

Value Investing Seminar #1

Intro to Value Investing

November 1st, 2023

Judson Lindley

President

Matthew Gaines

Vice President of Portfolio Management



CULVERHOUSE
INVESTMENT MANAGEMENT GROUP

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Introductions

Introductions

Judson Lindley, President



J.P.Morgan



Year: Senior

Hometown: Maryville, Tennessee

Major: Finance

Semesters in CIMG: 7

Full-Time: Equity Research Analyst – *J.P. Morgan Chase*

Internship Experience:

2023 – Summer Equity Research Analyst – *J.P. Morgan Chase*

2022 – Summer Equity Research Analyst – *Barclays*

Introductions

Matthew Gaines, VP of Portfolio Management



Year: Senior

Hometown: Milton, GA

Majors: Accounting, Economics

Semesters in CIMG: 7

Full Time: Academy Associate – Point72 Asset Management

Internship Experience:

2023 – Academy Summer Analyst – *Point72 Asset Management*

2022 – Research Intern – *Saguaro Capital Management*

Value Investing Seminars

Schedule of VIS

Date	Topic
Nov. 1 st	Intro to Value Investing- <i>Overview, Value Investing Opportunities, Strategy, Sources of Value Ideas</i>
Nov. 8 th	Intro to Investment Research
Nov. 16 th	Accounting- <i>Financial statements, cash vs. accrual, profit, margins, growth</i>
Nov. 30 th	Intro to Valuation- <i>Relative & Intrinsic Valuation</i>

Overview

- Designed to provide a comprehensive overview on:
 - Value Investing strategy
 - Opportunities at UA
 - Research
 - Company & Industry analysis
 - Financial statement analysis
 - Practical valuation concepts

Value Investing Opportunities at UA

Culverhouse Investment Management Group Overview

The University of Alabama's Premier Student Managed Investment Fund



CULVERHOUSE
INVESTMENT MANAGEMENT GROUP

64 Members

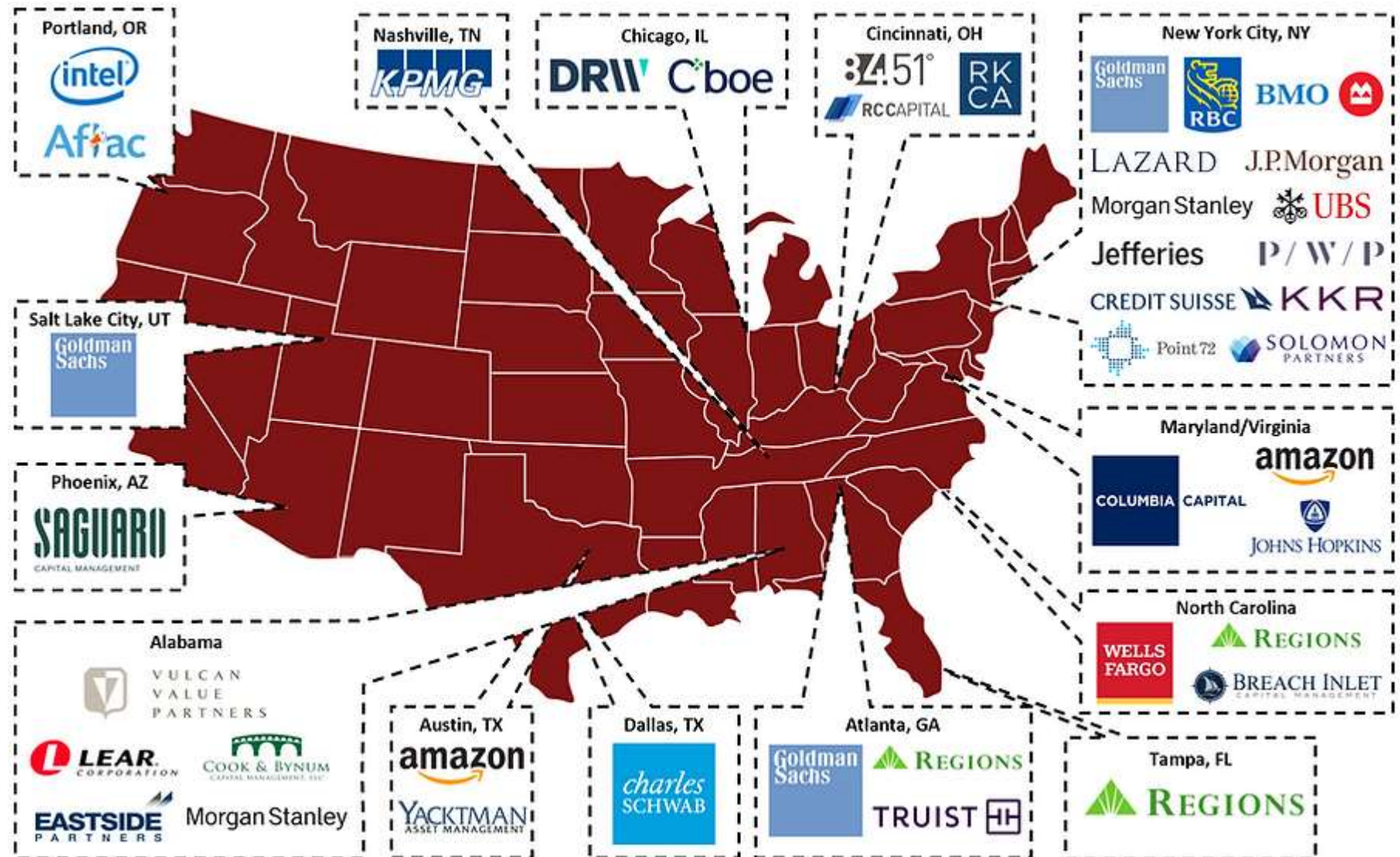
**8 Sector-Focused
Committees**

**236 Fall 2023
Applicants**

**10 Fall 2023 CIMG
New Members**

- **Student-run investment fund managed by students at The University of Alabama**
 - ▶ Initial capital of \$315,000 was donated by Culverhouse alumni in 2009
- **Uses a value-based, equity-only investing philosophy to actively manage a \$1,800,000 portfolio**
 - ▶ Concentrated portfolio with twenty names across a variety of industries
 - ▶ New members undergo an 8-week intensive course that enables them to be an effective equity research analyst
- **Members have access to the Vulcan Value Partners Research Library and Trading Room**
 - ▶ A collaboration room in Bidgood Hall was created in 2016 after a donation from C.T. and Kelly Fitzpatrick
 - ▶ An additional donation from the Fitzpatricks in 2020 added \$500,000 to the portfolio and created the Fitzpatrick Center for Value Investing
- **Students receive guidance and mentorship from professional investors**
 - ▶ Twice a year, an Advisory Board comprised of 14 investors visits Tuscaloosa to hear updates from the group and provides feedback on pitches
 - ▶ John Heins and Mark Meulenberg, the Director and Associate Director of the Fitzpatrick Center for Value Investing, serve as advisors for the Culverhouse Investment Management Group

2022-2023 Internship and Full-Time Placement



Culverhouse Investment Management Group Structure

The University of Alabama's Premier Student Managed Investment Fund

The group prepares students for careers in a variety of competitive fields both in and out of the finance industry by giving them the experience of managing a professional fund.

Research Process and Committee Breakdown

Aerospace,
Defense, and
Transportation

Consumer
Discretionary

Consumer
Staples

Financials

Healthcare

Industrials
and Energy

Technology

Telecom,
Media, and
Entertainment

Committee Research Process

A committee agrees on an investment idea they wish to pursue

They then develop an investment thesis and model for the idea

Weekly General CIMG Meeting

Committee members present their recommendation to the group at a general meeting and answer questions about their idea

Continual Research Process

Committees are responsible for monitoring and updating their positions quarterly and to determine if new news would change an investment thesis

Portfolio Holdings

amazon

Charter
COMMUNICATIONS

CHENIERE

Constellation
Brands

Disney

DOLLAR TREE

FEMSA

fiserv.

F1

HANES
Brands Inc

JANUS
INTERNATIONAL GROUP

MAXAR

MaxCyte

NAVIENT

NIKE

tapestry

TJ-maxx

United
Healthcare

VERTEX

John Heins – Director Fitzpatrick Center for Value Investing



Education:

B.S., University of Pennsylvania, M.B.A., Stanford University

Current Roles:

President & Editor-in-Chief, Value Investor Media, Inc.

Previous Roles:

President & CEO, Gruner + Jahr USA Publishing

Senior Vice President, Personal Finance, AOL

Reporter, Forbes Magazine



C.T. and Kelley Fitzpatrick
Center for Value Investing

Mark Meulenberg – Associate Director Fitzpatrick Center for Value Investing



C.T. and Kelley Fitzpatrick
Center for Value Investing

Education:

B.S., Cornell University, Chartered Financial Analyst

Current Roles:

Chief Investment Officer & Managing Partner of Masonry Capital
Management

Previous Roles:

Chief Investment Officer, VNB Wealth Management

Brown Brothers Harriman & Co., Portfolio Manager

U.S. Trust Company, Portfolio Manager

Sanford Bernstein & Co. Inc., Associate Portfolio Manager

Value Investing Opportunities at UA

Value Investing Minor

The Value Investing minor provides students with a strong foundation for examining the critical aspects of investing decisions, including generating good ideas, conducting fundamental business and industry research, analyzing financial statements, and credibly estimating what businesses and companies are worth. The focus is on practical applications. Students will be prepared for a broad range of business careers, including investment management, investment banking, private equity, management consulting, corporate business development, corporate finance and entrepreneurship. The Value Investing minor is restricted to Finance majors only.

Value Investing Minor		Hours
FI 317	Introduction to Value Investing	3
FI 422	Value Investing: Principles and Practices	3
FI 423	Advanced Value Investing	3
AND...	Two Approved Electives	6
Total Hours		15

What is Value Investing?

What is Value Investing

Investing as a Business Owner

- **Main objective is to find stocks trading at less than their intrinsic value**
 - ▶ This discount provides us a margin of safety (i.e. we can be wrong and still make money)
 - ▶ This can only be done with the belief that markets are *mostly efficient*
- **Value Investors view investing as buying a small part of a business**
 - ▶ i.e. Purchasing one share of Amazon means you're purchasing .00000001% of the company
- **As such, we spend our time researching the business more than the quantitative data**
 - ▶ Some key traits of our successful investments include:
 - Businesses we understand
 - A strong moat
 - Competent management teams
 - Significant amount of free cash flow

“All intelligent investing is value investing - acquiring more than you are paying for. You must value the business in order to value the stock”

-Charlie Munger

What is Value Investing?

Two Main Objectives of Value Investing

Minimize Risk

- The two most important rules of investing:
 - ▶ Don't lose money
 - ▶ Never forget rule number 1
- We want to **prevent permanent capital loss**
 - ▶ A 50% return can be wiped out with a 33% loss
 - ▶ A 50% loss takes a 100% return to reset
- Modern Portfolio Theory hypothesizes that in order to earn higher returns, one must take greater risk
 - ▶ Value investors don't believe this
 - ▶ Our margin of safety protects some of our downside
- Since markets are mostly efficient, we believe that the intrinsic value will ultimately be reflected over time
- An added emphasis on value stability further reduces our downside

Earn Absolute Return

- Market returns will ebb and flow, so we want to focus on earning consistent, long-term absolute returns
- We want to do our best to ignore short-term market gyrations and compound our returns over time

	Per-Share Market Value of BRK	S&P 500 including dividends
2000	26.6%	(9.1%)
2001	6.5%	(11.9%)
2002	(3.8%)	(22.1%)
2003	15.8%	28.7%
2004	4.3%	10.9%
2005	0.8%	4.9%
2006	24.1%	15.8%
2007	28.7%	5.5%
2008	(31.8%)	(37.0%)
2009	2.7%	26.5%
2010	21.4%	15.1%
2011	(4.7%)	2.1%
2012	16.8%	16.0%
2013	32.7%	32.4%
2014	27.0%	13.7%
2015	(12.5%)	1.4%
2016	23.4%	12.0%
2017	21.9%	21.8%
1965-2017	20.9%	9.9%

Value Investing with CIMG

Investment Philosophy

Value Investing

The Concept of Intrinsic Value

- CIMG believes that businesses have an appraisable intrinsic value that solely depends on the future cash flows that business can be expected to produce.

The Assumption of Inefficient Markets

- CIMG believes that market prices frequently detach from intrinsic value, offering opportunities for investors to buy securities for less than they are worth and achieve better returns with less risk.

The Requirement of a Margin of Safety

- CIMG only invests when it believes the gap between market price and intrinsic value is so large that it should overcome any assumptions about the future that may prove mistaken.

The Importance of a Quality Business

- CIMG prioritizes quality businesses by overweighting them in our portfolio ceteris paribus. We mostly agree that a great business at a fair price is better than a fair business at a great price.

The Necessity of Investing with an Edge

- CIMG believes that to beat the market, one needs to discern what makes their investment process better than their peers, either on an informational, analytical, or behavioral basis.

Value Investing Today

Value Investing Today

Value Investing Historically Underperforms in Sector-Driven Bull Markets

Investors Get Greedy

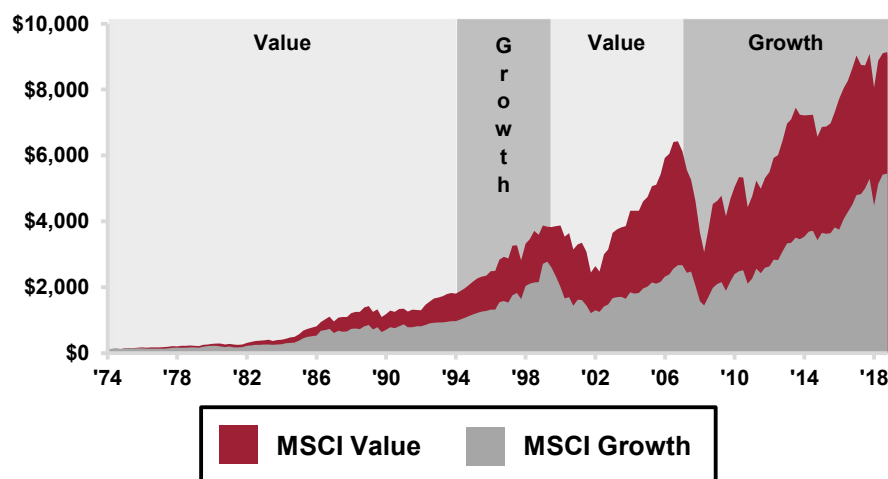
- The current market has been driven primarily by a small group of technology stocks
 - ▶ The magnificent 7 stocks have returned +53% this year vs. the rest of U.S. Mid and Large Cap stocks at +4%
 - ▶ Investors will question why they are value investors while all of their friends are getting rich
- “Only when the tide goes out do you discover who has been swimming naked” – Warren Buffett

Oct. 24th, 2017 CNBC Article

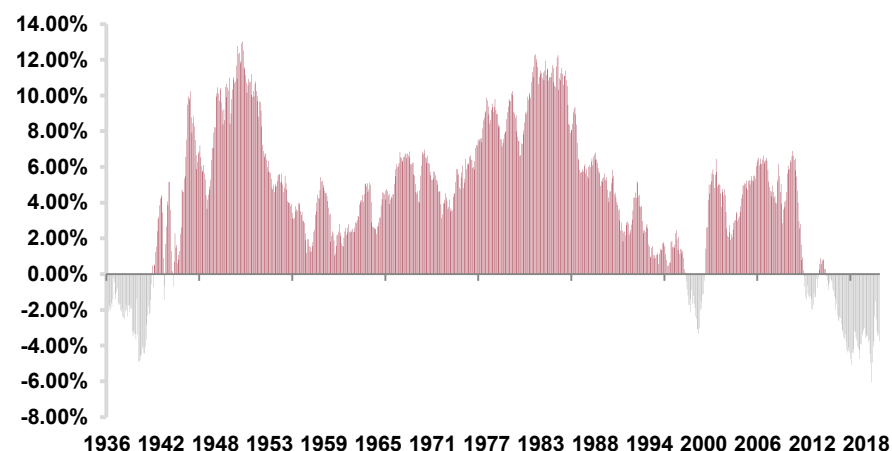
David Einhorn: Value investing may be dead and Amazon and Tesla killed it

- "Given the performance of certain stocks, we wonder if the market has adopted an alternative paradigm for calculating equity value," Einhorn writes in an investor letter to clients.
- Greenlight Capital returned 6.2 percent in the third quarter, bringing its performance for 2017 through September to 3.3 percent.
- In comparison, the S&P 500 rose 14.2 percent in the same year-to-date time period.

Value outperforms over time, but not recently...



Annualized Extra 10-yr Return from US Value over Growth



Where Can “Value” Ideas be Found?

Why Individual Stocks Can Be Mispriced

Markets are inefficient because of human nature and humans ultimately determine prices

1

Industry Cycles

2

Too-Short Time Horizons

3

Uncertainty Around Change

4

Bad News

5

Neglect

6

Complexity

7

Special Situations

Opportunities for Mispricing

There are a few common reasons stocks get mispriced... The most basic:

Market Cycles

- S&P500—market index
- Markets can become overly optimistic or pessimistic about the future
- When things look bad, investors often think the worst
- When things look good, investors often think it will stay that way forever

Industry Cycles

- Tyson Foods (TSN)—chicken producer
- Many industries go through cycles driven by supply and demand
 - ▶ Almost always commodity business
 - Energy, lumber, meat, etc.
- Industry cycles are often very complex with a lot of moving parts, but great research can provide clarity

Market Summary > S&P 500

4,166.82

+4,004.38 (2,465.14%) ↑ all time

Oct 30, 4:20 PM EDT • Disclaimer

1D 5D 1M 6M YTD 1Y 5Y Max



Market Summary > Tyson Foods Inc

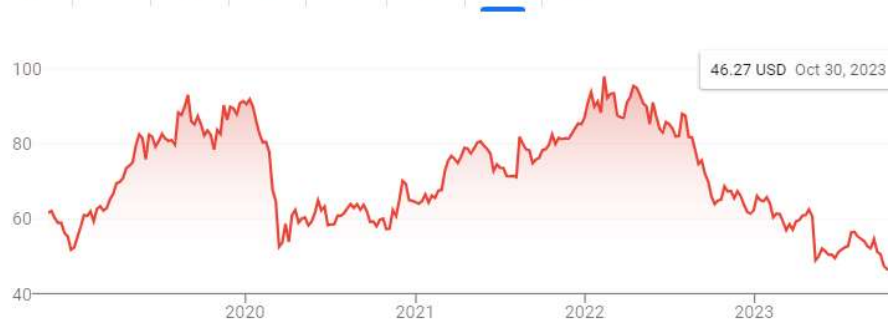
46.27 USD

-15.29 (-24.84%) ↓ past 5 years

Closed: Oct 30, 4:25 PM EDT • Disclaimer

After hours 46.02 -0.25 (0.54%)

1D 5D 1M 6M YTD 1Y 5Y Max



Opportunities for Mispricing

There are a few common reasons stocks get mispriced... The more granular:

Too Short Time-Horizons

- Netflix (NFLX)—2022 2nd ever quarterly subscriber decline
- Oct. 2021 to Apr. 2022, **down ~73%**
- May. 2022 to Today, **up 124%+**
- Markets often become too focused on short-term results
- Often times, this can cause investors to **neglect the long-term forces** at play
 - ▶ ST sub growth slowed as competition increased – causing neglect of LT industry forces

Market Summary > Netflix Inc

406.57 USD

+97.47 (31.53%) ↑ past 5 years

Oct 31, 11:07 AM EDT • Disclaimer



Uncertainty

- Meta Platforms (META) — Social Media
- Uncertainty around the ability for META to continue growth in new ad environment post Apple IDFA
- META had a bloated cost structure
- Losing money on Metaverse investment
- Can META return to profitability/growth?

301.27 USD

+150.92 (100.38%) ↑ past 5 years

Closed: Oct 31, 7:59 PM EDT • Disclaimer

After hours 301.01 -0.26 (0.086%)



Opportunities for Mispricing

There are a few common reasons stocks get mispriced... The more granular:

Bad News

- Chipotle (CMG)—2015 E. coli outbreak
- Sep. 2015 to Feb. 2018, **down ~60%**
- Feb. 2018 to Today, **up 600%+**
- Markets overreact to bad news (and good news) all the time
- Often times, headline news doesn't impact the **long-term** value of a business
 - ▶ Next quarter, year, two years, could be bad, but long-term might be fine

Neglect

- Exxon Mobil (XOM)—Oil company
- Investors focused on ESG and energy transition
- Investors abandoned oil & coal stocks deemed to be “bad” for the environment
- Stocks up ~50% from pre-covid levels, 150% from 2020 lows

Market Summary > Chipotle Mexican Grill, Inc.

1,909.30 USD
+1,867.10 (4,424.41%) ↑ all time

Closed: Oct 30, 4:02 PM EDT • Disclaimer

After hours 1,909.30 0.00 (0.00%)

1D 5D 1M 6M YTD 1Y 5Y Max



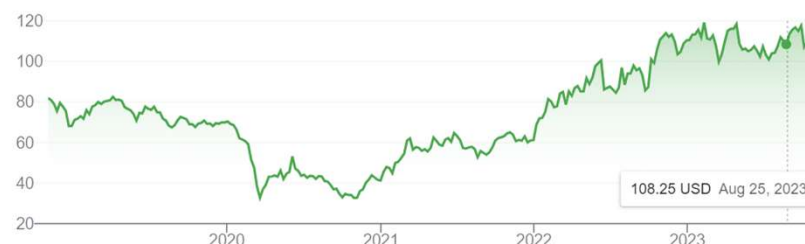
Market Summary > Exxon Mobil Corp

105.85 USD
+23.90 (29.16%) ↑ past 5 years

Closed: Oct 31, 7:52 PM EDT • Disclaimer

After hours 106.20 +0.35 (0.33%)

1D 5D 1M 6M YTD 1Y 5Y Max



Opportunities for Mispricing

There are a few common reasons stocks get mispriced... The more granular:

Complexity

- Warner Brothers (WBD)— Spinoff Apr. 2022 to Oct. 2023, **down ~60%**
- Created from a spinoff of AT&T and a merger with discovery
- Complicated financials made this difficult to analyze
- Declining linear business and rapidly growing streaming business

Market Summary > Warner Bros Discovery Inc

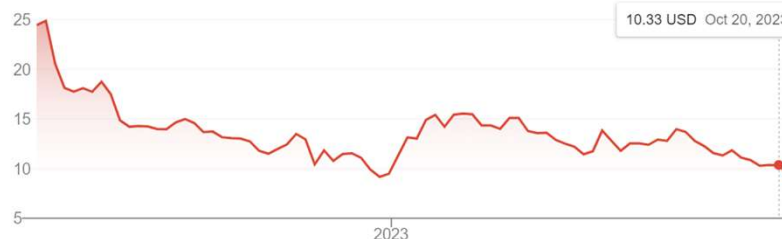
9.94 USD

-14.53 (-59.38%) ↓ past 5 years

Closed: Oct 31, 6:10 PM EDT • Disclaimer

After hours 9.94 0.00 (0.00%)

1D 5D 1M 6M YTD 1Y 5Y Max



Down ~60%

Special Situation

- Activision (ATVI)—video game producer
- Uncertainty around if merger would receive regulatory approval
- Announced in early 2022, completed early October 2023
- Concern that it would give MSFT a monopoly over the gaming space
- Took time for ATVI to trade at the offer MSFT made for the stock ~35% gain for investors who took the risk



Next Week + Research & Reading Recommendations

Value Investing Seminars

Culverhouse Investment Management Group

Schedule of VIS

Date	Topic
Oct. 20 th	Intro to Value Investing- <i>Overview, Warren Buffet, Ben Graham, strategy, margin of safety</i>
Oct. 27 th	Intro to Investment Research
Nov. 10 th	Accounting- <i>Financial statements, cash vs. accrual, profit, margins, growth</i>
Nov. 27 th	Intro to Valuation- <i>Relative & Intrinsic Valuation</i>

Contact Information



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President

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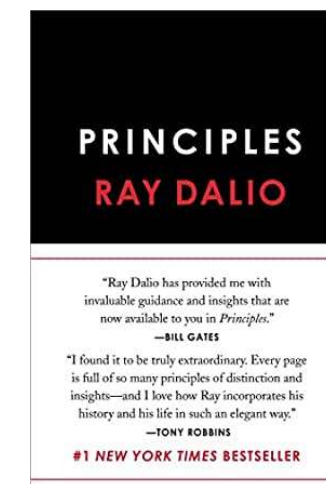
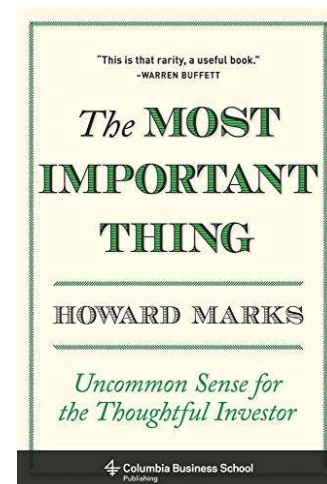
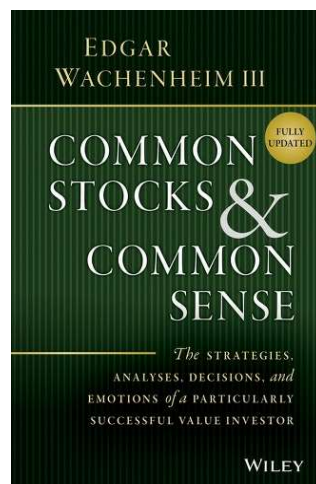
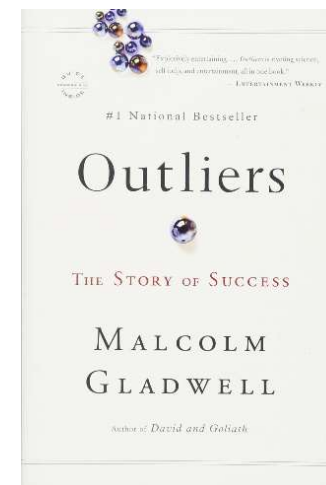
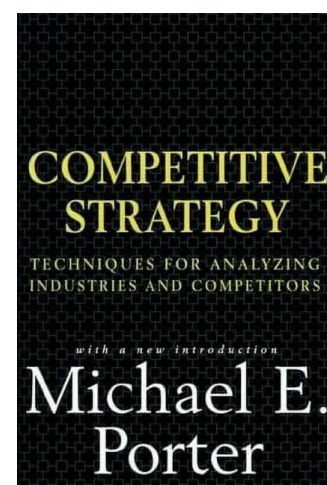
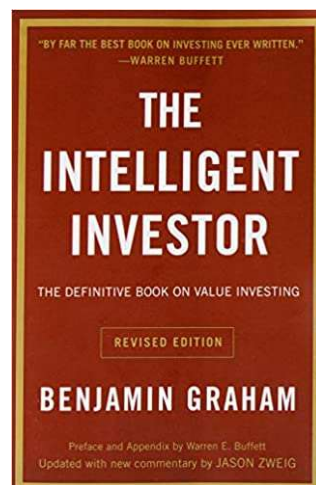
Matthew Gaines

VP of Portfolio Management

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Areas for Further Research / Book Recs

- [Warren Buffett Archive](#)
- [Howard Marks Letters](#)
- [Vulcan Value Partners Letters](#)
- [Horizon Kinetics letters](#)
- [Nomad Letters](#)
- [Wall Street Journal](#)
- [Investopedia](#)
- [Stratechery](#)



Thanks for Coming!

