

C15.0042 -- Investment Topics

E. Kerschner

The following pages list assignments for Spring 2004

There are five assignments. You are encouraged to do all the assignments.

The assignments for Week 7 and 8 are just a brief list. The other three are short papers.

The assignments for Week 7 and 8 will be used for class discussion.

Of the three remaining short papers, only the assignments with your two highest grades will be used for the course grade.

C15.0042 -- Investment Topics

E. Kerschner

Week 2: Thematic Investing—Demographic Dynamics

Prepare for Monday, February 9, 2004

Topic

The bear case is the consumer today is limited by several factors, including:

- The low savings rate
- High consumer debt
- The negative wealth effect from the stock market drop

Pick one and argue that indeed it is a problem for the consumer.

AND

Pick one and argue that it is NOT a problem for the consumer.

Identify other factors than the three above that would support your case.

Written work should be limited to two pages and include some charts to illustrate key points.

Time permitting we will discuss this work in class that date.

C15.0042 -- Investment Topics

E. Kerschner

Week 7: Equity Valuation

Prepare for Monday, March 8, 2004

Next week we try to determine how to identify a good investment opportunity. "Thematics" has given us some ideas that should produce good investment opportunities. But successful investing requires paying the right price for any investment. So, how do we determine the right price?

Sessions 7 & 8 split that process of determining the right price into two parts:

- 1) Valuation: what should you pay? What are the "schemes" used?
- 2) Profitably: what exactly are you paying for? What are the "metrics?"

Topic 1:

Produce a list of and briefly explain the "schemes" for determining what you should pay. Price-Earnings ratios, Price-Book ratio, EV-EBITDA, etc. THERE SHOULD BE A DOZEN OR MORE "SCHEMES." Be clever and creative, but make sure it is a defensible "scheme".

C15.0042 -- Investment Topics

E. Kerschner

Week 8: Profits, the Economy and Stock Prices

Prepare for Monday, March 22, 2004

Topic 2:

It's a "chicken and egg" question: which comes first? The "scheme" you use to determine the attraction on of an investment or the "metric" you apply that scheme to. Price-Earnings schemes require you figure out the earnings you want to pay for. EV-EBITA requires you forecast EBITDA. Produce a list and briefly explain the "metrics" you pay for AND HOW TO FORECAST THAT METRIC.

Do all "schemes" require a corresponding "metric?" Think about it.

C15.0042 -- Investment Topics

E. Kerschner

Week 9: Flations: Inflation and Deflation

Prepare for Monday, March 31, 2004

Inflation and Deflation

Nothing is more important to formulating a correct investment strategy than understanding whether the underlying economic trend is inflationary or deflationary.

Identify a significant inflationary period in US history. Explain the political / social / economic forces that led to that period. Explain why it ended.

Similarly, Identify a significant deflationary period in US history. Explain the political / social / economic forces that led to that period. Explain why it ended.

A brief history of inflationary and deflationary periods is found in the readings for this week: "Benign deflation?" Your analysis can be based upon this work, but needs go beyond that paper. Use several other sources to communicate the underlying dynamics of the two periods you choose to discuss.

This work should be prepared in outline form. Clear, concise points; supported by specific data and sources. Each period should have a separate outline. Each outline should be approximately two pages.

At the end of each outline list investments that were successful during each period and why.

C15.0042 -- Investment Topics

E. Kerschner

Week 12: Manias, Panics and Walls of Worry

Prepare for Monday, April 19, 2004

Manias, Panics and Walls of Worry

In the long run capital markets are remarkably efficient. But in the short run, inefficiencies can develop, sometimes fueled by manias (which lead to excessive overvaluation). Anticipating and responding to financial panics is a necessary element of an investment strategy.

Identify a "Mania." Explain why it happened. Why it ended. What investments did well during the mania and why? What were the best investments to hold when that mania ended, and why?

The readings for the week will discuss several classic manias. You can use one of those periods or any other mania. Your discussion needs to be sourced beyond the assigned readings.

The work should be a two page investment strategy report that clearly lays out the discussion. A hypothesis and conclusion should be clearly included.