Columbia University, Graduate School of Business

Applied Value Investing, Fall 2023

Professors:

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**Course summary**

The objective of this course is to study the tools, processes, and frameworks required to apply value investing principles to the real world. Students should come away with a comprehensive introduction to the ways in which professional equity analysts generate ideas, research companies, analyze financial statements, and communicate their findings.

The course will be divided into two halves. In the first half, students will work in groups of 3-4 to analyze a company that is assigned to them at the beginning of the course. Students will study the target company’s business model, review its financial history, conduct primary research, project financial performance, formulate a view on fair value, and communicate an investment thesis in an investment memorandum. Each step of the research process will be covered in a lecture, and students will have the opportunity to apply the concepts from each lecture to the company they are analyzing.

In the second half of the course, students will work in pairs to analyze an investment idea of their choosing. In addition, the second half of the course will include presentations by guest speakers and lectures on specialized topics (for example short selling or investing in cyclicals).

The course will conclude with student presentations of actionable investment recommendations to a panel of senior hedge fund professionals.

Real-world investment analysis requires an immense dedication of time, creativity, and grit. We are fortunate to love what we do. In our experience, only those with a passion for investing can outperform over the long term. Students will be expected to be similarly dedicated to this course.

**Learning objective**

At the end of this course, students should be able to independently develop, research, and communicate investment ideas from start to finish. This includes:

* Generating investment ideas
* Assessing business models, competitive position, and risk factors
* Conducting primary research with competitors, customers, suppliers, and former employees
* Analyzing historical financial performance
* Projecting future financial performance
* Assessing the risk/reward
* Communicating research findings clearly and concisely in both written and oral formats

**Course outline**

**Part 1: Fundamentals of investment research**

In part 1 of the course, students will master the fundamentals of investment research and apply these fundamentals to a company that is assigned to them. In each class we will cover a specific aspect of the investment process. Following that class, students will complete weekly exercises to apply the skills they have learned to the specific company they are researching. Students will be divided into groups of 3-4 for purposes of the weekly exercises and midterm presentations. Each group will be tasked with researching a separate company.

* Class 1: Course Introduction
  + Review of expectations, learning objectives, and course structure
  + Accounting concepts for investment analysts
  + Early-stage qualitative research
* Class 2: Modeling
  + Spreading historical financials
  + Calculating key ratios
  + Projecting financial performance into the future
  + Scenario analysis
* Class 3: Primary Research
  + Identifying the right contacts
  + Initiating contact
  + Research checklists
* Class 4: Valuation
  + Key ratios
  + Comparable company analysis
  + Constant-multiple returns
  + Calculating fair value
  + Projecting IRR
* Class 5: Synthesis
  + Elevator pitch basics
  + Defining the fulcrum issue
  + Separating time allocation from word count allocation
  + MECE communications
  + Memo composition
* Class 6: Student presentations & idea generation
  + Group presentations
  + Following group presentations, we will cover the basics of new idea generation

**Part 2: Special topics & case studies**

In part 2 of the course, students will work in pairs on investment ideas that they generate themselves. During class, students will present periodic updates on their research and professors / guest speakers will present on special topics within the investment field.

* Class 7: Short selling
  + Basic mechanics
  + Locating borrow; short rebate
  + Short selling frameworks
  + Why short selling is useful for properly functioning markets
  + Why we may be entering the golden age of short selling
  + Case studies and/or guest speaker
* Class 8: Investing in cyclicals
  + Mid-cycle earnings analysis
  + Identifying high vs. low-quality cyclicals
  + Idiosyncratic vs economically sensitive cyclicals
  + Case studies
* Class 9: Investing in balance sheet financials
  + Principles of B/S financials
  + Frameworks for investing in B/S financials
  + Case studies and/or guest speaker
* Class 10: Investing in software/growth companies
  + Operating expenses functioning as capital expenditures
  + Valuation using unit economics
  + Valuation using mature margin
* Class 11: Final student presentations
  + Formal presentations to a panel of senior industry professionals
* Class 12: Review & debriefing
  + How to be an outstanding investment analyst

**Required reading**

* How Inflation Swindles the Equity Investor by Buffett (to be read before class 4)
* Pitch the Perfect Investment by Sonkin and Johnson (to be read before class 5)
* Fooling Some of the People All of the Time by Einhorn (to be read before class 7)
* Outsiders by Thorndike (to be read before class 12)

**Recommended reading**

* Investment philosophy
  + The Most Important Thing by Marks
  + The Essays of Warren Buffett: Lessons for Corporate America, compiled by Cunningham
  + One up on Wall Street by Lynch
  + Alchemy of Finance by Soros
  + Sold Short: Uncovering Deception in the Markets by Asensio
  + Financial Shenanigans: How to Detect Accounting Gimmicks and Fraud in Financial Reports by Schilit
  + Richer, Wiser, Happier by William Green
  + Fooled by Randomness by Nassim Taleb
  + Fortune’s Formula by William Poundstone
  + Buffett Partnership letters ([https://rbcpa.com/warren-e-buffett/buffett-letters-1959-present/](https://urldefense.proofpoint.com/v2/url?u=https-3A__rbcpa.com_warren-2De-2Dbuffett_buffett-2Dletters-2D1959-2Dpresent_&d=DwQFAg&c=euGZstcaTDllvimEN8b7jXrwqOf-v5A_CdpgnVfiiMM&r=6QG6Xb3Xh6dwBPJHktzOC5Z0pXA9nJep9jC9c87NuQo&m=smnMTkW5wTh691moNpM5Be4_4T3zndH6RBlvDpSiaNo&s=Q20MayQhhpel1fXPUlWGMMMISKHZwrIP8uA_mfRHH1k&e=))
* General purpose
  + Five Dysfunctions of a Team by Lencioni
  + How to Win Friends and Influence People by Carnegie
  + The Checklist Manifesto by Gawande
* Anecdotes
  + The Greatest Trade Ever by Zuckerman
  + Dead Companies Walking: How a Hedge Fund Manager Finds Opportunity in Unexpected Places by Fearon

**Grading**

* 10% weekly exercises
* 30% midterm memo & presentation
* 40% final memo & presentation
* 20% participation

**Other policies:**

Class attendance is mandatory. Unexcused absences will not be tolerated. If you are unable to attend class for a legitimate reason, please let us know as soon as possible (and in no case later than the start of class).

Weekly exercises will be described in class on Wednesday and due at 11:59pm the following Monday. Exercises submitted late will receive at most half credit.