The George Washington University
School of Business

APPLIED PORTFOLIO MANAGEMENT

SYLLABUS
SPRING 2013
COURSE OVERVIEW

Course: FINA 6239: Applied Portfolio Management

Time and Location: Wednesdays, 7:10 p.m. – 9:40
Duques Hall, Capital Markets Room, 1st Floor, 2201 G Street, NW

Background: Students enrolled in FINA 6239 are the Portfolio Managers for the Ramsey Student Investment Fund (RSIF) portfolio, which is a real, $1.6 million portfolio within the University’s Endowment Fund. The RSIF began with a $1 million gift from GW Board of Trustees Chairman Russell Ramsey in 2005. The class is steeped in the Buffett-Munger-Graham investment philosophy and approach, featuring numerous guest lectures from professional value investors, and readings from The Intelligent Investor, The Essays of Warren Buffett, and The Investment Checklist. Since its establishment in 2005, the class and fund have provided more than 300 students the unique opportunity to gain hands-on experience and practical investing skills.

Description: This course exposes graduate business students to practical security analysis techniques and investing approaches employed by professional investment managers. The majority of class-time will be devoted to guest speakers from the investment business. The class is recommended for those students seeking careers in investing, portfolio management, financial analysis, and related financial service industries. Those who are NOT interested in pursuing careers in investing should reconsider taking this course.

The ultimate objective of this course is to gain the knowledge and skills necessary to manage real money, including the Ramsey Student Investment Fund.

Students will be expected to devote a significant amount of time outside of class reading, conducting research, performing financial analysis and valuation, analyzing companies, and searching for investment ideas. Additionally, is necessary to stay informed on company, industry/sector, macroeconomic, and geopolitical issues. Class time will primarily be used for guest lectures, student presentations, Q&A, and discussion, with limited time devoted to lectures.

Instructors: Rodney Lake, Professorial Lecturer, The George Washington University School of Business (rlake@gwu.edu, 202-713-6023)
Steve Keating, Investment Officer, Investment Office, The George Washington University (sekjr@gwu.edu, 202-994-9848)

Office Hours: By appointment. We are available most weekdays but do travel, so it is necessary to contact us in advance. We can also meet before and after class.

Office Locations: 2100 M Street, NW, Suite 305, Washington, DC 20037, (202) 994-9848
Duques Hall, Capital Markets Room, 1st Floor, 2201 G Street, NW
COURSE PREREQUISITES AND REQUIRED READINGS

Prerequisites  Graduate-level finance and accounting courses. Financial statement analysis (ACCY 6106) is strongly recommended. Students should be familiar with basic accounting, finance, and financial statement analysis concepts.

Required Readings  The following three books are required readings for the course. Book-specific quizzes or tests are unlikely, but reading reviews will occur throughout the semester, and the topics and issues addressed in these books will be referenced and discussed frequently. These books are critical for successful industry and company presentations.

1. **The Intelligent Investor: The Definitive Book on Value Investing, A Book of Practical Counsel (Revised Edition)**

   By Benjamin Graham, Jason Zweig, and Warren E. Buffett (Collaborator)

   ISBN: 978-0-06-055-566-5 (purchase the version with the red cover)

   This is perhaps the most important and influential book ever written about value investing. Originally published in 1934 by Ben Graham, this work has been heralded by such notable investors as Warren Buffett as "the best investing book ever written".


   By Warren E. Buffett. Selected, Arranged, and Introduced by Lawrence A. Cunningham


   The definitive work concerning Warren Buffett and intelligent investment philosophy, this is a collection of Buffett's letters to the shareholders of Berkshire Hathaway written over the past few decades that together furnish an enormously valuable informal education. The letters distill in plain words all the basic principles of sound business practices. They are arranged and introduced by a leading apostle of the "value" school and noted author, Lawrence Cunningham. Here in one place are the priceless pearls of business and investment wisdom, woven into a delightful narrative on the major topics concerning both managers and investors. These timeless lessons are more important now than ever.

   *Note: Lawrence Cunningham is a GW Law Professor and has guest lectured in FINA 6239 in the past. Depending on his availability, Professor Cunningham may guest lecture again this semester.*
3. **The Investment Checklist: The Art of In-Depth Research**

   By Michael Shearn


   *The Investment Checklist* is designed to help you develop an in-depth research process, from generating and researching investment ideas to assessing the quality of a business and its management team. This book helps you implement a principled investing strategy through a series of checklists. In it, a thorough and comprehensive research process is made simpler through the use of straightforward checklists that will allow you to identify quality investment opportunities. Each chapter contains detailed demonstrations of how and where to find the information necessary to answer fundamental questions about investment opportunities. Real-world examples of how investment managers and CEOs apply these universal principles are also included and help bring the concepts to life. These checklists will help you consider a fuller range of possibilities in your investment strategy, enhance your ability to value your investments by giving you a holistic view of the business and each of its moving parts, identify the risks you are taking, and much more.

**RECOMMENDED READING (these are recommended, not required)**

1. **Security Analysis: Sixth Edition**

   By Benjamin Graham and David Dodd, with a forward by Warren Buffett


   First published in 1934, *Security Analysis* is one of the most influential financial books ever written. Selling more than one million copies through five editions, it has provided generations of investors with the timeless value investing philosophy and techniques of Benjamin Graham and David L. Dodd.

   As relevant today as when they first appeared nearly 75 years ago, the teachings of Benjamin Graham, “the father of value investing,” have withstood the test of time across a wide diversity of market conditions, countries, and asset classes.

   Featuring a foreword by Warren E. Buffett (in which he reveals that he has read the 1940 masterwork “at least four times”), this new edition of *Security Analysis* will reacquaint you with the foundations of value investing—more relevant than ever in the tumultuous 21st century markets.
2. **Margin of Safety: Risk-Averse Value Investing Strategies for the Thoughtful Investor**

By Seth Klarman

Seth Klarman, a very famous value investor. We strongly encourage you to read his book, Margin of Safety. You can buy the original book on eBay for +$1,000, or Google it and get a scanned or re-typed copy for free. We don't care how you get it, but if you are at all interested in investing, it's a must-read!

3. **The Most Important Thing: Uncommon Sense for the Thoughtful Investor**

By Howard Marks


Howard Marks, the chairman and cofounder of Oaktree Capital Management, is renowned for his insightful assessments of market opportunity and risk. After four decades spent ascending to the top of the investment management profession, he is today sought out by the world's leading value investors, and his client memos brim with insightful commentary and a time-tested, fundamental philosophy.

Informed by a lifetime of experience and study, The Most Important Thing explains the keys to successful investment and the pitfalls that can destroy capital or ruin a career. Utilizing passages from his memos to illustrate his ideas, Marks teaches by example, detailing the development of an investment philosophy that fully acknowledges the complexities of investing and the perils of the financial world. Brilliantly applying insight to today's volatile markets, Marks offers a volume that is part memoir, part creed, with a number of broad takeaways.

"This is that rarity, a useful book."--Warren Buffett

You can also find memos from Howard Marks here: [http://www.oaktreecapital.com/memo](http://www.oaktreecapital.com/memo)

*If interested in additional readings, please ask Rodney (rlake@gwu.edu) or Steve (sekjr@gwu.edu).*
COURSE REQUIREMENTS

Each student will be assigned to one of the following sector teams:
- Consumer Discretionary and Staples
- Energy and Utilities
- Financial Services
- Healthcare
- Technology and Telecommunications
- Industrials and Materials

Each sector team will begin by dividing the coverage of each stock in the sector among the team members. Each team member will conduct a comprehensive review of his/her stocks within the sector. The review should include a comprehensive analysis of the business, management, balance sheet, and price (valuation) of the company.

Sector Presentations
The first major assignment of the class is the sector presentation. The primary goals of the sector presentation are to:
1. Review the major industries within your sector to help the class understand the characteristics and dynamics of the industries/sector,
2. Develop sector/industry theses, which should provide ideas for sector/industry “tilts” within the portfolio for the next three to five years, and
3. Inform the class about the portfolio’s holdings.

The sector presentations are done as a group and are 15 minutes long, followed by 10 to 15 minutes of Q&A.

Buy/Sell Presentations
Each student will submit a PowerPoint presentation on both a buy and sell recommendation, along with a two-page executive summary. These presentations will be posted on Blackboard to provide everyone the opportunity to review their peers’ work and formulate questions prior to Stock Pitch Day.

Stock Pitch Day
Stock Pitch Day is an all-day event at the end of the semester (typically the Saturday following the last class) where each student presents their buy/sell presentations or “stock pitch” to their peers, the instructors, RSIF alumni, local investors, and other members of the GW community. Stock Pitch Day is the most important day of the course and attendance is mandatory. Those who do not attend Stock Pitch Day will receive a failing grade. Presentations are done individually and are 10 minutes long, followed by 10 to 15 minutes of Q&A. The class will vote (yes or no) on the each presentation or “trade”. Approved trades will be executed by the GW Investment Office shortly thereafter.

Weekly Analysis and Other Assignments
Beginning the third week of the semester, each student will submit a Weekly Analysis for each company he/she covers. The Weekly Analysis offers students the opportunity to establish and develop thoughts/opinions on the market, their companies, and their companies’ competitors. Additionally, the Weekly Analysis provides the foundation for class discussion.

Class Participation
Students will be required to attend all classes and all of Stock Pitch Day. Active participation is critical. A significant portion of class time will be devoted to timely issues affecting the portfolio and today’s
investment environment. Everyone will be expected to contribute. During these discussions and especially during sector and stock presentations, students are expected to ask tough, relevant questions regarding their colleagues’ ideas and recommendations. It is essential that everyone closely monitors the investment environment through a variety of sources such as *The Wall Street Journal*, *The Financial Times*, *The Economist*, and *Bloomberg*.

**GRADE COMPOSITION**

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<th>Percentage</th>
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<tr>
<td>Stock Presentation</td>
<td>35%</td>
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<tr>
<td>Class Participation</td>
<td>30%</td>
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<tr>
<td>Weekly Analysis and Other Assignments</td>
<td>20%</td>
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<td>Sector Presentation</td>
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Students **will not be** graded based on the performance of the stocks or their sector or whether their buy/sell presentation on Stock Pitch Day is approved. Grades will be based on the thoroughness and thoughtfulness of their analysis and recommendations, overall quality of work, and class participation. Peer review of buy/sell presentations and active participation during Stock Pitch Day are essential. **Anyone absent on the day presentations are made will not receive a passing grade.**

Class participation represents a significant portion of the overall grade. Productive, active participation is expected and quality is more important than quantity. Students are expected to know their companies and sectors/industries well and be aware of current events and market conditions.

**NEVER FORGET THAT YOU ARE MANAGING REAL MONEY.**
INSTRUCTOR AND ADVISOR BIOGRAPHIES

Rodney Lake – Instructor
Professorial Lecturer, The George Washington School of Business
CEO, The Lake Group Global Resources LLC
rlake@gwu.edu, 202-713-6023

Rodney Lake is the founder and Chief Executive Officer of The Lake Group Global Resources LLC, a private equity company focused on investing in and building businesses with good management teams, sound economic prospects, and sustainable competitive advantages.

Prior to forming The Lake Group Global Resources in 2012, Mr. Lake worked as a Senior Investment Officer in The George Washington University (GW) Investment Office. The GW Investment Office is responsible for managing the University’s $1.3 billion endowment fund. Beginning in 2005, Mr. Lake researched opportunities to identify investments that provided a margin of safety and recommended implementation strategies/managers across all asset classes. Mr. Lake has performed on-the-ground due diligence in 18 countries across the globe. Mr. Lake also monitored investment managers, global economic, political, and geopolitical factors; and tracked capital flows in the public and private markets.

Prior to the GW Investment Office Mr. Lake was a Senior Financial Analyst in the Executive Vice President and Treasurer’s Office at GW. In this capacity he served as an internal consultant for projects ranging from financial and optimization modeling to developing spin-out strategies and valuations for internal businesses. Prior to joining GW he was a Financial Analyst in the mortgage division of California Federal Bank, performing portfolio valuations for acquisitions and divestitures.

Mr. Lake graduated cum laude, from West Virginia Wesleyan College with a B.S. degree in business. He received his MBA from The George Washington University.

Steven Keating – Instructor
Investment Officer
GW Investment Office
sekjr@gwu.edu, 202-994-9848

Steven Keating is an Investment Officer in the Investment Office of The George Washington University in Washington, DC. Under the direction of the Chief Investment Officer, the Investment Office is responsible for managing GW’s $1.3 billion endowment fund. Mr. Keating’s responsibilities include identifying investment opportunities across all regions, sectors, and asset classes, recommending implementation strategies, new investment manager selection and due diligence, ongoing investment manager monitoring, portfolio reporting and analysis, and in-depth, fundamental research.

Mr. Keating holds a Master of Business Administration and a Bachelor of Business Administration, both from The George Washington University.
Donald Lindsey joined The George Washington University in April 2003 as Chief Investment Officer responsible for management of the University’s $1.3 billion endowment. He also is a Professional Lecturer of Finance in the GW School of Business and teaches Applied Portfolio Management in the MBA program. Prior to joining GW, he established the University of Toronto Asset Management Corporation (UTAM) in May 2000 and served as its first President and Chief Executive Officer. UTAM was established to manage the University of Toronto’s CAD$ 4.0 billion in endowment and pension assets.

He began his career with the University of Virginia Investment Management Company in 1987, where he served initially as Investment Analyst and proceeded to become Assistant Director of Investments, Senior Investment Officer and Director.

He has taught in the McIntire School of Commerce at the University of Virginia and the Rotman School of Management at the University of Toronto. In addition, he has appeared several times as a guest on Toronto-based Report on Business Television. He holds the CFA designation, and has also taught CFA exam preparation and other courses in Croatia, Romania, Japan, South Africa, Italy, the United Kingdom, and Switzerland and has served on the CFA Institute Council of Examiners. He is a member of the Investment Advisory Committee of the Virginia Retirement System and serves as a board member of the Washington Society of Investment Analysts. Mr. Lindsey holds a BA in Political Science from Virginia Tech and an MBA from James Madison University.

**Guest Speakers**

A significant portion of the instruction will come from guest speakers. Past guest speakers, some of whom are GW alumni, have included the following:

- Hedge fund, mutual fund, and other public equity portfolio managers
- Traders
- Authors/Correspondents
- Institutional Investors
- Related Financial Service Professionals

**You, the Analysts/Portfolio Managers of the Ramsey Student Investment Fund**

In addition to class participation and discussion, a significant portion of your learning will occur outside of class – while you are reading and analyzing 10Ks, 10Qs, 20Fs, newspapers, the course texts, and other investing books, listening to company presentations/conference calls, conducting sector/industry research, completing your Weekly Analysis, searching for companies to recommend, building valuation models, and crafting your sector/industry and buy/sell recommendation presentations. As with all courses and everything in life, what you get out of this class will be determined by what you put into it. And, we are here to help you get as much out of the class as possible.