Rutgers Business School – Graduate Division  
Special Topics: Applied Portfolio Management  
Spring 2011

Instructors: John M. Longo, Basu Mullick

Biographical Sketch 1: Dr. Longo, CFA is Clinical Associate Professor of Finance at the Finance Department at Rutgers Business School and the Chief Investment Strategist for The MDE Group, a registered investment advisor with $1.5 billion under management. At The MDE Group he is also a Principal in a $100 million hedge fund. Barron’s has ranked The MDE Group as the 4th best independent registered investment advisor in the U.S. for 2007 and 2008. He is author / editor of the critically acclaimed book, Hedge Fund Alpha: A Framework for Generating and Understanding Investment Performance. He has appeared on CNBC, Bloomberg, Fox Business, BBC World and been quoted in The Wall Street Journal, Forbes, and many other media outlets. Previously, he was a Vice President at Merrill Lynch & Co., Inc.

Biographical Sketch 2: Mr. Mullick is a Managing Director and Senior Portfolio Manager at Neuberger & Berman (NB) with 28 years of investment management experience. He manages $8 billion in mutual and other funds (Partners Fund, Regency Fund) with a Value orientation. Prior to joining NB in 1998, he was a Portfolio Manager at Ark Asset Management and a Partner at Omega Advisors. In addition to his extensive mutual fund and hedge fund experience, he has also worked as a sell side analyst for PaineWebber.

Office: Janice Levin Bldg, Room 109

Office Hours: (Longo) Wednesday: 1:30pm – 2:30pm and by appointment

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Course Overview: The purpose of this course is to teach students how to create an actual portfolio that meets the needs of a client in a manner consistent with the investment philosophy of Graham, Dodd, and Buffett. The client (previously an individual, now the Rutgers University Foundation) wishes the portfolio to have a Value orientation with hedge fund characteristics (i.e., the portfolio has both Long and Short positions.) From an organizational standpoint, each student will serve as an analyst responsible for a particular sector or industry. Students will be required to write two comprehensive stock reports (one Long recommendation and one Short recommendation) and present their findings in front of the class.

The course will be primarily conducted on an independent study basis with only a moderate number of in-class meetings. We will meet in a classroom setting approximately once every two weeks. Additional communication will be done via phone (e.g. conference calls) and email. All students must have a strong understanding of financial statement analysis in order to effectively participate in the class.
Texts: *The Intelligent Investor* by Benjamin Graham. There are many editions and the chapters may differ, but we require you to read the following chapters, identified by their title, since it will help you understand what to look for when searching for and valuing securities. Arguably, the two most important chapters are noted directly below:

- “The Investor and Market Fluctuations”
- “Margin of Safety as the Central Concept of Investment”

To orient yourself you should first read the chapters on “Investment Versus Speculation”, “The Defensive Investor and Common Stocks”, “Portfolio Policy for the Enterprising Investor”, “Things to Consider About Per-Share Earnings” and “Stock Selection for the Enterprising Investor”. Our goal is to provide students with a value oriented roadmap to narrow down the opportunity set for stock selection using statistical screening. The reader should seek the answer to the question as to what industry and company characteristics constitute a sound investment for the enterprising investor using Graham’s prescription. Once a stock is selected, our goal is to be able to defend the selection using fundamental analysis. The process should be equally applicable to the short side as well. The following book is also recommended.

*Buffett: The Making of an American Capitalist* by Roger Lowenstein

- Ch 8: Return of the Native
- Ch 9: Alter Ego
- Ch 10: Washington Redux

You should also read the last 2 shareholder letters (2008, 2009) from Berkshire Hathaway. They can be found at the link below:

http://www.berkshirehathaway.com/letters/letters.html

**Grading:** Written Stock Reports and Oral Presentation (100%). Approximately 75% of the grade will be based on the written reports and the remainder on the presentation.

**Class Participation:** Attendance is required at all classes given the limited number of formal meetings. Class participation is encouraged during the lectures and may help in borderline cases.

**Blackboard Account:** The Blackboard Account for the class will contain sample reports and other relevant information.

**Project: Sector/ Industry / Stock Reports**

**Project:** During the first class each student will be assigned to cover a specific stock market sector (e.g. Technology, Utilities, HealthCare, etc.) Ideally each student will have a core competence in that sector due to work experience or other reasons. Once assigned a sector, each student will do an analysis to decide which industries in the sector (e.g. Insurance within Financials) and stocks within the industry (e.g. Aetna in Insurance) will do well and which will do poorly. This report will serve as the basis for your Long and Short stock recommendations.
Your recommendations will be primarily based on fundamental and macroeconomic analysis, but current events and other catalysts may also play a supporting role in your recommendations. **Your reports should include earnings forecasts (quarterly and annual EPS) and price objectives** in addition to other factors that will be discussed during the course. The bulk of the grade will be based on content, but the reports should also be well written and look professional.

**The PROJECT IS DUE Friday, April 29th at noon (send via email to both instructors) and please bring hardcopies to class on Saturday, April 30th. There will be a penalty for lateness.**

The ability to contribute to and impress others at meetings is an essential business skill. Therefore, the last class will be devoted to a discussion of the projects. Each student will present his/her best stock report in a crisp 15-minute oral presentation and field questions from the instructors and the class.

**OUTLINE FOR APPLIED PORTFOLIO MANAGEMENT (TENTATIVE)**

I. Saturday January 22nd Lecture One (Longo) [12 pm – 3 pm] Janice Levin Bldg, Room 221

II. Friday February 4th
    Lecture Two (Mullick) [1 pm – 4 pm] in New York City at Neuberger & Berman
    Possible Topics: Discussion of *The Intelligent Investor*, Definition Of Value (e.g. P/E, P/Book, P/CFlow, P/Free CFlow, EVA), Value Investing (versus Contrarian), Dividends, Executive Management Meetings, Farsighted Financial Statement Analysis (Looking Beyond The Basics), Earnings Forecasts, Entry Points, Price Objectives (When To Sell), Portfolio Turnover, Management Of Fund Inflows And Outflows, and Portfolio Construction.

III. Saturday February 19th: [Time: 11am – 1:30pm] Janice Levin Bldg, Room 221
   Part 1: Financial Modeling
   Part 2: Guest Lecturer: Chris Wiggins, Oppenheimer & Co.
   Lecture Topic: Fundamental Analysis and Sell Side Research (Industrial Sector)
   Biographical Sketch: Chris is a 2005 MBA graduate of RBS and a prior student in the Applied Portfolio Management Class. He is a sell side analyst at Oppenheimer covering the Industrial Diversified / Machinery sector.

IV. Project “Workbench” Part 1: Conference Call (February 20th / Time: 7pm)
By this date it is expected that you will have completed your initial research and will have questions about narrowing it down to 1 Long and 1 Short pick. You may, of course, email the instructors in the interim, but a conference call is also likely to be helpful. This class will not contain a formal lecture and will primarily be conducted in a question and answer and/or Socratic dialogue format.
**Requirements:** Email both instructors a small list of names for your Long and Short candidates and have several bullet points to support your views.

V. Saturday March 5th: [11 am – 1:30 pm] Janice Levin Bldg, Room 221

Part 1: Financial Modeling

**Part 2: Guest Lecturer:** Russell Ernst, Regulatory Research Associates / SNL Financial.

**Lecture Topic:** Fundamental Analysis and Sell Side Research (Utility Sector)

**Biographical Sketch:** Russell is a MBA graduate of RBS and a prior student in the Applied Portfolio Management Class. He is Senior Analyst and Product Manager at Regulator Research Associates / SNL Financial, where he focuses on the Utility sector.

(* NOTE: Spring Break covers the next two Saturdays, March 12 - 19 *)

VI. Project “Workbench” Part 2;

Friday, March 25th, [1:00pm – 2:30pm] Janice Levin Bldg, Room 221

By this date it is expected that you will have completed a good portion of your reports and will have questions about completing your projects. You may, of course, email the instructors in the interim, but a face-to-face meeting is also likely to be helpful. This class will not contain a formal lecture and will primarily be conducted in a question and answer and/or Socratic dialogue format.

VII. Saturday, April And: [11 am – 1:30 pm] Janice Levin Bldg, Room 221

Part 1: Financial Modeling

**Part 2: Guest Lecturer(s):** Kavan Desai

**Lecture Topics:** Sell Side Research and Investment Strategy

**Biographical Sketch:** Kavan is a sell side investment strategist at Merrill Lynch / Bank of America. Previously he worked as a sell side analyst in the Healthcare sector for UBS. Kavan is a graduate of Rutgers Business School.

VIII. Saturday, April 16th: [11 am – 1:30 pm] Janice Levin Bldg, Room 221

Part 1: Financial Modeling

**Part 2: Guest Lecturer:** Dexter Earle (12pm – 1:30pm)

**Lecture Topic: Capital Markets:** Past, Present, and Future

**Biographical Sketch:** Mr. Earle is a former Partner at Goldman Sachs & Co and Executive In
Residence at Rutgers University. He became a member Goldman’s Equities Division in 1981 and was named Partner in 1988 as Co-Head of the Global Equities Derivatives Department. As Co-Head of this department, he was responsible for derivative sales, trading, and research worldwide. Prior to joining Goldman, he was Senior Vice President, Pension Investments at Bankers Trust. He has served the Morristown Hospital in numerous charitable capacities. Dexter is a graduate of Rutgers University, earning a B.A. in History.

VIII. Saturday, April 30th [12 pm – 1:30 pm] Janice Levin Bldg, Room 221

Guest Lecturer: TBD (12pm – 1:30pm)

Topic: TBD

IX. May 5th or May 6th (to be confirmed) Student Presentations (Longo, Mullick, and other guests (e.g. previous students) may attend)

[Time TBD] at Neuberger & Berman in NYC.
Each student will make a crisp 15 minute presentation highlighting their “best” Long or Short candidate. The student will justify his / her recommendations and field questions from the class and instructors. Business attire is suggested.