Finance 4613/5613 Student Investment Fund  
Fall 2012

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Class Hours: Tuesday and Thursday 10:30 AM - 11:45 AM (Adams Hall 355)  
Office Hours: Tuesday from 1:30 PM - 2:30 PM or by appointment  
Final Presentation: 8:00-10:00 AM, Wednesday, December 12, 2012, Adams Hall 355

The SIF Experience:
The Student Investment Fund is intended to provide you with a rich learning and application experience focusing on financial investing. The learning experience comes about through the fusion of the academic knowledge you have gained from advanced courses in investments and corporate finance with the actual practice of analyzing securities and making and defending buy and sell recommendations for a “live” portfolio. The experience is unique to collegiate business education and provides all that participate with a definite competitive edge in the job market.

The SIF experience is a participatory approach to learning. The experience can be very rewarding but it calls for a commitment on your part. Your commitment involves not just a willingness to do the necessary work outside of class, but also the execution of that work at the highest professional level. I will expect no less, and, as you will see by the portion of your grade that is based on the report write-ups and various forms of class participation, your attention is certainly warranted. If you are unable or unwilling to meet outside of class on a frequent and regular basis, it is best to drop the class immediately.

All classes will be meeting at the scheduled time in an assigned classroom as listed in the course schedule except for a few occasions. Course materials and announcements will be posted on D2L (learn.ou.edu).

Objectives of the Course:
The course is designed to be a comprehensive learning experience dealing with how investment strategies are devised and implemented in real capital (equity) markets. The “value investing” approach will be stressed, with its attendant focus on company fundamentals as the basis for the valuation of equity securities and the management of a “value” style portfolio. A guideline that we will follow is that any security selected for addition to the portfolio, or that you decide we should continue to hold, should satisfy the requirement that it currently be selling at a 25% to 30% discount relative to its intrinsic value, this discount is generally referred to as the “margin of safety”. The “margin of safety”, as it is commonly computed, is equal to

\[
\text{Margin of Safety} = \frac{(\text{Intrinsic Value} - \text{Market Value})}{\text{Intrinsic Value}}
\]

Market value is the current market value (market price) and intrinsic value is your estimate of the “true” value. The issue of how to arrive at an estimate of intrinsic value will be a central concern of
Bloomberg and Capital IQ

A unique feature of this class is the opportunity for you to use the Bloomberg system for the retrieval and analysis of financial information. I have posted instructions about how to logon and use the Bloomberg system on the D2L site for the course. The PC that is dedicated to accessing the Bloomberg system is located in room 110AH on the first floor of Adams Hall just adjacent and to the Business Information Computation Lab. You must reserve time on the machine in order to use the Bloomberg system. The following link is to the reservation login page: http://pcbfaculty.ou.edu/terminal_reservation/login.aspx. You will need your OU ID # and your OU 4x4 to log on to make a reservation. I have alerted the College IT staff to set things up so you are authorized to use the Bloomberg. Hopefully this will be done by our first meeting.

A document is posted in the Content section of the D2L site for the course that provides instructions about accessing and using the Bloomberg system. The title of the document is “Bloomberg for SIF”.

Capital IQ is a commercial data source produced by Standard and Poor’s financial services arm. The system can be accessed through some of the machines in the Business Information Computation Lab on the first floor of Adams Hall. A document titled “Capital IQ Screening for SIF” is posted on the D2L site for the course.

Books and Other Materials: (“Primary” are must read)

Primary: Greenwald, Kahn, Sonkin and van Biema, Value Investing, From Graham to Buffett and Beyond, John Wiley & Sons, 2001

Primary: “Bloomberg for SIF” and “Capital IQ Screening for SIF” and “The Quality of Management” (posted on D2L site for the course)

A website maintained by Damodaran provides a wealth of useful information including numerous spreadsheet models. Damodaran also has written a highly detailed textbook titled “Investment Valuation”, which contains many illustrative examples. Click on the following http://www.damodaran.com when the page opens, you will see a list of links on the left. Click on ‘Updated Data’ to reach Damodaran’s ‘Data Page’. Click on ‘Spreadsheets’ to reach the page where he makes available spreadsheet models for valuation. The link ‘Books and Support’ gives you access to information on his books. The link ‘Classes and Support’ gives you access to links for two course on valuation.

Some additional materials will be distributed during the course of the semester, either electronically via e-mail or through posting on the learn.ou.edu website for the course.

Some Conceptual Issues:

We will begin by establishing a conceptual framework for thinking about the value of a company and hence the value of the company’s equity, and then go on to consider methods for estimating value. I will also review a couple of screening systems that can be used for selecting companies that are ‘potentially’ undervalued. Companies identified by a screen may then become candidates for further evaluation. There are numerous methods one can use in valuing a company. These include relative valuation methods in which a value estimate is computed based upon the values of other similar assets or securities, typically the benchmark is a valuation ratio, like the Price/Earnings ratio,
for a comparable company or set of companies. A second method involves establishing value based upon the replacement cost of the company's assets, essentially what it would cost a competitor to replicate the company's business. Greenwald et al. refer to this value as the Reproduction Cost of the assets. A third method involves finding the present value of the expected cash flow stream for the company, what Greenwald et al. refer to as the earnings power value or EPV. The latter method is essentially equivalent to valuing the Free Cash Flow of the company. A final method is perhaps the most subjective: valuation based upon what others are currently willing to pay for similar companies. While this method is similar to basic relative valuation, the usual approach is not to use the current market prices of comparable assets as a basis for computing price ratios but to use the price that a bidder in a merger or takeover bid has recently offered for a comparable company. We will discuss these approaches to valuation in detail along with a simple screening method for isolating potential candidate stocks.

Structure of the Class:
The SIF portfolio is invested in several different economic sectors. Groups tasked with managing the SIF portfolio will be created based upon predefined industry sectors with one special group, the Wild Card Group, that is unconstrained and can propose stocks from any industry. (The "Wild Card" group should notify any industry group that may have an interest in a stock that they are investigating. We want to avoid the Wild Card group choosing the same stock as another group.) The "industry" structure insures that all stocks carried over from the prior semester will be monitored. The groups are responsible for monitoring and analyzing the stocks within their sector, for preparing and presenting reports to the class on new candidate stocks, and for providing comments on the proposals of others.

Tentative Schedule:
The schedule listed in the outline should be regarded as a "flexible" plan. The analysis and management of the portfolio should be viewed as a dynamic, continuing process. The identification of new candidate stocks for addition to the portfolio can occur at any time. Students can present stocks for purchase or sale at virtually any time after they have finished a report in which they make a recommendation. Of course sufficient notice must be given to the rest of the class so that the report can be adequately reviewed. Guidelines regarding proposal write-ups and dissemination to the class will be outlined in a separate document.

Some operating procedures:
1. Margin of Safety required for a purchase 27-30% (the larger the better)
2. We will require a 60% or better approval of the class members in attendance for acceptance of a proposed transaction
   a. The vote will exclude members of the presenting group
3. Maximum fraction of the portfolio that shall be allocated to any single security (8%)
4. Maximum fraction of the portfolio that shall be allocated to any industry sector (30%)
   a. These constraints insure some diversification although diversification is not the driving force behind our choices
5. Level of the Margin of Safety at which a security should be sold (10% or less)
6. Augmenting current holdings
   a. Each group is allocated $5,000 in cash that can be used to increase the investment in the current holdings they oversee, however the margin of safety for the stocks in which an investment is increased must justify continuing to hold the stock
i. The increased investment is not subject to class approval but an updated report must be prepared with the justification.

7. Stock sales
   a. A sale is justified if the margin of safety falls to 10% or less.
   b. A group may initiate a sale at any time without class approval but an updated report must be prepared with the justification for the sale.
   c. One half \((1/2)\) the proceeds of the sale can be reinvested in the remaining current holdings.

8. Recommendations for the purchase of a new stock (not currently held in the portfolio)
   a. Size of investment will depend in part on cash holdings at the time of the proposal.
   b. These recommendations involve complete reports being submitted to the class for their review.
      i. Each group proposing a purchase must make a 'professional' presentation to the class with full justification for their proposal.
         1. Professional dress is required.
         2. Power Point presentation is required.
   c. Class members not making the recommendation will be required to review the report and provide written comments and will be expected to come prepared with any questions they have to the presentation.

9. Preparing a report
   a. Guidelines to be provided.

Grading:
The final grade will have the following components:

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight (points)</th>
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<tbody>
<tr>
<td>Quizzes</td>
<td>400</td>
</tr>
<tr>
<td>Presentations &amp; Reports(^1)</td>
<td>250</td>
</tr>
<tr>
<td>Final Presentation</td>
<td>200</td>
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<tr>
<td>Attendance &amp; Class Participation</td>
<td>50</td>
</tr>
<tr>
<td>Peer Evaluation</td>
<td>100</td>
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</tbody>
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The total scores of the class will be curved. The full range of grades will be considered. In borderline situations, class participation and improvement throughout the semester will have a dominant effect. I reserve the right to make changes to the above policy.

Course attendance is required, and an attendance sheet will be circulated in each class. In case of extraordinary circumstances, please notify me before class. Please go over lecture notes posted on D2L before each class and be prepared to answer questions. Each student will be asked at least a question in every other class if not every class.

There will be at least 13 announced quizzes. The quizzes will be over course material (e.g., presentations) and news article posted on D2L. Each group is expected to post a relevant article published in prominent news outlets by Saturday of each week. Each group will also post a short summary of the article explaining what happened and how the news is related to the industry of interest. The bottom 3 quizzes will be dropped in grading.

Religious Holidays:

\(^1\) Each group is expected to do at least two of these during the semester.

\(^2\) These outlets are the Wall Street Journal, Financial Times, and Economist.
It is the policy of the University to excuse the absence of students that result from religious observances and to provide without penalty rescheduling of examinations and additional required class work that may fall on religious holidays. Please inform me about your religious holidays two weeks in advance in order to allow me to comply with the university policies.

**Special Accommodations:**
Any student in this course who has a disability that may prevent him or her from fully demonstrating his or her abilities should contact me personally as soon as possible so we can discuss accommodations necessary to ensure full participation and facilitate your educational opportunities. The University of Oklahoma is committed to providing reasonable accommodations for all students with disabilities. Students with disabilities who require accommodations in this course are requested to speak with me as early in the semester as possible. Students with disabilities must be registered with the Office of Disability Services prior to receiving accommodations in this course. The office of Disability Services is located in Goddard Health Center, Suite 166, phone (405) 325-3852 or TDD only (405) 325-4173.

**Additional Policies:**
The classroom is designed for learning. I will do my best to offer you enjoyable learning experience. In order to achieve this goal, students should also do their part in this process. If you are using a laptop for note taking, you will want to be particularly attentive and engaged. However, if I think that you are texting or surfing on the internet, then your participation score will show it (remember, the burden of proof is on you). Please also note that a classroom is not a place for taking naps and casual conversation. Furthermore, cell phones should be turned off at all times. Cheating sheets will not be allowed in exams and quizzes. The academic dishonesty will not be tolerated. The University document describing the policies on academic misconduct is available at the following website:
http://www.ou.edu/provost/integrity