
INSTRUCTOR:	Professor Brian L. Betker
CLASS MEETING TIME:	9-10 MWF in DS 256
OFFICE:	DS 300
OFFICE HOURS:	M 8-9, WF 10-12, and by appointment
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CLASS PAGE:	http://apm.slu.edu

“In the real world, it is very hard.”

---Garrett Holland, APM Fall 2004

About the Course

Course Description

Students manage a portfolio currently worth about \$600,000. Students will evaluate a portfolio of approximately 25 stocks, and will recommend any changes that are needed to meet the class goals for the portfolio. Students will be responsible for recommending sales of existing portfolio assets, and recommending replacement assets. In addition, the course will cover advanced/current topics in investments that were not covered in either Finance 363 or 616.

The course will follow the thought process of a top-down investor. A discussion of the economy and its impact on the stock market is followed by industry analysis. Finally, company-level decisions are based on comparing and contrasting the business, financial and valuation fundamentals of firms within each industry. Students will decide on relative industry weightings as well as the market cap and value/growth biases of the portfolio. This class is recommended for students targeting careers in investment banking, portfolio management, financial analysis and corporate finance, as well as anyone interesting in gaining a better understanding of equity valuation.

Prerequisites

The prerequisite for the class is Finance 363 or 616 (Equity Markets), as well as the consent of the instructor. Finance 333 (Fixed Income Markets) is also highly recommended. It is assumed that you are comfortable with the analysis of financial statements and with the basic tools of valuation (present values, two-stage DCF models, valuation by multiples).

Resources You Will Need

- **English**, *Applied Equity Analysis*, McGraw Hill, 2001, ISBN 0-07-136051-4.
- **A basic investments text** (Jordan and Miller; Bodie/Kane/Marcus).
- Access to the *Wall Street Journal*, especially the Money and Investing section, daily.
- A financial calculator.
- A Yahoo! userid, so that you can be a member of the SLUapm Yahoo! group.
- Computational capabilities, including spreadsheets, word-processing and access to E-mail and the class Web page. Expect frequent e-mails from both the instructor and fellow students; it will be assumed that you check your slu.edu e-mail at least once during every 24-hour period during the work week.
- Two other excellent books on valuation, which you should add to your investment library some day, and which would provide useful background for this course, are:
 - **Hooke**, *Security Analysis on Wall Street*, Wiley, 1999, ISBN 0-471-36427-6
 - **Damodaran**, *Investment Valuation*, 2nd edition, Wiley, 2002, ISBN 0-471-41490-5

Course Learning Objectives

Students should leave this course with a solid understanding of valuation, the capacity to analyze the value drivers of a firm's stock, strong presentation skills and the ability to effectively communicate your ideas to potential clients. You should leave the course with an ability to understand how economic events impact stock prices, how to apply several valuation models, and the ability to understand investment analyst recommendations.

What you take away from this course is very much a function of what you put into it. Equity analysis is as much an art as a science, and will not be mastered in one semester. Valuing a stock is a difficult, time-consuming and very

firm-specific process. There is no “one size fits all” approach that can work. Thus, your desire to put in the effort needed to understand your companies is the primary driver of your success in the course.

Course Expectations

APM is a time consuming course with most of the work done outside class. There are no tests and few fixed deadlines, which means that you *must manage your time effectively and not put off your research*. A quality report cannot be produced in a weekend. Spend time each week working on projects that might not be due until next month. Specific requirements for each student include:

- Produce a report on your industry sector.
- Produce reports on each of your watch stocks, recommending retention or sale. If you recommend selling, propose a new stock in your sector as a replacement asset.
- Deliver professional presentations of your reports to the class.
- Successfully complete all required administrative tasks and assignments by the stated deadline. Promptly reply to email requests by the instructor and your classmates.
- When called upon, provide daily updates of the latest events affecting your sector. In other words, keep your nose in the current financial press.
- Attend class, arrive on time, participate. Notify me in advance if you must miss a class. I expect everyone to contribute equally and to provide his or her best effort. I encourage you to critique each other throughout the semester. Learn from each other and from your mistakes.
- Accept professionally-offered criticism like a professional. Think like a buy-side analyst: do not get emotionally attached to your sector or stocks. If your proposal is voted down don't take it personally, but use the opportunity to re-think your assumptions and analysis. Effective communication is an essential part of an analyst's job. Lively debate ensures a better learning environment.

Course Requirements and Policies

Grading

An “A” student in the APM class produces quality written reports and in-depth, forward-looking analyses, develops their presentation and writing skills, answers questions intelligently, attends and is an active member of the class, stays informed about their sector, and completes all assignments effectively and on time. It is possible that everyone or no one will receive an “A.”

Item	Percent
Miscellaneous Assignments	20%
Sector Analysis	20%
Company Analyses	35%
Participation	25%

Assignments

Homework and spreadsheet assignments will occasionally be collected for grading. Critiques of industry presentations will comprise the largest part of this grade.

Sector Analysis

A thorough sector analysis is a prerequisite to the analysis of individual firms in the sector. Students will be responsible for completing an analysis of their assigned sector. Sectors will be defined according to Standard and Poor's Global Industry Classification System (GICS).

Company Analysis

Entering students will be assigned one or more watch stocks. Your primary responsibility is to evaluate your watch stock and recommend its sale or retention; if you recommend a sale you must recommend a replacement stock. Once a stock has been added to the portfolio, the analyst is responsible for monitoring that stock's performance, and being prepared to discuss developments relating to the stock and its industry and sector, on a daily basis. The analyst who "owns" the stock may propose its sale at any time, subject to approval by 50% of the class. Any student may propose the sale of any stock in the portfolio, subject to approval by 2/3 of the class. If a stock is sold another stock in the same sector *must* be proposed to take its place in the portfolio.

A critical part of the company analysis will be your *closing memo*, which is a memo that you will write to the incoming class summarizing your view of your stock, the performance of the stock so far, and all data that you have collected relevant to the stock. Incoming students will be assigned a *watch stock* that they will monitor and evaluate for retention or sale. Your closing memo will be used to introduce students to their watch stock.

Participation

By taking this class students are effectively being hired as money managers for the University. Students therefore should treat this class as they would treat their jobs - attendance is not optional and active participation is essential. Continued unexcused absences will result in the student being dropped from the course. Students should be ready to discuss the market, their sector and their company when called upon.

Lack of participation (e.g., not being ready to discuss your sector or your stock when called upon) will result in a consultation with the instructor in his office in order to determine the source of the problem. Continued lack of preparation and participation will result in the student being dropped from the course. Missing presentations of other students is particularly bad form and will badly hurt your participation grade.

Appeals

Students may appeal grading of any assignment by providing a neatly typed appeal that describes the nature of the disagreement. All appeals must be turned in by the end of the first class period after the return of the assignment. I will consider all qualified appeals and render a decision within a reasonable period of time. In all cases my objective will be fairness to both you and your classmates. Appeals of course grades must follow the John Cook School of Business grade appeal policy.

Absences and Missed Assignments

Assignment due dates will be scheduled in advance, so you can plan around these dates. Please do not ask to be excused from class or from assignments for matters of personal convenience. A grade of zero will be assigned for any absence that is not allowed by University rules. A signed note from a physician, or a police report, are the only valid excuses for missing any class or assignment due date. Furthermore, it is your responsibility to make every effort to contact me in advance of missing a class or a due date.

Academic Dishonesty

NOTE: You should have a very clear understanding of what is and is not appropriate citing and paraphrasing of reference material. See Professor Bonnie Wilson's page at: <http://pages.slu.edu/faculty/wilsonbe/plag.html> for some good information on this topic.

The following is a statement of minimum standards for student academic integrity at Saint Louis University.

The University is a community of learning, whose effectiveness requires an environment of mutual trust and integrity, such as would be expected at a Jesuit, Catholic institution. As members of this community, students, faculty, and staff members share the responsibility to maintain this environment. Academic dishonesty violates it. Although not all forms of academic dishonesty can be listed here, it can be said in general that soliciting, receiving, or providing any unauthorized assistance in the completion of any work submitted toward academic credit is dishonest. It not only violates the mutual trust necessary between faculty and students but also undermines the validity of the University's evaluation of students and takes unfair advantage of fellow students. Further, it is the responsibility of any student who observes such dishonest conduct to call it to the attention of a faculty member or administrator.

Examples of academic dishonesty would be copying from another student, copying from a book or class notes during a closed-book exam, submitting materials authored by or editorially revised by another person but presented as the student's own work, copying a passage or text directly from a published source without appropriately citing or recognizing that source, taking a test or doing an assignment or other academic work for another student, tampering with another student's work, securing or supplying in advance a copy of an examination without the knowledge or consent of the instructor, and colluding with another student or students to engage in an act of academic dishonesty.

Where there is clear indication of such dishonesty, a faculty member or administrator has the responsibility to apply appropriate sanctions. Investigations of violations will be conducted in accord with standards and procedures of the school or college through which the course or research is offered. Recommendations of sanctions to be imposed will be made to the dean of the school or college in which the student is enrolled. Possible sanctions for a violation of academic integrity include, but are not limited to, disciplinary probation, suspension, and dismissal from the University.

Approved by the Council of Academic Deans and Directors, September 20, 2000

Miscellany

Students are responsible for understanding the course policies and requirements as expressed in this syllabus, as well as those policies and requirements announced in class.

Course Outline

Each unit includes required readings from English. Supplemental readings will also be assigned. The course schedule may be interrupted as current events dictate. **Chapters** are from English unless otherwise noted

1. Overview of the course

- Introductions, Course Outline, Requirements, Resources.
- Portfolio management in the new millennium: Style boxes; growth and value.
- What have we got? What do we want? How do we get from here to there?

Read: Chapters 1, 20

2. Analysis of the Economy and the State of the Markets

3. Industry Analysis

**Read: Hooke Chapter 6
Chapter 3**

5. Equity Analysis

I. Chapters 1 and 20 are short background chapters on writing a research report

II. Business Analysis (these are largely self-study)

Chapter 3 – Strategy and Competition I

Chapter 4 – Strategy and Competition II

III. Financial Analysis (these are largely self-study; also review 363)

Chapter 6 – Reading a Financial Statement I

Chapter 7 – Reading a Financial Statement II

IV. Valuation Analysis

Chapter 2 – Fundamentals of Equity Valuation (review 363)

Chapter 14 – Valuation (review 363)

Cost of equity estimation – class notes (review 363)

Chapter 15 – Combat Finance – Relative Methods (review 363)

Chapter 17 – The Quirky P/E Ratio

Damodaran – PEG Ratios (web link on class page)

Chapter 18 – Valuation of Speculative Stocks