**Value Investor Conference: Omaha, Nebraska – May 4th, 2012**

Dustin Hunter, SunRift Capital Partners (www.sunriftcp.com)

 *(These notes are to the best of my recollection and trusty ink pen. Discrepancies are due to my error in understanding & transcribing.)*

**Aswath Damodaran, Stern School of Business, NYU – 'Where is the Value in Value Investing ?'**

*Aswath is an author and professor of Finance at Stern.*

* General
	+ Natural contrarian
	+ Nothing to lose
	+ 'Pinata' ready to fight back - (Value community uses academics as a 'pinata')
	+ When everything is Value Investing, nothing is Value Investing
* His definition - Significant discount to estimate of value
	+ Put aside the accounting balance sheet
	+ Look at the 'Financial balance sheet'
		1. Investments the business has made
		2. Investments the business expects to make - future (bulk of Facebook's value is in growth)
* Hard Core Value shuts out much
* (3) classes of Value Investors
	+ Passive screeners (Graham, identify undervalued assets)
	+ Contrarian (Bad news, too depressed)
	+ Activists (Bad management, bad run, hope to change)
* Myth 1 - DCF is just an academic exercise
	+ Present value of expected cash flows
	+ If you are not affecting cash flow or risk, cannot affect value
	+ Asset value - *must* have positive cash flow at some point
	+ negative cash flow up front - if larger cash flow later
	+ (4) drivers of DFC
		1. Cash Flow
		2. Value of growth over the *cost* of that growth
		3. Risk
		4. Maturing of the business - how soon
		5. *(Do not make DFC the enemy of Value)*
* Myth 2 - Beta
	+ Measure of relative risk only
	+ Measure macroeconomic risks related to interest rates
		- For public companies, the cost of capital will be 7% -12%
		- If you don't like Beta and use 9%, not so bad
	+ Beta alternatives
		- Market based
			* Relative volatility, Standard Deviation
			* Implied cost of equity and capital
		- Accounting Information based
			* Accounting earnings volatility
			* Accounting ratios
	+ Doing your homework does not make risk go away
		- Macro risks are still there
		- Implication 1 - Need for diversification not decreased because you are a Value Investor
		- Implication 2 - Good Value Investors can still lose money
* Myth 3 - Margin of Safety is an alternative to Beta and works better
	+ End of the process, not the beginning
	+ Not a substitute for risk assessment and valuation
	+ Not a fixed number for intrinsic value, but reflective of uncertainty
	+ Too conservative can be damaging to long term investment process
	+ Too high, just as harmful
	+ Useful tool is "Crystal Ball" in Excel to do large numbers of simulations & compile the results
* Myth 4 - Good management = low risk
	+ *(my note: I think this related to the horse/jockey analogy)*
	+ What to look for in good management (not all inclusive)
		- Stability of earnings
		- High growth
		- Low risk
		- Hi dividend
* Myth 5 - Wide moat = good investment
	+ Wider is only warranted over time - sustainable
	+ *If* you can predict
* Myth 6 - Intrinsic value is stable and unchanging
	+ Price of risk varies
	+ Not a single number, but a range
	+ Passive investors are 'stuck', Activists can change the situation
* Myth 7 - Active value investing has a bigger payoff than passive value investing compared to active growth vs. passive growth
	+ Active growth actually beats by more
* What is your competitive advantage? (the only data advantage is in high frequency trading)
* Success can be achieved selling liquidity when others need it
* Q&A
	+ Definition of risk
		- Some measure of a market component
		- Accounting data does not do it (smoothing & restructuring items are really just 'screw ups')
	+ Q4 - 2008, was risk redefined?
		- Normal was mean reversion, but now the global/macro is a factor
	+ Growth & value definition
		- General - low P/E value, high P/E growth
	+ How to assess the value of growth assets?
		- Value of the growth that exceeds the cost of capital for that growth