

**Finance 925, Analytical Finance Practicum on Value Investing<sup>1</sup>**  
**Spring 2006**  
**G05 Jacobs Center, Wednesdays, 6:30 pm to 9:30 pm**

**Contact Information:**

Professor Ravi Jagannathan

431 Jacobs Center

Office Hours: 5pm to 6pm on lecture days, or by appointment

847-491-8338 (voice), 847-491-5719 (fax)

E-mail: [rjaganna@northwestern.edu](mailto:rjaganna@northwestern.edu)

Course files:

TA: Paul Gao, email: [p-gao@kellogg.northwestern.edu](mailto:p-gao@kellogg.northwestern.edu), Tel: 847/491-3838 & 847/556-9300

TA for Piotroski (2000) and use of STATA: Andrei Jirnyi, [a-jirnyi@northwestern.edu](mailto:a-jirnyi@northwestern.edu), tel:

847/491-4270 & 847/858-2537

**Course Overview**

“Value Investing” will be the focus of this year’s Analytical Finance Practicum. The intent is to teach you the fundamentals of the value approach to investment management that will integrate what you have learnt in various Kellogg courses. This is done through a combination of lectures, in-class valuation exercises, presentations by leading practitioners, and a valuation project in which you will identify a value investing opportunity (to be done in groups of five). I will cover the following areas: (a) The empirical support for the assumptions behind the Graham and Dodd value approach to investing; (b) Quantitative methods for searching for value; (c) Balance sheet and earnings power approaches to assessing fundamental value; and (d) Risk management and construction of portfolios using the value approach.

**Readings**

The two main texts for the course will be:

Bruce Greenwald, Judd Kahn, Paul D. Sonkin and Michael Van Biema, Value Investing: from Graham to Buffett and Beyond, John Wiley, New York, 2001 (**VI**)

Benjamin Graham, Updated with new commentary by Jason Zweig, The Intelligent Investor, 4th edition, revised 2003, Harper Collins, New York, 2003 (**II**)

There will be several additional readings that will be handed out in class.

**Course Grade**

Grades will be based on Class Participation, Mini-Valuation Exercises (Homeworks), an Article Critique where you reproduce the results in Piotroski (2000) and critique it, and the Final Valuation Project Report where you identify and evaluate an investment

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1. I would like to express my thanks to Bruce Greenwald for sharing his thoughts on the value approach to investing and help with the course contents.

opportunity. You will do the homeworks, article critique, and the final project in groups of 5.

Class Participation: 10 pts

Mini Valuation Exercises (Homework Assignments): 20 pts

Article Critique: 20 pts

Final Valuation Project Report: 50 pts

There is no final exam. Final Valuation Project Reports are due on the last day of class, May 31, 2006.

### **Tentative Schedule**

#### *Week 1, Wednesday March 29*

Lecture, Introduction to Value Investing. Readings: **II**, Chapters 1, 8, 15; **VI**, Chapters 1-5; Tutorial on using STATA for quantitative analysis/searching for value; Journal articles to be handed out in class.

#### *Week 2, Wednesday April 5*

Valuation exercise, "Hudson General," based on Hudson General 1998 Annual Report; Lecture: More on the empirical support for the assumptions behind the value approach to investing; Reproducing and critiquing the results in Joseph D. Piotroski, "Value Investing: The Use of Historical Financial Statement Information to Separate Winners from Losers," Journal of Accounting Research, Vol. 38, Supplement: Studies on Accounting Information and the Economics of the Firm, 2000; Readings: Journal articles to be handed out in class.

HW1 (Mini Valuation Exercise: Hudson General + STATA tutorial due in class)

#### *Week 3, Wednesday April 12*

Lecture, Strategic Valuation Analysis. Readings: **II**, Chapters 12, 20; **VI** Chapters 6-8; Reproducing and critiquing the results in Piotroski (2000); Journal articles to be handed out in class.

HW2 (STATA tutorial and questions on Piotroski (2000) due in class)

#### *Week 4, Wednesday April 19*

Valuation exercise, "Liz Claiborne Valuation," based on Liz Claiborne 1999 Annual Report. Lecture, Valuing Growth & Managing Risk. Readings: **II**, Chapters 12, 20; **VI** Chapters 6-8; Reproducing and critiquing the results in Piotroski (2000); Journal articles to be handed out in class

HW3 (Mini Valuation Exercise: Liz Claiborne and STATA tutorial and questions on Piotroski (2000) due in class)

*Week 5, Wednesday April 26*

Outside Speaker: Peter Grondin, OSS Capital Management, In class exercise on Piotroski (2000). Discussion of WD-40. Reproducing and critiquing the results in Piotroski (2000); Lecture, Searching for value.

HW4 (A short writeup on your selection of the stock/case for your Final Valuation Project and Analysis of MEMC Electronic due in class)

*Week 6, Wednesday May 3*

Outside speaker: Bhaskaran Swaminathan, LSV Asset Management (<http://www.lsvasset.com/jsps/>) /Cornell University on “Quantitative Money Management”– searching for value..

Article Critique -- Piotroski (2000) -- due in class.

*Week 7, Wednesday May 10*

Outside Speaker: Bart Madden (see <http://www.learningwhatworks.com/biography.htm> for a brief biography); Readings: “CFROI Valuation,” a pdf file of the monograph can be downloaded from the website, <http://www.learningwhatworks.com/papers.htm> ); “For Better Corporate Governance, A Shareholder Value Review” (course website); and discussion of the valuation project.

*Week 8, Wednesday May 17*

Outside Speaker: Gautam Dhingra, High Pointe Capital Management, LLC ([www.HighPointeCapital.com](http://www.HighPointeCapital.com), [www.HPfund.com](http://www.HPfund.com)) on "Incorporating Intangibles into a Value Investing Framework;" Reading: "Sharpening the Intangibles Edge" by Bruch Lev," Harvard Business Review, June 2004; and discussion of the valuation project.

*Week 9, Wednesday May 24*

Outside Speaker: Eric Green, Osmium Partners, and Final Project Presentation.

*Week 10, Wednesday May 31*

Final Project Presentation.

**Suggestion for Value Investing Project**

Walter Industries (WLT) has submitted an S-1 filing to the SEC for in IPO of the firm’s water products business. The firm intends to spin off the water products business about 6 months after the IPO through a distribution to the firm’s shareholders.

Evaluate whether Walter Industries’ equities and bonds offer an investment opportunity.