

Mental Models - Investment Frameworks

Syllabus – Fall 2012

Location: ZBI Offices 350 Park Ave

Monday: 6:15-9:00PM

Office Hours: By Appointment

Professors:

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Course Content and Description:

Mental Models – Investment Frameworks will help students learn the process of performing investment case studies. Mental models have been shown to improve complex decision making across subjects as diverse as chess, intelligence analysis, fighting forest fires and investing. Investors use case studies to build a library of mental models and real-world analogies to facilitate pattern recognition and “see the same information differently.” Through the mental latticework that investment frameworks create and deliberate practice, investors can more efficiently identify key investment factors, assess how investments are likely to play out, and develop and monetize their circle of competence. The goal of Mental Models – Investment Frameworks is to instill a foundation for how students will approach learning and personal R&D.

This course is only open to students participating in the Value Investing Program. The value of the class for each student is largely dependent on the quality of the full class’s work product and engagement and requires a significant time commitment by every member of the class.

After completing the course, students will be equipped with a total of 16 investment case studies and two investment frameworks: (1) Compounders and (2) Competition Shorts. Each student will complete two case studies – one compounder and one competition short. The entire class will help refine the investment frameworks based on the cases studied.

Expectations:

- Class Attendance: All classes are mandatory.
- Homework: Due each week by 9AM Sunday morning

Required Pre Class Reading:

1. *The Talent Code: Greatness Isn't Born. It's Grown. Here's How*, Daniel Coyle
2. *The Art of Learning*, Josh Waitzkin
3. *Competition Demystified*, Bruce Greenwald

Note: This syllabus is subject to change.

Class 1 (September 10, 2012): Course Introduction

- Introduction to course, the art of learning, and personal R&D
- Review of course outline and expectations
- What is a Horse / Compounder?
- What is a Competition Short?

Guest Speaker: Grant Bowman, Blue Ridge Capital

Homework to be submitted by 9AM Sunday September 9th: Key takeaways from Required Reading (1 page per book max)

Class 2 (September 17, 2012): Background Information

- Discuss Week 1 Process and Feedback
- Students introduce each case to the class. Provide the background information of the company and industry

Guest Speaker: Michael Ajouz, New Mountain Capital

Homework to be submitted by 9AM Sunday:

- Submit First Draft of Case study with background information. Outline will include:
 - Industry background and map
 - Historical financials (B/S, C/F and I/S)
 - Evaluation of capital allocation over time studied
 - Any M&A
 - Capex
 - Working Capital use or source of cash?
 - Historical ROIC, ROIIC, DuPont deconstruction of ROE
 - Historical valuation over period studied
 - Stock price charts and alpha by period
- Detailed Background of the management team (s) and Board of Directors
 - Compensation – what were the incentives?
 - Read all interviews with the CEO
 - Read all Chairman’s Letters over the period studied
- What does the story tell you?
 - Preliminary cut at delineating the phases of the case

Class 3 (September 24, 2012): Investment Analytics

- Discuss the key investment factors of a compounder / competition short
 - TAM, moat, ROIC / ROIIC, sources of growth and unit economics

Homework to be submitted by 9AM Sunday:

- Revised version of your case study incorporating feedback & comments
- In no more than 3 bullets, define the Moat / barriers to entry
 - Does the company have a moat? If so, define it.
 - How would a competitor penetrate the moat?
 - Can you kill the company?
- How does the Company make money? What are the unit economics?

- Estimate the Total Addressable Market – don't copy the sell-side; be creative!
- Break out sources of growth: price vs. volume vs. M&A

Class 4 (October 1, 2012): Key Investment Insights and Execution

- Define the Moment of Truth – best risk: reward opportunity
- What were the key investment factors of your case?
- What were the key signposts in each phase?
- Evaluate the ride: maximum drawdowns, “head fakes”,
- What is the variant perception you could have developed?
- What did the sell-side / investors miss?
- Key insights & takeaways for the framework

Guest Speaker: Dan Loeb, Third Point LLC

Homework to be submitted by 9AM Sunday:

- Submit complete case study. Students will receive one final round of comments prior to presentations.
- Define the Moment of Truth – best risk: reward opportunity
- What were the key investment factors of your case?
- What were the key signposts in each phase?
- What were the key insights you learned from the case?

Class 5 (October 8, 2012): Debrief #1 – Compounders

Guests: TBD - will include numerous members of the ZBI Investment team.

Homework to be submitted by 9AM Sunday:

- Students submit final versions of case studies
- Compounders: prepare for debrief

Class 6 (October 15, 2012): Debrief #2 – Competition Shorts

Guests: TBD - will include numerous members of the ZBI Investment team.

Homework to be submitted by 9AM Sunday:

- Compounders: submit first draft of investment framework
- Competition Shorts: Prepare for debrief

October 22, 2012 – No Class

Homework to be submitted by 9AM Sunday (Note: competition shorts will still have homework due even though there is no class):

- Compounders: No homework
- Competition Shorts: submit first draft of investment framework

Class 7 (October 29, 2012): Case Study #2: Background Information

- Discuss Week 1 Process and Feedback

- Students Introduce each case to the class. Provide the background information of the company and industry history.
- Discuss any initial insights

Guest Speaker: David Craver, Lone Pine Capital

Homework to be submitted by 9AM Sunday:

- Submit First Draft of Case study with background information. Outline will include:
 - Industry background and map
 - Set up Historical financials (B/S, C/F and I/S)
 - Evaluation of capital allocation over time studied
 - Any M&A
 - Capex
 - Working Capital use or source of cash?
 - Historical ROIC, ROIIC, DuPont deconstruction of ROE
 - Historical valuation over period studied
 - Stock price chart
- Detailed Background of the management team (s) and Board of Directors
 - Compensation – what were the incentives?
 - Read all interviews with the CEO
 - Read all Chairman’s Letters over the period studied
- What does the story tell you?
 - Preliminary cut at delineating the phases of the case

November 5, 2012 – No Class

Class 8 (November 12, 2012): Investment Analytics

- Discuss the key investment factors of a compounder / competition short
 - TAM, moat, ROIC / ROIIC, sources of growth and unit economics

Homework to be submitted by 9AM Sunday:

- Revised version of your case study incorporating feedback & comments
- In no more than 3 bullets, define the Moat / barriers to entry
 - Does the company have a moat? If so, define it.
 - How would a competitor penetrate the moat?
 - Can you kill the company?
 - How does the Company make money? What are the unit economics?
- Estimate the Total Addressable Market – don’t copy the sell-side; be creative!
- Break out sources of growth: price vs. volume vs. M&A

Class 9 (November 19, 2012): Key Investment Insights and Execution

- Define the Moment of Truth – best risk: reward opportunity
- What were the key investment factors of your case?
- What were the key signposts in each phase?
- Evaluate the ride: maximum drawdowns, “head fakes”,
- What is the variant perception you could have developed?
- What did the sell-side / investors miss?

- Key insights & takeaways for the framework

Guest Speaker: TBD

Homework to be submitted by 9AM Sunday:

- Submit complete case study. Students will receive one final round of comments prior to presentations.
- Define the Moment of Truth – best risk: reward opportunity
- What were the key investment factors of your case?
- What were the key signposts in each phase?
- What were the key insights you learned from the case?

Class 10 (November 26, 2012): Debrief #1 - Compounders

Homework to be submitted by 9AM Sunday:

- Compounders: prepare for debrief
- Competition Shorts: Submit revised version of investment framework

Class 11 (December 3, 2012): Debrief #2 – Competition Shorts

Homework to be submitted by 9AM Sunday:

- Compounders: submit revised version of investment framework
- Competition Shorts: Prepare for debrief

Class 12 (December 10, 2012): Final Debrief of Investment Frameworks

- Final Debrief
- Presentation of Investment Frameworks to class alumni and senior investment professionals

Guest Speakers: David Greenspan, Slate Path Capital
