

*Simon Fraser University
Beedie School of Business*

**BUS 417-3
EQUITY SECURITY ANALYSIS**

INSTRUCTOR: Prof. GEOFFREY POITRAS
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Course Outline: Recognizing the global reach of securities markets, this course provides an introduction to theoretical and practical issues involved in the market valuation of equity securities. The course covers three general areas: history of equity capital and equity securities markets; theories of equity security valuation; and, implications of combining securities in portfolios. Practical course content involves coverage of Canadian, American, European and Hong Kong companies and the implications of exchange risk.

Required Text:

Geoffrey Poitras, *Security Analysis and Investment Strategy*, Oxford, UK: Blackwell, 2005.

Supplementary Texts:

Geoffrey Poitras, *Valuation of Equity Securities*, Singapore: World Scientific, 2011.

_____, *Equity Capital: From Ancient Partnerships to Modern Exchange Traded Funds*,
Routledge, 2016.

Helpful Texts:

G. Poitras, (ed.), *Stock Market Globalization Handbook*, Elgar 2012.

G. Poitras, *The Early History of Financial Economics, 1478-1776*, Elgar, 2000.

S. Penman, *Financial Statement Analysis and Security Valuation*, (4th ed.) McGraw-Hill, 2009.

Some other Supplementary Texts:

P. Bernstein, *Capital Ideas, The Improbable Origins of Modern Wall Street*, 1992.

Z. Bodie, A. Kane and A. Marcus (et al.), *Investments*, 2008 (6th Can. ed.)

E. Elton and M. Gruber, *Modern Portfolio Theory and Investment Analysis*, 2009 (9th ed.).

B. Graham, D. Dodd and S. Cottle, *Security Analysis*, 1962 (4th ed.).

J. Hull, *Options, Futures and Other Derivative Securities*, Prentice-Hall, 2009 (7th ed.).

B. Malkiel, *A Random Walk Down Wall Street*, New York: Norton, 2003 (1st ed., 1975).

K. Palepu and P. Healy, *Business Analysis and Valuation*, (4th ed.) Cincinnati: Southwestern, 2007.

Evaluation:

Class Participation 10% (Game, Finance Pretest)

Group Presentation 30% (Group and Individual Scores; Writeup)

Assignments 30% (See class webpage)

Final Exam 30% (Exam is a security analysis)

DETAILED COURSE OUTLINE

NOTE: *The textbooks are listed as SAIS, EC and VES. There is overlap between these texts.*

PART I. History of Equity Capital

Week 1: *Introduction: Discussion of Equity Security Analysis*

- Class Organization: Discussion of Evaluation, Review of Syllabus
- Basics of Global Equity Markets.
- What is Equity Security Analysis?
- Creation of Groups

Readings: SAIS, sec.1.1, 2.3 and/or VES ch.3

Week 2: *Early History of Equity Capital*

- What is Equity Capital?
- Ancient History of Equity Capital
- The Roman Law of *Societas*
- Medieval and Renaissance Trading Partnerships
- Regulated Companies and Joint Stock Companies
- Early Stock Markets
- Mississippi Scheme and South Sea Bubble

Readings: SAIS, sec. 2.1; EC I.2, II.5, II.6

Week 3: *Emergence of the Limited Liability Corporations*

- From the Bubble Act to the Joint Stock Companies Act
- Limited Liability and General Registration
- The Emergence of Modern Stock Markets
- Implications of the Great Depression
- Nifty Fifty and the Great Inflation
- The Rise of ETF's, the Great Recession and Meme Stocks

Readings: EC III.7, III.8

Week 4: *Development of Equity Security Analysis in the 20th Century*

- The Dow Theory and Technical Analysis
- Early Financial Reporting in Britain and America
- Implications of the Great Depression
- Graham and Dodd's *Security Analysis* (1934)
- The Emergence of Modern Finance
- The New 'New Era' Stock Valuations

Readings: SAIS, sec. 1.2, 2.3 and 2.4; VES ch.3

PART II: Theories and Methods of Value Investing

Week 5: *Fundamental Analysis and Value Investing*

- Approaches to Equity Security Analysis
- What is Value Investing?
- Observations from the Classics
- Sources of Fundamental Information

Readings: SAIS, sec. 7.2, 7.3 and 7.4; VES ch.4

Week 6: *Basics of Financial Statement Analysis*

- Sources for Financial Statements
- Balance Sheet and Income Statement
- Understanding the Cash Flow Statement
- Importance of the Notes
- Relevance of Ratio Analysis

Week 7: *Ben Graham, Philip Fisher, Warren Buffett, Peter Lynch and John Templeton*

- The Graham and Dodd Approach
- Evolution of *Security Analysis*
- Philip Fisher and the Great Companies
- The Warren Buffett Synthesis
- Beyond Buffett: Lynch and Templeton

Readings: SAIS, chap.7.

Week 8: *Valuation Models for Stock Prices*

- Cash Flow Models of Equity Valuation.
- Dividend Discount Models
- Accrual Discount Models
- Determining the Value Drivers
- Cases in Fundamental Analysis

Readings: SAIS, sec. 8.1, 8.2 and 8.3; VES ch.7 and ch.8

PART III: EQUITY SECURITY SELECTION

WEEKS 9-11:

GROUP PRESENTATIONS

*Examine Case Downloads from the Class Webpage for
Canadian, US and Hong Kong Publicly Traded Companies*

Week 12: *Technical Trading Systems: The Dow Theory, Charting and Oscillators*

- What is Technical Analysis?
- Dow Theory Again
- Edwards and Magee, *Technical Analysis of Stock Trends* (1948)

– Momentum and Oscillators

Readings: SAIS, sec. 9.1, 9.2 and 9.4 and/or VES ch.6

Week 13: *Investment Strategies and Asset Allocation*

– The Philosophy of Investment

– The Markowitz Optimization Model

– Two Fund Separation, ETFs and FX Risk

– Tactical and Strategic Asset Allocation

– Final Exam Review

Readings: SAIS, sec. 2.4, 3.1, 3.2 and 10.2