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*(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