Advanced Investment Analysis (Special Topics Finance: FINA4650/5650)

Spring 2020

PROFESSOR: Ian Liu, Ph.D., CFA
OFFICE: BLB358F
CLASS: Tue 2:00-4:50 BLB075
OFFICE HOURS: Tue 10:00-11:30 AM (Additional hours will be available by appointment)
OFFICE PHONE: 940-369-7197
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Course Description:

Introductory courses in finance and investment are not enough to prepare students for the complexity of real investment world. This class integrates advanced investment analysis with discoveries in academic research to provide solutions to real world equity investing. We will deal with the both the art and science of investing.

Target Students:

Students who have a strong interest in investing and have taken fundamental courses in finance and investing. Senior analysts and portfolio managers of Student Investment Group are encouraged to take the course. Prerequisites: FINA3770, FINA4200, FINA5170 (for graduate students)

Suggested Books:

- The Essays of Warren Buffett: Lessons for Corporate America, Fifth Edition
- A Random Walk on Wall Street
- One up on Wall Street
- Invest like a Guru
- Warren Buffett Annual Letter to shareholders
- The Intelligent Investor
- The five rules for successful stock investing
Academic Research Articles:


**GRADING**

<table>
<thead>
<tr>
<th>Class Participation</th>
<th>10%</th>
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<tbody>
<tr>
<td>Project 1: Research Paper Presentation</td>
<td>20%</td>
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<tr>
<td>Project 2: Philosophy of Investing</td>
<td>20%</td>
</tr>
<tr>
<td>Project 3: Stock Analysis</td>
<td>50%</td>
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</tbody>
</table>

Scale

- A = 90 – 100
- B = 80 – 89.9
- C = 70 – 79.9
- D = 60 – 69.9
- F = 0 – 59.9

I will try to adhere to the above grading scale but I reserve the right to deviate from it. I don’t negotiate grades. You earn them.
INCOMPLETE:
I will adhere to University policy regarding the assignment of a grade of Incomplete. Unless you are in compliance with University policy do not ask me to assign a grade of incomplete.

DISABILITY ACCOMODATION

The University of North Texas is on record as being committed to both the spirit and letter of federal equal opportunity legislation; reference Public Law 92-112 – The Rehabilitation Act of 1973 as amended. With the passage of new federal legislation entitled Americans with Disabilities Act (ADA), pursuant to section 504 of the Rehabilitation Act, there is renewed focus on providing this population with the same opportunities enjoyed by all citizens.

As a faculty member, I am required by law to provide "reasonable accommodations" to students with disabilities, so as not to discriminate on the basis of that disability. Student responsibility primarily rests with informing faculty of their need for accommodation and in providing authorized documentation through designated administrative channels. Information regarding specific diagnostic criteria and policies for obtaining academic accommodations can be found at http://www.unt.edu/oda/apply/index.html. Also, you may visit the Office of Disability Accommodation in the University Union (room 321) or call them at (940) 565-4323.

If you need an accommodation, please contact me as soon as possible but at the latest by the second week of class.

ACADEMIC DISHONESTY

Academic dishonesty is defined in the UNT Policy on Student Standards for Academic Integrity. Any suspected case of Academic Dishonesty will be handled in accordance with the University policy and procedures. Possible academic penalties include a grade of “F” in the course. You will find the policy and procedures at http://vpaa.unt.edu/academic-integrity.htm

If I suspect that you have engaged in academic dishonesty, I will deal with the situation as outlined in the University Policy shown above. You will be allowed to remain in the class during the entire time that the academic misconduct accusation is being investigated, adjudicated, and appealed. As noted above, the maximum academic penalty that can be assessed by an instructor is an F in the course. However, university officials use the academic misconduct information to decide if other misconduct sanctions are then to be applied, and the student has separate rights to appeal those decisions, remaining in the class until all appeals are exhausted.

STUDENT PERCEPTIONS OF TEACHING (SPOT)

Student feedback is important and an essential part of participation in this course. The student evaluation of instruction is a requirement for all organized classes at UNT. The SPOT survey will be made available during weeks 13 and 14 of the long semesters to provide students with an opportunity to evaluate how this course is taught. Students will receive an email from "UNT SPOT Course Evaluations via IASystem Notification" (no-reply@iasystem.org) with the survey link. Please look for the email in your UNT email inbox. Simply click on the link and complete your survey. Once you complete the survey you will receive a confirmation email that the
survey has been submitted. For additional information, please visit the spot website at www.spot.unt.edu or email spot@unt.edu.

EAGLE CONNECT ACCOUNT

All students should activate and regularly check their EagleConnect (e-mail) account. EagleConnect is used for official communication from the University to students. Many important announcements for the University and College are sent to students via EagleConnect. For information about EagleConnect, including how to activate an account and how to have EagleConnect forwarded to another e-mail address, visit https://eagleconnect.unt.edu/

EMERGENCY EVACUATION PROCEDURES FOR BUSINESS LEADERSHIP BUILDING

• Severe Weather In the event of severe weather, all building occupants should immediately seek shelter in the designated shelter-in-place area in the building. If unable to safely move to the designated shelter-in-place area, seek shelter in a windowless interior room or hallway on the lowest floor of the building. All building occupants should take shelter in rooms 055, 070, 090, and the restrooms on the basement level or in rooms 170, 155, and restrooms 122, 182 or 183 on the first floor.

• Bomb Threat/Fire In the event of a bomb threat or fire in the building, all building occupants should immediately evacuate the building using the nearest exit. Once outside, proceed to the designated assembly area. If unable to safely move to the designated assembly area, contact one or more members of your department or unit to let them know you are safe and inform them of your whereabouts. Persons with mobility impairments who are unable to safely exit the building should move to a designated area of refuge and await assistance from emergency responders. All building occupants should immediately evacuate the building and proceed to the south side of Crumley Hall in the grassy area, west of parking lot 24.
## Course design outline (tentative)

<table>
<thead>
<tr>
<th>Class</th>
<th>date</th>
<th>Sessions</th>
<th>Topics</th>
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</thead>
<tbody>
<tr>
<td>Week 1</td>
<td>1/14/20</td>
<td><strong>The Art of Value Investing</strong></td>
<td>Introduction</td>
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<tr>
<td>Week 2</td>
<td>1/21/20</td>
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<td>Introduction to Value Investing</td>
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<tr>
<td>Week 3</td>
<td>1/28/20</td>
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<td>Competitive Positioning and Moat Analysis</td>
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<td>Week 4</td>
<td>2/4/20</td>
<td></td>
<td>Qualitative Analysis</td>
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<td>Week 5</td>
<td>2/11/20</td>
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<td>Stock Valuation I</td>
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<tr>
<td>Week 6</td>
<td>2/18/20</td>
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<td>Stock Valuation II</td>
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<tr>
<td>Week 7</td>
<td>2/25/20</td>
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<td>Risk Analysis &amp; Corporate Governance</td>
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<td>Week 8</td>
<td>3/3/20</td>
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<td>Midterm Presentation (Project 3)</td>
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<td>Week 9</td>
<td>3/10/20</td>
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<td>Spring Break</td>
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<tr>
<td>Week 10</td>
<td>3/19/20</td>
<td><strong>The Science of Investing</strong></td>
<td>Equity Premium Puzzle</td>
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<td>Week 11</td>
<td>3/24/20</td>
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<td>Efficient Market Hypothesis and Cross-sectional stock returns</td>
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<td>Week 12</td>
<td>3/31/20</td>
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<td>Behavioral Finance and Value Investing</td>
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<td>Week 13</td>
<td>4/7/20</td>
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<td>Chasing the Trend and Momentum</td>
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<tr>
<td>Week 14</td>
<td>4/14/20</td>
<td><strong>Portfolio Management</strong></td>
<td>Portfolio management I</td>
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<tr>
<td>Week 15</td>
<td>4/21/20</td>
<td></td>
<td>Portfolio management II</td>
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<tr>
<td>Week 16</td>
<td>4/28/20</td>
<td></td>
<td>Investment Philosophy Presentation (Project 2)</td>
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<tr>
<td>Week 17</td>
<td>5/5/19</td>
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<td>Final presentation (Project 3)</td>
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Projects:

Project 1: Research Paper Presentation
You will study and present the academic paper you choose. The presentation needs to address two things: 1) The major findings of the paper and 2) Its implication for real world investing.
This is a group project.

Project 2: Philosophy of investing
Present your philosophy of investing and use stocks you choose to illustrate this philosophy. The philosophy statement is about 2 pages. This is an individual project.

Project 3: Security Analysis Project
As a stock market analyst, you should recommend one stock to your investors. Write a 25 page (double space) report (not including tables or charts copied from other sources) following the stock analysis template. You should also include any Excel spread sheets used in your analysis. Each team (including every team member) will do a PowerPoint presentation (about 30 minutes) in class. Some guidelines:

- Each team member should contribute to and understand the whole project.
- Group members will also evaluate your contribution to the project.
- The project should be presented in a professional way.
- The report should be assembled in a professional way.
- The written report, PowerPoint and Excel files should be emailed to me one day before your group’s presentation.
- A hard copy of the report and PowerPoint presentations are due on the day of your group’s presentation.

Framework of Security Analysis Project
Your group will choose one of the following stocks: Apple, Alphabet, Amazon, AT&T, iRobot, Netflix, Facebook, Tesla, Chipotle to analyze.

I. Quick opinion. Summarize your analysis by simple numbers, including: Report Date, S&P value, Last Price (when the report is submitted), Intrinsic Value, Economic Moat, and Recommendations. Use the Morningstar style and put this session at the top of your report.
II. The Theme: This part highlights your major insights into the company and its stock.
III. Business Analysis: When you buy stock of a company, essentially you are buying the business. Analyzing a stock starts with understanding its business.
IV. Financial analysis: Major financial statements and ratio analysis. More important is forecasting the future. More specifically, a projection of sales, margins (gross margin, operating margin, profit margin), profits and most important, earning per share (EPS) for the coming quarter and fiscal year end. It should also project growth rate of sales and earnings for next five years. Extensive use of spreadsheets is expected. Use historical data from Morningstar Direct in your analysis. From Morningstar Direct, you should be able to obtain historical moat rating, star rating, all historical financial statement data and data derived from financial statements. Try to project long term trend using those historical data.

V. Stock Valuation: Calculating the fair current value (Intrinsic Value) of the stock. In theory, fair value (also called intrinsic value) is what the stock price should be given the market is free from errors. It can be calculated in various ways, depending on what model you use. Commonly used models are P/E multiples, Dividend discount models and Free Cash Flow models. This analysis needs the help of analytical tools like Excel. Some reports also project expected stock price in one year.

VI. Bulls vs. Bears: There are always bull and bear views for any stock. That is why at any price, there are buying and selling orders—the two side of the same coin of a transaction. Try to see the arguments for two sides.

VII. The moat: You should also discuss the economic moat (a concept borrowed from Warren Buffet), which is the sustainable competitive advantage in the long term.

VIII. Risk: the risks of investing in the company

IX. Investing strategy: this is your action plan as an investor. Your strategy choices include buy, sell, hold, wait, avoid, short, etc…

X. Notes: A timely records of analysis of important events of the company and its stock

XI. Reference: You MUST cite ALL resources your analysis uses.

- It is OK to use information from various resources. It is not acceptable not to cite them. Just listing several websites at the end is not the correct way of citation. Citation is always important for other investors to check your facts and numbers.

- Whenever an external recourse is used, you should use footnotes like this: Recent Morningstar reports states that “Unprecedented increases in commodity costs have put a strain on Kraft's profitability.” ¹ All cited information must be quoted using quotation marks and Italicize the text like the example. Each citation cannot be longer than three sentences.

- You can use external resources for historical financial statement data, but projections for future performance and calculations of intrinsic values must be your own.

¹ Morning star report on KFT, October 2010