

## Syllabus

# BT 426 – Securities Analysis

Spring, 2008	Day of Week/Time
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### Overview

This is an advanced course that is designed to provide you with a comprehensive perspective of how financial theory is applied to valuation problems. The tools and techniques that will form the foundation of the course can be applied to a broad range of valuation topics that extend beyond securities (or public equities) and will encompass pricing for:

1. private enterprise valuation and term sheets
2. intellectual property rights and patents
3. marketing and distribution agreements
4. commercial real estate leases
5. licensing agreements
6. options and insurance contracts

The course will center on “intrinsic enterprise or project” evaluation and will build upon the concepts introduced in the basic Corporate Finance course. Using the seminal foundations of discounted cash flow developed by Benjamin Graham and David Dodd the course will address the practical problems and solutions in pricing enterprises, assets and contract agreement in today’s market. The disciplined and mathematical nature of performing a discounted cash flow analysis will allow us to understand how value is created or lost in a firm or through an investment, divestiture or M+A activity. Throughout the course we will emphasize how the fundamental concepts of internal rate of return (IRR); business risk and cost of capital will drive the valuation.

*Prerequisites: BT321*

## Learning Goals

### Desired Outcomes

1. Review the many applications for the use of business valuation(s), including Investments; M+A; Insurance; and Corporate Financing
2. Provide basic tools to understand the many approaches to business valuation, with a concentration on securities analysis
3. Insure there is sufficient fluency in the mathematical approaches and techniques to value a business; stock; management, marketing or production rights; or other initiatives that require economic valuation
4. Offer a number of case studies relating to business valuation and (deal structure)

### Pedagogy

The course will be organized into 3 areas:

1 – Fundamentals of discounted cash flow and risk analysis, with particular emphasis on how to translate financial analysis into appropriate cash flow projections. These topics will be covered in weekly class seminars

2 – Independent term projects that will center on solving a public securities valuation problem by creating a “fairness opinion” (i.e. determination if the item is fairly valued or mis-priced). This fairness report can be aligned with the student’s projects in the spine courses in which business plans and/or “due diligence reports” are created.

3 – One on One meeting with the students to assess progress on the fairness opinion

#### **Class Sessions:**

The course is designed around the classroom seminars and the independent Fairness Opinion project. The class sessions will include lectures on theory/applications and weekly reviews/critiques of different analyst reports. You are expected to read the material before the day on which it is discussed in class and participate in classroom discussion. You are expected to arrive on time and stay for the entire class.

A large portion of the course will be devoted to creating a Fairness Opinion, for which the students will be expected to meet weekly with the professor or provide status reports

## Required Text(s)

All required readings will be distributed by the professor for reading prior to class and review during class. To a large extent these reading will be drawn from the AICPA's Practice Aid on Valuation of Private Enterprises and Wall Street Analyst company reports

## Assignments

Class	Date	Topic	Lecture Notes	Additional Reading	Assignment
1	31-Aug	<b>Introduction/Goals and Risk Assessment</b>			
2	2-Sep	<b>Stock Track/Stock Mkt Intro</b>	Getting Started Approaches	Investing Goal Setting	<b>Stock track sign-up</b>
3	7-Sep	<b>How the markets work (buying and selling)</b> - Goals and life cycle investing - Basics of stocktrack simulation	Stock Track Mechanics	Stock track rules	
4	9-Sep	<b>What are your goals and investment options</b> - Risk Profiles of different investments - Term Paper requirements	CNBC Investment Video	Rutgers Risk Assessment	<b>Risk Assessment/in-class</b>
5	14-Sep	<b>Why the inconsistency in the markets</b> - Different risk classes - Different economies/markets	Periodic Table of Investment Returns	BlackRock - Asset Class Returns	
6	16-Sep	<b>What types of investing strategies to use</b> - Developing an investment theme - Growth verses Value investing	Integrated view of portfolio development	Wiley text on Investment Alternatives	
7	21-Sep	<b>Overview of Investment Strategies</b> - Different Investment styles - Past Student Investment Approaches	Investment approaches	Past Student Portfolio Report	
8	23-Sep	<b>The how and why of choosing stocks</b> - Individual: Stock screening - Individual: Basic analysis	Stock Screening	Inteviw with Burton Malkiel -basics of random walk	
9	28-Sep	<b>How are securities priced (CAPM vs APT)</b> - The ABC's or Alpha's and Beta's of investing	Jim Kramer CNBC Video	4 Pillars of Investing	
10	30-Sep	<b>What can be learned from history of trading</b> - risk/return tradeoff - Market dynamics	4 Pillars of Investing	4 Pillars of Investing	<b>Investment Approach DUE</b>
11	5-Oct	<b>Understanding Market Behavior</b> - Market psychology - myths/legends - RIM Fundamental Analysis	RIM Analyst Report		
12	7-Oct	<b>Fixed Income Investing: Mathematics</b> - Fixed Income Investing: Corp + Govt	Bond Investing	Yield spreads and Equities	<b>Specific Investment Strategy DUE</b>
13	12-Oct	<b>Portfolio Strategies and Diversification</b> - Portfolio Management - Risk/Return/Sharpe Ratio	Portfolio 1 lecture	Mutual Fund - Primer	
14	14-Oct	<b>Portfolio's, Indexes and Mutual Funds</b> - Mutual Funds and ETF's - Portfolio reviews	Portfolio 2 lecture	Peter Lynch Investing	<b>Investment Selection Rationale DUE</b>
15	19-Oct	<b>Portfolio's, Indexes and Mutual Funds</b> - Selecting Mutual Funds and ETFs	Portfolio Reporting Lecture	Read two mutual fund prospectus	
16	21-Oct	<b>Price Speculation and Leverage</b> - Why and when to use margin - Shorting the market or a stock	Short Selling	Contrarian Investing-Legg Mason	<b>Portfolio Benchmarking DUE</b>
17	26-Oct	<b>Fundamental Investing Styles</b> - Cases that work and those that didn't	Warren Buffet Investing	BuffetonGraham	
18	28-Oct	<b>Playing the Options - Basics</b>		Primer on futures from CBOE	
19	2-Nov	<b>Playing the Options - strategies</b>		Primer on futures from CBOE	<b>Trading Analysis DUE</b>
20	4-Nov	<b>Are futures and Commodities in your future</b> - Futures contracts verses Options			
21	9-Nov	<b>Futures market operations</b>		CFTC - Future Markets Trading	
22	11-Nov	<b>Gold Option Futures</b> - Commodities Basics	In class excersize		
23	16-Nov	<b>Dealing with Taxes</b>		Review IRS Pub 17 and annual letter	<b>Draft Project Paper</b>
24	18-Nov	<b>Tax Strategies</b>			
25	23-Nov	<b>Portfolio Analysis</b>			
	25-Nov	<b>Thanksgiving recess</b>			
26	30-Nov	<b>Presentations</b>			<b>All Final Papers Due</b>
27	2-Dec	<b>Presentations</b>			
28	9-Dec	<b>Presentations</b>			

## Course Grading

### Grading

Grading will be based upon your performance on one mid term; and the outcome of the Fairness Opinion.

Mid term Exam 40% each and Final Project 60%

The exam and the final grade will be based upon scaling to 100 points. The Professor reserves the right to include attendance and participation into the grading scheme.

Percentage	Class Grade
96 – 100%	A
92 - 95%	A -
87 – 91%	B+
82 – 86%	B
77 – 81%	B-
72 – 76%	C+
67 – 71%	C
62 – 66%	C-
57 – 61%	D
Below 57%	F

### D. Exam/Project

One mid term exam will be given and cover all the financial theory and practical application issues surrounding business valuation. Material covered in the mid-term will be drawn from class lectures and assigned reading materials.

### E. Make-up Policy

You are expected to take all exams when scheduled. If for some extraordinary reason you are not able to do so, contact me as soon as possible. Make-up exams are a privilege not a right, and will be given at my discretion.

## Ethical Conduct

Enrollment into the undergraduate class of Stevens signifies a student's commitment to the Honor System. It is the responsibility of each student to become acquainted with and to uphold the ideals set forth in the Honor System Constitution. All students are reminded that, as a condition of being admitted to Stevens, they will uphold and adhere to the standards of the Stevens Honor System. Specific Student responsibilities include:

1. Maintaining honesty and fair play in all aspects of academic life at Stevens
2. Writing and signing the pledge, in full, on all submitted academic work
3. Reporting any suspected violations to an Honor Board member or to the Dean of Undergraduate Academics
4. Cooperating with the Honor Board during investigations and hearings