

**University of Notre Dame  
Mendoza College of Business  
Department of Finance**

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**FIN 70640/70641/40640  
APPLIED INVESTMENT MANAGEMENT**

**AIM XLIV**

**SYLLABUS**

**Spring 2018**

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**Instructors:**

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**Course Objective:**

The Applied Investment Management course blends traditional academic objectives with the practical experience of hands-on investment management. The course provides students with a thorough grounding in the process of portfolio management, from the broad asset allocation decision through individual stock evaluation. Topics covered include economic, technical, and fundamental analysis, valuation and EPS forecasting, market anomalies, and portfolio performance evaluation. Throughout the course we will emphasize the linkage between the theoretical and practical aspects of the money management process.

Each class inherits the portfolio handed over by the previous class, together with a set of policies and guidelines developed by the class in the context of restrictions applied to all equity managers for Notre Dame's endowment. The class will assume responsibility for all portfolio decisions and will give a presentation to the AIM Advisory Board at the end of the semester. The class will also handle all issues relating to the transition of the portfolio to the next class.

### **Class Format and Individual Reports:**

During the course, each student is responsible for a series of individual analyst reports/presentations and several group reports and/or activities. These culminate in the selection of the final portfolio and a formal presentation to the AIM Advisory Board. An outline for the individual and group responsibilities is provided below. There will be several lectures and labs in the first half of the course to provide context for your analysis, but the majority of the course consists of student presentations. We will also take a class trip and will spend time speaking with a diverse set of leading players in the industry.

The class is divided into two rounds. In the first round you will analyze an assigned stock (typically from the existing portfolio). In the second round you will analyze a stock you select as a potential addition to the AIM portfolio. In each round, you will complete a series of structured, written reports and will provide a class presentation related to each report. Detailed specifications for all individual analyst reports are provided separately in the *Analyst Reports* document.

All reports must be turned in electronically through Sakai prior to class on the assigned due date. If you fail to submit the report on time or do not present at your assigned time, your report will be considered late. **Late reports will be penalized 8% the first day and 2% every day thereafter.** If you anticipate turning in an assignment late, please contact us to let us know why it is late and when you expect to have it completed.

### **Grades:**

#### Individual Analyst Reports – Round 1:

1. Company Background Report	4%
2. Fundamental Analysis Report	5%
3. Earnings Forecast Report	5%
4. Cost of Capital Report	4%
5. Valuation Report	8%
6. Technical Analysis Report	4%
<i>Round 1 Total:</i>	30%

#### Individual Analyst Reports – Round 2:

1. Company Background/Industry Report	7%
2. Fundamental /Technical Analysis Report	11%
3. Earnings Forecast /Valuation Report	12%
<i>Round 2 Total:</i>	30%

Class and trip participation, presentations, group projects, article reports, and other class contributions	25%
Advisory Board presentation	<u>15%</u>
	100%

### **Attendance Policy:**

Attending all class sessions, trips, and other scheduled activities is **compulsory**. If you have a job interview or other compelling reason to miss class, be sure to contact us ahead of time. However, all students **must** attend the class trip(s) and the final AIM Advisory Board presentation.

### **Recommended (Not Required) Reference Texts:**

The following textbooks are not required, but are useful supplemental references: (1) *Investment Valuation: Tools and Techniques for Determining the Value of Any Asset*, by Aswath Damodaran, (2) *Valuation: Measuring and Managing the Value of Companies*, by Tim Koller, Marc Goedhart, and David Wessels, and (3) *Investment Analysis and Portfolio Management*, by Reilly and Brown.

### **Group Activities:**

Throughout both rounds, you will participate in group activities related to industry analysis (round one only), and either economic analysis, portfolio performance analysis, or newsletters. A brief summary of the group assignments and responsibilities is provided below. Additional details will be provided separately in the *Group Activity Guide*.

**Industry/Sector groups** – For round one, you will be assigned to an “Industry/Sector” group that will provide a class presentation, but no written report, on an assigned industry. There are six Industry/Sector groups: Consumer, Energy, Financials, Healthcare, Industrials, and Technology. In round two, you will include an industry overview in your company background report, and there will not be a separate group presentation.

**Activity groups** – You will be assigned to one of three activity groups: Economic Analysis, Portfolio Performance, and Newsletter. Each of these groups will provide two presentations, i.e., one during each round of the semester. Hence, there will be a total of six presentations. You will be assigned to a subgroup that presents in the first or second round.

In summary, each student will participate in two group presentations. One will be as part of an Industry/Sector group. Another will be as part of an Activity group.

Besides these assigned group activities, other activities might occasionally arise. At those times we shall ask for volunteers. For instance, if a guest speaker visits class, we shall ask for a volunteer to make sure the guest receives a thank you card signed by the entire class. As another example, if the AIM webpage (<http://aim.nd.edu>) needs to be updated, we shall ask for a volunteer to notify the appropriate contact person in the ND Investment Office.

### **Class CIO:**

Analysts will be assigned to be a **Chief Investment Officer (CIO)** for one class. The CIO will be responsible for organizing and "chairing" the class including all introductions, timekeeping of activities, conducting votes on stocks, etc. Every class will begin with the CIO updating the class on relevant global benchmarks and business/economic news, followed by individual analyst updates on relevant company-specific news.

### **Quiz**

There will be a quiz on the first day of class to make sure you are monitoring the economy, the markets, the AIM portfolio, and your stock.

## **Pre-semester Reading and Preparation:**

### **Papers:**

All students must turn in two separate papers the first day of class. As with all reports for this class, your papers should include a separate cover page and should be 1.5 spaced with 11-12 point font and one inch margins. In both reports, summarize some of the main points you learned from the exercise, and, *more importantly*, discuss how the materials impact your understanding of finance.

**Paper #1:** Read the article “The Misrepresentation of Earnings,” by Dichev, Graham, Harvey, and Rajgopal, 2016 (posted on Sakai). Provide a two-page report summarizing the article and two related examples from the historical financial statements of the firm you have been assigned. Specifically, you should identify two examples that illustrate how accounting rules and/or misrepresentation of earnings affect your ability to interpret the firm's financials. For each example, describe briefly how you might correct for the issue in your valuation.

**Paper #2:** Compare and contrast the perspectives on efficient markets provided by the two Nobel laureates Eugene Fama and Robert Shiller. A few relevant URLs and academic articles are posted on Sakai, but we expect you to do additional research to identify more recent interviews and/or articles concerning these two financial experts. The final paper should contain two pages of discussion, including a concluding paragraph summarizing your interpretation. You should also attach a separate page listing your references.

### **Other materials:**

Please read the *AIM Investment Objectives, Policies, and Procedures* document. This document details the rules governing the management of our portfolio. Although we will not spend much class time discussing the document, it is the essential manager/client contract underlying the course.

Over the break, please familiarize yourself with each of the stocks in the portfolio (listed at [aim.nd.edu](http://aim.nd.edu)). Although you have been allocated a particular stock, ***you are responsible for the performance of the entire portfolio.*** You must have a working knowledge of all the stocks in the portfolio and become an expert on your assigned stock. You are encouraged to contact former AIM students who analyzed your stock and/or Wall Street analysts. We expect you to be well-informed about your company, its financial performance, its management, and its recent stock price performance from the first day of class.

Assemble a data bank of historical financial information on your assigned company from SEC filings. Past students have found the following sources useful:

- Finance.yahoo.com — a good overview of financials and market data
- Company websites — most companies provide downloadable financial statements, investor presentations, and other information
- EDGAR — the SEC makes all mandated filings available at <http://www.sec.gov/edgar.shtml>
- BIC Materials — we have a variety of financial data sources available in the Mahaffey Business Library of Mendoza College (e.g., Bloomberg, CapIQ, Mergent, and S&P).

**The more information you can assemble over the semester break, the easier your work will be during the semester.**