**FINC B8378-001 Value Investing with Legends**

**Tuesday/Thursday 5:45pm – 7:15pm**

**Uris Room 301** (Term A); **Uris 142** (Term B)

**SPRING 2015**

**(\*\*All information below is subject to change\*\*)**

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TA:

**REQUIRED COURSE MATERIAL**

**Textbooks**

There are two main textbooks:

* [*Value Investing: From Graham to Buffett and Beyond*](http://www.amazon.com/Value-Investing-Graham-Buffett-Finance/dp/0471463396/ref%3Dsr_1_1?s=books&ie=UTF8&qid=1327371806&sr=1-1). [Bruce C. N. Greenwald](http://www.amazon.com/Bruce-C.-N.-Greenwald/e/B001ITY97W/ref%3Dsr_ntt_srch_lnk_1?qid=1327371806&sr=1-1), Judd Kahn, Paul D. Sonkin and Michael van Biema, Wiley Finance, 2004.
* *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:

* *The Little Book that Still Beats the Market*. Joel Greenblatt. John Wiley & Sons, 2010.
* *Margin of Safety: Risk Averse Value Investing Strategies for the Thoughtful Investor.* Seth Klarman. Harper Business, 1991.
* *The Most Important Thing: Uncommon Sense for the Thoughtful Investor.* Howard Marks, Columbia Business School Publishing, 2011.
* *The Little Book of Behavioral Investing.* James Montier. John Wiley & Sons, 2010.
* *Value Investing: Tools and Techniques for Intelligent Investment.* James Montier. John Wiley & Sons, 2009.
* *Value Investing: A Balanced Approach.* Martin Whitman. Frontiers in Finance Series, John Wiley & Sons, 2000.

**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:

|  |  |
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| **Core Course** | **Connection with Core** |
| 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
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| 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
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Students will be expected to have mastered these concepts and be able to apply them in the course.

**COURSE DESCRIPTION AND OBJECTIVES**

This class combines B8377-001 Value Investing in Term A with the Value Investing with Legends lecture series in Term B. 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. The second half of the semester (Term B) is intended to expose students to the practical implementation of Graham and Dodd investing principles. Through presentations by leading value investors, students will learn how individuals develop an investment process to suit their personality and personal biases. Investors will discuss: 1. search strategy, 2. valuation approach, 3. research techniques, and 4. risk management in the context of their own investments.

**ASSIGNMENTS**

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| **Date**   | **Topics**   | **Readings and assignments**  |
| Tu., Jan. 27 | Introduction to the Fundamentals of Value Investing and Fundamentals of Valuation  |           **II**, Chpts. 1,8,15; **VI**, Chpts. 1-5.  |
|   |   |           Ch. Lee, A. Shleifer and R. Thaler, *“Investor Sentiment and the Closed End Fund Puzzle,”* Journal of Finance, March 199 |
|   |   |           R. Sloan, *“Do stock prices fully reflect information in accruals and cash-flows about future earnings?”* Accounting Review, 71, 1996. |
|   |   |           A. Frazzini and O. Lamont “*Dumb money: Mutual fund flows and the cross section of stock returns,”* Journal of Financial Economics, 88, 2008. |
|   |   |           O. Lamont and R. Thaler *“Anomalies: The Law of One Price in Financial Markets,”* Journal of Economic Perspectives, vol. 17, 2003  |
|   |   |           M. Mitchell, T. Pulvino, and E. Stafford *“Limited Arbitrage in Equity Markets,”* Journal of Finance, vol. LVII, 2002. |
|   |   |           K. Daniel and S. Titman *“Market reactions to tangible and intangible information,”* Journal of Finance, vol. LXI, 2006 |
| Th, Jan. 29 | Quantitative Approaches |           E. Fama and K. R. French, *“The Cross-Section of Expected Stock Returns,”* Journal of Finance, 1992 |
|   |   |           W. DeBondt and R. Thaler, *“Does the Stock Market Overreact,”* Journal of Finance, 1985;  |
|   |   |           J. Lakonishok, A. Shleifer and R. Vishny, *“Contrarian Investment Returns and the Structure of Risk,”* Journal of Finance, 1994, and *“The Structure and Performance of the Money Management Industry”*, Brookings Papers on Economic Activity. Microeconomics, 1992.  |
|   |   |           N. Jegadeesh and S. Titman, “*Returns to buying winners and selling losers: Implications for Stock Market Efficiency,”*  Journal of Finance, 1993 |
|   |   |           C. Asness, T. Moskowitz and L. Pedersen *“Value and Momentum Everywhere,”* Chicago Booth Paper No. 12-53, 2012 |
| Tu., Feb. 3 | Basic Valuation |           **II**, Chpts. 12,20; **VI** Chpts 6-8.  |
|   |   |   |
| Th. Feb. 5 | Hudson General Valuation  | Hudson General 1998 Annual Report  |
| Tu. Feb. 10 | Magna International | Magna 2008 Annual Report; Value Line |
| Th., Feb. 12 |  Franchises |   |
| **Date** | **Topics** | **Readings and assignments** |
| Tu., Feb. 17 | Amazon | Annual Report, Value Line |
| Th., Feb. 19 | Valuing Growth  | **II**, Chpts. 12,20; **VI** Chpts 6-8;  |
| Tu., Feb. 24 | Walmart | Annual Report; Value Line |
| Th., Feb. 26 | Dell , American Express | Annual Reports; Value Line |
| Tu., Mar. 3 | Risk Management, Macro 1, Nestle | Annual Report |
| Th., Mar. 5 | Macro 2, Ferrovial | Annual Report |

**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 a 1 page written summary of reading materials provided by the speaker and a list of 3-5 relevant questions for the Speaker. These must be submitted by 8pm 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.