

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

**FIN:4250 – Applied Equity Valuation (The Krause Fund)  
Spring 2016**

**MW 3:30-4:45, C125 PBB**

---

Instructor: Todd Houge, Ph.D., CFA®  
Office: S288 PBB  
Phone: (319) 335-3754 – office and voice mail  
(319) 335-0929 – finance department  
E-mail: [todd-houge@uiowa.edu](mailto:todd-houge@uiowa.edu)  
Faculty Profile: <http://tippie.uiowa.edu/people/profile/profile.aspx?id=194971>  
Twitter: [@ValueKnight](https://twitter.com/ValueKnight)

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

Office Hours: Jan. 20 – Mar. 11: M&W 9:00-10:00 a.m. or by appointment  
Mar. 21 – May 6: M&W 2:00-3:00 p.m. or by appointment  
Office hours are first-come-first-served. I am also generally available on Tuesdays, Thursdays, and Fridays by appointment. To arrange an alternative meeting, please contact me by email. Please refrain from unscheduled drop-ins. Thank you.

Teaching Assistant: Jon Kerr  
2<sup>nd</sup>-Year MBA student  
*2015 Henry Fund Technology Analyst*  
[jonathan-kerr@uiowa.edu](mailto:jonathan-kerr@uiowa.edu)  
Office Hours: TBD  
PBB Library Lounge Area

---

**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. Students seeking classroom and/or exam accommodations should first register with Student Disability Services (<http://www.uiowa.edu/sds>, 3015 Burge Hall, 335-1462).

**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 FIN:4250 consumed their life during the semester. 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 before teams are selected. Students who receive poor evaluations of their effort by group members will likely see a substantial reduction in their overall course grade.

## **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 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 are no such things 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 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 the late Bill Krause, founder of the Krause-Gentle Corporation, 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 \$325,000 aims to hold a diversified portfolio of approximately 12 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 member, 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: We begin each class promptly at 3:30 p.m. ***Please make every effort to arrive on time.*** Late arrivals are very distracting to the class.
- 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, laptops and tablets before entering class.** Students whose phones disrupt class will be heckled. In addition, because it is very distracting to students seated nearby, please refrain from using any electronic device during class unless specifically allowed by the instructor. 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 texting under the desk.)
- Teams: Throughout the semester, students will work on a team of 3-4 individuals, depending upon course enrollment. Students will select their own teams by the second day of class. Each team will identify and analyze two companies from a specific assigned sector. Teams will need to pitch their investment recommendations to the rest of the class as well as to an advisory board of finance professionals.
- 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 team's investment presentations. One presentation will be delivered to your peers during class. The final presentation is before 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 encouraged to meet with the writing center before completion of the final report.

## COURSE MATERIALS

### Primary Text (Optional):

My primary lectures related to discounted cash flow (DCF) and economic profit (EP) valuation follow the McKinsey approach outlined in the 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. Aside from Graham and Dodd's *Security Analysis* (1934), the McKinsey book is probably the most widely recognized valuation book on the market. We have used the McKinsey approach in the Krause Fund program ever since launching the fund in 1998. The book was originally written as a consulting manual for training McKinsey associates on the value-based management philosophy used by the firm. The DCF and economic profit valuation approach taught in this text is widely used among investment professionals. Initially published in 1990, the 6<sup>th</sup> edition of the text was released last fall.

- **Valuation: Measuring and Managing the Value of Companies**, by Tim Koller, Marc Goedhart, and David Wessels (McKinsey and Company, Inc.), **fifth edition, c. 2010**, J. Wiley & Sons, Inc., New York. (NOTE: The 6<sup>th</sup> edition of the McKinsey text was released in August 2015. We will continue to use the older 5<sup>th</sup> edition this semester. If you prefer to purchase or the older the 4<sup>th</sup> edition, c. 2005, you should have no troubles with the content of the course or our lecture discussions.)

Iowa Book: \$86.65 new, \$64.99 used, \$64.35 ebook, 7% tax

University Book Store: \$86.70 new, \$65.05 used, \$17.99 rental, 7% tax

Amazon.com: \$31.78 new & used (as of Jan. 8)

Half.com: \$28.61 & up used (as of Jan. 8)

### Secondary Reference Text (Optional):

For those looking for a quick, condensed summary of equity valuation, this text presents an approach very similar to the McKinsey model. While the book uses slightly different notation, the core model is the same. The McKinsey book gives more detail, but this book claims it can be read cover-to-cover in about 8 hours. It is also much cheaper. I frequently recommend this text to students as a refresher when preparing for investments related interviews. **Please note: I do not specifically lecture from this text.**

- **Corporate Valuation: An Easy Guide to Measuring Value**, by David Frykman and Jakob Tolleryd, c. 2003, Prentice Hall Financial Times, London. (A revised 2<sup>nd</sup> edition is also available under the title, "The Financial Times Guide to Corporate Valuation," c. 2010.)

Amazon.com: \$39.99 new, \$0.49 used (as of Jan. 8)

Half.com: \$0.94 & up used (as of Jan. 8)

### 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 second day of class. This packet normally sells for approximately \$20.00-\$25.00 and contains copies of the syllabus, project assignments, lecture materials, and old examinations with solutions.

### Other Useful Reference Materials:

- Security Analysis on Wall Street: A Comprehensive Guide to Today's Valuation Methods, by Jeffrey C. Hooke, c. 2010, 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.*

- Best Practices for Equity Research Analysts, by James Valentine, c. 2011, McGraw Hill.
- A daily news source (WSJ, Financial Times, Yahoo! Finance, Google Finance, 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 POLICIES**

#### Exam Policies

The exam dates are noted below. 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. The end-of-semester presentations and projects effectively serve as the 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.***

### 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 ( <b>Mon., Feb. 29</b> , in class)	20%
Exam #2 ( <b>Mon., Apr. 11</b> , in class)	<u>20%</u>
	100%

### 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 FIN:4250.

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 Harassment*

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 Ombudsperson's 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

Ryan Sheets  
Business Communications Center  
S144 PBB  
(319) 384-3333  
thomas-keegan@uiowa.edu

Groups are strongly encouraged to meet with writing center tutors prior to completing the final written project.

## **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 a career in financial services. 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, you may gain an advantage by taking the exam while the material is fresh in your mind.

To achieve the CFA designation, you must pass three levels of tests in succession. The level I exam is offered twice per year. The next exam dates are June 4, 2016 and December 3, 2016. Historically, pass rates for the level I exam have ranged between 35-40%. 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 16, while the deadline for the December exam is September 14. Registration fees are significantly cheaper if you enroll early. For additional information, please refer to the CFA Institute website:

<http://www.cfainstitute.org/programs/cfaprogram/Pages/index.aspx>

## 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 Russell 3000 universe. (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, 2015 to March 31, 2016.
- 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 investment and corporate finance professionals. Most of these individuals are University of Iowa and Krause Fund 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.

Eric Boucher (*KF Alum*)  
Actuarial Analyst  
AEGON – Transamerica Capital Management  
4333 Edgewood Rd, Mail Drop 4550  
Cedar Rapids, IA 52499

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

Collin Glancy (*KF Alum*)  
Director, Corporate Finance  
Equity Residential  
Two N. Riverside Plaza, Suite 400  
Chicago, IL 60606

Jeff Kilkenny, CFA  
Emerging Markets Equities Analyst  
Principal Global Investors  
801 Grand Avenue  
Des Moines, Iowa 50392-0880

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

John McClain  
Vice President of Investments  
American Trust and Savings Bank  
895 Main Street  
Dubuque, IA 52001

Jonah Parker (*KF Alum*)  
Investment Analyst  
University of Iowa Foundation  
Levitt Center  
Iowa City, IA 52244-1970

Scott M. Pfeiler (*KF Alum*)  
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

Aaron Schaefer (*KF Alum*)  
Trust Officer  
Hills Bank & Trust Co.  
2771 Oakdale Blvd., Suite 4  
Coralville, IA 52241

Mike Staffenbeal  
Assistant Vice President, Investor Relations  
Union Pacific Railroad  
1400 Douglas Street  
Omaha, NE 68179

Will Suess (*KF Alum*)  
Senior Consultant  
FactSet Research Systems  
311 S. Wacker Dr., 63<sup>rd</sup> Floor  
Chicago, IL 60606

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

Catherine Zaharis, CFA  
Director, Professional/Employer Development  
Department of Finance  
University of Iowa

## 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. Where applicable, 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 (<http://www.standardandpoors.com/indices/gics/en/us>).

GICS Economic Sector	Current Holdings (ticker)
Energy	Enterprise Product Partners (EPD) Schlumberger Ltd (SLB)
Materials	Eastman Chemical (EMN)
Industrials	*Union Pacific (UNP) *Alcoa (AA)
Consumer Discretionary	Delta Airlines (DAL)
Consumer Staples	*Tyson Foods (TSN)
Health Care	St. Jude Medical (STJ)
Financials	PacWest Bancorp (PACW)
Information Technology	*Google (GOOG) Apple (AAPL)
Telecommunications & Utilities	Verizon (VZ)
*Iowa-Based	

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 8:00 a.m. on the second day of class (Assignment #1).** Where applicable, the professor will assign an existing company to each group as part of the semester analysis.

Copies of prior semester's company reports are available on the Krause Fund website (<http://tippie.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 < 0%) 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.

## 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:

(<http://www.standardandpoors.com/indices/gics/en/us>).

### **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 & Profess. 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  
Thriffs & 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.

**Spring 2016 Course Outline**  
**FIN:4250 – 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 indicates the approximate material we will cover in class, but at times, our actual pace and order of material may deviate from this list. Chapter numbers correspond with the 5<sup>th</sup> edition (c. 2010) of the McKinsey text.

Jan. 20 (W)	Course Overview, Administration, and Outline Valuation Multiples: Fundamental P/E Theory and the DDM
Jan. 25 (M)	<b>Assignment #1 Due: Email Group &amp; Sector Preferences by 8:00 a.m.</b> Group Formation & Sector Selection Valuation Multiples: Fundamental P/E Theory and the DDM
Jan. 27 (W)	<b>Assignment #2 Due: Identify the Investment Universe</b> Economic Analysis: Getting Started Introduction: Market Efficiency & The Role of Analysts
Feb. 1 (M)	Chapters 1: Why Value Value? The Philosophy of Value Creation Chapter 2: Fundamental Principles of Value Creation Chapter 3: The Expectations Treadmill
Feb. 3 (W)	<b>Assignment #3A Due: Economic Analysis</b> Class Discussion: Economic Outlook and Portfolio Construction
Feb. 8 (M)	Chapter 6: Frameworks for Valuation
Feb. 10 (W)	<b>Assignment #3B Due: Industry Analysis</b> Class Discussion: Industry Outlook and Company Selection Chapter 6: FCF and EP Problems
Feb. 15 (M)	Chapter 7: Reorganizing the Financial Statements Measuring NOPLAT
Feb. 17 (W)	<b>Assignment #4 Due: Company Analysis</b> Chapter 7: Measuring Invested Capital (IC) Special cases (see chapters 25-28 where necessary)
Feb. 22 (M)	Chapter 8: Analyzing Performance, Competitive Position, ROIC Tree
Feb. 24 (W)	<b>Assignment #5 Due: Gathering Historical Financials</b> Chapter 9: Forecasting Performance Brief Exam Review (if necessary)
<b>Feb. 29 (M)</b>	<b>Exam #1 (in class), 3:30-4:45 p.m.</b>
Mar. 2 (W)	Chapter 9: Forecasting the Income Statement, Balance Sheet, and Cash Flow Statement

Mar. 7 (M)	Chapter 9: Forecasting Performance Chapter 4-5: Primary value drivers: Growth and ROIC
Mar. 9 (W)	<b>Assignment #6 Due: Forecasting Company Performance</b> Chapter 11: Estimating the Cost of Capital
Mar. 12-20	<i>Spring Break: No Classes</i>
Mar. 21 (M)	Chapter 11: Estimating the Cost of Capital
Mar. 23 (W)	Chapter 11: Estimating the Cost of Capital Chapter 10: Estimating Continuing Value
Mar. 28 (M)	Chapter 10: Estimating Continuing Value Chapter 12-13: Calculating the Target Price, Interpreting the Results Valuation of ESOP Plans
Mar. 30 (W)	Sensitivity Analysis and Sanity Checks Key Management Ratios
Apr. 4 (M)	<b>Assignment #7 Due: Stock Valuation, WACC, Sensitivity Analysis</b> Chapter 14: Valuation Using Multiples Relative Valuation & Identifying Comparable Firms
Apr. 6 (W)	Chapter 36: Valuing Financial Institutions Special Topics : Valuation of Private Companies (time permitting)
<b>Apr. 11 (M)</b>	<b>Exam #2 (in class), 3:30-4:45 p.m.</b>
Apr. 13 (W)	The Psychology of Investment (Behavioral Finance) Final Project Advice
<b>Apr. 13 (W)</b>	<b>Exam #2 (in class), 3:30-4:45 p.m.</b>
Apr. 18 (M)	The Psychology of Investment (Behavioral Finance) Portfolio Analysis, Construction, and Proposed Changes Advice for In-Class Presentations
<b>Apr. 19 (Tu)</b>	<b>Final Analyst Reports Due, S288 PBB, 5:00 pm</b> (email PDF files to <a href="mailto:krause-fund@uiowa.edu">krause-fund@uiowa.edu</a> , <b>Assignment #8</b> )
Apr. 20 (W)	<b>In-Class Presentations (Assignment #9) &amp; Class Voting</b>
Apr. 25 (M)	<b>In-Class Presentations (Assignment #9) &amp; Class Voting</b>
Apr. 27 (W)	<b>In-Class Presentations (Assignment #9) &amp; Class Voting</b>
<b>May 2 (M)</b>	<b>Investment Advisory Committee Presentations, S401 &amp; W401 PBB, 1:00-5:00 p.m.</b>
May 4 (W)	<b>Assignment #10 Due: Group Member Evaluations</b> Final Security Voting, Portfolio Rebalancing, Course Evaluations
<b>NO FINAL EXAM</b>	