Equity Investment

Module 5, 2016-2017 academic year

Vitaly Kazakov
New Economic School
vkazakov@nes.ru

Course information

Course Website: my.nes.ru
Instructor's Office Hours: by appointment
Class Time: TBA
Room Number: TBA
TAs: N/A

Course description

This course will familiarise the students with public equity markets and the role of active investors. Most of the large companies in the world are public: their shares are traded on the stock exchanges and can be bought and sold by anyone. Total value of the available equity instruments is tens of trillions of dollars. So, what do you need to know to invest in the World Inc?

The course addresses the following questions: How public equity markets work? Who invests in the public equity instruments? What is the role of active management? What do equity analysts and investors do? How does market psychology work?

Course requirements, grading, and attendance policies

Prerequisites: Accounting, Corporate finance
Attendance: Voluntary
Grading: Research project (40%) / Final exam (60%). Failure on the project leads to failure on the course.

Course contents

Asset management industry
- Types of investment funds
- Types of investment instruments
- Types of investment strategies
- Asset management industry structure

Equity valuation
- Revision of corporate finance / financial accounting
- Financial statements, adjustments to financial statements
- Valuation techniques (DCF, multiples)

Risk
- Definition of risk: academia vs. industry
- Business risk
- Balance sheet risk
- Valuation risk
- Corporate governance

Market
- Price vs. value
- "Mr. Market". (The role of active investment management)
- "Margin of safety"
- Market volatility: reflexivity theory, market volatility vs. profit volatility, bubble predictability, efficient market hypothesis (EMH)
- Market psychology: herd behaviour, career risk

Course materials

Warren Buffett
- Warren Buffett's letters to shareholders of Berkshire Hathaway
- Buffett FAQ. Online resource with Warren Buffett's wisdom sorted by topic
- The Essays of Warren Buffett. *Lawrence Cunningham*. (Compilation of Warren Buffett's letters to shareholders)
- Intelligent Investor. *Benjamin Graham.* (Warren Buffett's most recommended book, but, actually, is a difficult read after Warren Buffett's own lucid writings)
- Security Analysis. *Benjamin Graham, David Dodd*. (Investment classic on the accounting issues, though I could not make it)

Non-Buffett
- Common Stocks and Uncommon Profits. *Philip Fisher*
- Beating the Street. *Peter Lynch*
- The Most Important Thing. *Howard Marks*
- The Alchemy of Finance. *George Soros*

Corporate Governance
- Outsiders. *William Thorndike.* (On shareholder friendly CEOs)

Financial crises (optional)
- Demon of Our Own Design. *Richard Bookstaber*
- The Origin of Financial Crises. *George Cooper*
- Stress Test: Reflections on Financial Crises. *Timothy Geithner*
- The Big Short. *Michael Lewis*

Behavioural economics (optional)

- Animal Spirits. *George Akerlof, Robert Shiller*

Applied macro and policymaking (optional)

- The Holy Grail of Macroeconomics: Lessons from Japan's Great Recession. *Richard Koo* (On fiscal policy)
- New Monetarism. *David Roche, Bob McKee* (On monetary system)
- Money, Blood and Revolution. *George Cooper* (Are economic agents "profit/utility maximising"?)