COURSE DESCRIPTION

The purpose of this course is to teach students how to create an actual portfolio that meets the needs of a client in a manner consistent with the investment philosophy of Graham, Dodd, and Buffett. The client (previously an individual, now the Rutgers University Foundation) wishes the portfolio to have a Value orientation with hedge fund characteristics (i.e., the portfolio has both Long and Short positions.) From an organizational standpoint, each student will serve as an analyst responsible for a particular sector or industry. Students will be required to write one comprehensive stock report (one Long recommendation and/or one Short recommendation) and present the findings of their best investment idea in front of the class. Students have the option of writing two stock reports (one Long, one Short sale) to maximize the skill set obtained from the course. The extra effort may be taken into account when determining the final grades. One the course is completed the option to complete two reports does not exist.

The course will be primarily conducted on an independent study basis with only a moderate number of in-class meetings. We will meet in a classroom setting approximately once every two weeks. Additional communication may be done via phone (e.g. conference calls) and email. All students must have a strong understanding of financial statement analysis in order to effectively participate in the class.

COURSE MATERIALS

Texts: The Intelligent Investor by Benjamin Graham. There are many editions and the chapters may differ, but we require you to read the following chapters, identified by their title, since it will help you understand what to look for when searching for and valuing securities. Arguably, the two most important chapters are noted directly below

- “The Investor and Market Fluctuations”
- “Margin of Safety as the Central Concept of Investment”

CLASS ORGANIZATION & ADMINISTRATION

To orient yourself you should first read the chapters on “Investment Versus Speculation”, “The Defensive Investor and Common Stocks”, “Portfolio Policy for the Enterprising Investor”, “Things to Consider About Per-Share Earnings” and “Stock Selection for the Enterprising Investor”. Our goal is to provide students with a value oriented roadmap to narrow down the opportunity set for stock selection using statistical screening. The reader should seek the answer to the question as to what industry and company characteristics
constitute a sound investment for the enterprising investor using Graham’s prescription. Once a stock is selected, our goal is to be able to defend the selection using fundamental analysis. The process should be equally applicable to the short side as well, by largely following the reverse logic of the buy recommendation. The following book, and corresponding chapters, is also recommended.

*Buffett: The Making of an American Capitalist* by Roger Lowenstein

- Ch 8: Return of the Native
- Ch 9: Alter Ego
- Ch 10: Washington Redux

You should also read the last 2 shareholder letters (2013, 2014) from Berkshire Hathaway. They can be found at the link below:

http://www.berkshirehathaway.com/letters/letters.html

**Class Participation:** Attendance is required at all classes given the limited number of formal meetings. Class participation is encouraged during the lectures and may help in borderline cases.

**Blackboard Account:** The Blackboard Account for the class will contain sample reports and other relevant information. The homepage of the Rutgers Whitcomb Center for Financial Institutions contains PDFs of past prize winning reports (see link below)

http://www.business.rutgers.edu/whitcomb/apm-bwprize

**Project: Sector/ Industry / Stock Reports**

**Project:** During the first class each student will be cover a specific stock market sector (e.g. Technology, Utilities, HealthCare, etc.) of their choice. Ideally each student will have a core competence in that sector due to work experience or other reasons. Once assigned a sector, each student will do an analysis to decide which industries in the sector (e.g. Insurance within Financials) and stocks within the industry (e.g. Aetna in Insurance) will do well and which will do poorly. This report will serve as the basis for your Long and/or Short stock recommendations.

Your recommendations will be primarily based on fundamental and macroeconomic analysis, but current events and other catalysts may also play a supporting role in your recommendations. Your reports should include earnings forecasts (quarterly and annual EPS) and price objectives in addition to other factors that will be discussed during the course. The bulk of the grade will be based on content, but the reports should also be well written and look professional.

**The PROJECT IS DUE on Saturday, April 25th at class. There will be a penalty for lateness.**

The ability to contribute to and impress others at meetings is an essential business skill. Therefore, the last class will be devoted to a discussion of the projects. Each student will present his/her best stock report in a crisp 10-minute oral presentation and field questions from the instructors and the class.
FINAL GRADE ASSIGNMENT

Grading: Written Stock Report(s) and Oral Presentation (100%). Approximately 80% of the grade will be based on the written report(s) and the remainder on the presentation.

OUTLINE FOR APPLIED PORTFOLIO MANAGEMENT (TENTATIVE)

Classes in NB (Livingston Campus) will be held in Room 5105 at 100 Rockafeller Rd

I. Saturday January 24th Lecture One (Longo) [12 pm – 3 pm]


II. Friday January 30th Lecture Two (Mullick) [1 pm – 4 pm] (New York City)

Possible Topics: Discussion of The Intelligent Investor, Definition Of Value (e.g. P/E, P/Book, P/CFlow, P/Free CFlow, EVA), Value Investing (versus Contrarian), and Dividends. Value Investment Screens. Structuring a portfolio, risk management, and meeting with management.

III. Saturday, February 14th [11 am – 1 pm+]

Email both instructors before the class (by Friday at midnight) a small list of names for your Long and/or Short candidates and have several bullet points to support your views. We will try to finalize your picks shortly after this time.

Part 1: Preliminary Discussion of Your Investment Ideas; Financial Modeling


Lecture Topic: Fundamental Analysis and Sell Side Research (Utility Sector)

Biographical Sketch: Russell is a MBA graduate of RBS and a prior student in the Applied Portfolio Management Class. He is Senior Analyst and Product Manager at Regulator Research Associates / SNL Financial, where he focuses on the Utility sector.

IV. Saturday February 28th [11 am – 1 pm+]

Part 1: Financial Modeling

Part 2: Guest Lecturer: Chris Wiggins, Lord Abbett & Co.

Lecture Topic: Fundamental Analysis, Buyside and Sell Side Research (Industrial Sector)
**Biographical Sketch:** Chris is a 2005 MBA graduate of RBS and a prior student in the 2005 Applied Portfolio Management Class. He was a sell side analyst at Oppenheimer covering the Industrial Diversified / Machinery sector from 2005 - 2010. He is currently a buyside analyst at Lord Abbett & Co.

V. Friday March 13th (time TBD, tentatively 11am – 1pm+)

(* NOTE: Spring Break covers the next two Saturdays, March 15 – 22 so we are unable to meet for class. *)

**Part 1: Financial Modeling & Project “Workbench”:** By this date it is expected that you have your Long and/or Short picks finalized and have questions as you work through the details.

**Part 2: Guest Lecturers:** Andrew Hokenson and Dmitry Malinsky, Pier Capital

**Lecture Topic:** Growth Investing, Buyside Analysis and Portfolio Management

**Biographical Sketch:** Andrew and Dmitry are graduates of the Rutgers MBA program and have taken the APM class. They are both analysts at Pier Capital, an institutional growth manager with approximately $1 billion in assets under management.

VI. Saturday, March 28th, 11am – 1pm+

**Part 1:** Financial Modeling

**Part 2: Guest Lecturer:** Greg Francfort, Neuberger & Berman

**Topics:** Value investing and equity research.

**Biographical Sketch:** Greg Francfort is Partner and Head of Research at Neuberger & Berman. Prior to joining Neuberger in 1991, Mr. Francfort was the Associate Director of Equity Research at First Boston Corp. where he was also a sell-side research analyst. He was named by Institutional Investor magazine as an All-star analyst in both the Telecommunications Equipment and Electronic Connector industries. Mr. Francfort is a Summa Cum Laude graduate of Rutgers University with a degree in Civil Engineering and earned an MBA from the Wharton School. A Charted Financial Analyst, Mr. Francfort resides in New Jersey with his wife and three children.

VII. Saturday, April 11th, 11am – 1pm+

**Part 1:** Financial Modeling

**Part 2: Guest Lecturer:** Dexter Earle

**Lecture Topic: Capital Markets:** Past, Present, and Future

**Biographical Sketch:** Mr. Earle is a former Partner at Goldman Sachs & Co and Executive In Residence at Rutgers University. He became a member Goldman’s Equities Division in 1981 and was named Partner in 1988 as Co-Head of the Global Equities Derivatives Department. As Co-Head of this department, he was responsible for derivative sales, trading, and research worldwide. Prior to joining Goldman, he was Senior
Vice President, Pension Investments at Bankers Trust. He has served the Morristown Hospital in numerous charitable capacities. Dexter is a graduate of Rutgers University, earning a B.A. in History.

VIII. Saturday, April 25th, 11am – 1pm+ (* Projects Due *)

Part 1: Discuss Presentations
Part 2: Guest Lecturer: Anand Rao

Topic: Distressed Investing and Buy Side Research at a Hedge Fund

Biographical Sketch: Anand is an analyst at Litespeed Partners, an event driven hedge fund specializing in distressed debt. Prior to joining Litespeed in 2010, he spent 5 years as an analyst at the hedge fund Sandell Partners, 3 years in Private Equity at CAI Partners, and 2 years as a M&A Analyst as CS First Boston. He received his MBA degree from Harvard Business School and his undergraduate degree in Finance from Rutgers Business School.

IX. Friday, May 8th Student Presentations, 1pm – 4pm (New York City)

Each student will make a crisp 10 minute presentation (+ Q&A) highlighting their “best” Long or Short candidate. The student will justify his / her recommendations and field questions from the class and instructors. Business attire is suggested.

Rutgers Honor Code and Academic Integrity Policy: Rutgers University, in conjunction with the Rutgers Business School, has established an Honor Code that states:

“I pledge, on my honor, that I have neither received nor given any unauthorized assistance on this examination or assignment.” (http://academicintegrity.rutgers.edu/integrity.shtml)

Students are expected to fully comply with the honor code and policy of academic integrity in the completion of their reports and presentation.