Value Investing Syllabus
MGP 490-2
Summer 2012

Work Deliverables + (Due Date) + Grade %:

- Business-Person Accounting Exam (8/6/12) – 30%
- Net-Net Working Capital Hand-in (8/15/12) – 10%
- Magic Formula Hand-in (8/27/12) – 10%
- Value Investment Research Project (9/5/12) – 30%
- Final Presentation- Investment Ideas (9/5/12) – 20%

Course Description:

"If I were running a business school I would only have 2 courses. The first would obviously be an investing class about how to value a business. The second would be how to think about the stock market and how to deal with the volatility.

~Warren E. Buffett

We all admire Warren Buffett as a businessman and few can debate his investment success, but how does he actually do it? Is he lucky? Is he a genius? Both are probably true, but that doesn't mean you can’t learn the value investor's methods. If you want to learn the nuts and bolts of value investing, save a spot in your 2012 summer schedule. The class will be joint-taught by two UCD GSM alumnus Lonnie Rush and Jake Taylor.

The financial meltdown of 2008-09 is arguably the worst since the Great Depression. In difficult times like these, it is important to stick to simple business-like principles when investing in stocks or private businesses. The course will cover the history of value investing and the principles as taught by Warren Buffett’s mentor Benjamin Graham. We will review the results of past value investing studies as well as the performance records of value investors such as Warren Buffett, Charlie Munger, Walter Schloss and Joel Greenblatt. Following a refresher on accounting, we will spend time discussing the keys to valuing a business. The majority of the class will then be exercises in identifying and evaluating investment opportunities using the value investment framework. Students will come to appreciate the range of value investing techniques and strategies including Warren Buffett’s evolution as an investor since the 1950’s.

"I don't look to jump over 7-foot bars: I look around for 1-foot bars that I can step over."

~Warren E. Buffett

This value investing course is a hands-on interactive class designed to help investors find the 1-foot bars in the stock market using proven business-like principles and applying a value investing framework. Teams of students will participate in a Portfolio Challenge to hopefully prove to themselves the merits of this strategy. The syllabus is subject to change as we finalize commitments from our guest speakers.

Contact Information:
Lonnie J. Rush, 916-467-2080, lonnie@farnamstreetinvestments.com
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Presentation Requirements: Best net-net and Magic Formula investment ideas. These will be used to create a class portfolio managing actual charitable monies eventually donated to kiva.org.

Class 1:

(8/1/12, 6pm-9pm) Introduction, History and Principals of Value Investing

Introduction

The Importance of Saving: Guest Speaker- Sean Boyd, CPA
The Importance of Passion: Guest Speaker- Scott Dinsmore

History of Value Investing

- Types of Investing (Growth, Momentum, Technical, etc.)
- Value Investing - Buy cheap assets or earnings
- History of value investing
- Benjamin Graham beginnings (Great Depression – 1976)
  - Security Analysis 1934
  - Intelligent Investor 1949

Principles of Value Investing

- Graham's tenets of value investing – investing should be business-like
  - Mr. Market analogy
  - Margin of safety
  - Stocks are not just a piece of paper

Q&A

Class 2:

(8/6/12, 6pm-9pm) Past Value Studies and Graham Disciple Performance

Part I – Past Value Studies

- The Superinvestors of Graham and Doddsville, by Warren Buffett
- What Has Worked in Investing, by Tweedy Browne
- What Works on Wall Street, by O'Shaughnessy
- Journal of Portfolio Management, by Berkowitz & Pzena
- The Little Book That Beats the Market, by Joel Greenblatt
  - P/BV vs. Reliance of NI graph
    - Where do Investment Strategies fit on Graph?

Graham Disciples and Their Performance

Part II – Accounting Review

- Balance Sheet
- Income Statement
• Cash Flow Statement
• Red Flags
• Accounting from businessman's perspective

Life Cycle of a Business from Businessman’s Perspective

• Cash Flow Standpoint
  o Start Up
  o IPO
  o Growth Phase
  o Growth Slowdown
  o Cash Cow
  o Decline
  o Liquidation or Sale of Business

Business Person Accounting Exam
Q&A

Class 3:
(8/8/12, 6pm-9pm) How to Value a Business

Part I - How to Value a Business
• Asset Values
• Earnings Stream
  o Earnings Multiple
  o DCF
• Combination – Enterprise Value

Part II – Net Net Working Capital
• NCAV calculation
  o What's included and what’s not?
• Why do net-nets make sense?
• Where do you find them?
• Why doesn’t everyone just invest in them?

Part III – Net Net Current Examples
• Net-Net Examples – Instructor Led

Q&A

Class 4:
(8/13/12, 6pm-9pm) Net-Net Student Presentations

4 people per group, 10 minute presentation on 2 best assigned ideas
Q&A

Class 5:
(8/15/11, 6pm-9pm) Guest Speakers
Net-net Working Capital Hand-in Due

Class 6:
(8/20/12, 6pm-9pm) Magic Formula Investing

Part I - “Joel Greenblatt’s Magic Formula”
• Earnings yield
• Return on invested capital
• Why it works

Part II – Magic Formula Current Examples
• MF Examples – Instructor Led

Bonus Material: Corporate Turnarounds by Ken McGuire

Q&A

Class 7:
(8/22/12, 6pm-9pm) Magic Formula Student Presentations

4 people per group, 10 minute presentation on 2 best assigned ideas
Q&A

Class 8:
(8/27/12, 6pm-9pm) Portfolio Construction

Part I – Portfolio Theory
• Mutual Fund Diversification
• Kelly Formula Theory
• Edge/Odds Examples

Graham and Disciple Diversification
• Graham’s Net-net Diversification
• Buffett and Munger Diversification
• Greenblatt’s MF Diversification

Part II – “Know Thyself”—Investment Biases and How to Avoid Them

Magic Formula Hand-in Due
Q&A

Class 9:
(8/29/12, 6pm-9pm) Student Presentations: Best Investment Idea
Guest Speaker

Class 10:
(9/5/12, 6pm-9pm) Student Presentations: Best Investment Idea/Class Wrap Up
• Portfolio Challenge picks due
• Value Investment Research Project Due