

The University of Iowa
Henry B. Tippie College of Business
Department of Finance

**6F:112 – Applied Equity Valuation (The Krause Fund)
Fall 2009**

MW 2:30-3:45, W307 PBB

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Course Website: (ICON) <http://icon.uiowa.edu>
Krause Fund Info: <http://tippie.uiowa.edu/krause/>

Office Hours: M&W 1:15-2:15 p.m. and by appointment

I am available almost any time during the week; however, I ask that you please schedule an appointment in advance. Please refrain from unscheduled drop-ins. To arrange an alternative meeting, please contact me by email. Thank you.

Teaching Assistant: John Culley
MBA student, Henry Fund materials and energy analyst
john-culley@uiowa.edu
Office Hours: T&Th 11:00 a.m. – 12:00 p.m.
PBB Library near computers

ACADEMIC ACCOMMODATION

If you have a disability or special condition that may require some modification of seating, testing, or other class requirements, please notify me after class, during office hours, or as soon as possible so that appropriate arrangements may be made. The Office of Student Disability Services (<http://www.uiowa.edu/~sds>, 133 Burge Hall, 335-1462) is also available to assist you.

COURSE DISCLAIMER AND FAIR WARNING

A caveat: Applied Equity Valuation is a very time intensive course. Most of the rumors about this course are true. Former students often note that at times 6F:112 consumed their life. In all honesty, this course will likely require more effort than any other course you will take at the University of Iowa. Yet, despite the heavy workload, Krause Fund alumni often

note that the course was one of their most valuable and rewarding classes because of its practical and “real-world” application. Former students rarely state they regret taking the course.

Passing grades are not guaranteed. The most successful students typically work a minimum of 10-15 hours per week on the analyst reports in addition to the other course requirements. At times, some students have found it necessary to work 20-50 hours per week on the project. If your work schedule, course load, interviews, or personal life prohibits you from devoting the necessary time, then you are encouraged to withdraw from the course.

COURSE OBJECTIVES AND DESCRIPTION

Applied Equity Valuation (AEV) exposes students to the primary equity research, analysis, and valuation techniques utilized by investment professionals. The class is highly recommended for students targeting investment banking, portfolio management, financial analysis, investment research, and wealth management careers. The course will also benefit students pursuing careers in commercial banking, corporate finance, accounting, securities law, as well as anyone desiring a greater comprehension of business valuation. AEV is essentially a capstone to the finance degree, bringing together concepts from a variety of courses such as investments, corporate finance, financial accounting, and economics.

Equity analysis is an art form that can take years to master. You will not become an expert in one semester. Properly valuing a firm’s stock is a difficult task that requires a variety of macroeconomic, industry, and company-specific forecasts. The number of assumptions necessary to develop a realistic financial model often surprises many students. The valuation process is rarely black and white. Two individuals may reach completely different conclusions from the same information. While there is no such thing as “good” or “bad” assumptions, some are clearly more economically supported than others.

Our primary goals for the course are to cultivate a strong understanding of basic valuation techniques, develop an aptitude for analyzing company value drivers, and build a broad outlook for the macro-level forces which will drive a company’s future performance. Students should leave the course with an ability to understand how economic events might impact the market price of a firm’s stock, knowledge of how to apply several valuation models, and an ability to clearly and concisely deliver an investment recommendation.

Applied Equity Valuation students also manage the University of Iowa’s Krause Fund. The Krause Fund, part of the university’s endowment, provides students with a forum that blends the academic rigor of the Applied Equity Valuation course with real-world portfolio management experience. Students work throughout the semester within a pre-defined economic sector to analyze companies and provide detailed investment recommendations.

At the end of the semester, Fund managers will deliver formal presentations of their specific portfolio recommendations for approval to both the class and the Krause Fund’s Investment Advisory Committee. The investment advisory board is comprised of 12 financial and investment professionals. Many of these board members are alumni of the Krause Fund

program. These presentations provide an opportunity to deliver a real investment sales pitch followed by rigorous questions from the board.

The analyst reports developed in this course are also a great tool to demonstrate your skills to prospective employers. Former students often remark that recruiters were highly impressed with the quality and depth of analysis contained within these reports. Since these reports will not be completed until the end of the semester, we recommend that students enroll in the course at least one semester before their anticipated graduation date.

During a typical semester, I am often contacted by several firms wanting to specifically recruit Krause Fund students. When contacted, I will forward along job descriptions and provide application details. One should also assume that these recruiters will request my personal evaluation of any Krause Fund student who applies. My personal reference is typically based on a variety of factors such as class attendance, exam performance, group interaction, and quality of research.

A BRIEF KRAUSE FUND HISTORY

The Krause Fund was established in the fall of 1998 with a \$100,000 donation from Bill Krause, CEO of the Krause-Gentle Corporation and the parent company of the Kum & Go chain of convenience stores. Mr. Krause also made similar donations to establish undergraduate student-managed equity funds at Iowa State University, Drake University, and the University of Northern Iowa. Historically, these four schools compete in the annual Krause Investment Challenge, a contest matching the performance of each school's portfolio from August 31 to March 31 of each school year.

Students managing the University of Iowa Krause Fund have developed a reputation for producing excellent research reports, providing in-depth analysis, and delivering strong investment presentations. We will strive to maintain this tradition while pursuing the goal of outperforming our benchmark, the S&P 500 index. The fund, currently valued at approximately \$179,000, holds a diversified portfolio of 16 securities. The fund's current valuation, historical performance, trading history, and research reports are available from the fund website (<http://tippie.uiowa.edu/krause/>).

CLASS EXPECTATIONS

- **Class Attendance:** Applied Equity Valuation students are expected to attend class. *If you are unwilling to work hard, attend class on a regular basis, or be an active team player, then I strongly suggest that you withdraw from the course.* Although attendance is not formally required or graded on normal lecture days, your class attendance will serve as an important factor in determining borderline grades as well as my personal evaluation when providing a job reference. **Attendance is required for all exams, guest speakers, and in-class presentations.** Please refer to the attendance policy adopted by the Tippie College of Business. Most class lectures utilize a "how to" format designed to assist with the preparation of company research reports. Therefore, students who miss class often find they are unprepared for exams and unable to efficiently complete the project.

- Job Interviews and Class Attendance: As noted above, attendance is required only for exams, guest speakers, and in-class presentations. Since these dates are clearly noted at the end of the syllabus and are formally announced in class, scheduling a job interview, extended weekend trip, or other activity on one of these dates will not be considered a valid reason for an excused absence.
- Starting Time: Plan to begin each class promptly at 2:30 p.m. ***Please make every effort to arrive on time.*** Late arrivals are highly distracting to other members of the class as well as the professor.
- Finishing Time: We will rarely finish class early. Periodically, we may even require a few extra minutes to complete the day's topic. Students should expect to utilize the full 76 minutes of class time each day.
- Phones and Laptops: **Please turn off all phones and laptops before entering class.** Students whose phones disrupt class will be heckled. Please In addition, because it is very distracting to students seated nearby, please refrain from using a laptop computer during class. Communication devices of any type are prohibited during quizzes and examinations. Please avoid checking or sending an email or text message during class. (Yes, from the front of the room I can see you typing away under the desk.)
- Teams: Throughout the semester, students will work on a team of 2-3 individuals, depending upon course enrollment. Students will select their own teams by the second day of class. Each team will analyze two companies from a specific industry – either two current fund holdings or one current fund holding and one potential new investment.
- Group Effort: All group members are expected to contribute equally to the equity analysis projects. Group members confidentially evaluate one another's contribution to the project at the end of the semester. These evaluations are an important factor in assigning final project grades for each member of the group. In addition, I monitor group participation throughout the semester and generally have a very good understanding of which individuals are "free-riding" within a group.
- Presentations: All members of the group are expected to actively participate in the two investment presentations. One presentation will be delivered to your peers during class, and the other will to the fund's advisory board. Everyone will be required to both present and answer questions from the audience.
- Project Grading: Written projects (analyst reports) and oral presentations are graded by a combination of the instructor and the independent advisory committee of investment professionals listed at the end of this syllabus.
- Class Preparation: Students are expected to become an expert within their assigned sector/industry and should be prepared to answer questions about your assigned companies or sector in class each day. We will typically spend a few minutes at the beginning of each class discussing the latest economic and financial news affecting the

markets or the fund holdings. These sessions involve more than just reporting the latest news and should focus on analyzing the impact of the news on company valuations.

- Writing Center: Each group is required to meet with the writing center at least twice during the course of the semester. In addition, groups will be required to attend a special help session on “How to Write an Analyst Report.”

COURSE MATERIALS

Primary Text (Optional):

Most class lectures are based on the “Valuation” text listed below. Purchase of this book is optional. One can certainly complete this course without purchasing the text, but students who plan to pursue a career in equity research may want a copy for future reference. The book was originally written as a consulting manual for training McKinsey associates on the value-based management philosophy used by the firm. The valuation approach taught in this text is widely used among investment professionals. The book was first written in 1990 and is probably the most widely referenced text on valuation.

- Valuation: Measuring and Managing the Value of Companies, by Tim Koller, Marc Goedhart, and David Wessels (McKinsey and Company, Inc.), fourth edition, c. 2005, J. Wiley & Sons, Inc., New York.

Available on reserve in the business library.

Iowa Book: \$93.35 new, \$70.01 used, 7% tax

University Book Store: \$93.35 new, \$70.05 used, 7% tax

Amazon.com: \$61.51 new (free shipping), \$50 & up used, \$31.96 Kindle edition

Half.com: \$43.38 & up new/used (as of Aug. 22) + shipping

Secondary Text (Optional):

Note: I will not lecture specifically from this text. This text is a condensed summary of corporate valuation and uses an approach very similar to the McKinsey model. The McKinsey book, which is our primary text, gives more detail, but is also a little more expensive. Although the “Corporate Valuation” book uses slightly different notation, the basic model is the same. The authors intended for this text to be a summary of basic valuation techniques that can be read very quickly. In fact, they claim that it can be read cover-to-cover in less than 8 hours. I frequently recommend this text to students as a refresher when preparing for investments related interviews.

- Corporate Valuation: An Easy Guide to Measuring Value, by David Frykman and Jakob Tolleryd, c. 2003, Prentice Hall Financial Times, London.

Iowa Book: \$34.99 new, \$26.25 used, 7% tax

University Book Store: \$34.99 new, \$26.25 used, 7% tax

Amazon.com: \$29.56 new (free shipping), used \$19.96 & up

Half.com: \$20.97 & up new/used (as of Aug. 22) + shipping

Course Notes:

All course materials are available for free download via the ICON course website. For convenience, a course packet will also be available through the PBB copy center (C102 PBB) by the end of the first week of class. This packet normally sells for approximately \$20.00-\$25.00 and contains a copy of the syllabus, project assignments, lecture materials, and copies of old examinations.

Other Useful Reference Materials:

- Security Analysis on Wall Street: A Comprehensive Guide to Today's Valuation Methods, by Jeffrey C. Hooke, c. 1998, J. Wiley & Sons, Inc.
Available on reserve in the business library.

Despite the name, this text is not necessarily a comprehensive book on valuation, but it does have some nice features. Mainly, it spends the first several chapters focusing on how to write an analyst report, something you will spend a lot of time on this semester. Specifically, I call your attention to chapters 5-7. The text also has chapters that discuss valuing firms in special industries such as energy, mining, banks, insurance companies, and internet stocks. *I will not lecture specifically from this text.*

- A daily news source (WSJ, Yahoo! Finance, Google Finance, CNBC, etc.)

COURSE WEB SITE (<http://icon.uiowa.edu>)

This course utilizes the ICON (Iowa Courses Online) course management system. Your Hawk ID and password are required to access the sites of individual courses for which you are registered that use the ICON system. I intend to post class announcements and information on this site. ICON allows you to read announcements, view grade entries, email class members, download lecture notes, retrieve old examinations, and find links to some potentially valuable financial research websites. I strive to maintain an updated site with information and resources designed to assist analysts with their company analysis.

GRADING

Grade Weighting

Analyst Reports and Presentations:	
Company Report #1	20%
Company Report #2	20%
In-Class Presentation	7%
Advisory Board Evaluation	<u>13%</u>
Total Project	60%
Exam #1 (Mon., Oct. 5 , in class)	20%
Exam #2 (Mon., Nov. 9 , in class)	20%

Exam Policies

The exam dates are noted above. No early exams will be given. Tests may consist of multiple choice, written problems, and/or short answer. Exams will be closed note and closed book unless otherwise stated in class. Both exams will be given during the regular class meeting time. The second exam will be cumulative. Due to end-of-semester presentations and projects, there will be no final exam.

If you need to miss an exam for an excused absence, you must notify me prior to class by email, calling my office, or leaving a message with the finance department. Failure to do so will result in an unexcused absence and no make-up will be given. Absences from an exam to attend a job interview are considered unexcused.

Project Grading Policies

Feedback from the investment advisory committee will help determine your team's final project grade. The board's evaluation of your presentation and written reports will comprise approximately 21.6% of your project grade and 13% of your overall grade. These investment professionals have an excellent knowledge of the financial world. The instructor will determine the remaining portion of your project grade.

To achieve a high grade on the project, you must provide a well-written and well-delivered analysis to the instructor, advisory committee and the class. Thus, you must effectively communicate your investment recommendation to a wide audience and convince the advisory board, class, and instructor that your analysis makes sense.

A project-related assignment will be due approximately every two weeks. The assignments are designed to keep everyone working toward successful completion of the investment analysis. These tasks are not graded, but we will try to provide timely feedback. ***Each assignment not completed by the specified due date and time will result in a 5-point deduction from the final project grade.***

I regard this class as I would any job responsibility, thus I will hold you to strict standards of timeliness and ethics. In the investment world as well as in this class, late work is unacceptable. Any assignment that is not handed to me when collected at the beginning of class on the day it is due will be considered late.

Grade Distribution

The department of finance has targeted the following grade distribution for elective courses such as 6F:112.

A	28%
B	45%
C	25%
D and F	2%

This policy was established to ensure that the best students have an opportunity to distinguish themselves and that grades serve as clear signals of class performance to

recruiters. Final course grades will be “curved” based this target distribution and a points-weighted ranking of all members of the class.

Project Ethics, Academic Misconduct, and Sexual Harrassment

With regard to ethical conduct, it is my sincere hope that no student in this class does work which is not his or her own. If I determine that any assignment is not written solely by the student(s) whose name(s) appears on the project, a grade of zero will be assigned for the project. Similarly, if a student is determined to have cheated on an exam, the student will receive a score of "0" for the exam. In all likelihood, receiving a “0” on an exam or project will result in an “F” for the course.

The project required for this course involves extensive economic, industry, and company research. It is unlikely that one could write a quality research report without extensively utilizing a vast array of research materials. *Therefore, students are free to use any available data resource provided they properly cite their sources in the research document.*

I strongly encourage everyone to consult the undergraduate writing center for assistance on proper source citation. Ignorance of source citation rules is no excuse for plagiarism. As stated above, groups caught plagiarizing their research will be **harshly** penalized. ***The instructor maintains the right to require any group or student to successfully submit electronic versions of their reports via a plagiarism detection and prevention tool such as turnitin.com.***

All groups are required to create their own valuation models from scratch. Use of a non-sanctioned spreadsheet or valuation template is not allowed and will be considered cheating.

All incidents of cheating will be reported to the Associate Dean for the Undergraduate Program in the College of Business, and the student may be placed on disciplinary probation for the remainder of his or her undergraduate work at the University of Iowa.

In general, the decision of the professor on these matters may be appealed to the Dean for the Undergraduate Programs for the Tippie College of Business (Lon Moeller). The *Honor Code* for the Tippie College of Business will determine the appropriate appeal process. The Honor Code is available on ICON and at <http://www.biz.uiowa.edu/upo/honorcode.html>.

The Tippie College of Business and the University of Iowa are committed to providing students with an environment free from sexual harassment. If you feel that you are being or have been harassed or you are not sure what constitutes sexual harassment, we encourage you to visit the University website, <http://www.sexualharassment.uiowa.edu/index.php>, and to seek assistance from department chairs, the Dean's Office, the University Ombuds Office, or the Office of Equal Opportunity and Diversity.

COURSE WRITING COORDINATOR

The financial analyst has two important jobs. The first, which is the primary focus of our time in class, involves financial forecasting and analysis to determine which companies make good investments. However, the second job is often overlooked in its importance. It involves communicating ideas and recommendations to clients through written reports and oral presentations. This course provides the opportunity to develop both skills. Pam Bourjaily, the director of the Business Communications Center, and her staff will assist with your writing, citation, and presentation issues.

Pamela Bourjaily
Director, Business Communications Center
S146 PBB
(319) 335-3459
pamela-bourjaily@uiowa.edu

James Mattson
Business Communications Center
S144 PBB
(319) 335-0178
james-mattson@uiowa.edu

All students are *required* to meet with writing center tutors *at least twice* during the semester for assistance on the project, once before Assignment #4 and again prior to completing the final draft of the project. In addition, each student must attend a special one-hour training session on “How to Write an Analyst Report.” The time, date, and location of these training sessions will be announced in class.

CHARTERED FINANCIAL ANALYST (CFA) EXAM

If you desire an investments-related career (analyst, money manager, etc.), I strongly recommend taking the CFA exam. The CFA designation is becoming almost as important as the MBA for placement and advancement in the investment profession. Enrollment in the CFA program also signals to corporate recruiters that you are serious about an investments career. The exam covers ethics, quantitative analysis, economics, financial accounting and statement analysis, markets and instruments, asset valuation, and portfolio management. As finance majors, you will likely be exposed to most of the concepts covered by the exam. Thus, it may be advantageous to begin the exams while the material is fresh in your mind.

To achieve the CFA designation, you must pass three levels of tests (six hours each) in succession. The level I exam is offered twice per year. The next exam dates are December 5, 2009 and June 5, 2010. Historically, pass rates for the level I exam have ranged between 30-40%. Registering for the CFA is relatively expensive, but many employers reimburse employees for registration fees when they pass. The final registration deadline for the June exam is March 15, while the deadline for the December exam is September 15, 2009. Registration fees are significantly cheaper if you enroll early. For additional information, please refer to the CFA Institute website:

<http://www.cfainstitute.org/cfaprogram/>

In previous semesters, I have worked with the Schweser Study Program (Kaplan) to acquire discounted *Schweser Notes* (www.schweser.com) CFA study materials for current University of Iowa students enrolled in the CFA program. If you register for the exam and want to order review materials, please let me know.

KRAUSE INVESTMENT CHALLENGE AND KRAUSE FUND DETAILS

Goals:

- Facilitate the melding of academic training with real-world money management.
- Introduce undergraduate students to firms headquartered in the state of Iowa.
- Attain an average annual real return (net of commissions) between 5-10% annually. While this return is consistent with the historical performance of the S&P 500 Index, such returns may be difficult during some periods. This average annual return implies a level of risk acceptable to the Krause Fund.

Investment Selection:

All prospective investments are selected and voted upon by the managers of the Krause Fund. These prospects must meet the investment screens defined below before presentation to the advisory board for final approval. No investment shall be sold or purchased without the final approval from these advisors.

Portfolio Composition:

- The Fund shall be exclusively invested in equities and short-term liquid assets.
- The Fund shall maintain a target ratio of 95% (+/- 2%) stock, 5% cash.
- Target industry weights of the equities in the fund shall roughly follow the current composition of the S&P 500 index industry weightings.
- On a value-weighted basis, 10% of the Fund's equity position shall be held in firms with a strong presence within the state of Iowa.
- **Investments should take a long-term value approach.** Potential investments should be evaluated with an anticipated holding period of at least 12 months. Short-term "story" stocks will be an extremely tough sell with the advisory committee.
- The fund shall maintain a dividend yield of at least 1% to facilitate payment of \$1000 in scholarships per \$100,000 of invested assets.

Guidelines for Equity Selection:

For a stock to be considered as an investment in the Krause Fund, it must meet each of the following criteria:

- The security must be within the Value Line universe of approximately 1700 firms. (Essentially, this rule is a size restriction.)
- The firm must have reported to the Securities Exchange Commission for the last five consecutive years (i.e., no recent IPOs).
- The company must trade on the NYSE, Amex, or Nasdaq.

Withdrawal of Funds:

Except for scholarship payment, funds shall not be withdrawn from the Krause Fund.

Contest Details:

- <http://www.kumandgo.com/krause-challenge.cfm>
- The winner is the school with the highest overall portfolio return from September 1, 2009 to March 31, 2010.
- Portfolios must maintain at least 10% invested in companies with a strong presence in the state of Iowa.

KRAUSE FUND INVESTMENT ADVISORY COMMITTEE

The Fund's investment advisory committee is comprised of professionals from the financial services industry. Many of these individuals are University of Iowa alumni. These money managers, analysts, and corporate executives interact with the analyst community on a regular basis. Their knowledge and expertise will challenge you to thoroughly grasp the operations of each company you value. The current members of the advisory committee are as follows:

Mathew Bowersox (*KF Alumni*)
Associate, Basic Industrials Group
Houlihan, Lokey, Howard, & Zukin
123 North Wacker Drive, 4th Floor
Chicago, IL 60606-1700

Allen Goody, CFA, CPA
Vice President, Equity Analyst
WB Capital Management
1415 28th Street
Suite 200
West Des Moines, IA 50266

Lorraine Hart (*retired*)
Vice President
Fixed Income Investment Admin.
RiverSource Investments, LLC
Minneapolis, MN

Scott Hirleman (*KF Alumni*)
Equity Research Analyst – Semiconductors
Robert W. Baird & Co.
777 East Wisconsin Ave
Milwaukee, WI 53202-5391

Tiffany Houghton, CFA
International Analyst
Principal Global Investors
801 Grand Avenue
Des Moines, Iowa 50392-0880

Scott M. Pfeiler (*KF Alumni*)
Market Research Analyst
Rockwell-Collins
ATS Strategic Planning and Analysis
400 Collins Road NE, MS 124-115
Cedar Rapids, IA 52498-0001

Kevin Readman
Vice President, Portfolio Manager
US Bancorp
204 E. Washington St.
Iowa City, IA 52240

Jason Sissel (*KF Alumni*)
Associate
Quantitative Hedge Manager Research
Morgan Stanley
Chicago, IL 60605

Jennifer Slabas (*KF Alumni*)
Harris Trust and Savings Bank
111 West Monroe Street
10th Floor West
Chicago, IL 60603

Michael Van Meter
Managing Partner
VMF Capital, L.L.C.
118 Third Avenue SE, Suite 700
Cedar Rapids, IA 52401

James F. Wessels, CPA, CFA
Financial Planner and Investment Adviser
Gremler Financial Group
4140 Grand Ave.
Des Moines, IA 50312

Catherine Zaharis, CFA
Director, MBA Finance Academy
University of Iowa
(*Retired Portfolio Manager,
Principal Financial Group*)

ECONOMIC SECTORS, CURRENT HOLDINGS, AND THE PROJECT

Each group is required to produce two original analyst reports on companies from an economic sector assigned on the second day of class. Some groups will be required to cover existing companies in the Krause Fund portfolio, while others will be allowed to analyze new companies. Groups who analyze an existing holding will determine whether the fund should continue holding the security, buy additional shares, or sell our position. Groups who analyze a potential new holding will recommend whether or not the fund should purchase the stock.

Sector definitions vary by source. We have based the sector classifications on the GICS (Global Industry Classification System) employed by Standard & Poor's for the benchmark S&P 500 Index (www.spglobal.com).

GICS Economic Sector	Current Holdings (ticker)
Energy	Transocean (RIG)
Materials	Newmont Mining (NEM)
Industrials	*Deere & Co. (DE) Fluor Corp. (FLR)
Consumer Discretionary	*Target (TGT) YUM! Brands (YUM)
Consumer Staples	*PepsiCo (PEP)
Health Care	TEVA Pharmaceuticals (TEVA) Celgene (CELG)
Financials	Progressive Corp. (PGR) CME Group (CME)
Information Technology	Hewlett-Packard (HPQ) Cisco Systems (CSCO) Microsoft (MSFT)
Telecommunications & Utilities	AT&T (T) *FPL Group (FPL)
Iowa-Based	* Indicates a strong presence in IA

The Iowa-based sector is responsible for researching companies with a strong presence in the state of Iowa as defined by number of employees or location of corporate headquarters. This sector helps fulfill the Krause Challenge requirement of 10% investment in the Iowa-based companies. For example, firms such as HNI Corp., Winnebago Industries, and Casey's General Stores are all publicly traded firms that are headquartered in the state. However, firms such as Wells Fargo, Target, and Deere & Co. are all firms with a strong presence in the state not headquartered in Iowa. This sector may follow any company determined to have a strong Iowa presence independent of its primary economic sector.

Sector assignments and teams will be selected on the second day of class. **All members of the class are required to email the instructor your group members and top 4 sector preferences by 10:00 a.m. on the second day of class (Assignment #1).** The professor will assign an existing company to each group as part of the semester analysis.

Copies of prior year's company reports are available on the Krause Fund website (www.biz.uiowa.edu/krause). These reports are meant to provide information about the recommendations of the previous class. Be advised that they may contain numerous errors; use them at your own risk. I distribute any annual reports from our current holdings that I receive to the group covering the stock. *These reports must be returned before the end of the semester.*

When selecting a new company, consider the risk of the security, its correlation with other stocks in the portfolio, and overall fit within the fund's investment objectives.

Each student effectively has three primary tasks during the semester:

- 1. Financial Analyst:** Evaluate and prepare an analyst report for each company independently of the current fund holdings or performance. Your report may recommend a buy, sell, or hold whether the fund currently holds the stock in the portfolio or not.
- 2. Portfolio Manager:** Provide an investment recommendation (buy > +15%, hold, or sell < -15%) for the fund that considers the future investment potential of each security and its risk (dividend yield, beta, P/E, industry, exposure to common economic factors, and correlation) relative to the other fund holdings.
- 3. Sales and Communication:** Convince your classmates and the investment advisory committee why your proposed recommendations should be undertaken by the fund.

The final number of securities held by the fund will be determined at the end of the semester. We want to leave the next class a manageable portfolio. Thus, the number of holdings will be based on both the recommendations of the class and the number of students registered for the fall semester. The class will be asked to rank order those securities recommended for purchase. Thus, it is possible that some securities with a "buy" recommendation will not be added to the fund.

Finally, I want to point out in advance that printing the final copies of your reports can become expensive, depending upon printing method, use of color, and binding selection. Past groups have spent anywhere from \$10 to \$100 per person on printing costs alone. Although most groups have chosen to do so, the use of color, professional printing, and/or professional binding is not required. While a professionally printed and bound copy does look better if you want to use the report for a job interview, it is not a criteria used for grading in the course.

Sector Industry Classifications

Industries are assigned to one of the following 10 sectors using a combination of the definitions from the GICS employed by S&P. If you are unsure whether a particular company falls within the realm of your sector, please consult with the professor and the S&P 500 website (www.spglobal.com).

Energy

Oil/Gas Drilling
Oil/Gas Equipment/Service
Oil/Gas Exploration/Prod. Oil/Gas Refining/Marketing
Oil/Gas Storage/Transport
Integrated Oil/Gas
Coal & Consumable Fuels

Materials

Chemicals
Construction Materials
Containers & Packaging
Mining & Metals
Paper & Forest Products

Industrials

Aerospace & Defense
Building Products
Construction/Engineering
Electrical Equipment
Industrial Conglomerates
Machinery
Trading Companies
Commercial Services
Air Freight & Logistics
Airlines
Marine
Road & Rail
Transportation Services

Consumer Discretionary

Auto Components
Automobiles
Household Durables
Homebuilders
Leisure Equip./Products
Textiles & Apparel
Hotels/Restaurants/Leisure
Media & Advertising
Distributors
Internet Retail
Department Stores
Specialty Retail

Consumer Staples

Beverages
Food Products
Food & Staples Retailers
Tobacco
Household Products
Personal Products

Health Care

Health Care Equip/Supply
Health Care Providers
Health Care Technology
Biotechnology
Pharmaceuticals
Life Sciences Tools/Svcs.

Financial

Commercial Banks
Thrifts & Mortgage Finance
Diversified Financial Svcs.
Consumer Finance
Asset Management
Brokerage Services
Investment Banks
Life & Health Insurance
Property/Casualty Ins.
REITs
Real Estate Management

Technology

Internet Software
IT Services
Software
Communications Equip.
Computers & Peripherals
Electronic Equipment
Office Electronics
Semiconductors

Telecommunications & Utility

Telecomm Services
Wireless Services
Electric Utilities
Gas Utilities
Water Utilities
Indep. Power Producers

Iowa-Based

Any company with a strong presence in Iowa based on employment.

Fall 2010 Course Outline
6F:112 – Applied Equity Valuation

Assignment and exam dates are final unless otherwise noted in class. The outline of course material is tentative and subject to change. The schedule is designed to indicate the approximate material we will cover in class. At times, our actual pace of material may deviate from this schedule.

Aug. 24 (M)	Course Overview, Administration, and Outline Introduction: Market Efficiency & The Role of Analysts
Aug. 26 (W)	Assignment #1 Due: Email Group & Sector Preferences by 10 a.m. Group Formation & Sector Selection Introduction: Market Efficiency & The Role of Analysts
Aug. 31 (M)	Assignment #2 Due: Identify the Investment Universe Economic Analysis: Getting Started Chapters 1-3: Why Value Value? The Philosophy of Value Creation
Sept. 2 (W)	Chapter 3: The Philosophy of Value Creation Chapter 4: Do Fundamentals Drive the Stock Market? Valuation Multiples: Fundamental P/E Theory and the DDM
Sept. 4 (F)	<i>Guest Speaker: Scott Hirleman (KF Alum & Advisory Board Member), Equity Research Analyst (semi-conductors), R.W. Baird & Co.</i>
Sept. 7 (M)	<i>No Class – Labor Day Holiday</i>
Sept. 9 (W)	Assignment #3 Due: Economic and Industry Analysis Class Discussion: Economic Outlook and Portfolio Construction Valuation Multiples: Fundamental P/E Theory and the DDM
Sept. 14 (M)	Valuation Multiples: Fundamental P/E Theory and Problems Chapter 5: Framework for Valuation
Sept. 16 (W)	Chapter 5: FCF and EP Problems
Sept. 21 (M)	Chapter 7: Analyzing Historical Performance Measuring NOPLAT
Sept. 23 (W)	Assignment #4 Due: Company Analysis Chapter 7: Measuring Invested Capital (IC) Decomposing Return on Investment: The ROIC tree Special cases
Sept. 28 (M)	Chapter 8: Forecasting Performance Forecasting the Income Statement
Sept. 30 (W)	Assignment #5 Due: Gathering Historical Financials Chapter 8: Forecasting the Balance Sheet and CF Statement Brief Exam Review (if necessary)

Oct. 5 (M)	Exam #1 (in class), 2:30-3:45 p.m.
Oct. 7 (W)	Chapter 8: Forecasting Performance
Oct. 12 (M)	Chapter 6: Primary value drivers: Growth and ROIC
Oct. 14 (W)	Assignment #6 Due: Forecasting Company Performance Chapter 10: Estimating the Cost of Capital
Oct. 19 (M)	Chapter 10: Estimating the Cost of Capital
Oct. 21 (W)	Chapter 10: Estimating the Cost of Capital Chapter 9: Estimating Continuing Value
Oct. 26 (M)	Chapter 9: Estimating Continuing Value Chapter 11: Calculating the Final Target Price, Interpreting the Results Valuation of ESOP Plans
Oct. 28 (W)	Assignment #7 Due: Stock Valuation, WACC, Sensitivity Analysis Chapter 12: Valuation Using Multiples Relative Valuation & Identifying Comparable Firms
Nov. 2 (M)	Chapter 25: Valuing Financial Institutions
Nov. 4 (W)	Chapters 15-16: Mergers, Acquisitions & Divestitures Brief Exam Review (if necessary)
Nov. 9 (M)	Exam #2 (in class), 2:30-3:45 p.m.
Nov. 11 (W)	The Psychology of Investment (Behavioral Finance)
Nov. 16 (M)	The Psychology of Investment (Behavioral Finance) Portfolio Analysis, Construction, and Proposed Changes
Nov. 17 (Tu)	<u>Final Analyst Reports Due, S288 PBB, 2:00 pm</u> (7 copies of each)
Nov. 18 (W)	In-Class Presentations (Assignment #8) & Class Voting
Nov. 21-29	<i>No Classes – Thanksgiving Break</i>
Nov. 30 (M)	Assignment #9 Due: Email .pdf Copy of Reports In-Class Presentations (Assignment #8) & Class Voting
Dec. 2 (W)	In-Class Presentations (Assignment #8) & Class Voting
Dec. 7 (M)	Investment Advisory Committee Presentations, 1:00-5:00 p.m.
Dec. 9 (W)	Assignment #10 Due: Group Member Evaluations Final Security Voting, Portfolio Rebalancing, Course Evaluations
	NO FINAL EXAM