

Finance
Course Number: 22:390:658
Course Title: Applied Portfolio Management

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 conducted via Canvas, phone 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”**

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 or Buffett’s prescription. Once a stock is selected, your 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 (2017, 2018) from Berkshire Hathaway**. They may be found at the link below:

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

Canvas Account: (* IMPORTANT *) Sample projects, lecture material, and other information will be placed on the Canvas Account for the course (canvas.rutgers.edu).

LEARNING GOALS AND OBJECTIVES

- This course is designed to help students develop skills and knowledge in the following area(s):

Valuation, Value Investing, Portfolio Management, Financial Modeling, Financial Statement Analysis, and Industry Analysis.

- Students who complete this course will demonstrate the following:

Skills in building financial models, analyzing financial statements, and valuing firms. To understand the art of Value Investing, per the investment philosophies of Benjamin Graham and Warren Buffett.

- Students develop these skills and knowledge through the following course activities and assignments:

Students will complete a comprehensive stock report and present their findings to the class.

PREREQUISITES

At least one graduate level course in Finance and one course in Accounting.

ACADEMIC INTEGRITY

I do NOT tolerate cheating. Students are responsible for understanding the RU Academic Integrity Policy (<http://academicintegrity.rutgers.edu/>)

I will strongly enforce this Policy and pursue *all* violations. On all examinations and assignments, students must sign the RU Honor Pledge, which states, "On my honor, I have neither received nor given

any unauthorized assistance on this examination or assignment.” I will screen all written assignments through *SafeAssign* or *Turnitin*, plagiarism detection services that compare the work against a large database of past work. Don’t let cheating destroy your hard-earned opportunity to learn. See business.rutgers.edu/ai for more details.

ATTENDANCE AND PREPARATION POLICY

Attendance is expected at all sessions. If I am to be absent, my department chair or I will send you notice via email and Canvas as far in advance as possible. If your absence is due to religious observance, a Rutgers-approved activity, illness, or family emergency/death and you seek makeup work, also send me an email with full details and supporting documentation within 3 days of your first absence.

- For weather emergencies, consult the campus home page. If the campus is open, class will be held, but please do not travel if it jeopardizes your health or well-being.

CLASSROOM CONDUCT

Faculty, students, and guests deserve to be treated with dignity and respect. Please refrain from behavior that will negatively impact the learning environment for anyone present in the classroom.

PROJECT

During the first class each student will select 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, such as strong personal interest. 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 student with the best report will win a ().

The PROJECT IS DUE on () 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.

GRADING POLICY

Course grades are determined as follows:

Written Stock Report(s) and Oral Presentation (100%). Approximately 90% of the grade will be based on the written report(s) and the remainder on the presentation.

Final Presentation Date: ()

- The RBS Honor Code applies to the course assignments.

Class participation is strongly encouraged and will help in borderline cases. Maximum benefit will be obtained from the instructor and students discussing their experiences, when relevant, in the context of the course material.

I will not change your grade unless I have made an error. Changing a final grade requires the approval of not only of the instructor, but also the Department Chairperson, and Dean.

COURSE SCHEDULE

OUTLINE FOR APPLIED PORTFOLIO MANAGEMENT (TENTATIVE)

I. Lecture One

Possible Topics: Introduction to the Class, Sample Stock Reports, Hedge Funds, Short Selling, Graham, Dodd, & Buffett Value Investing Philosophy, Earnings Surprises, Earnings Revisions, Insider Trading, Consensus Opinion Estimates, Financial Websites, Assignment of Sectors. Introduction to Financial Modeling.

II. Lecture Two

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.

Email the instructor 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

Part 2: Guest Lecturer:

Lecture Topic: Fundamental Analysis, Buy Side and Sell Side Research (Industrial Sector)

Biographical Sketch:

IV.

Part 1: Financial Modeling

Part 2: Guest Lecturer:

Lecture Topic: Technology Stocks, Small Cap Stocks, International Stocks, and Mutual Fund Management

Biographical Sketch:

(*Note: Break covers the next two (), () so we are unable to meet for class and will subsequently meet () to “catch up.” *)

V.

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:

Lecture Topic: Growth Investing, Buy Side Analysis and Portfolio Management

Biographical Sketch:

VI.

Part 1: Financial Modeling

Part 2: Guest Lecturer:

Topics: Value investing and equity research.

Biographical Sketch:

VII.

Part 1: Finish Financial Model

Part 2: Guest Lecturers:

Topic: Sell Side Research

Biographical Sketches:

VIII. (* Projects Due *)

Part 1: Discuss Presentations

Part 2: Guest Lecturer:

Topic: Event Driven Hedge Funds

Biographical Sketch:

IX. Student Presentations,

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 instructor.

SUPPORT SERVICES

If you need accommodation for a *disability*, obtain a Letter of Accommodation from the Office of Disability Services. The Office of Disability Services at Rutgers, The State University of New Jersey, provides student-centered and student-inclusive programming in compliance with the Americans with Disabilities Act of 1990, the Americans with Disabilities Act Amendments of 2008, Section 504 of the Rehabilitation Act of 1973, Section 508 of the Rehabilitation Act of 1998, and the New Jersey Law Against Discrimination. More information can be found at ods.rutgers.edu.

[Rutgers University-New Brunswick ODS phone (848)445-6800 or email dsoffice@echo.rutgers.edu]

[Rutgers University-Newark ODS phone (973)353-5375 or email ods@newark.rutgers.edu]

If you are *pregnant*, the Office of Title IX and ADA Compliance is available to assist with any concerns or potential accommodations related to pregnancy.

[Rutgers University-New Brunswick Title IX Coordinator phone (848)932-8200 or email jackie.moran@rutgers.edu]

[Rutgers University-Newark Office of Title IX and ADA Compliance phone (973)353-1906 or email TitleIX@newark.rutgers.edu]

If you seek *religious accommodations*, the Office of the Dean of Students is available to verify absences for religious observance, as needed.

[Rutgers University-New Brunswick Dean of Students phone (848)932-2300 or email deanofstudents@echo.rutgers.edu]

[Rutgers University-Newark Dean of Students phone (973)353-5063 or email DeanofStudents@newark.rutgers.edu]

If you have experienced any form of *gender or sex-based discrimination or harassment*, including sexual assault, sexual harassment, relationship violence, or stalking, the Office for Violence Prevention and Victim Assistance provides help and support. More information can be found at <http://vpva.rutgers.edu/>.

[Rutgers University-New Brunswick incident report link: <http://studentconduct.rutgers.edu/concern/>. You may contact the Office for Violence Prevention and Victim Assistance at (848)932-1181]

[Rutgers University-Newark incident report link: https://cm.maxient.com/reportingform.php?RutgersUniv&layout_id=7 . You may also contact the Office of Title IX and ADA Compliance at (973)353-1906 or email at TitleIX@newark.rutgers.edu. If you wish to speak with a staff member who is confidential and does **not** have a reporting responsibility, you may contact the Office for Violence Prevention and Victim Assistance at (973)353-1918 or email run.vpva@rutgers.edu]

If students who have experienced a temporary condition or injury that is adversely affecting their ability to fully participate, you should submit a request via <https://temporaryconditions.rutgers.edu> .

If you are a military *veteran* or are on active military duty, you can obtain support through the Office of Veteran and Military Programs and Services. <http://veterans.rutgers.edu/>

If you are in need of *mental health* services, please use our readily available services.

[Rutgers University-Newark Counseling Center: <http://counseling.newark.rutgers.edu/>]

[Rutgers Counseling and Psychological Services–New Brunswick: <http://rhscaps.rutgers.edu/>]

If you are in need of *physical health* services, please use our readily available services.

[Rutgers Health Services – Newark: <http://health.newark.rutgers.edu/>]

[Rutgers Health Services – New Brunswick: <http://health.rutgers.edu/>]

If you are in need of *legal* services, please use our readily available services: <http://rusls.rutgers.edu/>

Students experiencing difficulty in courses due to *English as a second language (ESL)* should contact the Program in American Language Studies for supports.

[Rutgers–Newark: PALS@newark.rutgers.edu]

[Rutgers–New Brunswick: eslpals@english.rutgers.edu]

If you are in need of additional *academic assistance*, please use our readily available services.

[Rutgers University-Newark Learning Center: <http://www.ncas.rutgers.edu/rlc>]

[Rutgers University-Newark Writing Center: <http://www.ncas.rutgers.edu/writingcenter>]

[Rutgers University-New Brunswick Learning Center: <https://rlc.rutgers.edu/>]

[Optional items that many faculty include:

- Students must sign, date, and return a statement declaring that they understand the RU Academic Integrity Policy.
- Students must sign, date, and return a statement declaring that they understand this syllabus.]