

## **FIN450: Applied Portfolio Management**

### **12-Nov-2007 Class Summary**

#### *Announcements*

- Not meeting Nov 26th, the Monday after Thanksgiving
- December 3<sup>rd</sup>, final reports and presentation. Final exam afterwards
- 29 names in the portfolio, target number range: 30-35
- Buy Low and Sell High, now isn't the best time to sell. Waiting until the market changes is probably a better idea
- Comments on GOL reports
  - Tie FX implications to US investors
  - Include explanation of why a particular model was used for valuation
  - Combine graphs and charts when applicable
  - Make sure colors print out on reports
- Next week assignment: update models on GRMN, GM and LXU
  - Excel spreadsheet, with 3 tabs for each case
  - Make sure printouts are readable
- Conference call coming up with Golden Meditech
- Prepare question to turn in for Kent on LSB, Interceramica, and Golden Meditech
  - Questions should be done separately, not in groups

#### *Handout: Exchange Rate Considerations*

- The dollar has been weakening against the Brazilian Real.
- Make sure you know if quotes are USD/BRL or BRL/USD
- Even when the share price decreases, foreign investors can earn positive returns if currency exchange rates are favorable
- Exchange rate risk and ADR's
- Have you gotten stock price appreciation or currency appreciation?
- Examine foreign and local currency P/E
- Golden Meditech
  - Little flotation in HKD:US rates because the currency is pegged
  - Currency slated to be un-pegged, positive implications for us investors
- GreyMarket
  - Has "F" at the end of the name. Traded on pink sheets
  - Trading on own account, using market orders might be risky because there could be big swings in the market before trading occurs
- ADR's has exchange rate exposure, is this good or bad thing for the portfolio in current market trends?

#### *Short Updates*

##### **SGMS**

- Earnings release update: Nov 2<sup>nd</sup>
- Missed margins, attributed to problems and delays in Mexico
- Management thinks they'll turn it around; similar experiences in Italy
- Expanding into Europe through acquisitions
- Recommendation is buy, especially now since analysts have been canning them

##### **KSU**

- Acquisition of rail line. Access to Mexican port, rapid growth due to Katrina issues
- Exceeding their own expectations, surprises, being drawn down by the markets

-New terminal in Kansas City

#### BXXX

- Getting hammered. Down nearly 50% and at a new low. Last quarter, \$0.10 loss per share
- Talk of merging Brooke Franchise with Brooke Credit
- Complicated business model.
- Recommendation: Brooke is Overvalued. Keeping the stock in the portfolio would make a good educational case. Not currently a sellers market

#### SOHU

- Increased focus in online gaming
- Stock price is down almost 25%, decreasing margins due to game development
- Chinese government passing law limiting the number of hours

#### IBKR

- Q3 results, good performance even with the credit crunch
- Market share increasing in every segment due to technological competencies
- DARTS up 46%
- Recommendation: Buy, not a recession based stock but can do well in low periods.

#### RYAAY

- Just finished 2008 second quarter
- Passenger number up 20%, revenue up
- Stock down despite beating expectations. Fuel prices blamed
  - However, Ryan Air is hedged completely against fuel prices through 2008
- Guidance: 08 net income expected to increase
- Recommendation: Buy

#### EGOV

- Earning call last Wed. Tax savings gives way to \$0.01 surprise
- Renewal with West Virginia for 3 years
- Looking to increase contracts for next year
- Tight lipped about Texas, huge potential to increase revenue
- Recommendation: Buy

#### KWK

- Positive earnings call. Revenue up 30%, Op cash flow hit 100M
- Drills and thus production volume has increased
- Exceeded expectations even though divesting gas reserves
- Changing spacing between wells to increase production
- Guidance: Increasing volume, increasing debt to 40% from 30%
- Recommendation: Hold, representing 3% of APM portfolio.

#### WFI

- Similar to LSB, makes geothermal heat pumps
- EV/EBITA 22, Peg 1.3
- Able to grow market themselves whereas LSB is restricted by permits
- Trade in Canada, based in the U.S.

*Guest Speaker, Bob McAdoo*

- Bio, experience in working for airlines and being an airline analyst
- What it is to be a “sell side” analyst
  - Working at a small firm versus a large institution
- Issues on speaking with the press/media
- Analyze what other analysts are saying
- Clients pay for good “buy” AND “sell” ideas
- Being able to write and communicate can make you stand out
- Vary few long term investment ideas in airlines
- Regulation FD, limiting what management can tell one group of analysts compared to another
- GOL
  - Similar to Southwest back in the 1970’s
  - Infrastructure issues in Brazil
  - Management is good at “tooting its own horn” on guidance
  - The company is trying to change, flying longer hauls to further destinations
  - Exchange rate issues