



BUSINESS F738
Value Investing – Season 6
Winter 2019 Course Outline

Finance and Business Economics Area
DeGroote School of Business
McMaster University

COURSE DESCRIPTION

Value investing, pioneered by Benjamin Graham and immortalized by Warren Buffet, involves buying securities that are underpriced – and selling those that are overpriced – with a great emphasis on the margin of safety. In this course, we discuss many practical and applied value investing concepts influencing the analysis and value of companies with a focus on those companies listed on major global exchanges. The format of the class is primarily case discussions and applied security analysis and enables students to develop a broad investing skill set and to study outstanding investors.

INSTRUCTOR AND CONTACT INFORMATION

Class Timing: **Wednesdays at 11:30 AM**
All times referenced in this document are Eastern.

Adeel Mahmood
 Instructor
Office Hours: Before or after class, or by appointment

COURSE ELEMENTS

Credit Value: 3	Leadership: Yes	IT skills: Yes	Global view: Yes
Avenue: Yes	Ethics: Yes	Numeracy: Yes	Written skills: Yes
Participation: Yes	Innovation: Yes	Group Work: Yes	Oral skills: Yes

COURSE PREREQUISITES AND COMPLEMENTS

Students should have the academic credit of F600 (Managerial Finance) or equivalent.

COURSE OVERVIEW

Investing is a noble profession. With duly acquired skills, innate discipline, and an objective approach, the profession can also be highly rewarding and inspiring. As an area of study, investing is multi-disciplinary as it brings together elements of finance, strategy, marketing, operations, and financial reporting, among others, into one place.

Value investing involves buying securities that are underpriced – and selling those that are overpriced – with a great emphasis on the margin of safety. Bill Graham pioneered this approach, while the likes of Warren Buffet gave it the centre-stage exposure that it deserved. Today, value investors are able to generate outsized returns on a consistent basis in investment strategies that tend to perform particularly well over a longer-term investment horizon.

This course is an applied learning experience in value investing. In addition to the weekly company analyses in class, the course will provide students an opportunity to complete two value investing “pitches” with a full-featured investment analysis. In addition to security analysis, students will be introduced to key investment tools and will get to work with a range of financial data sources (such as Bloomberg and Thomson Reuters).

REQUIRED COURSE MATERIALS AND READINGS

Course content and class communication available on Avenue:

- <http://avenue.mcmaster.ca>

Warren Buffet; Berkshire Hathaway Inc – Shareholder Letters; 2009 – 2018:

- <http://www.berkshirehathaway.com/letters/letters.html>
- Referred to in this outline as **LTR**

OPTIONAL COURSE MATERIALS AND READINGS

Pignataro; Financial Modeling and Valuation; *First (1st) Edition*; Wiley, 2013:

- ISBN: 978-1-118-55876-8

Benjamin Graham; The Intelligent Investor; *Revised Edition*; Any Publisher, 1973 onwards

Graham, Dodd; Security Analysis; *Sixth Edition*; McGraw-Hill Ryerson, 2008:

- ISBN: 0071-592539

Philip Fisher; Common Stocks and Uncommon Profits; *First Revised Edition*; Wiley, 2003:

- ISBN: 0471-445509

LEARNING OUTCOMES

Upon completion of this course, students will be able to:

- Understand the economic, business, and financial analysis unique to value investing;
- Analyze a range of public-company business models for investment purposes;
- Value public companies and securities through a range of financial analysis tools; and
- Learn about, conduct, and effectively communicate to investors original investment research focused on publicly listed companies.

EVALUATION

Individual learning in this course results from in-class discussions, problem solving, and lab work. The balance of the individual learning results from lectures on specific topics, student research, and industry professionals. Team learning focus of this course is on the investment research projects centred on key fundamental investing principles.

The final grade will be calculated as follows:

Components and Weights

Class Participation	In-class/In-lab contribution (individual)	10%
Term Test I and II	Written in the 5 th and 12 th classes (individual)	2 x 25%
Investment Pitch I	Due in the 8 th week (group)	10%
Investment Pitch II	Due at the end of the term (group)	30%
Total		100%

Class Participation

Name cards are used to help give credit for class participation and contribution to in-class discussions. Students must have name cards with their full first and last names clearly written and displayed in front of them for every class. It is imperative that students prepare for every class. **Class participation marks are primarily based on the quality of contribution.** No class attendance results in zero mark.

While class participation in this course is well demonstrated by addressing the assigned case study questions, participation in conceptual discussions and other class aspects will also add to the grade. **The determination of a student's level of participation in a class will be in the Instructor's sole discretion.** The students are, however, provided the guidelines below.

The grading for student participation in each class follows a scheme on a scale of 0 to 3:

<i>Grade</i>	<i>Contribution</i>
0	Does not attend class
1	Attends class but makes no contribution during that class
2	Attends class and makes one average contribution during that class
3	Attends class and makes a significant contribution to the class by making important points with elements of originality or mastery of relevant issues or concepts – as demonstrated, during that class, by: <ul style="list-style-type: none"> • Making one or more excellent contributions; • Making two or more average contributions; or • Providing other satisfactory evidence of significant contribution.

Note that there is no partial (non-integer) participation grade awarded for a class.

Students may be asked to share their analysis with, or otherwise present their arguments to, the class in order for their contribution to be qualified as significant.

A student **missing a class** during the term, excluding a class where a test or an exam is held, is required to contact the MBA Academic Services Office (ASO) and obtain an official approval of relief if he or she wishes to avoid getting a zero (0) participation grade for that class.

If the ASO adjudicates that relief be provided, the student's participation grade for the classes with relief requests will be re-assigned to the graded classes.

Generally, the ASO will approve request for relief only if *the student's absence is for legitimate reasons*, in which case documentation explaining the absence (or absences) must be provided to the ASO within five (5) working days after returning to school.

Notwithstanding the above, of the eight classes graded for participation, **students' participation will be based on the best six out of eight classes**. That is, each student will be assigned a total participation grade using the six highest (out of eight total) individual class participation scores. Note that these participation marks are normally reserved for class participation during the section of the class without the role playing activities.

Term Tests

Two (2) Term Tests – *open-book, open-notes* tests – will be written in the **5th and 12th classes** of the term. More details of the format, structure, and content coverage will be provided during the course of the term.

A student *missing a Tern Test* is required to contact the 'Student Experience – Academic (MBA) office' and obtain an official approval of relief if he or she wishes to avoid getting a zero (0) grade for the test. If the 'Student Experience – Academic (MBA) office' adjudicates that relief be provided, the student's grade for the test will be calculated based on the scheme outlined in the *Missed Tests* document available online.

Investment Pitches

Working in teams, students will complete two investment pitches during the term each involving a group presentation and a group research report. The first presentation and report are due midway through the term, while second in the last week of the term. Refer to the course schedule for exact due dates and times.

Research Work and the Output

Each pitch is a research exercise focused on identifying, analyzing, valuing, and recommending an investment in the shares or bonds of a North American publicly listed company. The recommendation can be any one of STRONG BUY, BUY, HOLD, SELL, or STRONG SELL. The work involved will mirror the basic investment analysis work performed by a junior buy- or sell-side analyst in the industry, including – but not limited to:

- Screening potential companies out of a larger available universe;
- Completing strategic, marketing, operations, and human resource analyses of chosen companies;
- Performing a detailed financial valuation of a security, including constructing pro forma financial statements;
- Conducting value-added research, if any, to identify additional sources of mispricing; and
- Communicating effectively a well-supported investment recommendation to investors and other investment professionals.

Group Work and Security Selection

Students will form groups of their choice and remain in the same group for the entire course unless a change is pre-approved by the instructor. *Individual group members will be assigned individual grades relative to the group grade based on the peer assessments completed towards the end of the course.*

Each group will ***complete two different investment pitches*** during the term – i.e. involving securities of two different companies. The groups are free to choose the two companies subject to the following constraints on the date of the respective proposal submission (see below):

- The chosen security of each company is listed on a major North American exchange, where the exchange is defined as any of NYSE, NASDAQ, AMEX, and TSX;
- Each company has a market capitalization of at least \$300MM; and
- An individual can invest \$100,000 in the chosen security over the course of ten (10) trading days without a significant price impact.

Investment Pitch Proposals

Proposals for the two pitches are due in the term as outlined in the course schedule. Each proposal is a letter-sized, single-sided page (one page) in length, includes basic information of up to three chosen securities, and is submitted online.

The allowance of three securities is to provide an opportunity to the students to conduct preliminary research on more than one security simultaneously before deciding on one for the actual pitch. Any security proposed but not chosen for the first pitch can still be proposed for the second pitch.

Deliverables and Evaluation

Students will be provided basic templates and additional structural constraints during the term to complete their pitches. The deliverables for each pitch are a scheduled group presentation and a group report submitted online before the start of the presentations. Refer to the course schedule for details of the due dates and times.

The **first pitch** will be evaluated by the instructor and other peer groups in the class. A grading rubric will be provided during the course of the term to help the groups prepare.

The **second pitch** will be evaluated by the instructor, other peer groups in the class, and **a panel of investment professionals**. The panel, to be finalized later in the course, will include investment professionals from both the buy- and sell-sides working in the Greater Toronto Area. The pitches may be arranged to be conducted either on campus or in Toronto subject to the scheduling constraints of the panel members.

More details of the format, structure, and content coverage will be provided during the course of the term.

COMMUNICATION AND FEEDBACK

Students that are uncomfortable in directly approaching an instructor regarding a course concern may send a confidential and anonymous email to the respective Area Chair or Associate Dean:

<http://mbastudent.degroote.mcmaster.ca/contact/anonymous/>

Students who wish to correspond with instructors or TAs directly via email must send messages that originate from their official McMaster University email account. This protects the confidentiality and sensitivity of information as well as confirms the identity of the student. Emails regarding course issues should NOT be sent to the Administrative Assistant.

Instructors should conduct an informal course review with students to allow time for modifications in curriculum delivery. Instructors should provide evaluation feedback for at least 10% of the final grade to students prior to Week #8 in the term.

ACADEMIC DISHONESTY

You are expected to exhibit honesty and use ethical behaviour in all aspects of the learning process. Academic credentials you earn are rooted in principles of honesty and academic integrity.

Academic dishonesty is to knowingly act or fail to act in a way that results or could result in unearned academic credit or advantage. This behaviour can result in serious consequences, e.g. the grade of zero on an assignment, loss of credit with a notation on the transcript (notation reads: “Grade of F assigned for academic dishonesty”), and/or suspension or expulsion from the university.

It is your responsibility to understand what constitutes academic dishonesty. For information on the various types of academic dishonesty please refer to the Academic Integrity Policy at:

www.mcmaster.ca/academicintegrity

The following illustrates only three forms of academic dishonesty:

1. Plagiarism, e.g. the submission of work that is not one’s own or for which other credit has been obtained.
2. Improper collaboration in group work.
3. Copying or using unauthorized aids in tests and examinations

MISSSED ACADEMIC WORK***Missed Mid-Term Examinations / Tests / Class Participation***

Where students miss a regularly scheduled mid-term or class participation for legitimate reasons as determined by the Student Experience – Academic (MBA) office, the weight for that test/participation will be distributed across other evaluative components of the course at the discretion of the instructor. Documentation explaining such an absence must be provided to the Student Experience – Academic (MBA) office within five (5) working days upon returning to school.

To document absences for health related reasons, please provide to Student Experience – Academic (MBA) office the Petition for Relief for MBA Missed Term Work and the McMaster University Student Health Certificate which can be found on the DeGroote website at <http://mbastudent.degroote.mcmaster.ca/forms-and-applications/>. Please do not use the online McMaster Student Absence Form as this is for Undergraduate students only. University policy states that a student may submit a maximum of three (3) medical certificates per year after which the student must meet with the Director of the program.

To document absences for reasons other than health related, please provide Student Experience – Academic (MBA) office the Petition for Relief for MBA Missed Term Work and documentation supporting the reason for the absence.

Students unable to write a mid-term at the posted exam time due to the following reasons: religious; work-related (for part-time students only); representing university at an academic or varsity athletic event; conflicts between two overlapping scheduled mid-term exams; or other extenuating circumstances, have the option of applying for special exam arrangements. Such requests must be made to the Student Experience – Academic (MBA) office at least ten (10) working days before the scheduled exam along with acceptable documentation. Instructors cannot themselves allow students to unofficially write make-up exams/tests. Adjudication of the request must be handled by Student Experience – Academic (MBA).

If a mid-term exam is missed without a valid reason, students will receive a grade of zero (0) for that component.

Missed Final Examinations

A student who misses a final examination without good reason will receive a mark of 0 on the examination.

All applications for deferred and special examination arrangements must be made to the Student Experience – Academic (MBA) office. Failure to meet the stated deadlines may result in the denial of these arrangements. Deferred examination privileges, if granted, must be satisfied during the examination period at the end of the following term. There will be one common sitting for all deferred exams.

Failure to write an approved deferred examination at the pre-scheduled time will result in a failure for that examination, except in the case of exceptional circumstances where documentation has been provided and approved. Upon approval, no credit will be given for the course, and the notation N.C. (no credit) will be placed on the student's transcript. Students receiving no credit for a required course must repeat the course. Optional or elective courses for which no credit is given may be repeated or replaced with another course of equal credit value.

Requests for a second deferral or rescheduling of a deferred examination will not be considered.

Any student who is unable to write a final examination because of illness is required to submit the Application for Deferred MBA Final Examination and a statement from a doctor certifying illness on the date of the examination. The Application for Deferred MBA Final Examination and the McMaster University Student Health Certificate can be found on the DeGroote website at <http://mbastudent.degroote.mcmaster.ca/forms-and-applications/>. Please do not use the online McMaster Student Absence Form as this is for Undergraduate students only. Students who write examinations while ill will not be given special consideration after the fact.

In such cases, the request for a deferred examination privilege must be made in writing to the Student Experience – Academic (MBA) office within five business days of the missed examination.

Special examination arrangements may be made for students unable to write at the posted exam time due to compelling reasons (for example religious, or for part-time students only, work-related reasons):

Students who have religious obligations which make it impossible to write examinations at the times posted are required to produce a letter from their religious leader stating that they are unable to be present owing to a religious obligation.

Part-time students who have business commitments which make it impossible to write examinations at the times posted are required to produce a letter on company letterhead from the student's immediate supervisor stating that they are unable to be present owing to a specific job commitment.

In such cases, applications must be made in writing to the Student Experience – Academic (MBA) office at least ten business days before the scheduled examination date and acceptable documentation must be supplied.

If a student is representing the University at an academic or athletic event and is available at an overlapping scheduled time of the test/examination, the student may write the test/examination at an approved location with an approved invigilator, as determined by the Student Experience – Academic (MBA) office.

In such cases, the request for a deferred examination privilege must be made in writing to the Student Experience – Academic (MBA) office within ten business days of the end of the examination period.

Note: A fee of \$50 will be charged for a deferred exam written on campus and a fee of \$100 for deferred exams written elsewhere. In cases where the student's standing is in doubt, the Graduate Admissions and Study Committee may require that the student with one or more deferred examination privileges refrain from re-registering until the examination(s) have been cleared.

STUDENT ACCESSIBILITY SERVICES

Student Accessibility Services (SAS) offers various support services for students with disabilities. Students are required to inform SAS of accommodation needs for course work at the outset of term. Students must forward a copy of such SAS accommodation to the instructor normally, within the first three (3) weeks of classes by setting up an appointment with the instructor. If a student with a disability chooses NOT to take advantage of an SAS accommodation and chooses to sit for a regular exam, a petition for relief may not be filed after the examination is complete. The SAS website is:

<http://sas.mcmaster.ca>

ACKNOWLEDGEMENT OF COURSE POLICIES

Your registration and continuous participation (e.g. on A2L, in the classroom, etc.) to the various learning activities of this course will be considered to be an implicit acknowledgement of the course policies outlined above, or of any other that may be announced during lecture and/or on A2L. **It is your responsibility to read this course outline, to familiarize yourself with the course policies and to act accordingly.**

Lack of awareness of the course policies **cannot be invoked** at any point during this course for failure to meet them. It is your responsibility to ask for clarification on any policies that you do not understand.

RESEARCH DATA

Any research data obtained by a student from publicly available sources for the purposes of completing term work (including data used in assignments, projects, and tests) are the joint property of the student, the instructor, and the university. All parties are free to use the research data subject to the original copyright of such data. Students hereby agree not to use in their term work any proprietary data or data subject to copyright protection without the prior written approvals of the instructor and the owner of any such copyright.

COURSE SCHEDULE

CL.	DATE	CONTENT	SAMPLE TICKERS	READ*
1	Wed. Jan 9	Season Premiere: Introduction to Value Investing <ul style="list-style-type: none"> Topics: Investing Math, Margin of Safety, Intrinsic Value vs. Carrying Value Due: - 	-	-
2	Wed. Jan 16	S06E02: Forecasting and Modeling I <ul style="list-style-type: none"> Topics: Financial Model, Integrated Financial Statement Forecasts Due: - 	WMT	LTR 2017 – 2018
3	Wed. Jan 23	S06E03: Forecasting and Modeling II <ul style="list-style-type: none"> Topics: Debt Schedule, Depreciation Schedule, Working Capital, Free Cash Flows Due: - 	WMT	LTR 2016 – 2017
4	Wed. Jan 30	S06E04: Valuation Principles <ul style="list-style-type: none"> Topics: DCF Analysis, Comparable Company Analysis, Precedent Transaction Analysis Due: Investment Pitch I Proposal 	WMT	LTR 2015 – 2016
5	Wed. Feb 6	<i>Term Test I</i> – To Be Written in Class <i>(No Lecture or Company Discussion)</i>		
6	Wed. Feb 13	S06E05: Investing in High-Growth Firms <ul style="list-style-type: none"> Topics: EV/Sales Multiples, Internet Models Due: - 	FB, WDC, CRM	LTR 2014 – 2015
Midterm Recess (No Class)				
7	Wed. Feb 27	S06E06: Investing in ‘Bottleneck’ Firms <ul style="list-style-type: none"> Topics: ‘Bottleneck’ analysis Due: - 	NVDA, CCI, Others	LTR 2013 – 2014

CL.	DATE	CONTENT	SAMPLE TICKERS	READ*
8	Wed. Mar 6	S06E07: Investment Pitch I <ul style="list-style-type: none"> • Topics: Group Presentations • Due: Investment Pitch I Report (due by the start of the class) 		
9	Wed. Mar 13	S06E08: Working with Coaches <ul style="list-style-type: none"> • Topics: Group work with coaches • Due: - 	-	LTR 2012 – 2013
10	Wed. Mar 20	S06E09: Investing in Banks <ul style="list-style-type: none"> • Topics: P/B Multiples, Banking Balance Sheets, Interest Spreads • Due: Investment Pitch II Proposal 	TD, KEY, CWB	LTR 2011 – 2012
11	Wed. Mar 27	S06E10: Investing in Mining Companies <ul style="list-style-type: none"> • Topics: P/NAV Multiples, Mine Life Models • Due: - 	NSU, AGI, IMG	LTR 2010 – 2011
12	Wed. Apr 3	Term Test II – To Be Written in Class (No Lecture or Company Discussion)		
13	TBA	Season Finale: Investment Pitch II <ul style="list-style-type: none"> • Topics: Group Presentations 		
-	Mon. Apr 15	Investment Pitch II Report – Due by 11.00 AM		

* See page 2 of this outline for a description of LTR

POTENTIAL MODIFICATIONS TO THE COURSE

The instructor and university reserve the right to modify elements of the course during the term. The university may change the dates and deadlines for any or all courses in extreme circumstances. If either type of modification becomes necessary, reasonable notice and communication with the students will be given with explanation and the opportunity to comment on changes. It is the responsibility of the student to check their McMaster email and course websites weekly during the term and to note any changes.