NEW YORK UNIVERSITY
Stern School of Business

C15.0041 Prof. M. Keenan
Investment Principles September, 1999

LESSON 12

Lecture Topics

1. IBES forecasts of earnings per share
2. firm / product / people life cycles
3. earnings growth and leverage
4. market efficiency - basic theory
5. testing market efficiency - event studies

Notes

1. For next Tuesday (October 19th) turn in as a one page assignment your calculation of the cost of equity capital for Cooper Tire and Rubber. Use a share price of $20 and the 1999 numbers from the Excel worksheet for Cooper Tire. Also estimate the average cost of capital for CTB.

2. For Tuesday October 26th, do the following calculations for your DJIA firm and turn them in on a one sheet summary excel spreadsheet summary:
   a. the average and compound growth rate in earnings per share and in dividends for the years 1989-1999 (eleven data points)
   b. if you were to use a two-growth rate model - the first for the next ten years and the second for the following 100 years, what two rates would you pick? Under your assumptions, what would earnings per share (eps) be in 2004 (5 years out from the 1999 point in (a) above)? How long would it take eps to double?
   c. What is the compound growth rate over the next 110 years implied by your assumptions in (b) ?

3. Security Analysis Project:
   Phase I - data collection for firm / industry / economy
   - (done by October 19th)
   Phase II - detective work and analysis (mostly done by November 18th)
   (meet with Keenan week of November 15th – 23rd)
   Phase III - write and rewrite (done by December 3rd)