

NEW YORK UNIVERSITY
LEONARD N. STERN SCHOOL OF BUSINESS

FINC-GB.3716.12

Global Value Investing: Theory and Practice

Prof. James B. Rosenwald III

Fall 2012

Meeting dates and times

September 20, 27; October 4, 11, 18 and 25 at 6:00 p.m. – 9:00 p.m.

Contact Information:

James B Rosenwald III

Dalton Investments LLC

Email: jrosenwald@daltoninvestments.com (No phone calls please)

Office hours by appointment, KMC 9-150

Mailbox on KMC-9 Floor, Dept. of Finance

Objective: To prepare students to understand, evaluate, and invest using a Global Value Investment Philosophy in all asset classes (i.e. Securities, Real Estate, and Hard Assets). Students will be exposed to Value Investment Valuation methods, strategies and techniques.

Students are guaranteed to be better investors over their lifetimes or their money back!

Course Prerequisites

- Foundations of Finance (B01.2311)
- Basic accounting terminology
- Basic common sense
- Extraordinary enthusiasm and effort

Required Readings:

1. Aswath Damodaran, *Value Investing, Chapter 8*
2. Warren Buffett, *The Superinvestors of Graham-and-Doddsville* + Berkshire Hathaway's Annual Letters
3. Benjamin Graham, *The Intelligent Investor*
4. Seth A. Klarman, *Margin of Safety* + Baupost Partnership Letters
5. Burton G. Malkiel, *A Random Walk Down Wall Street: The Best and Latest Advice Money Can Buy*
6. John Train, *The Craft of Investing*
7. Charles Mackay, *Extraordinary Popular Delusions and the Madness of Crowds*
8. Martin Whitman, *Third Avenue Value Fund Letters*

Structure: The course will use a combination of lectures, reading assignments, and guest lectures.

Lectures: Lectures will focus primarily on Value Investment Philosophy and valuation methods and techniques.

Reading Assignments: Students are expected to be able to discuss the required readings.

Guest lectures by some of the Investment Industries' most famous practitioners. They will provide examples of how the Philosophy of Value Investing has impacted their career. **ATTENDANCE IS MANDATORY AND WILL BE RECORDED.**

Grading:

Class Participation	30%
Midterm	30%
Final: Investment Analysis & Investment Pitch	40%

Session Plan

Session 1- Introduction and Overview

- What is Value investing and does it work?
- History of Value Investing (value investing pioneers)
- Principals of Value Investing -Graham's tenets of value investing (concept of Mr. Market, margin of safety)
- Efficient market hypothesis and the notion that value investing out of date
- Warren Buffett's response to the Efficient Market Hypothesis

Readings:

A. Damodaran, *"Investment Philosophies: Successful Strategies and the Investors Who Made Them Work"*

Chapter 8 – *Value Investing* (page 220-268)

Burton Malkiel, *"A Random Walk down Wall Street"*

Chapter 7 – How Good is Fundamental Analysis?

John Train, *The Craft of Investing*

Section 1 – The Craft

Section 2 – The Nature of Markets

Guest Speaker – Christopher Davis, Portfolio Manager, Davis Advisors

Session 2- Analytical Process and Valuation

- Investing vs. Speculating (discussed in Margin of safety)
- Alignment of interests (skin in the game concept)
- Competitive advantage (moat)
- Contrarian vs groupthink (Sir John Templeton)
- Alignment of management interests with shareholders
- Mechanics of Valuation

Readings:

Seth Klarman, *Margin of Safety*

Chapter 1 – Speculators and Unsuccessful Investors

Chapter 6 – Value Investing: The Importance of a Margin of Safety

Chapter 7 – At the Root of a Value-Investment Philosophy

Charles MacKay, *Memoirs of Extraordinary Popular Delusions*

Chapter 3 – The Tulipomania

OR

Burton Malkiel, *A Random Walk down Wall Street*

Chapter 2 – The Tulip-bulb Craze

Benjamin Graham, “*The Intelligent Investor*”

Chapter 7 – Portfolio Policy for the Enterprising Investor: The Positive Side

Chapter 8 – The Investor and Market Fluctuations

Chapter 20 - "Margin of Safety" as the Central Concept of Investment

Guest speaker-TBD

Session 3 -Real Life examples of Value Investing

- Buffett’s investment examples
- Net-nets, Discount to intrinsic value/liquidation value
- Tangible book value and balance sheet analysis (accounting for goodwill, etc)
- Portfolio construction and diversification
- Screens/monitor list
- Value traps and short selling

Readings:

Warren Buffett, *Berkshire Hathaway Annual Letters*

- Acquisition and Investments: Same Rules for Both – 1978 & 1981 letter
- Dividend Policy – 1984 letter
- Swimming against the Tide: When Nothing Works – 1985 letter
- Capital Allocation, Control Investment and taxes –1987 letter
- Why Good Businesses are Better Than Poor Ones – 1989 letter
- Increase Wealth is NOT the same as Increasing Size – 1992 letter
- Diversification and Concentration; Risk and Return – 1993 letter

Warren Buffett, *"The Superinvestors of Graham & Doddsville"*

Guest speaker- David Abrams, Abrams Capital Management

Session 4 - Global Value Investing

- Value investing in emerging markets
- Focus on global competitive advantages
- Economic growth not always correlated with stock market performance (importance of being selective)
- Political/FX considerations
- Outside interests, privately held assets, transfer pricing
- SOEs vs. entrepreneurs
- How to invest in China through Hong Kong/Taiwan/Japan-listed companies

Readings:

Baupost's *letters to the partnership*

1996, 1999, 2001, 2002, 2006, 2007

Third Avenue Fund's letters to investors

Q4 2004, Q4 2007, Q4 2008, Q4 2009, Q4 2010

Guest speaker – Robert Robotti, President, Robotti & Company

Session 5 - Value Investing at Dalton Investments

- Dalton is a disciplined value investor
- Dalton's investment approach and process
- Cannibals vs zombies
- “Long term greedy” vs “short term greedy”

Readings:

Dalton Asia Fund's newsletters

Gifford's PacGen newsletters

Guest speaker – Gifford Combs, Managing Director, Dalton Investments LLC

Session 6

Final Exam: Investment Pitch

Guest Speaker & Judge: TBD