

Syllabus

Instructor

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Course Dates

June 26 - September 1, 2017 (10 weeks)

Weekly Outline

This course turns your attention towards companies that the best value investors in the world are considering right now. Prior to each online video conferencing session, students will read several pages from the annual report a company of current interest to perennially outperforming value investors. Each online video conference will focus on the company, and will emphasize the tools and principles of value investing naturally teased out by that particular case. Students should prepare for each online video conference by collecting their views on that day's case.

Week 1:	Fundamentals The long-term superior returns of value investing versus other strategies; the inverse relationship between performance and visibility; the core principle of value investing as the distinction between price and value; rejection of the efficient market hypothesis; volatility; fear of loss; the concept of intrinsic value; stocks versus other asset classes.
Week 2:	Understanding the Business Clearly describing the essence of a business as a prerequisite for further analysis; making things as simple as possible but no simpler; defining a company by its customers, form, geography, industry, products, and prominence; the concept of circle of competence.
Week 3:	Accounting Efficiently mastering annual reports; how a value investor reads income statements,

	<p>cash flow statements, and balance sheets; relevant differences between the Generally Accepted Accounting Principles in the United States and International Financial Reporting Standards.</p>
Week 4:	<p>Metrics</p> <p>Calculating key figures from the financial statements such as operating earnings, free cash flow, invested capital, book value, and tangible book value; the challenge of determining how much cash is truly excess; counting shares correctly; why fully diluted shares tend to become shares outstanding.</p>
Week 5:	<p>Quantitative Analysis of Past Performance</p> <p>Calculating return on invested capital (ROIC) and free cash flow return on invested capital (FCFROIC); when ROIC and FCFROIC are more useful than return on equity, net profit margin, and other common metrics; calculating growth per fully diluted share in operating earnings, free cash flow, book value, and tangible book value; the debt-to-equity ratio; unfunded pension obligations as debt; capitalizing operating leases.</p>
Week 6:	<p>Strategic Analysis of Future Performance</p> <p>Qualitative versus quantitative forecasting; precision versus accuracy; customer power, supplier power, substitute threat, and startup threat from Porter's Five Forces Analysis; customer and supplier breadth analysis; moat identification; brand, cost structure, ingrainedness, switching costs, government, and network as six potential sources of durable competitive advantage; projecting growth objectively; testing for shareholder friendliness.</p>
Week 7:	<p>Valuation</p> <p>When enterprise value is more telling than market capitalization; calculating enterprise value; calculating enterprise value to operating earnings (EV/OE), price to operating earnings (MCAP/OE), and price over free cash flow (MCAP/FCF); the legacy metrics of price to book (MCAP/BV) and price to tangible book (MCAP/TBV); the concept of margin of safety.</p>
Week 8:	<p>Judgment and Behavior</p> <p>Humans as built for fitness rather than truth; Robert Cialdini's six reasons why people erroneously say yes; Charlie Munger's lecture on human misjudgment; rejecting investment decisions born of affinity, authority, availability, cleverness, consensus, consistency, reciprocity; scarcity, and uniqueness; the concept of Mr. Market; rejecting actions born of akrasia.</p>
Week 9:	<p>Idea Generation</p>

	Efficiently identifying value investing opportunities through news, regulatory filings, restructurings, small capitalization stocks, spinoffs, stock screens, and serendipity; the primacy of not losing money; false negatives versus false positives; checklists.
Week 10:	Differences Among Value Investors The distinction between price and value as the sole requisite principle of value investing; valid differences among value investors including choice of asset class, attention paid to company quality, use of leverage, holding period, activism, idea complexity, use of shorting, and degree of diversification.

Course Structure

Module Content

Each module typically includes lecture content, a live class meeting, readings, and a discussion. Announcements will also be posted from time to time so consider setting your "announcement" notification preference to "notify me right away" to immediately receive the information via email.

- **Discussions:** Each week there will be a discussion question focused on a company of interest.

There is also a "Class Comments and Questions" discussion that is open throughout the course. This is a great place to post thoughts or questions related to the course topics, that don't seem to fit in any of the other discussions. Or, questions about the structure of the course, assignment expectations, class grading requirements, and so on.

- **Assignments:** In this course we develop a model that we can use to vet stock investment ideas from a value investing perspective. Each of our ten weekly modules consists of a short video lecture, a page that helps to develop this model, and a company of current interest to the best value investors in the world.
- **Live Class Meetings:** A live class meeting will be held each week. Days and times of the sessions will vary. The sessions are optional and will be recorded for people who are unable to attend. Please refer to the "Live Class Meeting (Zoom Session)" page each week for specific information (e.g., day and time, connection links, agenda) regarding the meeting for that particular week. Prior to each session, students will read several pages from the annual report of a company of current interest to perennially overperforming value investors. Each session will focus on the company, and will emphasize the tools and principles of value investing naturally teased out by that particular case. Students should prepare for each online video conference by collecting their views on that day's case.

Weekly Routine

Each week, you should work through a module—review the lecture, complete the readings and

assignments, participate in the discussions, watch the live class meeting recording (if you were unable to attend), and so on. The expectation is that you will keep up with each week's materials, including meeting any deadlines for discussion participation and assignments so you are prepared to take on the following week's lesson. This is especially important if you are enrolled for credit or a letter grade.

Here are some key days of the week:

- **Monday:** Each week begins on Monday.
- **Friday:** The module for the upcoming week will be available by the afternoon.
- **Weekends:** Weekends are a great time to catch up with the current week's work. It is also a chance to get a head start on the upcoming week's work.
- **Sunday:** Each week ends on Sunday.

Texts

Required

None

Grade Options and Requirements

Students have these grading options for this course:

- **No Grade Requested (NGR)**
 - No work is required; no credit shall be received; no proof of attendance can be provided. (Not suitable for those requiring proof of attendance/completion.)
- **Credit/No Credit (CR/NC)**
 - Please follow the online curriculum including the live class meetings (live or prerecorded).
- **Letter Grade (A, B, C, D, No Pass)**
 - Please follow the online curriculum including the live class meetings (live or prerecorded). Using the framework developed in the course, please pick any one publicly traded company and determine a price at which you would buy its shares. Please turn in a writeup of your selection of no more than two pages at the end of the course. The paper will be due at noon on the Tuesday following the final Zoom session.

Please note that you can log into your Continuing Studies student account and change your grading status at any point before the final day of class. Your student account is where you will also find your grade two weeks after the end of class; grades are not posted in Canvas.