



FISHER

COLLEGE OF BUSINESS

BF4226 – Applied Fundamental Investing Spring 2016 Course Description and Syllabus

Instructors: Tod Schneider, Bhavik Kothari, Tyler Ventura and Krishna Mohanraj (from Diamond Hill Capital Management Inc.)

Professor: Kewei Hou
Office hours: By appointment only

Course Description:

Over \$31.3 trillion are invested in mutual funds worldwide. Roughly \$13.8 trillion is invested in U.S mutual funds alone, up from just \$2.8 trillion in 1995. Exchange-traded funds (ETFs) now manage \$2 trillion, and the number of ETFs has grown from 2 in 1995 to over 1,400 today. U.S. Hedge funds, including Funds of Funds, manage over \$2.8 trillion. Private equity, including venture capital, manages over \$3.5 trillion.

To find employment in this industry, it is necessary to know some of the specialized skills that are required, skills above and beyond those taught in typical Investments and Corporate Finance courses. The goal of this course is to provide an introduction to the tools needed to enter the field of professional money management.

You are expected to have already completed all the base courses in finance. You should also be familiar with using Excel.

The main goals for this course are:

- 1) Increasing your ability to identify attractive investment ideas.
- 2) Honing your ability to research potential investment ideas by employing a comprehensive research process and make investment recommendations and decisions.
- 3) Get a better understanding of portfolio management.
- 4) Improve your financial modeling skills.
- 5) Improving your understanding of current issues in the field of investment management.

The course will be both lecture and project based and will mainly be conducted by analysts from Diamond Hill Capital Management Inc. with oversight from Professor Kewei Hou. Throughout the course students will learn all the key aspects of investment

research and portfolio management. Concurrently students are expected to independently identify attractive investment opportunities across any financial instrument (equities, bonds, derivatives), long or short and across all geographies (developed and larger emerging markets). It is this combination of guidance from the instructors who have many years of industry experience and project based approach where students can apply everything they have learned in class that will prepare them to have a good understanding of how the investment industry works.

Course Material:

Slides:

Slides and other supporting materials will be distributed to the students via email.

Wall Street Journal or Financial Times:

Not required, but you should either have your own subscription or have regular access to the Journal if you are interested in a career in finance. We will go over many articles from the WSJ and/or FT and other news-sources in class, to both keep up with current events in the field, as well as to tie the course material to real-life examples.

Course Format:

This class meets twice per week. We will be following the flow of topics and concepts selectively, but we will also spend time on related examples. Questions are always welcome; please don't hesitate to interrupt at any point.

Grading

Grading will comprise mainly of two aspects. Class participation is highly encouraged and so 25% of the grade will depend on the quality of class participation. The other 75% will be based on research report submitted at the end of the course and students will be graded on the quality of analysis and the reasonableness of the investment idea. Final grades will be curved with the median grade being close to the B+/A- cutoff.

Class Calendar:

	Topics:	Sub-Topics:
Wk 1	Introduction to investment management industry	Intro to the asset management industry. What is the role of an analyst and PM? Who are the various industry players in the value chain and what are their roles?
Wk 2	Introduction to investing	What is value investing? What are the various styles within value investing? Intro to fundamental investing. Efficient market hypothesis.
Wk 3	Investment Process	Idea generation Research process Moats and competitive advantage
Wk 4	Investment Process	Forecasting Valuation Importance of checklists
Wk 5	Investment Process	Evaluating management quality

		Quality of earnings Shorting
Wk 6	Portfolio and risk management	Investment decision making process Position monitoring Risk management (security and portfolio level) Intro to behavioral finance
Wk 7	Project work	No class. Students work on completing their projects.

Other interesting materials (not required, but good reading):

"The Intelligent Investor" by Benjamin Graham

For investors who are intimidated by Graham's prior groundbreaking work, "Security Analysis", this book makes a good introduction to the difference between making investments and capitalizing on speculation – a risky business. Another favorite book of Warren Buffett's (who wrote the introduction), it covers emotional decision-making versus rational analysis of markets and their fluctuations. Forbes magazine author Jason Zweig also counts it at the top of his favorite book list, calling it "prophetic". Graham's own history as a survivor of the Great Depression stock crash, and master of detailed company research yielding 14% annual returns, qualifies him to mentor others down the investment path.

"The Essays of Warren Buffett: Lessons for Corporate America" (2001) by Warren Buffett and Lawrence Cunningham

Although Buffett seldom comments on his current holdings, he loves to discuss the principles behind his investments. This book is actually a collection of letters that Buffett wrote to shareholders over the past few decades. It's *the* definitive work summarizing the techniques of the world's greatest investor.

Books covering the 2007-2008 financial crisis and related topics: "The Big Short: Inside the Doomsday Machine" by Michael Lewis, "More Money Than God: Hedge Funds and the Making of a New Elite" by Sebastian Mallaby, "Too Big to Fail" by Andrew Ross Sorkin, "The Black Swan" and "Fooled by Randomness" by Nassim Nicholas Taleb, and "This Time is Different" by Carmen Reinhart and Ken Rogoff.

"Panic: The Story of Modern Financial Insanity" by Michael Lewis, 2009, ISBN: 978-0-393-06514-5. Lewis, who has written "Liar's Poker" (below), "The Big Short" (above), "The Blind Side", "Moneyball" and several other books, worked at Solomon Brothers (now part of Citigroup, but at the time the most profitable firm on Wall Street) during the mid-1980's. He takes a broad look at other financial calamities over the past quarter-century and compares/contrasts them to the subprime crash of 2008-09.

"Liar's Poker: Rising Through the Wreckage on Wall Street" by Michael Lewis, 1989, ISBN: 0140143459. A bit dated, but still a fun read. The inside story of a guy working in sales and trading Solomon Brothers in the mid-1980's. (They were on top because they created the market for mortgage-backed securities, ironically.) Great stories about the firm's reaction to the 1987 Crash, the pranks traders play on each other, the attitudes, and the story of the Human Piranha.

“When Genius Failed: The Rise and Fall of Long-Term Capital Management” by Roger Lowenstein, 2001, ISBN: 0375758259. The story of how the best minds of finance—including Nobel laureates Robert Merton and Myron Scholes (rightly lauded in Capital Ideas), along with John Meriwether from Liar’s Poker—began a hedge fund that could not possibly fail, until it did. A very valuable story about how even the absolute greatest minds can be brought to their knees by the market. After reading how these titans of finance were humbled, it is much less of a surprise when we hear how “ordinary” Wall Street CEOs bankrupted their companies in 2008.

Websites and Blogs:

(Note: links do change/break—let us know if any of these are no longer accurate.)

Wall Street Journal: www.wsj.com

Bloomberg: www.bloomberg.com

Yahoo! Finance: <http://finance.yahoo.com>

1. Value investing world: <http://www.valueinvestingworld.com/>
2. Farnam Street: <https://www.farnamstreetblog.com/>
3. Musings on markets: <http://aswathdamodaran.blogspot.com/>
4. Graham & Doddsville: http://www.grahamanddoddsville.net/?page_id=689
5. Berkshire Hathaway Letters to shareholders:
<http://www.berkshirehathaway.com/letters/letters.html>
6. Howard Marks memos: <http://www.oaktreecapital.com/memo.aspx>
7. Michael Mauboussin: <http://www.michaelmauboussin.com/>