | • Case Studies on Owner Operators – *The Outsiders* – Will Thorndike |

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| | | • Compounding Triumvirate |
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| | | Guest Speaker –<br>• Howard Marks – Oaktree Capital Management |
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| | | Assignment – TBA |
| | Dec. 6 | *Section 3: Owner Operators – Capital Allocation* |
| | 4pm – 6pm | |
| | | Guest Speaker –<br>• Todd Combs – Berkshire Hathaway |

***Reading List:***
Each student is required to read the noted readings on the syllabus schedule. Listed below are those books as well as others I highly recommend.

East Coast Asset Management, Inc. Client Letters – Christopher Begg, CFA
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*
Kaufman, Peter D., ed. *Poor Charlie's Almanac, Expanded Third Edition*
Einhorn, David, *Fooling Some of the People All of the Time*
Klarman, Seth, *Margin of Safety*
Wilson, E.O., *Consilience: The Unity of Knowledge*
Graham, Benjamin and David Dodd, *Security Analysis – 6th Edition*
Greenblatt, Joel, *The Little Book That Beats the Market*
Greeblatt, Joel, *You Can Be a Stock Market Genius*
Cunningham, Laurence A., *The Essays of Warren Buffett: Lessons for Corporate America*
Fisher, Philip A., *Common Stocks and Uncommon Profits*
Cialdini, Robert B., *Influence*
Heins, John, *The Art of Value Investing*
Bevelin, Peter, *Seeking Wisdom – From Darwin to Munger*
Graham, Benjamin, *The Intelligent Investor*
Collins, Jim, Good To Great
Buffett Partnership Letters – 1957 – 1970 (link)
Berkshire Hathaway Inc. Shareholder Letters (link)
Bevelin, Peter, *A Few Lessons for Investors and Managers*
Thorndike, William N., *The Outsiders*
Cunningham, Lawrence, *The Essays of Warren Buffett*