

FIN450: Applied Portfolio Management
10-Sept-2007 Class Summary

- Kent McCarthy's lecture:
 - Voting on the best stock performer in the next 15 months
 - Class opinion (following order): LXU, Golden Meditech, Brooke Corp.
 - Kent's picks (following order): Golden Meditech, Brooke, LXU
 - Kent was expecting class predictions and attributed it to the human nature and the preference to pick stocks that are in momentum
 - Emphasis on the importance of Enterprise Value
 - Leveraged companies have usually more potential than all equity companies
 - Heavily leveraged companies don't always go through the cycle – but if you have diversified portfolio, than even if some companies go bankrupt, remaining companies will turn out to be successful
 - Recent lowering of interest rates by FED is helping out hedge funds and Wall Street to get through the subprime mortgage crisis
 - Fed and economists should worry more about the inflation rather than short term increases in the stock market
 - INVESTING IS DYNAMIC: Why would you still want to own the stock if it appreciated from \$1.50 to \$15? Because we think that the stock is still undervalued.
 - **Discussion about LXU, Golden Meditech and Brooke Corp.:**
 - LXU
 - Discussing the possible spin off of the chemical business
 - Production of fertilizer takes place on a thin market: in a short period of time they tend to be volatile
 - LXU has old plants, no economies of scale are possible due to the company size
 - price/sales is a good measure for cyclical companies
 - P/E is a dangerous measure in terms of deep cyclical measures
 - What is the worry on the Wall Street? Inverted Yield Curve and recession as a possible result.
 - Brooke Corp. BXXX:
 - Management owns 15% of the stock

- The company should pick better franchisers; they have to be more selective.
 - Golden Meditech:
 - It will soon be traded on NASDAQ
 - Kent expects a 10 X return on the stock
- Analysis of the weekly case:
 - Climate segment and especially geothermal segment seem to have a lot of potential – Jayhawks expect this segment to grow at 50-100%.
 - Backlog creates certain problems for LSB, because it may cause margin degradation
 - Golden Meditech appearance on NASDAQ does not necessary success, but the trading volume will definitely go up and so will the P/E ratio
- Improvements for the future cases:
 - Put more care while calculating value of debt, as well as the total enterprise value of the company
 - Make sure not to double count for debt
 - What if revenue is growing and income is not increasing? - The company becomes more inefficient.
 - What if revenue is growing and income is increasing even faster? - This is a positive signal, which indicates that the company is getting more efficient.
 - Lack of investment thesis – it should include forecast, reasons behind the forecast, etc.
- Discussing Golf Tournament issues