

Legends in Investing: Warren Buffet, Prince Alwaleed, Cheah Cheng Hye and Others

FALL 2013

Instructor: **Jeffrey Towson, MD MBA**

Office:

Phone:

Email: jtowson@gsm.pku.edu.cn

Course Overview

This course is intended to teach students the fundamentals and practical implementation of the value approach to investment management. The value approach was originally developed by Ben Graham and Chris Dodd at Columbia Business School (CBS) and was later made famous by their most famous student Warren Buffett. Over the past 50 years, value investing has become the dominant investment strategy globally and has produced a large number of legendary investors. They include Warren Buffett, Seth Klarman, Joel Greenblatt, Tom Barrack, Prince Alwaleed, Cheah Cheng Hye, and many others. And increasingly, prominent value investors are beginning to appear in Mainland China. This course introduces both value investing and the strategies of its most famous investors for both public equities and private deals.

This course is envisioned as the first in a series of courses that will combine value investing theory with guest lectures by prominent investors. These visiting investors will be both from China and internationally. If the course becomes successful over time, I would like to use it as a platform for inviting prominent investors to speak (including Prince Alwaleed and Warren Buffett).

The target audience for the course is both the Masters of Finance program and the International MBA program.

This initial course will be done as a combination of formal lectures, in-class valuation discussions, and, depending on scope, presentations by local investors. The substantive areas covered will include (1) the fundamental assumptions and approaches to value investing, (2) techniques for assessing fundamental value – balance sheet and earnings power approaches, (3) private deal structures and (4) designing strategies for searching efficiently for value investing opportunities. Each lecture will be centered on the strategies of a legendary investor. The principal texts will be:

Benjamin Graham, The Intelligent Investor, 4th edition, revised 2003, Harper Collins, New York, 2003 (Referred to below as II).

Bruce Greenwald et al., Value Investing: from Graham to Buffett and Beyond, John Wiley, New York, 2001 (Referred to below as VI)

Jeffrey Towson, What Would Ben Graham Do Now? A Value Investing Playbook for a Global Age, FT Press, New York 2010

Grades will be based on class participation, three one-page valuation summaries, three one-page investor profiles, and an optional paper. The paper will be 10 pages (or less) plus exhibits, and will describe the valuation of a company, chosen by the student, together with a recommendation on an appropriate level of investment.

TAs. The following TAs will be available for this course: TBD

Date	Topics	Material Covered
Class 1 and 2	Introduction to the Fundamentals of Value Investing and Fundamentals of Valuation	<p>Topic: A presentation on the basics of value investing – with a focus on valuation and the use of multiple cases.</p> <p>Reading: II, Chpts. 1,8,15; VI, Chpts. 1-5. Werner DeBondt and Richard Thaler, “<i>Does the Stock Market Overreact</i>”, Journal of Finance, 1985; Eugene Fama & Kenneth R. French, “<i>The Cross-Section of Expected Stock Returns</i>”, Journal of Finance, 1992; Charles Lee, Andre Shleifer and Richard Thaler,; Lakonishok, Shleifer and Vishny, “<i>Contrarian Investment Returns and the Structure of Risk</i>”</p>
Class 3	Warren Buffett and Berkshire Hathaway	<p>Topic: Value investing’s most successful investor. A summary of his strategy, its application to China and 2-3 cases.</p> <p>Reading: “<i>Investor Sentiment and the Closed End Fund Puzzle</i>”, Journal of Finance, March 1991.</p>
Class 4	Seth Klarman and Baupost Group	<p>Topic: Value investing’s second most successful investor. A summary of his reversion to the mean strategy, its application to China and 2-3 cases. Focus on strategic valuation analysis.</p> <p>Reading: II, Chpts. 12,20; VI Chpts 6-8; James Poterba & Lawrence Summers, “<i>Mean Reversion in Stock Prices</i>”, American Economic Review, 1990.</p>
Class 5	Ben Graham and the Graham-Newman Partnership	<p>Topic: The father of value investing and one of the most successful investors during the early part of the last century. A summary of his quantitative strategy, its application to China and 2-3 cases.</p>
Class 6	Tom Barrack and Colony Capital	<p>Topic: The world’s successful real estate investor with a value strategy. A summary of his asset strategy, its application to China and 2-3 cases.</p>
Class 7	Henry Kravitz and KKR	<p>Topic: The most successful private equity investor with a value strategy. A summary of his growth strategy, its application to China and 2-3 cases. A focus on valuing growth.</p>

		Reading: II, Chpts. 12,20; VI Chpts 6-8; James Poterba & Lawrence Summers, “Mean Reversion in Stock Prices”, American Economic Review, 1990 (Reprise).
Class 8	Prince Waleed and Kingdom Holding Company	Topic: Waleed is the world’s most successful emerging market investor with a value strategy. A summary of his growth strategy, its application to China and 2-3 cases. A focus on value-added deals.
Class 9	Tom Russo and Russo Gardner	Topic: Tom Russo is the world’s most successful global investor with a value strategy. A summary of his emerging market + developed market strategy, its application to China and 2-3 cases. A focus on value-added deals. Focus on is risk management and macro considerations.
Class 10	Summary Class and Review	