FIN 237f (1) – Security Analysis, Fall 2019, Module 2, Thursdays 6:30-9:15pm.
Room: Sachar International Ctr 116

Lecturer:
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Hours: 5:30-6:20pm Thursdays
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Hours:

OVERVIEW

Academic research has demonstrated the broad efficiency of financial markets and the difficulty of ‘beating the market’ on a risk-adjusted basis. Despite this, investors allocate trillions of dollars to mutual funds and hedge funds looking to generate alpha and ‘beat the market’. These funds have a sizeable and growing influence on worldwide capital markets.

In this course, we examine fundamental-based investment strategies funds use to generate alpha, or positive risk-adjusted returns with a particular focus on fundamental analysis and equity strategies used by long only funds.

Our main topics include:

- Market efficiency – where does it hold, where does it break down?
- History and structure of public market investing vehicles, actively managed long only mutual funds and hedge funds
- Fundamental-based strategies for generating alpha, with a special focus on long-only equity funds
- Fundamental investing in the context of the efficient market hypothesis, establishing the need for an investor to have an informed, differential view to deliver alpha
- Developing core fundamental investing tenets:
  - ‘Idea generation’: Identifying potentially attractive investments
  - ‘What will happen’: Developing a fundamental point of view on a company’s prospects, with a focus on forecasting company revenues and cash flows
  - ‘Where is my alpha?’: Comparing that point of view to ‘conventional wisdom’
  - ‘What can go wrong?’: Evaluating risks to your thesis
  - ‘Declaring victory’: setting and applying exit targets
- Application of fundamental investing using alternative strategies
  - ‘GARP’ (Growth at a Reasonable Price) investing
  - Relative Value investing
  - Activist Investing
  - Deep Value Investing

The course is designed to be relevant not only to students considering a career in stock fund investing, but to those in related careers such as investment banking and asset management.
LEARNING GOALS

At the conclusion of this course, the student should be able to understand:

- How to identify and evaluate a potential investment that can ‘beat the market’, applying fundamental investment principles, with a special focus on legal and ethical data collection
- How to set and maintain exit targets for an investment, using DCF/NPV and comparable analysis
- Exit strategies
- How to develop an integrated ‘stock pitch’, supported by research, justifying a specific investment

COURSE REQUIREMENTS

Required Reading: Most of the readings for this course will be public financial filings and analyst research reports distributed via LATTE. For students wishing to go deeper in selected areas, I have recommended some books. See Exhibit A for full details.

Prerequisite: ECON 210f, FIN 201a/205a and FIN 212a or equivalents are mandatory. FIN 217f and FIN 216f are recommended but not required. The course assumes that you have a working knowledge of accounting and financial ratios, probability theory and the ability to perform and interpret regression analysis. You should take this course at a later date if you do not have sufficient statistical, finance, accounting and financial statement analysis background.

Class Participation: Class participation is expected of everyone in this course, and class attendance is required. Most weeks a different company will be assigned for evaluation and every student is expected to be prepared to discuss the company in detail, including a thorough analysis of the financial statements. To facilitate participation, I will ask all students to place a name card on their desks. Absences will adversely affect your participation grade. Perfect attendance but no participation receives a grade of “B-“ towards the overall grade. Each absence results in a reduction in this grading element (B+ to B, and so on).

Written Assignments: Team assignments must be done in groups of four students. I will assign students to teams. Grades on each assignment are assigned to all members of the team (although I reserve the right to alter individual grades in certain circumstances, e.g., when it is clear to me that an individual did not contribute to the assignment in a consistent and meaningful way). Any changes to your team roster must be approved by me.

Grading (50% individual, 50% team)

Team Project
- Preliminary Stock Pitch Report 10%
- Final ‘stock pitch’ 20%
  (15% for written assignment, 5% for class presentation)

Team Assignment – (2 totaling 10%)
Screening
Ocada Questions and Investment thesis
Individual Assignments
- Revenue Projection 15%
- Fundamental Valuation (Lulu) 15%
- Sum of the parts 15%
- Class Participation 5%

Class Format. Classes will be a mixture of lectures introducing new material, discussions of homework assignments and guest speakers. Each team will be required to give a 10 minute ‘stock pitch’ presentation of their final project.

Office Hours I will be available from 5:30 – 6:20 on days before class, or by appointment

Academic Honesty. You are expected to be honest in all of your academic work. Please consult Brandeis University Rights and Responsibilities for all policies and procedures related to academic integrity. Students may be required to submit work to TurnItIn.com software to verify originality. Allegations of alleged academic dishonesty will be forwarded to the Director of Academic Integrity. Sanctions for academic dishonesty can include failing grades and/or suspension from the university. Citation and research assistance can be found at LTS - Library guides. For any work involving historical cases, under no circumstance may you search the internet (or turn to any other outside source) for any information regarding these cases without my permission. Failure to comply with this directive is cheating.

Special Accommodation. If you are a student with a documented disability on record at Brandeis University and wish to have a reasonable accommodation made for you in this class, please see me immediately.

Success in this two-credit course is based on the expectation that students will spend a minimum of 9 hours of study time per week in preparation for class (readings, papers, discussion sections, preparation for exams, etc.)
COURSE OUTLINE

CLASS ONE
Introduction to Security Analysis
Thursday 10/24/2019

In this introductory lecture we will answer the following questions, which will provide the foundation for our remaining sessions:

- What is the Efficient Market Hypothesis? Where does it hold, and where does it break down
- CAPM Model, why is it important?
- Fundamental-based strategies for generating excess returns or alpha, with a special focus on long-only equity funds
- Idea generation: How do fundamental investors find, make and monitor investments?
  - Top down stock selection, Industry and quantitative screening, trends
  - Bottom up stock selection: “the three circles”
- Stock selection process: How to you search for the ideal portfolio candidate?
- We will introduce the “portfolio candidate” framework and how to apply it to investment selection.

CLASS TWO
Thursday 10/31/2019
Fundamental analysis /Use of ratios in valuation method/Dupont formula
Industry analysis/Case study: Moncler

In this lecture we will start top down, analyzing the fundamental characteristics of the luxury goods industry fundamentals and discuss the story of the Italian luxury goods company Moncler since its IPO

  - How to develop an investment thesis using fundamental analysis
  - Fundamentals of a company and catalysts for rerating
  - Revenue and earnings projection
  - Financial ratios and their role in analyzing a company
  - Balance sheet ratios
  - How to manage risks and exit strategy

William Kelly, currently CEO of CAIA Association and Advisory Committee Member, Certified Investment Fund Director Institute and Chairman of the Board, Boston Partners Trust Company; and previously Independent Trustee and Audit Committee Chairman, BofA Funds Series Trust.

CLASS THREE
Thursday 11/07/2019

- We will discuss key role management can play in transformation of a company through examples from Emerging markets and International markets
- We will also introduce the three basic ways of valuing a company
  - The cashflow method
  - Relative valuation method
  - Sum of the parts method
• Our guest lecturer Carolyn will walk through her investment thesis on an Ocada, an online grocer based in UK in the retail sector to illustrate this further

Guest Speaker:
Carolyn Kedersha, CPA, CFA, currently Board of Directors, New Hampshire Electric Cooperative, Inc.; more recently Chief Investment Officer and Senior Portfolio Manager, BPAS Asset Management, LLC; and previously Senior Portfolio Manager and Head of Emerging Market and International Small Cap, BNY Mellon (The Boston Company Asset Management).

CLASS FOUR
Monday 11/14/2019
Topics: Discounted cash flow/ Relative valuation discussion continued/Activism
• We will expand on the different valuation strategies with illustrations and examples from different industries and companies
  o Relative valuations
  o Discounted cashflow
• We will discuss the importance of cashflows in analyzing a company
• Our guest lecturer Matt will give us an overview on “activist” style of investing

Guest Speaker:
Matthew Waterbury, Bain and Company. Matt will discuss how activist investors value a specific company, and discuss activism generally.

CLASS FIVE
Thursday 11/21/2019
Topics: Developing an Investment Thesis/Sum of the parts
In this lecture we will further explore
  o The “sum of the parts analysis” approach to valuation. When and how do you apply it?
  o Our guest lecturer Deena will discuss the Investment case for apparel maker Lulu as a bottom up stock recommendation

Guest Speakers:
Deena Friedman, currently a consultant for PriceWaterhouseCoopers (PwC); formerly an Equity Research Analyst and Fidelity Select Retailing Portfolio Manager at Fidelity Investments. Ms. Friedman is a consumer and retail sector investor, expert, and thought leader.

CLASS SIX
Thursday 12/5/2019
Topics: How to develop a full investment thesis using fundamental analysis with all the tools we have learnt/ Top down macro discussion
• We will conclude the development of our investment thesis discussion using all the fundamental analysis tools we have developed in this course
• Application of fundamental investing using alternative strategies
  o ‘GARP’ (Growth at a Reasonable Price) investing
  o Relative Value investing
  o Activist Investing
  o Deep Value Investing
  o What are hedge funds?
• Our guest lecturer Paul will summarize a current macro overview of global markets and strategy update

Guest Speaker:

Paul deMoor, CFA, Vice President, Capital Markets Strategy, Fidelity Investments
Topic: Investment themes in Capital Management and Strategy

CLASS SEVEN
Monday 12/16/2019
Each team will have 10 minutes to deliver its ‘stock pitch’ – its investment thesis and recommendation (complete with exit strategy), based on its primary and secondary research facts.

EXHIBIT A – Case and Reading Assignment List

• For most classes, I will assign the reading of a set of public filings and analyst reports. Those materials will be posted each week on LATTE or be available in Bloomberg or the other research portals available to the students

• In addition, I suggest the following recommended readings to students looking to get a fuller understanding of the topics we will develop during this class
  o Week 1: Malkiel, “A Random Walk down Wall Street”
  o Week 2: Graham and Dodd, “Security Analysis”
  o Week 3: Graham, “The Intelligent Investor”
  o Week 6: Brown and Goetzmann, “Hedge Funds with Style”, EFA 2001 Barcelona Meetings (distributed via LATTE)
  o Week 7: Goodspeed, “The Tao Jones Averages”