RUTGERS
Rutgers Business School
Newark and New Brunswick

22:390:658 Applied Portfolio Management   **Instructor: Dr. John M. Longo, CFA**
Term: Spring 2018   Office: 100 Rockafeller Road, Room 5129
Location: 100 Rock, Room 3031   Office Phone Number: 848-445-2306
Class Meeting Time: Saturdays/ By Arrangement   Email Address: JLongo@business.rutgers.edu
Office Hours: Monday 5:30-6:30pm, Wednesday 2-3pm and by appointment

INSTRUCTOR BIOGRAPHICAL SKETCH

Dr. Longo is Professor of Professional Practice in the Finance & Economics Department at Rutgers Business School, and Chief Investment Officer and Portfolio Manager for Beacon Trust, a registered investment advisor with $2.3 billion under management. Beacon is a subsidiary of Provident Financial Services (NYSE: PFS), founded in 1839. Dr. Longo is also a Visiting Professor of Finance at EMBA Global – the joint international Executive MBA Program of Columbia University, London Business School and The University of Hong Kong. He is the bestselling author of *The Art of Investing: Lessons from History's Greatest Traders*, published by TheGreatCourses.com. (The book peaked as the 26th bestselling book out of roughly 200,000 titles on Audible.com).

Dr. Longo has appeared on CNBC, Bloomberg TV, Bloomberg Radio, Fox Business, BBC World, wsj.com (video), GreatInvetors.tv, The (Ron) Insana Quotient and several other programs. He has been quoted in The Wall Street Journal, Barron's, The New York Times, Thomson Reuters, Dow Jones MarketWatch, U.S. News & World Report, CNBC.com, The Chicago Tribune, The Star Ledger, Hedge Fund Alert, FundFire, and dozens of other periodicals. He led Rutgers students to a personal visit with Warren Buffett in Omaha, Nebraska on four separate occasions. Previously, he was a Vice President at Merrill Lynch & Co., Inc. and served on the Advisory Board of Bloomberg's educational subsidiary, The Bloomberg Institute.

COURSE DESCRIPTION

The purpose of this course is to teach students how to create an actual portfolio that meets the needs of a client in a manner consistent with the investment philosophy of Graham, Dodd, and Buffett. The client (previously an individual, now the Rutgers University Foundation) wishes the portfolio to have a **Value** orientation with hedge fund characteristics (i.e., the portfolio has both Long and Short positions.) From an organizational standpoint, each student will serve as an analyst responsible for a particular sector or industry. Students will be required to write one comprehensive stock report (one Long recommendation and/or one Short recommendation) and present the findings of their best investment idea in front of the class. Students have the option of writing two stock reports (one Long, one Short sale) to maximize the skill set obtained from the course. The extra effort may be taken into account when determining the final grades. **One the course is completed the option to complete two reports does <u>not</u> exist.**

The course will be primarily conducted on an independent study basis with only a moderate number of in-class meetings. We will meet in a classroom setting approximately once every two weeks. Additional communication may be done via phone and/or email. All students must have a strong understanding of financial statement analysis in order to effectively participate in the class.

COURSE MATERIALS

Texts: *The Intelligent Investor* by Benjamin Graham. There are many editions and the chapters may differ, but we require you to read the following chapters, identified by their title, since it will help you understand what to look for when searching for and valuing securities. Arguably, the two most important chapters are noted directly below:

- **"The Investor and Market Fluctuations"**
- **"Margin of Safety as the Central Concept of Investment"**

To orient yourself you should first read the chapters on **"Investment Versus Speculation", "The Defensive Investor and Common Stocks", "Portfolio Policy for the Enterprising Investor", "Things to Consider About Per-Share Earnings" and "Stock Selection for the Enterprising Investor".** Our goal is to provide students with a value oriented roadmap to narrow down the opportunity set for stock selection using statistical screening. The reader should seek the answer to the question as to what industry and company characteristics constitute a sound investment for the enterprising investor using Graham's prescription. Once a stock is selected, our goal is to be able to defend the selection using fundamental analysis. The process should be equally applicable to the short side as well, by largely following the reverse logic of the buy recommendation. The following book, and corresponding chapters, is also recommended.

***Buffett: The Making of an American Capitalist* by Roger Lowenstein**

- **Ch 8: Return of the Native**
- **Ch 9: Alter Ego**
- **Ch 10: Washington Redux**

You should also **read the last 2 shareholder letters (2015, 2016) from Berkshire Hathaway**. They can be found at the link below:

http://www.berkshirehathaway.com/letters/letters.html

Blackboard Account: (* IMPORTANT *) Sample projects, lecture material, and other information will be placed on the Blackboard Account for the course (blackboard.rutgers.edu).

LEARNING GOALS AND OBJECTIVES

- This course is designed to help students develop skills and knowledge in the following area(s):

Valuation, Value Investing, Portfolio Management, Financial Modeling, Financial Statement Analysis, and Industry Analysis.

- Students who complete this course will demonstrate the following:

Skills in building financial models, analyzing financial statements, and valuing firms. To understand the art of Value Investing, per the investment philosophies of Benjamin Graham and Warren Buffett.

- Students develop these skills and knowledge through the following course activities and assignments:

Students will complete a comprehensive stock report and present their findings to the class.

PREQUISITES

At least one course in Finance and one course in Accounting. Prior coursework in Investments and Financial Statement Analysis are strongly recommended.

ACADEMIC INTEGRITY

Students are responsible for understanding the RU Academic Integrity Policy. (https://slwordpress.rutgers.edu/academicintegrity/wp-content/uploads/sites/41/2014/11/AI_Policy_2013.pdf)
I will strongly enforce this Policy and pursue *all* violations. On all examinations and assignments, students must follow the RU Honor Pledge, which states, "On my honor, I have neither received nor given any unauthorized assistance on this examination or assignment." Don't let cheating destroy your hard-earned opportunity to learn. See business.rutgers.edu/ai for more details.

ATTENDANCE AND PREPARATION POLICY

Attendance is expected at all sessions. If I am to be absent, my department chair or I will send you notice via email and Blackboard as far in advance as possible. If your absence is due to religious observance, a Rutgers-approved activity, illness, or family emergency/death and you seek makeup work, also send me an email with full details and supporting documentation within 3 days of your first absence.

- For weather emergencies, consult the campus home page. If the campus is open, class will be held, but please do not travel if it jeopardizes your health or well-being.

CLASSROOM CONDUCT

Faculty, students, and guests deserve to be treated with dignity and respect. Please refrain from behavior that will negatively impact the learning environment for anyone present in the classroom.

GRADING POLICY

Course grades are determined as follows:

Written Stock Report(s) and Oral Presentation (100%). Approximately 80-90% of the grade will be based on the written report(s) and the remainder on the presentation.

Final Presentation Date: May 6th (11am-2pm).

- The RBS Honor Code applies to the course assignments.

Class participation is strongly encouraged and will help in borderline cases. Maximum benefit will be obtained from the instructor and students discussing their experiences, when relevant, in the context of the course material.

I will not change your grade unless I have made an error. Changing a final grade requires the approval of not only of the instructor, but also the Department Chairperson, and Dean.

PROJECT

During the first class each student will be cover a specific stock market sector (e.g. Technology, Utilities, HealthCare, etc.) of their choice. Ideally each student will have a core competence in that sector due to work experience or other reasons. Once assigned a sector, each student will do an analysis to decide which industries in the sector (e.g. Insurance within Financials) and stocks within the industry (e.g. Aetna in Insurance) will do well and which will do poorly. This report will serve as the basis for your Long and/or Short stock recommendations.

Your recommendations will be primarily based on fundamental and macroeconomic analysis, but current events and other catalysts may also play a supporting role in your recommendations. **Your reports should include earnings forecasts (quarterly and annual EPS) and price objectives** in addition to other factors that will be discussed during the course. The bulk of the grade will be based on content, but the reports should also be well written and look professional.

The student with the best report will win a $1,000 Prize, The Brick Whitcomb Award.

The PROJECT IS DUE on Saturday, April 21st at class. There will be a penalty for lateness.

The ability to contribute to and impress others at meetings is an essential business skill. Therefore, the last class will be devoted to a discussion of the projects. Each student will present his/her best stock report in a crisp 10-minute oral presentation and field questions from the instructors and the class.

OUTLINE FOR APPLIED PORTFOLIO MANAGEMENT (TENTATIVE)

I. Saturday January 20th Lecture One [11 am – 2 pm]

Possible Topics: Introduction to the Class, Sample Stock Reports, Hedge Funds, Short Selling, Graham, Dodd, & Buffett Value Investing Philosophy, Earnings Surprises, Earnings Revisions, Insider Trading, Consensus Opinion Estimates, Financial Websites, Assignment of Sectors.   Introduction to Financial Modeling.

II. Saturday January 27th Lecture Two [11 am – 2 pm]

Possible Topics: Discussion of *The Intelligent Investor*, Definition Of Value (e.g. P/E, P/Book, P/CFlow, P/Free CFlow, EVA), Value Investing (versus Contrarian), and Dividends. Value Investment Screens. Structuring a portfolio, risk management, and meeting with management.

III. Saturday, February 10th [11 am – 1 pm+]

Email the instructor before the class (by Friday at midnight) a small list of names for your Long and/or Short candidates and have several bullet points to support your views. We will try to finalize your picks shortly after this time.

Part 1: Preliminary Discussion of Your Investment Ideas; Financial Modeling

Part 2: Guest Lecturer: Russell Ernst, Regulatory Research Associates / SNL Financial.

Lecture Topic: Fundamental Analysis and Sell Side Research (Utility Sector)

Biographical Sketch: Russell is a MBA graduate of RBS and a prior student in the Applied Portfolio Management Class. He is Senior Analyst and Product Manager at Regulator Research Associates / SNL Financial, where he focuses on the Utility sector.

IV. Saturday February 24th [11 am – 1 pm+]

Part 1: Financial Modeling

Part 2: Guest Lecturer: Chris Wiggins, Lord Abbett & Co.

Lecture Topic: Fundamental Analysis, Buyside and Sell Side Research (Industrial Sector)

Biographical Sketch: Chris is a 2005 MBA graduate of RBS and a prior student in the 2005 Applied Portfolio Management Class. He was a sell side analyst at Oppenheimer covering the Industrial Diversified / Machinery sector from 2005 - 2010. He is currently a buyside analyst at Lord Abbett & Co.

V. Saturday March 3rd (11am – 1pm+)

(*Note: Spring Break covers the next two Saturdays, March 10 – 17 so we are unable to meet for class.*)

Part 1: Financial Modeling & Project "Workbench": By this date it is expected that you have your Long and/or Short picks finalized and have questions as you work through the details.

Part 2: Guest Lecturers: Andrew Hokenson and Dmitry Malinsky, Pier Capital

Lecture Topic: Growth Investing, Buyside Analysis and Portfolio Management

Biographical Sketch: Andrew and Dmitry are graduates of the Rutgers MBA program and have taken the APM class. They are both analysts at Pier Capital, an institutional growth manager with approximately $1 billion in assets under management.

VI. Saturday, March 24th, 11am – 1pm+

Part 1: Financial Modeling

Part 2: Guest Lecturer: Greg Francfort, Neuberger & Berman

Topics: Value investing and equity research.

Biographical Sketch: Greg Francfort is Partner and Head of Research at Neuberger & Berman. Prior to joining Neuberger in 1991, Mr. Francfort was the Associate Director of Equity Research at First Boston Corp. where he was also a sell-side research analyst. He was named by Institutional Investor magazine as an All-star analyst in both the Telecommunications Equipment and Electronic Connector industries. Mr. Francfort is a Summa Cum Laude graduate of Rutgers University with a degree in Civil Engineering and earned an MBA from the Wharton School. A Charted Financial Analyst, Mr. Francfort resides in New Jersey with his wife and three children.

VII. Saturday, April 7th, 11am – 1pm+

Part 1: Financial Modeling

Part 2: Guest Lecturer: Dexter Earle

Lecture Topic: Capital Markets: Past, Present, and Future

Biographical Sketch: Mr. Earle is a former Partner at Goldman Sachs & Co and Executive In Residence at Rutgers University. He became a member Goldman's Equities Division in 1981 and was named Partner in 1988 as Co-Head of the Global Equities Derivatives Department. As Co-Head of this department, he was responsible for derivative sales, trading, and research worldwide. Prior to joining Goldman, he was Senior Vice President, Pension Investments at Bankers Trust. He has served the Morristown Hospital in numerous charitable capacities. Dexter is a graduate of Rutgers University, earning a B.A. in History.

VIII. Saturday, April 21st, 11am – 1pm+ (* Projects Due *)

Part 1: Discuss Presentations

Part 2: Guest Lecturer: Russell Miller

Topic: Sell Side Research in the Consumer Products Sector

Biographical Sketch: Russell Miller is a Consumer Products analyst at RBC one of the top ranked firms in the space. Previously he worked at UBS in a similar capacity. Russell graduated from Rutgers in 2011 with a degree in Finance.

IX. Saturday, May 5th Student Presentations, 11am – 2pm

Each student will make a crisp 10-minute presentation (+ Q&A) highlighting their "best" Long or Short candidate. The student will justify his / her recommendations and field questions from the class and instructor. Business attire is suggested.

SUPPORT SERVICES

If you need accommodation for a *disability*, obtain a Letter of Accommodation from the Office of Disability Services. The Office of Disability Services at Rutgers, The State University of New Jersey, provides student-centered and student-inclusive programming in compliance with the Americans with Disabilities Act of 1990, the Americans with Disabilities Act Amendments of 2008, Section 504 of the Rehabilitation Act of 1973, Section 508 of the Rehabilitation Act of 1998, and the New Jersey Law Against Discrimination. https://ods.rutgers.edu

If you are a military *veteran* or are on active military duty, you can obtain support through the Office of Veteran and Military Programs and Services. http://veterans.rutgers.edu/

If you are in need of *mental health* services, please use our readily available services.

[Rutgers University-Newark Counseling Center: http://counseling.newark.rutgers.edu/]
[Rutgers Counseling and Psychological Services – New Brunswick: http://rhscaps.rutgers.edu/]

If you are in need of *physical health* services, please use our readily available services.

[Rutgers Health Services – Newark: http://health.newark.rutgers.edu/]
[Rutgers Health Services – New Brunswick: http://health.rutgers.edu/]

If you are in need of *legal* services, please use our readily available services: http://rusls.rutgers.edu/

If you are in need of additional *academic assistance*, please use our readily available services.

[Rutgers University-Newark Learning Center: http://www.ncas.rutgers.edu/rlc
 Rutgers University-Newark Writing Center: http://www.ncas.rutgers.edu/writingcenter]
[Rutgers University-New Brunswick Learning Center: https://rlc.rutgers.edu/]