

## VALUE INVESTING

### Introduction

At this stage of your MBA, you have already assembled the complete toolkit to analyze a business and its potential. Value Investing is an investment philosophy that offers you the opportunity to integrate all this knowledge and apply it to the stock market. By analyzing the fundamentals of a stock, you will assess the value of its underlying business (intrinsic value). If this intrinsic value is substantially lower than the current stock price (i.e. substantial margin of safety) you might have found a good bargain. But all that glitters is not gold... why would you be able to outsmart all the other participants in the stock market?

### Objectives

This course will teach the fundamentals of the value approach to investments originally developed by Graham and Dodd. The sessions will be eminently practical, covering all the stages of the investment process, from the search for potential stocks to the execution of the trade. We will explore publicly available data sources, assess the quality of financial information, implement valuation models, and analyze all the relevant dimensions of an investment decision. At the end of the course, you will be required to present your own stock recommendation.

The course does not only target those students intending to work in asset management, but also those interested in managing their own portfolio of stocks –no matter the size– with a value approach. Investing in stocks based on fundamental analysis provides you with a rich set of investment decisions of your choice and the long-run relentless feedback from the market.

### Learning Outcomes

1. Understand the Value Investing approach to analyze stocks and distinguish it from other investment philosophies.
2. Identify the general traits of a value investor and learn from particular investment best practices of well-known value investors.
3. Develop an informed view of fundamental financial concepts such as risk and market efficiency.
4. Search for potential value stocks and special investing situations.
5. Put into practice different valuation models. Understand the advantages and limitations of each model and the right context of application.
6. Assess the quality of companies financial reporting.
7. Elaborate your own framework to evaluate stock investing decisions based on fundamental analysis.
8. Prepare and defend your own stock recommendation in front of sophisticated investors.

## Competences

The Financial Accounting course reinforces the following general competences:

- Decision making
- Critical Thinking
- Judgment
- Communication

## Content

Tentative outline:

1. Fundamentals of value investing. Market efficiency: is this course a waste of time?
2. Searching for potential stocks. Investing in special situations.
3. Multiple approaches to valuation (I).
4. Multiple approaches to valuation (II).
5. Assessing the quality of financial information.
6. Strategic Valuation Analysis: Franchise value.
7. Case discussion: stock analysis (T.B.D.).
8. Guest-speaker: Francisco García Paramés (see his bio below)
9. Presentations of your stock recommendations (I).
10. Presentations of your stock recommendations (II).

## Methodology

The course combines lectures, exercises and case discussions. For each session, you are expected to prepare the assigned readings and cases.

We have a session with a local company guest-speaker and two final sessions with group project presentations to a panel of professional fund managers.

## Evaluation

Grades will be based on the following criteria:

- Class participation (40%).
- Brief class deliverables (20%).
- Advanced stock analysis/recommendation (40%): this group project will include a final presentation in front of professional investors.

## Course Outline

Assignments will be made available on Virtual Campus a few weeks before the course starts:

#	Date	# Date Topic
1	Tue, Sep. 1st	Fundamentals of value investing
2	Tue, Sep. 1st	Searching for potential stocks
3		Multiple approaches to valuation
4	Wed, Sep. 2nd	
5		Assessing the quality of financial information
6	Thu, Sep 3rd	
7	Fri, Sep 4th	Case discussion: Evaluating whether to invest in a stock
8	Fri, Sep 4th	A General Value Investing Framework (Guest-speaker: Francisco García Paramés, see bio below)
9		Presentations of your stock recommendations in front of professional fund managers
10	Sat, Sep 5th	

## Professor's Biography

Marc Badia is Assistant Professor in the department of Accounting and Control at IESE Business School (University of Navarra). He earned his Ph.D. in Financial Accounting with distinction from Columbia University (New York).

His research interests focus on fair value accounting and the use of financial statement analysis for equity valuation. He has carried out consulting projects related to business valuation and cost systems, and has also interned as financial analyst at a major investment bank in London. He accumulates over 12 years of experience in the management of educational non-for-profit institutions, both in Spain and in the United States. Currently, he is a member of the board of directors for a family business and for a hedge fund that invests in equities following quantitative trading strategies based on fundamentals.

Prof. Badia holds an MBA from IESE Business School, spending one semester at Kellogg School of Management (Northwestern University), and a Bachelors in Business from ESADE, majoring in Finance.