PRELIMINARY COURSE SYLLABUS

Course Title: Value Investing: An Introduction
Course Code: BUS 123 W
Instructor Name: Kenneth Jeffrey Marshall
Quarter: Summer 2018

Grade Options and Requirements:

No Grade Requested (NGR): Please follow the online curriculum. Please consider the online video conferencing sessions to be optional.

Credit/No Credit (CR/NC): Please follow the online curriculum including the video conferencing sessions (live or prerecorded).

Letter Grade: Please follow the online curriculum including the video conferencing sessions (live or prerecorded). Using the framework developed in the course, please pick any one publicly-traded company and determine a price at which you would buy its shares. Please turn in a write-up of your selection of no more than two pages at the end of the course.

**Please Note: If you require proof that you completed a Continuing Studies course for any reason (for example, employer reimbursement), you must choose either the Letter Grade or Credit/No Credit option. Courses taken for NGR will not appear on official transcripts or grade reports.*

Required Book

Good Stocks Cheap: Value Investing with Confidence for a Lifetime of Stock Market Outperformance, McGraw-Hill, 2017.

Weekly Outline

This course introduces value investing through the case method of instruction. Each week a firm of current interest to the best value investors in the world is introduced. Students read parts of that company's annual report and other relevant sources. They're encouraged to share their views on the opportunity in a vibrant online discussion. The week culminates in an optional, one-hour video conference that can either be attended live or viewed later. Each case naturally teases out tools and principles of value investing in a relevant and engaged way, resulting in a fully-developed stock analysis framework that students can apply after the course ends.

Week 1: Fundamentals and Understanding the Business
The long-term superior returns of value investing versus other strategies; the distinction between price and value; rejection of the efficient market hypothesis; volatility; intrinsic value; circle of competence; business understanding as a prerequisite for further analysis; making things as simple as possible but no simpler; defining a company by its products, customers, industry, form, geography, and status.

Week 2: Accounting and the Key Number of Capital Employed
Efficiently mastering annual reports; how a value investor reads income statements, cash flow statements, and balance sheets; relevant differences between Generally Accepted Accounting Principles in the United States and International Financial Reporting Standards; capital employed as a company's required financial base; the challenge of determining how much cash is truly excess; goodwill.

Week 3: Other Key Numbers
Operating income versus other measures of income; free cash flow and the challenge of distinguishing between maintenance and growth capital expenditures; book value and its distortions; tangible book value; counting shares correctly; why fully diluted shares tend to become shares outstanding.

Week 4: Performance Metrics
Calculating return on capital employed (ROCE) and free cash flow return on capital employed (FCFROCE); when ROCE and FCFROCE are more useful than return on equity, net profit margin, and other common metrics; calculating growth per fully diluted share in operating income, free cash flow, book value, and tangible book value; the liabilities-to-equity ratio; performance metrics as historic versus prospective.

Week 5: Strategic Analysis and Future Performance
Qualitative versus quantitative forecasting; precision versus accuracy; customer and supplier breadth analysis; customer power, supplier power, substitute threat, and new entrant threat in forces analysis; moat as coming from government, cost, brand, network, switching costs, or ingrainedness; assessing market growth objectively.

Week 6: Shareholder-Friendliness
Finding companies that operate primarily for the benefit of outside stakeholders; officer and director compensation and ownership; related-party transactions; share repurchases; dividends and their drawbacks.

Week 7: Inexpensiveness
The problem with overpaying for even good businesses; calculating times free cash flow (MCAP/FCF) and enterprise value to operating income (EV/OI), the legacy metrics of price to book (MCAP/BV) and price to tangible book (MCAP/TBV); the concept of margin of safety; bad businesses as never being inexpensive enough.

Week 8: Misjudgment and Misaction
Psychological aspects of investing; sources of misjudgment including the biases of affinity, reciprocity, anchoring, authority, availability, cleverness, incomprehensibility, consensus, peculiarity, intermixing, consistency, confirmation, hope, lossophobia, scarcity, hotness, miscontrast, and windfallapathy; misaction via akrasia; impetuosity versus weakness; the concept of Mr. Market.

Week 9: Generating Ideas

Efficiently identifying value investing ideas worth analyzing through bad news, spin-offs, regulatory filings, reorganizations, small capitalization stocks, stock screeners, and serendipity; the primacy of not losing money; false negatives versus false positives.

Week 10: Differences Among Value Investors

The distinction between price and value as the sole requisite principle of value investing; valid differences among value investors including choice of asset class, holding period, activism, degree of diversification, attention paid to company quality, use of leverage, idea complexity, and use of shorting.