SIMON FRASER UNIVERSITY
Faculty of Business Administration
Take-home Final Examination

BUS 492 03-1
Securities Analysis

Rules for Submitting the Final Examination and the Project:

Answers to the final examination are to be typed, single spaced of length 1 page each (2 total pages) for both answers. The exam is to be submitted on 8.5"x11" paper, with 1" margin and type point of not less than 12. (This assignment is typed in 12 point.) For questions with multiple parts, answer all parts. Violations will be subject to deductions. This take-home component of the final examination and the project (if you are submitting one) are due on the date of the in-class final examination, Friday, April 11, 2003.

Choose two of three questions: 50 points for each question

1. "The search for the 'correct' way to value common stocks, or even one that works, has occupied a huge amount of effort over a long period of time....the implementation of a system to selectively value or select common stocks is a difficult task. This is a task that a valuation model purports to accomplish."

Describe some of the discounted cash flow valuation models conventionally used to analyse common stocks. What are the limitations of these models? What is the appropriate accounting variable to use for the cash flow that is to be discounted?

2. The Fisher approach to company analysis emphasizes the importance of “functional factors”, people factors and business factors (see section 7.3 of the on-line text). Evaluate the implications and limitations of applying these factors to leading companies in the following sectors: oil and gas drillers; pulp and paper companies; automobile companies; and biotechnology companies. For each of these types of companies, what elements of Fisher’s factors could not be applied?

3. a) Describe three ways that Enron or Worldcom manipulated earnings and the book value of equity while still working within GAAP.

b) The simplified free cash flow to equity (FCFE) DCF model uses the assumption that the growth rate in free cash flow is equal to the growth rate in net income. Examining the definition of FCFE and net income, together with the simplified FCFE DCF model, specify a non-trivial sufficient set of conditions that are consistent with this assumption.