Value Investing
(17024)

Professor Benjamin Maury
E-mail: benjamin.maury@hanken.fi

Teaching assistant: Yaping Mao (yaping.mao@hanken.fi)
(Contact Yaping regarding practical arrangements (schedules etc.))

Course description

This course develops a framework for value investing based on a modern treatment of the Graham and Dodd approach to investment management. The course covers the search for undervalued stocks, the valuation of stocks that pass the screening process, and the investment decision to buy a stock if it is below the intrinsic value by a margin of safety.

Learning objectives

Upon completion of the course the students will
- have a thorough understanding of the value investing framework, and
- be able to identify investment opportunities and make investment decisions.

Course requirements (Scale 0-100 points**)**

(1) *Written exam* 0-30 points (a minimum 15 points to pass the exam part).
- The exam is based on the required readings and the lecture slides.

(2) *Written investment case* 0-65 points. The investment case is written by 1-3 persons, preferably in teams of 2-3 persons. Examples of published investment cases will be discussed during the lectures.
- First draft of investment case (at least 6 pages) is due on April 19 at 3 pm.
- Case presentations (0-5 points) have been scheduled for April 21-22 *(online with Microsoft Teams, see link at the Moodle course page)*.
- Discussant for another group's case (0-5 points) *(online with Microsoft Teams)*
- The final paper (0-55 points), 15-20 pages is due on May 6 at 3 pm.
- The first draft and final case should be submitted through Moodle by using the link "Submit first draft/final draft" in the "Exercises" section.

(3) *Group presentation of academic journal article (online with Microsoft Teams) (April 12-13)* 0-4 points (20 minutes). Groups of 1-3 persons. Use the excel sheet "Article choice" on Moodle to submit your article choice by April 1.

(4, optional) *Participation in quest lectures (online with Microsoft Teams).* Gives a total of 1 point.
- In case you have missed a guest lecture, you can summarize in 3-4 pages the recorded quest lecture (deadline for the missed guest lecture summaries (all in one file) is May 6).

(5, optional) _Written summaries (Sessions 1-5)_ 0-5 bonus points.

- Discussion that summarizes in 800-1400 words the readings for the relevant session (upload summary in Moodle *before* the respective session starts). Exception: the first summary (session 1) can be uploaded in Moodle by March 17, at 23.59.
- One written summary gives 0-0.75 points
- If one completes all five written summaries, there is an extra bonus factor of 1.34. The maximum bonus from summaries is thus 3.75 * 1.34 = 5.0 points.

Exam dates (2022)**:** May 11 (9am-1pm) and June 6 (10am-2pm). See further instructions on Moodle.

Total requirements: 50 points to pass the course.

Seminar topics and readings:

Introduction to the course (March 14, 10:15-11:45, _(A210 & online with Teams)_**: Overview of course and requirements**

Session 1 (March 16, 8:30-10:00, _(A210 & online with Teams_): **Introduction to the value approach to investment management**

- Factors that cause prices to deviate from fundamental value
- Overview of the value investing process
- Overview of valuation by active investors
- Valuing the assets

Literature:

Greenwald, B. et al. Value Investing: from Graham to Buffett and Beyond. 2001 OR 2020. Chapters 1-4.

Graham, B. The Intelligent Investor. Revised edition, 2003. Chapters 1 and 8.

Session 2 (March 18, 10:15-11:45, _(A210 & online with Teams)_: **Earnings Power Value**

- Strategy
- Earnings power value: assets plus franchise

Literature:

Greenwald, B. et al. Value Investing: from Graham to Buffett and Beyond. 2001: Chapters 5 and 6 OR 2020: Chapter 5 and pages 231-251.

Graham, B. The Intelligent Investor. Revised edition, 2003. Chapter 12.

Further optional recommended reading:

Greenwald, B., J. Kahn, 2005. Competition Demystified: A Radically Simplified Approach to Business Strategy. Chapter 4: Assessing competitive advantages.

Session 3 (March 23, 8:30-10:00, _(__A210 & online with Teams_**): Growth**

- Types of growth
- The value of growth within the franchise

Literature:

Greenwald, B. et al. Value Investing: from Graham to Buffett and Beyond. 2001: Chapter 7-8 <u>OR</u> 2020: Chapter 6 and 253-300.

Session 4 (March 25, 10:15-10:45, (*<u>A309 & online with Teams)</u>*: **The valuation of franchise stocks & research strategy**

- Cash return on current earnings power
- Organic growth
- Active investment growth

- Margin of safety and portfolio construction
- Research strategy

Literature:

Greenwald, B. et al. Value Investing: from Graham to Buffett and Beyond. 2020: Chapters 8-9.

Graham, B. The Intelligent Investor. Revised edition, 2003. Chapter 20.

Guest lecture 1 on Value Investing (March 25, 12:30-14:00, (*<u>A210 & online with Teams)</u>***.** Hans-Kristian Sjöholm, Head of Global Equities, Evli Bank.

Session 5 (March 30, 8:30-10:00, (*<u>A210 & online with Teams)</u>*: **Quantitative Value Investing**

- Stock screening (e.g., P/E and/or P/B)
- Combinations: cheapness and quality (etc.)
- Other quantitative value related investing methods (cheapness, quality, liquidity, technical factors, risk, and corporate governance)

  Literature:

  Haugen, R; N. Baker. "Commonality in the determinants of expected stock returns." Journal of Financial Economics, 41, 1996, pages 401-439.

  Piotroski, J.D. "Value investing: The use of historical financial statement information to separate winners from losers." Journal of Accounting Research 38, 2000, 1-41 (Supplement).

  Novy-Marx, R., 2013. "The other side of value: The gross profitability premium." Journal of Financial Economics 108, 1-28.

  Novy-Marx, R., 2014. Quality investing. Working paper, University of Rochester, May 2014.

Guest lecture 2 on Value Investing (April 5, 10:15-11:45, (*<u>Futurum & online with Teams))</u>*. Petter Langenskiöld, Portfolio manager / Managing director, Zenito Oy.

Guest lecture 3 on Value Investing (April 7, 8:30-10:00, (*<u>A309 & online with Teams))</u>***.** Antti Bergholm, Aristoi Capital Management.

Guest lecture 4 on Value Investing (April 11, 12:30-14:00, *(<u>Online with Teams</u>))*.
Pietari Laurila, investor at etoro.com/people/triangulacapital

Group presentations of academic articles (7*90 min, April 12-13, *(<u>Hanken & online with Teams</u>)*

- 20-minute presentation of an academic journal article by group
- A list of journal articles to choose from will be available in the beginning of the course

Group presentations of investment cases (7*90 min, April 21-22, *(<u>Hanken & online with Teams</u>)*

- 15-minute presentations of investment case by group
- 5 minutes for discussants

Updated: March 10, 2022.
Changes are possible.