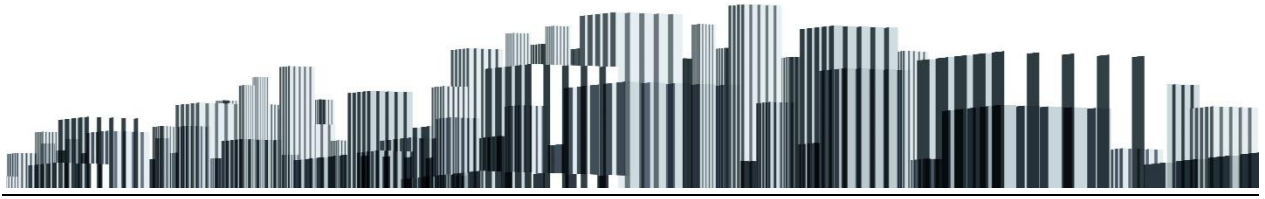


# Investment Advisors, LLC



## [Memorandum]

**To:** The Financial Advisory Team

**From:** The Desk of the Directors

**CC:** Legal

**Date:** Spring 2024

**Re:** Potential new client account

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Financial Advisory Team Members:

A representative from a local family has reached out to our investment advisory firm. They are interested in hiring us. He would like to hear a presentation about the following:

- current state of the economy
- current state of financial markets
- information on an industry of interest for the family
- information on stocks and bonds from that industry
- optimal risky portfolios
- available mutual fund or ETF investments

We have arranged for your team to make a presentation to the family's representative. The presentation should last about 30-40 minutes. The goal is for you to indicate our firm's understanding of the economy and markets in order to earn this account.

He requests you send two things to him by **3pm on April 29th.**

- A presentation consisting of figures, diagrams, and tables with explanations. Screenshots of financial data may be useful. Link diagrams and figures to their source if possible.
- An Excel file of a stock valuation (a completed DCF template).

Creativity is important. Thorough, well-researched, and organized presentations are necessary. Slides should be well formatted, attractively designed, and easy to read, including at least (1) a Cover Page with names of your group and group members, (2) Table of Contents, (3) Section Headers (and sub headers as necessary), (4) Conclusion. You can have as many or as few slides as you need so long as it covers all the necessary information.

Participants in the meeting should wear appropriate professional attire. During the meeting, the representative will control the slide show and pace of the presentation himself. He will flip through your slides, choosing what he wants to talk about and who on your team he wants to discuss that

topic with. Some slides may be skipped over entirely. We therefore expect the presentation to be more of a “roundtable” or “panel” style. Everyone on your team must be well versed on every topic.

It is okay if you do not talk about everything in the slides during the presentation, but everything as indicated below *must* be included in some way in the slides. Model your slides off these examples below. Notice that in the finance industry, slides are often “dense” with figures and text explanations.

1. [Trian Partners](#)
2. [Blackwells Capital](#)
3. [Alta Fox Capital](#)
4. [J.P. Morgan Asset Management](#)

Good luck!  
Your Directors

## SECTION 1: AN OVERVIEW OF THE ECONOMY

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Provide an overview of the economy. Understand and interpret each figure. Your figures should go back to at least 2007 (before the financial crisis) to give context to the numbers we are seeing today.

- GDP
- Unemployment Rate
- Weekly Initial Jobless Claims
- CPI, PCE and/or other inflation measures
- Federal Funds Rate
- Other relevant “leading/lagging” economic indicators



You should be able to answer or address the following questions and points.

- Why do these measures matter? How are they relevant for investors and your industry?
- What explains the movement of these economic measures?
- How do you project these measures will change moving forward?
- Explain big changes (peaks or dips) in the figures you present.



Recommended data sources:

- St. Louis FED: <https://fred.stlouisfed.org/>
- Trading Economics: <https://tradingeconomics.com/calendar>
- Conference Board:  
<https://www.conference-board.org/topics/us-leading-indicators>

## SECTION 2: AN OVERVIEW OF FINANCIAL MARKETS

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Provide an overview of the state of financial markets. Overlay on a single graph the five-year percent change of the three stock indices below so that we see their relative performance:

- S&P 500
- DJIA
- Russell 3000
- Bond yields
- Yield curve and/or 10-2 Treasury Spread

Show the historical Shiller CAPE measure. How is this defined? Why do investors care about this measure?



You should be able to answer or address the following questions and points.

- Why should investors care about historical data?
- How are these indices weighted?
- What stocks are represented in each index?
- What explains their recent movement (peaks and dips) and where do you forecast each of them going?
- Explain the “shape” of the yield curve. Discuss rising/falling bond yields, what that means about bond prices, and the implications of these yields on financial markets.



Recommended data sources:

- Yahoo! Finance: <https://finance.yahoo.com/>
- Bloomberg terminals
- WSJ Market Data: <https://www.wsj.com/market-data>
- Finviz: <https://finviz.com/>

### SECTION 3: AN OVERVIEW OF A SECTOR/INDUSTRY

Describe the industry and its competitive landscape. List the major firms and what they do. Is the industry *cyclical* or *defensive*? How has this industry performed year-to-date and over the last several years? Discuss the industry’s strengths, weaknesses, opportunities, and threats (SWOT). What are some things that may be important for investors in this industry to know about?



You should be able to answer or address the following questions and points.

- What are the most relevant metrics and ratios in this industry/sector? Why? What does a “low” or “high” value for these ratios or metrics mean?
- What are your projections about the performance of this industry moving forward?
- Understand the strengths, opportunities, weakness, and threats.



Recommended data sources:

- S&P NetAdvantage:  
<http://newman.richmond.edu:2048/login?url=http://na.capitaliq.com/ip/RICHU>
- IBIS World (SWOT) and industry reports:  
<https://libguides.richmond.edu/ibisworld>
- Aswath Damodaran (industry ratios):  
[https://pages.stern.nyu.edu/~adamodar/New\\_Home\\_Page/datacurrent.html](https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datacurrent.html)

## SECTION 4: MUTUAL FUNDS AND ETFs

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1. Find an equity mutual fund or ETF one might buy if they are *interested in exposure to your industry*. Is this an active fund or index fund? Mutual fund or ETF? In a table, provide the following (and be sure you can discuss each in your presentation):
  - a. Expense ratio
  - b. Top five holdings (the stock you pick below should probably be among the fund's holdings, though not necessarily in the top 5)
  - c. YTD, 1-year, 5-year, 10-year returns
  - d. NAV
  - e. Alpha, beta, Sharpe (if available) and so on.
2. Find a fixed income or bond mutual fund or ETF. *This can be in any industry or represent several industries since bond funds generally aren't sector specific*. Discuss its:
  - a. General characteristics, returns, composition
  - b. Average duration
  - c. What does the credit rating breakdown look like (what percent of the bonds in the fund are AAA, AA, A, BBB, BB, and so on)? What does this mean for the risk of the portfolio?



You should be able to answer or address the following questions and points.

- What does it mean to be indexed or actively managed?
- What do the metrics you report mean (expense ratio, alpha, beta, etc.) and why are they important for investors to know about?
- What does the current interest rate environment mean for this bond portfolio? To what degree should investors in the bond fund be concerned about rising or falling interest rates?



Recommended data sources:

- Vanguard, BlackRock, Fidelity, State Street, etc. websites.
- S&P NetAdvantage:

<http://newman.richmond.edu:2048/login?url=http://na.capitaliq.com/ip/RICHU>

- Morningstar:

<http://newman.richmond.edu:2048/login?url=https://ar.morningstar.com/mirc/memb>

## SECTION 5: INVESTMENT OPPORTUNITY SET

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Construct an investment opportunity set of the stock fund and bond fund you introduced in Part 4. What are the weights of each in the optimal risky portfolio? What is this optimal risky portfolio's Sharpe ratio? Pictures and visualizations are very helpful for this section. Consider using templates and outputs available at <https://www.portfoliovisualizer.com/efficient-frontier>.



You should be able to answer or address the following questions and points.

- What is an investment opportunity set, optimal risky portfolio, Sharpe ratio, etc.?
- How is this IOS and the optimal risky portfolio “derived”?
- What is mean-variance optimization?

## SECTION 6: STOCKS AND BONDS

Pitch a stock in your industry. Provide a graph of the firm’s comparative stock performance, overlaid with the performance of the S&P 500 and the equity mutual fund you chose above. In this section, you may also consider using S&P NetAdvantage (particularly for the bond information and the information necessary for filling out the DCF template), Yahoo! Finance, the WSJ Market Data Center and Morningstar.

1. Discuss the firm and what it does. Provide links to the firm’s most recent 10-K in your slides. Give a thesis as to why this would be a good stock pick.
2. Report the:
  - a. P/E Ratio (relative to the industry), trailing and forward
  - b. Implied price by comps P/E ratio
  - c. PEG, P/B, P/Sales, and/or any other relevant ratios for your firm in its industry (relative to the industry) and the implied prices by these ratios
3. Conduct an FCFF valuation. How does the stock trade relative to its intrinsic values? You are welcome to build your own model or use template available at <https://www.josephfarizo.com/fin366.html>
  - a. In your slides, focus on the *assumptions*, like
    - i. Near-term growth rates
    - ii. Constant growth rate
    - iii. Discount rates

In your presentation, explain the inputs and assumptions of the model. Be able to justify them. Summarizing them (along with the intrinsic values you estimate) in a table is helpful.

4. Find a bond for the firm. From S&P NetAdvantage, provide the bond’s:
  - a. Price chart/current price
  - b. Credit ratings
  - c. Seniority
  - d. Coupon
  - e. Maturity
  - f. Secured/unsecured
  - g. Duration
5. Calculate your own price of the bonds. Consider looking up yields on the Fed’s FRED website for bonds of similar credit ratings as your discount rate when you value your bonds. Are the bonds under- or overvalued given your estimate of the price?



Recommended data sources:

- SEC Edgar: <https://www.sec.gov/edgar/searchedgar/companysearch>
- Yahoo! Finance: <https://finance.yahoo.com/>
- Bloomberg terminals
- WSJ Market Data: <https://www.wsj.com/market-data>
- Finviz: <https://finviz.com/>
- S&P NetAdvantage: Resources tab at <https://www.josephfarizo.com>
- Morningstar: Resources tab at <https://www.josephfarizo.com>



You should be able to answer or address the following questions and points.

- How do you justify your discount rates and growth rate assumptions?
- Can you explain the mechanics of discounted cash flow analysis and valuation? Can you describe discount rates, forecasting cash flows, levering/unlevering?
- Why are yields on similar newly issued debt the appropriate discount rate for existing bonds?

## **APPENDIX: NOTES ON GRADING AND OTHER INSTRUCTIONS**

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Have **one** team member from your group upload the Completed DCF Template (in Excel form) and Slides (PDF) to the same website link we've used all semester. The file names should be **AbcInvestmentAdvisorsSlides** (as a .pdf file) and **AbcInvestmentAdvisorsDCF** (as an .xlsx file), replacing "Abc" with the name I assigned your group.

After the presentation, you will evaluate your own performance as well as the performance of others on your team. This will remain confidential. I take these evaluations into account when assessing your overall. *A student's failure to participate meaningfully in the project can result in them individually earning a poor overall score even if their team otherwise does well.*

Participating in this assignment is a requirement to pass this course, even if you do not need the points to pass.

A point scale ranging from 1 to 10 will be assigned to each of the following:

1. The quality of content in each of the sections (Overview of the Economy, Overview of Financial Markets, etc.)
2. The formatting, grammar, style, etc. of the slides
3. Individual presentation ability and answering questions on the presentation day
4. Overall team cohesiveness and presentation ability on presentation day

The 10-point scale:

- 10:** Excellent
- 9:** Very Good
- 8:** Good
- 7:** Ok, but needs improvement
- 6:** Needs Significant Improvement
- 5:** In need of a major revision
- 0 - 4:** Inadequate performance or work not completed.

I make adjustments based on whether you are asked an "easy" or "hard" question on presentation day. For example, if I ask you a very hard question, you may be able to earn a "10" even if your answer is less than perfect. If you are asked an easy question, the standard for earning a "10" is higher.

Given you will not know who will be asked what on the presentation day, it is important that you read, study, and understand your team's report. Practice running through your slides alone and with your team by pulling names from a hat to randomize who presents what.