

Simon Fraser University
Faculty of Business Administration

BUS 809
EQUITY SECURITY ANALYSIS

INSTRUCTOR: Prof. GEOFFREY POITRAS
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Course Outline: This course provides an introduction to theoretical and practical issues involved in the market valuation of equity securities. The course covers two general areas: valuation of equity securities and implications of combining equity securities into portfolios.

Required Text:

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

Other Required Readings: A number of additional readings are posted on the class website.

Recommended Texts:

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

S. Penman, Financial Statement Analysis and Security Valuation, New York: McGraw-Hill, 2001.

In Addition to the Recommended Texts, Some other Supplementary Texts:

Z. Bodie, A. Kane and A. Marcus, Investments Irwin, 1993 (2nd ed.)

E. Elton and M. Gruber, Modern Portfolio Theory and Investment Analysis New York: Wiley, 1995.

Foster, Financial Statement Analysis, Prentice Hall, 1986 (2nd ed.)

B. Graham, D. Dodd and S. Cottle, Security Analysis New York: McGraw-Hill, 1962.

S. Mason, R. Merton, A. Perold and P. Tufano, Cases in Financial Engineering, Prentice-Hall, 1995.

K. Palepu, P. Healy and V. Bernard, Business Analysis and Valuation, Cincinnati: Southwestern, 2000.

Other Useful Readings:

P. Bernstein, Capital Ideas, The Improbable Origins of Modern Wall Street, New York: Free Press, 1992.

O. Grabbe, International Financial Markets, New York: Elsevier, 1991.

B. Malkiel, A Random Walk Down Wall Street, New York: Norton, 1995.

J. Nofsinger, The Psychology of Investing, Upper Saddle River, NJ: Prentice-Hall, 2002.

Evaluation:

Class Participation	10%
Group Presentation	40%
Midterm Exam (Takehome)	25%
Final Exam (In-class)	25%

DETAILED COURSE OUTLINE

NOTE: The textbook is listed as SAIS.

Week 1: Introduction: Class Organization

- Class Organization: Creation of Groups, Discussion of Evaluation, Review of Syllabus
- Course Overview: Basics of Financial Markets, Money Markets, Bond Markets, Equity Markets.
- Important Topics in the Early History: Commercial Arithmetic, Early Types of Equity Securities

--Assigned Readings: Review the unstarred sections of SAIS, ch.1

Week 2: Development of Security Analysis in the 20th Century

- Graham and Dodd's Security Analysis (1934)
- J.B. Williams, Theory of Investment Value (1938)
- Graham, Dodd and Cottle (1962)

--Assigned Readings: SAIS, sec. 2.3 and 2.4

Week 3: Valuation Models for Common Stock Prices

- Overview of Approaches to Security Analysis
- Cash Flow Models of Equity Valuation.

--Assigned Readings: SAIS, sec. 8.1 and 8.2

- *Background Reading*

Damodaran, Damodaran on Valuation, Chp. 1,3,6,7

Dynkin, Hyman and Wu, "Value of Skill in Security Selection versus Asset Allocation in Credit Markets", Journal of Portfolio Management, Fall 2000.

Stickney, "The Academic's Approach to Securities Research: Is it Relevant to the Analyst?", Journal of Investing, Summer 1997.

Penman and Sougiannis, "A Comparison of Dividend, Cash Flow and Earnings Approaches to Equity Valuation", Contemporary Accounting Research, Fall 1998.

Herzberg, Guo and Brown, "Enhancing Earnings Predictability Using Individual Analyst Forecasts", Journal of Investing, Summer 1999.

Christofi, Christofi, Lori and Moliver, "Evaluating Common Stock's Using Value Line's Projected Cash Flows and Implied Growth Rate", Journal of Investing (1999).

Jensen, "Agency Costs of Free Cash Flow, Corporate Finance and Takeovers", American Economic Review May 1986.

S. Penman, Financial Statement Analysis and Security Valuation, New York: McGraw-Hill, 2001.

Week 4: Overview of Financial Statement Analysis

- Basics of Financial Statements
- Importance of the Cash Flow Statement
- Using EVA, Free Cash Flow and Other Cash Flow Variables
- Recent Developments in Accounting and Security Law Regulation

- *Assigned Reading*: SAIS: Sec. 8.1 and 8.2

Week 5: Fundamental Analysis and Value Investing

- Techniques of Fundamental Analysis
- Graham and Dodd on Value Investing

--Assigned Readings: SAIS, sec. 7.2 and 7.3

- Background Readings:

Graham and Dodd, Security Analysis (1934), Chp. XXVII

Abarbanell and Bushee, "Fundamental Analysis, Future Earnings and Stock Prices", Journal of Accounting Research, Spring 1997.

White, Sondhi and Fried, The Analysis and Use of Financial Statements Chp. 2, 4, 15.

Ackermann, McEnally, Ravenscraft, "The Performance of Hedge Funds: Risk, Return and Incentives", Journal of Finance (1999).

Liang, "Hedge Funds: The Living and the Dead", JFQA (2000).

Week 6: Classics of Security Analysis

- Philip Fisher and the Growth Stock
- The Warren Buffett synthesis

- Assigned Reading: SAIS, sec. 7.2 and 7.4

WEEKS 7-10: GROUP PRESENTATIONS

Week 11: Strategic and Tactical Asset Allocation

- Basic Statistics for Linear Combinations of Random Variables
- The Markowitz Mean-Variance Optimization Model
- The CAPM and Two Fund Separation

--Assigned Readings: SAIS, sec. 3.1, 3.2, 11.1 and 11.2

- Background Readings:

Elton and Gruber, Modern Portfolio Theory, Chp. 4,5,6.

Bodie, Kane and Marcus, Investments, Chp. 23-4.

Grabbe, International Financial Markets, Chp. 11.

Eun and Resnick, "International Diversification of Investment Portfolios: US and Japanese Perspectives" Management Science, Jan. 1994.

Week 12: Technical Analysis

- Technical Trading Systems
- The Dow Theory
- Momentum and Oscillators

--Assigned Readings: SAIS, sec. 10.2 and 10.4

- Background Readings:

Brown, Goetzmann, Kumar, "The Dow Theory: William Peter Hamilton's Track Record Reconsidered", Journal of Finance (1998).

Russell, The Dow Theory Today, Chp. 1

Nofsinger and Sias, "Herding and Feedback Trading by Institutional and Individual Investors", Journal of Finance (1999).

Brock, Lakonishok and LeBaron, "Simple technical trading rules and stochastic properties of stock returns", Journal of Finance (1992).

Week 13: Roundup

- Review for Final Exam
- Completion of Trading Game and Award of Prizes