

Value Investing

(17024, summer course 2020)

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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* 0-45 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 June 12 at 3 pm.
- Case presentations (0-5 points) have been scheduled for June 16-17 (*online with Microsoft Teams, see link on the Moodle course page*).
- Discussant for another group's case (0-5 points) (*online with Microsoft Teams*).
- The final paper (0-35 points), 10-15 pages is due on June 23 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*) (June 9-10) 0-5 points (20 minutes). Groups of 1-3 persons. Use the excel sheet "Article choice" to submit your article choice by June 4.

(4) *Written summaries (Sessions 1-5)* 0-20 points.

- Discussion that summarizes in 800-1400 words the assigned readings for the relevant session (submit the summary before the respective scheduled session).
- 20% of the written discussion should be your own reflections on the topic (separate section placed at the end called "Personal reflections").

- Submit your summaries through Moodle in the section “Exercises”.
- One written summary gives 0-4 points

(5, optional) *Written summaries & discussions of guest lectures 1-3*, 0-3 bonus points.

- Discussion that summarizes in 700-800 words the recorded guest lecture (deadline for guest lecture summaries is June 18).
- One written summary gives 0-1 bonus point.
- Submit your guest lecture summaries in one file through Moodle in the section “Exercises”.

Exam (open book) dates (2020): June 29 (9am-1pm) and July 31 (9am-1pm).

Total requirements: 50 points to pass the course.

Seminar topics and readings:

Introduction to the course (May 25, 10:15-11:15, *online with Microsoft Teams*):
Overview of course and requirements

Session 1 (May 27, 10:15-11:00, *online with Microsoft Teams*): Introduction to the value approach to investment management (Review of concepts and Q&A)

Preassignment: watch the video “lecture 1” and read the slides on Moodle before the session.

- 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., J. Kahn, P.D. Sonkin, M. van Biema. Value Investing: from Graham to Buffett and Beyond. 2001. Chapters 1-4.

Graham, B. The Intelligent Investor. Revised edition, 2003. Chapters 1, 8, and 15.

Session 2 (May 29, 10:15-11:00, *online with Microsoft Teams*): Earnings Power Value and competitive advantages (Review of concepts and Q&A)

Preassignment: watch the video “lecture 2” and read the slides on Moodle before the session.

- Strategy
- Earnings power value: assets plus franchise

Literature:

Greenwald, B., J. Kahn, P.D. Sonkin, M. van Biema. Value Investing: from Graham to Buffett and Beyond. 2001. Chapters 5-6.
Graham, B. The Intelligent Investor. Revised edition, 2003. Chapter 12.

Further optional reading:

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

Session 3 (June 1, 10:15-11:00, [\(online with Microsoft Teams\)](#)): Value of Growth & Portfolio Construction (Review of concepts and Q&A)

Preassignment: watch the video “lecture 3” and read the slides on Moodle before the session.

- The value of growth within the franchise
- Shareholders and management
- Margin of safety
- Constructing the portfolio (diversification etc.)
- Value investing cases

Literature:

Greenwald, B., J. Kahn, P.D. Sonkin, M. van Biema. Value Investing: from Graham to Buffett and Beyond. 2001. Chapter 7-8.
Graham, B. The Intelligent Investor. Revised edition, 2003. Chapters 19 and 20.

Further optional reading: Greenwald, B., J. Kahn, 2005. Competition Demystified: A Radically Simplified Approach to Business Strategy. Chapter 6: Niche advantages and the dilemma of growth.

Session 4 (June 3, 10:15-11:00, [\(online with Microsoft Teams\)](#)): Warren Buffet’s investments (Review of concepts and Q&A)

Preassignment: watch the video “lecture 4” and read the slides on Moodle before the session.

- Buffet’s investment strategy
- Review of company information available before Buffet made his investments
- Cases discussed: Texas National Petroleum Company, GEICO, Coca Cola, Burlington Northern

Literature:

Yefei Lu, 2016. Inside the Investments of Warren Buffett, Twenty Cases, Columbia Business School Publishing, 2016. ch. 14: Coca Cola, ch. 19: Burlington Northern, ch. 21: Evolution of Buffett's investment strategy, ch. 22: What we can learn from Buffett.

<https://ebookcentral.proquest.com/lib/hanken-ebooks/reader.action?docID=4550723&ppg=1>

Session 5 (June 5, 10:15-11:00, *online with Microsoft Teams*): Quantitative Value Investing (Review of concepts and Q&A)

Preassignment: watch the video “lecture 5” and read the slides on Moodle before the session.

- 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 1 on Value Investing, (*Teams recording*). Hans-Kristian Sjöholm, Head of Equities, Evli Bank. Summarize & discuss the guest lecture in 700-800 words. Submit your summary in Moodle by using the link “Submit guest lecture 1 summary” in the “Exercises” section.

Guest lecture 2 on Value Investing (*Teams recording*). Petter Langenskiöld, Portfolio manager / Managing director, Zenito Oy. Summarize & discuss the guest lecture in 700-800 words. Submit your summary in Moodle by using the link “Submit guest lecture 2 summary” in the “Exercises” section.

Guest lecture 3 on Value Investing (*Teams recording*). Antti Bergholm, Aristoi Capital Management. Summarize & discuss the guest lecture in 700-800 words.

Submit your summary in Moodle by using the link “Submit guest lecture 3 summary” in the “Exercises” section.

Group presentations of academic articles (about 5*90 min, June 8-9, (online with Microsoft Teams)

- 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 (approximately 6*90 min, June 16-17, (online with Microsoft Teams)

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

Updated: May 20, 2020.
Changes are possible.