

NBA 4120: Equity Investment Analysis
Shigeki Makino & Gregory Besharov

Equity Investment Analysis is a seminar intended for advanced undergraduates interested in practical equity investment. The course will introduce the subject using a hands-on approach. Students will learn about factors such as valuation, competitive position, management quality, catalysts, and sentiment.

Readings

Readings for the class are articles and books, all of which are available on reserve. The following books are required.

- Greenwald, Bruce and Judd Kahn. *Competition Demystified: A Radically Simplified Approach to Business Strategy*. Portfolio, 2007.
- Hooke, Jeffrey. *Security Analysis and Business Valuation on Wall Street*, 2nd edition. Wiley, 2010.
- Schilit, Howard and Jeremy Perler. *Financial Shenanigans: How to Detect Accounting Gimmicks & Fraud in Financial Reports*, 3rd edition. McGraw-Hill, 2010.
- Valentine, James J. *Best Practices for Equity Research Analysis: Essentials for Buy-Side and Sell-Side Analysts*. McGraw-Hill, 2011.

The following books are recommended.

- Ittelson, Thomas. *Financial Statements: A Step-by-Step Guide to Understanding and Creating Financial Reports*. Career, 2009.
- Kelleher, Jim. *Equity Valuation for Analysts and Investors*. McGraw Hill, 2010.
- O'glove, Thornton. *Quality of Earnings*. Free Press, 1998.
- Rappaport, Alfred and Michael Mauboussin. *Expectations Investing*. Harvard Business Review Press, 2003.

Office Hours

Gregory Besharov's office hours will be held in Uris 484 at from 1:20 to 2:20 MW and by appointment if you cannot make those times. If you would like to set up an appointment, please send an email to gb293@cornell.edu listing three or four times you are available.

Shigeki Makino's office hours will be 10:00 to 12:00 Tuesday in 146 Sage Hall. If you would like to set up a telephone meeting, please email shigekimakino@yahoo.com with a few suggested times.

Note to students with disabilities: If you have a disability-related need for reasonable academic adjustments in this course, provide us with an accommodation letter from Student Disability Services.

Grading

Grading is on a S/U basis. Grades are based on overall class participation, company analysis assignments, and the final stock pitch.

Class Participation. Students are expected to attend, and be prepared for, all class meetings. Class participation is worth 20% of the course grade, and absences not excused in advance can result in a grade reduction.

Company Analysis. In the third through sixth meetings, small groups of students will be responsible for presenting sections of the Company Analysis Checklist. Each group will also be responsible for submitting a write-up of their answers. The four assignments are collectively worth 30% of the class grade.

Stock Pitch. In the final course meeting, small groups will make stock pitches that utilize the skills developed in the class. The pitches will be evaluated on the degree to which the recommendation is convincing. Elements such as clarity, conciseness, and analytic content will be critical. A written document will be handed in separately.

Category	Percentage of Grade
Class Participation	20%
Company Analysis Assignments	30%
Team Company Analysis Presentation	50%

Academic Integrity

This course follows Cornell's Code of Academic Integrity:
<http://cuinfo.cornell.edu/Academic/AIC.html>. Violations will be taken seriously.

Course Outline

March 27: Analyzing Companies

This class will introduce the template for analyzing companies. It will focus on the quality of the business, the fundamentals, valuation, catalysts, and leveraging a variety of resources to identify something that the consensus is missing. The first company, Lowe's, will be analyzed in this class.

Readings: 1) Valentine, chapters 7-10
 2) Hooke, chapters 1-7, 28-29
 3) (Optional) Ittelson, with emphasis on chapters 2-5 and 13

April 3: Quality of Business and Valuation

This session will cover two topics. The first half will focus on the quality of a business, using Greenwald and Kahn's simplified model of Porter's Five Forces. It will attempt to provide an overview of what factors one might consider when evaluating the quality of a business from an investor's point of view. There will also be a brief treatment of valuation that will address various valuation metrics and their strengths, weaknesses, and historical performance. The second half of the class will feature an introduction to the resources available in the Parker Center: databases, research tools, and regression software.

Readings: 1) Greenwald and Kahn
 2) Valentine, chapters 19-20
 3) Hooke, chapters 12-19

April 10: Drivers of Relative Stock Prices

The first part of the session will address the objectives of finding stock drivers, the types of factors that should be investigated as possible drivers, and resources that can be used to test whether factors are true stock drivers. Examples of drivers for various industries will be discussed. In the second half of the session, students will present the material they have done in groups for the in-class evaluation of Netflix.

Readings: 1) Valentine, chapters 15-18
 2) Hooke, chapters 7-11

April 17: Identifying Risks and Opportunities for Companies

This session will review yellow flags—signals of potential specific problems and opportunities for a company and its stock. Negative yellow flags indicate potential issues or risks, and positive yellow flags signal potentially underappreciated positive outcomes. In the second half of the session, students will present the material they have done in groups for the in-class evaluation of Domtar.

Readings: 1) Schilit and Perler, with emphasis on ch. 3-12 and 14-15
 2) Valentine, chapters 11-14

April 24: Investment Style

This session will address various factors that have efficacy in the stock market in predicting future relative returns and how one might think about developing an investment style of one's own. In the second half of the session, students will present the material they have done in groups for the in-class evaluation of GMCR.

Reading: 1) Hooke, chapters 20-27

May 1: I Want to Be an Equity Analyst

This session will introduce the role of an equity analyst to the students from a workplace perspective. It will speak to the interviewing process, the communication element of the job, and how one might prioritize and address a new analytical responsibility at an investment management firm. In preparation for the student stock pitches, the class will also address what should be in a stock pitch, what makes a stock pitch good or bad, and common mistakes made in stock pitches. In the second half of the session, students will present the material they have done in groups for the in-class evaluation of CF.

Readings: 1) Valentine 1-6 and 23-27
 2) Hooke 28-29
 3) Montier's "Common Behavioral Mistakes Made When Investing"

May 10: Stock Pitches, 2:00-4:30