

Session 15

Value Investing: The Activists

Tests

1. If you are an activist value investor, which of the following companies would you be most likely to target?
 - a. Cheap companies that are under performing their peer group (in terms of profitability) and have low debt.
 - b. Cheap companies that are out performing their peer group (in terms of profitability) and have low debt.
 - c. Cheap companies that are under performing their peer group (in terms of profitability) and have high debt.
 - d. Cheap companies that are out performing their peer group (in terms of profitability) and have high debt.
 - e. None of the above
2. Assume now that you are an activist investor and have taken a position in a company that has multiple businesses, some of which are generating much lower returns than others. Will divesting the worst businesses (those that generate the worst returns on capital) increase the market value of the company?
 - a. Yes
 - b. NoExplain.
3. You have acquired a stake in a company with very little debt and are pushing the company to borrow more money. What effect will borrowing more money have on the company's costs of capital?
 - a. It will increase the cost of equity and increase the cost of debt but may decrease the cost of capital.
 - b. It will increase the cost of equity, the cost of debt and the cost of capital.
 - c. It will decrease the cost of equity and increase the cost of debt but will decrease the cost of capital.
 - d. It will decrease the cost of equity and increase the cost of debt but may decrease the cost of capital.
 - e. It will increase the cost of equity and increase the cost of debt but will have no effect on the cost of capital
 - f. It will decrease the cost of equity, the cost of debt and the cost of capital.
4. You have acquired a stake in a company that has accumulated a large cash balance. You are pushing for the company to return a significant portion of this cash to its investors in the form of a special dividend. In which of the following companies is that action likely to benefit stockholders?
 - a. A high growth company that has lots of investment opportunities and a history of taking good investments.
 - b. A high growth company that has lots of investment opportunities and a history of taking neutral investments.

- c. A mature company, with relatively few investment opportunities and a history of taking good investments.
 - d. A mature company, with relatively few investment opportunities and a history of taking neutral investments.
 - e. A mature company, with relatively few investment opportunities and a history of taking bad investments.
5. If you are a small investor who plans to make money by following activist investors, which of the following offers the most promise of delivering high returns?
- a. Develop indicators that predict which companies are going to be targeted, before the targeting happens.
 - b. Wait for the activist investor announcement that a company has been targeted and buy the shares on the announcement.
 - c. Invest in the company after activist investors have taken a position and hold for the long term.
 - d. Sell short on companies after activists have targeted the company.