

Value and Growth Investing (EM165M32)

Program	PGE
Module / ECTS / Path / Specialisation	Module :Value and Growth Investing : 5 ECTS. <ul style="list-style-type: none">• Visitants
Discipline	Finance
Year	2019
Semester	B
Open for visitors	yes (5 ECTS)
Available places	45

Coordinator

Benjamin MAURY

Lecturers

Instructor	Population	Email
Benjamin MAURY		

Course format

Working language :	English
Volume of contact hours :	27 h
Workload to be expected by the student :	108 h

Course track

Track : Attendance

"Attendance" track :

Attendance at lecture / tutorial classes and intermediate / final exams is mandatory. As evaluation of in class work constitutes an essential element of grading, any absence will be penalized and is taken into account for grading purposes (see academic rules and regulations).

"Autonomous" track :

Attendance at intermediate / final exams is mandatory, but students are free to attend lecture / tutorial classes.

For all Master programs and all other programs realized in the form of dual internships (apprentissage), attendance at lecture / tutorial classes and intermediate / final exams is entirely mandatory. Therefore, only the "Attendance" track can be selected.

Contribution of the course to the educational objectives of the programme

How the course contributes to the programme :

Description

This course deals with value and growth investing. The first part 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. The second part of the course moves beyond value and quality investing and focuses on growth investing. A framework for understanding growth from a (i) strategic management perspective and an (ii) investor perspective is developed.

Educational organisation

In class

Lectures

In groups

Projects

Oral presentations

Assignments

Specific projects / case studies

Learning outcomes

Upon completion of this course, students should be able to :

- **Identify** investment opportunities and make investment decisions

Outline

Introduction to the course : Overview of course and requirements

Session 1 (February 6, 10:00-12:00, room TBA): 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., J. Kahn, P.D. Sonkin, M. van Biema. Value Investing: from Graham to Buffett and Beyond. 2001. Chapters 1-4.

Recommended further reading:

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

Penman, S. 2006. Handling valuation models. Journal of Applied Corporate Finance 18, 48-55.

Session 2: Earnings Power Value

- 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.
Greenwald, B., J. Kahn. All strategy is local. Harvard Business Review, September 2005 (10 pages).

Recommended further reading:

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

Session 3 Value of Growth & Portfolio Construction

- 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.

Recommended further reading:

Graham, B. The Intelligent Investor. Revised edition, 2003. Chapters 19 and 20.

Session: 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:

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., 2014. "Quality investing". Working paper, University of Rochester, May 2014.

Session 5): Growth and strategic plans

- Holistic view of performance and growth
- Overview of growth strategies
- Analysis of the business environment
- Changing business environments
- Strategic plan

Literature:

Lecture slides.

Recommended further reading on strategy: Saloner, Garth, Andrea Shepard, and Joel Podolny. 2001. Strategic Management. Wiley (USA). Chapters 2, 6, 11, and 15.

Recommended further reading on competitive advantages: Greenwald, Bruce, and Judd Kahn. 2005. Competition Demystified: A Radically Simplified Approach to Business Strategy. Penguin Group (USA). Chapters 2-4.

Session 6: Growth valuation and growth investing

- Strategy and valuation
- Valuing growth (DCF & Graham's growth investing model)
- Growth investing
- Cases

Literature:

- Damodaran, Aswath, Valuing Young, Start-Up and Growth Companies: Estimation Issues and Valuation Challenges (June 12, 2009). https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1418687

Recommended further reading:

- McKinsey & Company Inc., Tim Koller, Marc Goedhart, David Wessels. 2015. Valuation: Measuring and Managing the Value of Companies (Wiley Finance). Chapter 34: "Valuing High-Growth Companies".
- Graham, B. & Dodd, D. 1962. Security Analysis. Chapter 39: "Newer methods for valuing growth stocks". [http://csinvesting.org/wp-content/uploads/2012/12/Newer-Methods-for-Valuing-Growth-Stocks_1962_Security-Analysis2.pdf]
- Martin, F.K., Hansen, N., and Nicoski, R. 2012. Benjamin Graham and the power of growth stocks. Chapters 3 and 7.
- Growth investing: Damodaran, Aswath. 2012. Growth Investing: Betting on the Future? Ssrn.com. New York University - Stern School of Business

Group presentations of investment cases (9*90 min,)

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

Prerequisites

Key concepts to understand :

Teaching material

Recommended reading

Major works :

Session 1

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

Session 2

Greenwald, B., J. Kahn, P.D. Sonkin, M. van Biema. Value Investing: from Graham to Buffett and Beyond. 2001. Chapters 5-6.

Greenwald, B., J. Kahn. All strategy is local. Harvard Business Review, September 2005 (10 pages).

Session 3

Greenwald, B., J. Kahn, P.D. Sonkin, M. van Biema. Value Investing: from Graham to Buffett and Beyond. 2001. Chapter 7-8.

Session 4

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., 2014. "Quality investing". Working paper, University of Rochester, May 2014.

Session 6

Damodaran, Aswath, Valuing Young, Start-Up and Growth Companies: Estimation Issues and Valuation Challenges (June 12, 2009). https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1418687

Further reading :

Session 1

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

Penman, S. 2006. Handling valuation models. Journal of Applied Corporate Finance 18, 48-55.

Session 2

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

Session 3

Graham, B. The Intelligent Investor. Revised edition, 2003. Chapters 19 and 20

Session 5):

Saloner, Garth, Andrea Shepard, and Joel Podolny. 2001. Strategic Management. Wiley (USA). Chapters 2, 6, 11, and 15.

Greenwald, Bruce, and Judd Kahn. 2005. Competition Demystified: A Radically Simplified Approach to Business Strategy. Penguin Group (USA). Chapters 2-4.

Session 6:

McKinsey & Company Inc., Tim Koller, Marc Goedhart, David Wessels. 2015. Valuation: Measuring and Managing the Value of Companies (Wiley Finance). Chapter 34: "Valuing High-Growth Companies".

Graham, B. & Dodd, D. 1962. Security Analysis. Chapter 39: "Newer methods for valuing growth stocks". [http://csinvesting.org/wp-content/uploads/2012/12/Newer-Methods-for-Valuing-Growth-Stocks_1962_Security-Analysis2.pdf]

- Martin, F.K., Hansen, N., and Nicoski, R. 2012. Benjamin Graham and the power of growth stocks. Chapters 3 and 7.

Growth investing: Damodaran, Aswath. 2012. Growth Investing: Betting on the Future? Ssrn.com. New York University - Stern School of Business

Research works by EM Strasbourg :

Assessment

Intermediate evaluation / continuous assessment 1 :

written + oral / in group / English / weighting : 30%

additional information : Written investment case 0-30 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 February 19 at 3 pm. E-mail the first draft to benjamin.maury@hanken.fi - Case presentations (0-5 points) have been scheduled for February 25-27 - Discussant for another group's case (0-5 points) - The final paper (0-20 points), 10-15 pages is due on February 28 at 3 pm. The final paper should also be e-mailed to benjamin.maury@hanken.fi In addition to the case assignment, there will be (0 to 6) bonus points from written summaries: - Discussion that summarizes in 3-5 pages the readings for the relevant session (Hand it in to me in the lecture room before the respective session starts or e-mail the summary to me at benjamin.maury@hanken.fi). Exception: the first summary (session 1) can be handed on by February 7, at 10 am. - One written summary gives 0-1 points - If one completes all four written summaries, there is an extra bonus factor of 1.5. The maximum bonus from summaries is thus $4 * 1.5 = 6$ points.

Final assessment :

written / individual / English / weighting : 70%

additional information : 0-70 points (a minimum 35 points to pass the exam part). The exam is based on the required readings and the lecture slides.

Grounds for expulsion from classes

Such behaviors as...

arriving late, leaving early or unannounced leaving of the classroom during class time

disruptive eating or drinking in class

using smartphones and laptops for non class-related purposes

reading non class-related documents

chatting on non class-related issues

showing disrespect towards lecturers

... may lead to expulsion from classes.