

FIN 450/730 Applied Portfolio Management

Spring 2009

Executive Lecturer: Kent McCarthy

E-mail: kcmkent@yahoo.com

Professor: Catherine Shenoy

Office: 226P Summerfield

Office Hours: Thursday 10:30 – 11:30 or by appointment

Phone: (785) 864-7519

E-mail: cshenoy@ku.edu

Assistant Managers: David Holzman, Tom John, Michael Moore, Josh Schoenfelder

Office: 226O Summerfield

Office Hours: TBA

Phone: (785) 864-1698

Class Time: Monday, 4:00 – 7:30

Class Location: 424 Summerfield

APM Web Page: <http://www.business.ku.edu/apm/>

Class Blackboard: <http://courseware.ku.edu/>

Text: Applied Portfolio Management: How University of Kansas Students Generate Alpha to Beat the Street, Wiley Finance by C. Shenoy and K. McCarthy (Available on Amazon and Barnes & Noble)

Recommended: A subscription to the Wall Street Journal, Barron's or the Financial Times, An investments and/or valuation textbook

1. Course Overview

Purposes of the Course:

1. To give students a practical, global investment experience and relate financial theory to financial practice;
2. To expose students to the money management operations and professions and to the world-wide investment culture;
3. To interact with world-wide business and investment professionals;
4. To increase student knowledge with regard to business fundamentals in different industries;
5. To develop camaraderie between former and current APM students. The class aims to keep former students informed of the current status of the APM Portfolio – and hopefully the fund will receive a major donation from the first alumnus to hit it big on Wall Street.
6. To earn money for the University of Kansas, the School of Business, and the APM class.
7. To have fun learning new material and to gain insights that can be used for personal portfolios.

★ **Investing is dynamic** ★ Since the class is applied and not theoretical, students are required to react swiftly to daily changes in the global financial markets. Mental flexibility and openness will ensure that you achieve the maximum benefit from the Applied Portfolio experience. We will be juggling guest speakers to try to optimize the current events of the market, and the speaker's schedules. This creates some confusion—but adds to the depth and realism of your learning experience.

There are several handouts on Blackboard that you should read for background information. Studious reading of these citations and other handouts through the semester is strongly advised before the first

case is due. You are also required to stay abreast of current global market conditions through reading financial periodicals such as the Financial Times, Wall Street Journal, Barron's, Business Week, The Economist and others throughout the semester. Class Notebooks containing information about current and past holdings and cases are available in the APM office and online at the APM website.

Grading

Your Course Grade will be determined by:

Group Grades on

Case Assignments;
Class Presentations,
Special Group Projects;
Other Assignments, and

Individual Grades on

Individual Cases;
Individual Assignments;
Class Participation.

2. Cases

A principal learning method for the semester is the assignment and completion of case studies. Students will be assigned to groups of 3 to 6 in order to research and complete the cases, as well as present to the class on occasion. All groups are expected to hand in a 3 page case analysis and be thoroughly prepared for class discussion with the instructors or guest speakers.

NOTE: Each group will submit an electronic version of the completed case write-up in the drop box in Blackboard by 9 p.m. on Sunday preceding Monday's class. Any report not received by this time will receive a zero (F) for a grade. The reports are sent to Monday's speaker on Sunday evening shortly after 5 p.m.

Case Analysis Preparation:

Before you begin writing, you should prepare with the following:

- Read the 10-K, most recent 10-Q's, proxy statements, filings with the SEC, and analyst reports
- Listen to any recent conference calls or presentations on the company's website or filed with the SEC.
- Read about industry trends. What is the industry structure? What is the firm's competitive advantage?
- Find the operating and market performance trends over time. How do the company's numbers relate to its competitors now and in the past? Graph Revenue, EBITDA, Net Income, and EPS over time. What other operating metrics are important for this company?
- What are the valuation metrics for the company and competitors - P/E, TEV/EBITDA, P/B, P/S? Have they changed over time?
- Find other original source material on the company, industry, or pertinent macro-economic trends.

Case Analysis Format:

The case studies are written as security analyst's reports. They are required to be in the form of a three-page written analysis using two-columns per page. Generally the content can be arranged as follows: (Some assignments call for this format to be modified. Use appropriate judgment.)

Part 1 –Investment Thesis and Recommendation

State your recommendation clearly. It can be buy, sell or neutral. Provide bullet points that communicate your investment thesis. The thesis should be explained in detail later in the write-up.

Provide a summary table containing the most relevant data. The data you provide should contain valuation metrics, performance metrics, and descriptive metrics for the company. Prepare Part 1 last.

Part 2 – Analysis and Description

Describe the company. What do they do to make money? Use simple language that anyone can understand. Do not use legalese. Provide historical information on operating and financial performance. What is the company's strategy? What will the revenue growth and margins be for the next several years. Are they changing? Why? Use these forecasts as assumptions in your pro forma statements.

Provide information on the company's place in its industry. What industry or industries does the company operate in? Who is the competition? How do the company's operating metrics compare to others in the industry? What is this company's competitive advantage?

What else is important in understanding the company - insider holdings or trading, special circumstances, mergers or acquisitions, new management or anything other important information?

Make sure you provide an overview of the key drivers in the company, not minor details. These need to be related to your investment thesis.

Part 3 – Valuation, Summary and Conclusion

Provide a summary table of a relative valuation and a summary of a discounted cash flow model, if appropriate. Discuss your valuation models, risk and recommendation. Include a sensitivity analysis on key variables.

References

Use footnotes for all references, and make sure you include full references of all the sources used in the case. Be specific. If you use a 10-K filing, state the date of the filing and the page number where you found the information.

Do not use citations like this:

- ³Information received from Office Max's 10-K
- ¹Graphs and data were obtained from Yahoo Finance
- ¹ 2/12/08 Capstone Investments report

Instead, use citations like this:

- ³Office Max 10-K filed 2/28/2008, p3
- ¹Key statistics were obtained on March 23, 2008 from <http://finance.yahoo.com/q/ks?s=JOSB>
- ¹ZOLT Update 02-12-08 by CapStone Investments, p. 2. Accessed from Thomson Analytics.
- ³Yerger, Brian C., Tempering Enthusiasm, 2/14/2008. Analyst report from Jesup & Lamont. Accessed from Thompson Analytics.

Information Sources

Be creative in finding information - the more precise the better. The Internet can be a valuable source of information, but be sure to verify any information you find independently, because information quality can vary depending. Provide full citations for all of your sources.

Use the SEC Edgar database at <http://www.sec.gov/edgar/> instead of the for-profit Edgar On-line available through Finance.Yahoo.com.

Models

Also turn in an Excel spreadsheet with a detailed pro forma income statement that includes a discounted cash flow and relative valuation, as appropriate. The spreadsheet is not part of the case.

The write-up should stand by itself. You should present the key findings from your relative or discounted cash flow model in your case write-up. We may wish to check your model assumptions.

Case Updates

As news is released through the semester, especially earnings reports, you will be asked to update your valuation models and assumptions.

Case Study Grades

Case studies will be graded on a scale of 1 to 10. If the format and content are not adhered to, the result will be a poor grade on your analysis. Strict adherence to the page limits and source references are required.

3. Group Presentations

Each group will make one or two formal presentations and some informal presentations during the semester. The first formal presentation will be on a current holding in the portfolio that is not scheduled as a case. The other formal presentation will be a buy suggestion about any stock, a sell suggestion about a holding in the portfolio, or a short sale suggestion for any stock. Informal presentations topics will be assigned the previous week. They typically cover an industry, portfolio stock or answer a specific question raised in class.

Current Portfolio Holding Presentation

The group will be responsible contacting the alumni mentor(s), inviting her or him to the presentation, and for giving a 10-minute presentation on one of the companies in the portfolio.

Groups will be notified about their presentation date at least one week ahead of time, but you should be prepared to make your presentation anytime after the fourth class. Visual aids, copies of any slides, and any other information presented should be compiled in a handout. You should also have files in the Blackboard Dropbox for posting on Blackboard at least 24 hours before your presentation. If possible, we may ask the group to arrange to have class alums call into or visit the class.

Group presentations should include:

- The investment thesis;
- A summary of the business;
- A qualitative and quantitative analysis the stock;
- The group's buy/sell/hold decision with supporting reasons;
- Alumni mentor and other relevant opinion;
- A question and answer period.

Trading Suggestion Presentation

Each group will give a 10 minute presentations about a buy, sell, or short sale recommendation for the portfolio. The presentation format is similar to the current holding presentation. Most stocks in the portfolio have an alumni mentor. In recommending a short sale or purchase of a stock, at least one member of the group must agree to serve as the alumni mentor for as long as the stock is in the portfolio. Alternatively, the group can solicit recommendations from investment professionals who would agree to serve as a mentor. Mentors should agree to provide information to current students and faculty. Purchase recommendation must take into account the current cash balance of the portfolio and the effect the new addition will have on the risk of the portfolio. If a group recommends a sale and that stock has an alumni mentor, the recommendation and reasoning of the alumni mentor should be solicited and reported to the class. The effect on portfolio risk should also be reported.

After the group has presented their recommendation, class members will have an opportunity to discuss and ask questions.

Final Analyst Reports

Each group will prepare an analyst report on their trading recommendation. The analyst report can be either about the current portfolio holding that the group presented or about the group's other

recommendation. The analyst report will be posted on the APM website. The analyst report will be a more in-depth version of the case write-up. Typically, the report should be from 3 to 10 pages, including appendices. The Analyst Report should contain a valuation and sensitivity analysis. Final analyst reports are worth 20 points.

Informal Presentations

Some weeks groups will be asked to make a report on a company, industry, or topic of interest. The presentation will be short – no more than 2 – 3 overhead slides.

Group Portfolio Responsibilities

Although each person in the class is responsible for keeping up and being familiar with the entire portfolio, each group will be assigned primary responsibility for formal analysis and tracking of specific companies in the portfolio. The list will change as the portfolio changes. Some of the companies have an alumni mentor. For those stocks, groups are responsible for staying in contact with the mentor.

Some, but not all, of the companies will be the subject of a case. Throughout the semester each group will:

1. Stay in touch with the stock's mentor (if applicable);
2. Keep the class informed of relevant events such as upcoming earnings announcements,
3. Listen to and summarize all conference calls,
4. Maintain or establish contact with analysts, employees, or alumni who may have information about the company
5. Keep quarterly 10-Qs and annual reports up-to-date,
6. Update all class and web material on the company, and

Other Group Assignments

Each group contributes articles to the APM quarterly newsletters. During the Fall semester groups write articles for the 3rd and 4th quarter newsletters. During the Spring semester groups write articles for the 1st and 2nd quarter newsletters.

In addition to the newsletter articles each group will have an assignment that contributes to managing the portfolio or the class. In the past some of the assignments have been: to buy gifts for guest speakers, to write weekly class summaries for the web page, to write thank you notes to all guests, to write weekly portfolio performance report for the web site, to update changes in portfolio.

Group Evaluation

Group members will evaluate each other at least twice during the semester. Typically each group member receives the same grade on all cases and other group work. However, if one or more members of a group receive a significantly lower score than the average class score, those individuals group grade will be lower than the other group members. Individuals recognized as outstanding by the group will be awarded extra class participation credit.

Group Conflict Resolution

Good communication among group members is vital to resolving occasional group conflicts. Hard working, willing group members can resolve many issues by addressing misunderstandings in a straight-forward manner. Many times a seeming "free rider" wants to do more, but is overwhelmed by more vocal group members. A thorough and frank discussion of the issues as each member sees them can resolve many problems.

However, problems may persist even after such a discussion. Underperforming group members may receive a lower grade on their group project as reflected in the evaluation score. A group may also ask a member to leave the group. Group members can ask for a maximum of two meetings with me to discuss an underperforming member. The group should discuss their concerns with the underperforming member prior to meeting with me as a group. The underperforming member will be given a chance to become an active contributor to the group. After a specified time, if behavior does not change, the underperforming member will be asked to leave the group. A removed student must drop the course or seek an alternative means for completing the class requirements.

4. Individual Responsibilities and Assignments

Portfolio Responsibilities

Each person in the class is responsible for keeping up and being familiar with the entire portfolio. You should be familiar with any significant macro-economic news, industry news that affects the portfolio, and firm specific news. You should also know when any new research on portfolio companies is released and if it indicates a significant change in sentiment about the stock.

You will be assigned several portfolio companies to report on and keep track of daily. You are expected to be the expert on that company. You should know the company and its competitors. You should have a pro forma cash flow and income model that you keep updated. You are expected to listen to the conference calls, file a report, and update your model after each call.

Early in the semester you will be assigned a portfolio company or a related company for a case analysis, instead of a group analysis.

Each week students will informally report and discuss the holdings in class. All students should be prepared to give a brief overview of their company. The update should include any recent news, an explanation of why we have the stock in the portfolio, and the outlook that you and others see for the stock. The overview should last no longer than 5 minutes. Updates are expected throughout the semester.

You should participate in all e-mail portfolio votes by e-mail. Typically you will have 24 hours to respond to a vote. Occasionally, circumstance will require a shorter time for the vote.

Class Discussion and Attendance

Being up-to-date and able to brief the class on news and holdings is a significant responsibility. Part of your class participation grade is based on your preparedness. Evidence of your preparedness is your participation in the portfolio discussions. Another part of your class participation grade is based on your engagement with the invited speakers. High quality questions for our speakers are expected of all students. You do not have to ask a question of every speaker, but you should not sit silently during the whole semester.

Class discussion is an important aid to learning and to your individual grade therefore attendance is mandatory. If for some reason you can not attend class, you have two options; (a) Option 1 – e-mail or call Professor Shenoy before the class and we will assign an individual 3 page case analysis, or (b) Option 2 – Do not notify anyone and run the risk that we will not notice that you are gone. However, if we notice (and we will), the assignment in Option 1 will be doubled. Guest speakers take time from their busy schedules to volunteer, often spending their own money. Thus, it is embarrassing to the class and instructor if the class is ill-prepared or poorly attended. You should read each speaker's bio before he or she comes to class. The bios are available on the APM website. Since a majority of the work is done in groups, we are not sure if one/some/all members of the group are familiar with the material. Therefore, we expect and will be looking for all students to be thoroughly prepared and generate discussion throughout class.

For call-ins, you should have your questions ready to go at the beginning of the call. Some callers want to respond only to questions. Others prefer to speak first and then respond to questions. Three or four students should sit close to the speakers at the beginning of the call and others should come forward as those questions are answered. You should read each speaker's bio before the call.

Other Class Participation

The class participates in investment decisions by e-mail vote. A due date and time is listed on each vote. Typically, the turn-around time is 24 hours, but can be shorter in special circumstances. You should respond before the due date.

Other Assignments

Other assignments may be individual or group assignments. Sometimes stock or market conditions indicate that additional analysis about a stock or investing opportunity would be helpful. Sometimes

guest speakers may also ask the class to look into a particular topic or issue. These assignments cannot be predicted in advance and may be added to your regular assignments at any time. You should plan on an assignment each week.

Class Participation Grade

Your class participation grade depends on the:

- quality and frequency of speaker and caller questions,
- your participation and preparedness in portfolio discussions,
- other class discussions, and
- your participation in all other votes and class assignments.

Deductions from your class participation grade can be earned by:

- arriving late to class or other activities,
- falling asleep and/or failing to pay attention in class,
- late earnings reports, newsletter articles, or other late assignments,
- failure to respond to a dinner or other invitation, and
- failure to prepare adequately for class.

5. Typical Weekly Class (not necessarily in this order)

General Overview: Current Events and Question & Answer discussion: We will try to have an hour of each weekly lecture as a time to discuss current issues and events. This discussion will be followed by a brief question and answer session. Our goal is to give each group the opportunity to ask at least one question during this time every week. Each group should be prepared to take full advantage of this opportunity.

Weekly Case Studies: Most weeks we plan to have an outside speaker or call-in to discuss a specific topic and/or company. Approximately one week ahead of time, the class will be assigned reading material and questions regarding the specific topic and/or company.

Portfolio Discussion, Group Presentations, Special Topics

6. Portfolio Criteria and Guidelines

1. Use the investment in class as a case or learning experience.
2. Mentor keeps the class updated on the stock and is responsive to students.
3. Limit the 'names' in portfolio, from 25 – 30.
4. Earn an adequate return on the investment.
5. International diversification.

Use the portfolio guidelines to help in your selection for presentations.

7. Professional Dress and Professional Conduct

We will have an outside professional speaker for almost every class. In order to represent the APM class, the School of Business, and the University of Kansas in the most favorable manner, you should dress and act in a professional manner. Hats and caps are the most visible unprofessional dress. Torn, suggestive, or offensive clothing is also inappropriate.

As a courtesy to our guest speakers you will be provided name tents. Please remember to bring your name tents to each class. If you need a replacement, notify our assistant PM or the professor.

If a speaker is available, he is invited to dinner after class with a small group of students. Over the course of the semester each student should be invited to at least one dinner. When you are invited respond promptly to the RSVP. If you are not available, another student will be invited.

8. Checklist for APM Class Preparation and Participation

- ◆ Review portfolio news daily

Check the portfolio value and prices on the APM website
Review new research on portfolio companies weekly
Find all news on portfolio companies
Check Blackboard for special reading assignments
Notify class members of significant news or other events. Use Blackboard e-mail to notify class.

- ◆ Review market news daily.
Check your favorite news sites. NY Times Business news, WSJ, Barron's online, Yahoo Finance, Bloomberg, Financial Times, and many others.
Know when significant economic events are scheduled and assess potential impact on holdings – See <http://biz.yahoo.com/c/e.html>, or Bloomberg calendar
- ◆ Read the Economist or Barron's and other weekly financial publications
- ◆ Review speaker biography and have relevant questions for speaker. See APM website People button
- ◆ Be aware of the schedule and any schedule changes. Check the schedule on the APM website weekly before class.
- ◆ Know earnings call dates, dividend dates, and other significant event dates. Listen to conference calls – as scheduled.
- ◆ Review new portfolio research frequently on Thomson Analytics.

9. The School of Business Honor System and University Plagiarism

All writing assignments, quizzes, and exams that you turn in are assumed to be your own original, independent work. The School of Business Assembly has adopted an Honor System proposed by its students and accepted by faculty to promote academic integrity. The code states "We, the faculty, instructors, and students of the School of Business pledge to fulfill our mutual responsibilities to each other and the academic community at large with honor and integrity in order to build and maintain a climate of respect and trust that will enhance our research, teaching, and learning. We will support the Honor System of the School and will not tolerate activities that undermine academic integrity."

As a student in a School of Business class, you will be protected by and expected to conduct yourself in accordance with this system. For the complete Honor Code, see: <http://www.business.ku.edu/pdf/honorcode.pdf>. The honor code is required reading for students in all business courses.

In this class any violations of the honor code, including plagiarism, may result in an automatic failing grade for the class.

Digital Plagiarism Tool

The issue of digital plagiarism has raised concerns about ethics, student writing experiences, and academic integrity. KU subscribes to a digital plagiarism detection program which may be used to check papers submitted in this course. You are asked to submit your papers in a digital format so that your paper can be checked against web pages and databases of existing papers. Although you may never have engaged in intentional plagiarism, many students do incorporate sources without citations; this program can alert me to your academic needs.

Application of the Honor Code for the APM Group Assignments

If a group submits a paper that has significant unattributed quotations, plagiarism, or any other infraction of the honor code, the entire group may face an honor court proceeding. Each member of the group will be held responsible for work that the group turns in.

10. University Policy on Disabilities Statement

The staff of Services for Students with Disabilities (SSD), 135 Strong, 785-864-2620 (v/tty), coordinates accommodations and services for KU courses. If you have a disability for which you may request accommodation in KU classes and have not contacted them, please do as soon as possible. If you have already contacted SSD and wish to request accommodation for this class, please see me privately.

11. Intellectual Property Rights

Course materials prepared by the instructor, including the content of all lectures and the APM website are the property of the instructor. Video and audio recording of lectures and review sessions without the consent of the instructor is prohibited. By request, the instructor will usually grant permission for students to audio tape lectures, on the condition that these audio tapes are only used as a study aid by the individual making the recording. Unless explicit permission is obtained from the instructor, recordings of lectures and review sessions may not be modified and must not be transferred or transmitted to any other person, whether or not that individual is enrolled in the course.

12. Summary of Group and Individual Responsibilities

Due	Assignments	
Weekly	Case Studies	Group
TBA	Group Presentation I	Group
TBA	Group Presentation II	Group
1 week to 10 days after event	Newsletter Articles	Group
Variable	Other Group Assignments	Group
Variable	Case Updates	Group
At the beginning of the 1 st class	1st Day Assignment	Individual
TBA	Individual Company Report	Individual
TBA	Individual Company Model	Individual
1-2 days after call/release	Earnings Report	Individual
Weekly	Stock Updates	Individual
Variable	Portfolio Votes	Individual
Weekly	Current Financial News	Individual