

Session 12

Introduction to Value Investing

Test

1. Which of the following is the best characterization of a “value” investor?
 - a. An investor who cares about value and finding undervalued companies.
 - b. An investor who incorporates fundamentals into his or her valuation judgment.
 - c. An investor who buys stocks that trade at low PE ratios.
 - d. An investor who buys stocks that trade at less than book value.
 - e. An investor who wants to buy a company for less than the value of just its assets in place.
2. If you are a value investor, which of the following statements best characterizes your view of growth opportunities?
 - a. Growth opportunities don’t usually exist.
 - b. Growth does not add to value, since companies have to reinvest to generate growth
 - c. Growth is too speculative and thus should not be paid for.
 - d. Growth can add value, but if it does, it should be viewed as a bonus on the investment, not as the reason for the investment.
 - e. None of the above
3. Ben Graham’s screens for value stocks have been modified and adapted over time. Which of the following types of companies do the Graham screens try to find?
 - a. Cheap companies that pay high dividends, have low risk and reasonable growth prospects.
 - b. Cheap companies that generate high and stable earnings, with little growth.
 - c. Cheap companies that will have high growth in the future, while paying some dividends.
 - d. Cheap companies that have very little debt.
 - e. None of the above.
4. Warren Buffett is a legendary investor, and investors have long followed his maxims on investing. Which of the following types of companies has he generally favored as investments?
 - a. Companies with simple businesses that are easy to understand.
 - b. Companies with strong competitive advantages (moats) and high returns on investments.
 - c. Companies with strong balance sheets and solid (and stable) cash flows.
 - d. Companies with good managers that you can trust.
 - e. All of the above
5. If you want to replicate what Warren Buffett has done in today’s markets, which of the following is the biggest impediment that you will face?
 - a. Markets have become efficient and stocks are not mispriced any more.

- b. Everyone has access to information at the same time.
- c. Companies no longer have strong competitive advantages.
- d. All of the best companies are in businesses that are difficult to understand.
- e. Your clients may not have the patience to allow you to make long-term bets.