



QUANTITATIVE
FINANCE
SOCIETY

Intro to Value Investing

Portfolio Team Applications

- **Timeline:**
 - Opens on Friday, 09/22 at 12:00 PM
 - Closes on Friday, 09/29 at 11:59 PM
- **Eligibility:** open to all NYU students, no experience required
- **Application Process:**
 - Fill in Google form
 - Submit application responses as PDF/Word
- Join our mailing list (bit.ly/qfsmail) to stay updated on events and due dates

Women's Social

- **Friday, 09/22 at 5:00 PM in UC-25**
- Panel and presentation about our experiences in finance and QFS as women
 - Opportunity to speak with members of P-Team, E-board, and PMs

We will have Magnolia Bakery banana pudding!



Brain Teaser

- Suppose you're playing a game against me. One of us will start the game by saying a number between 1 and 10. The other person must say a number 1-10 higher than the previous number, and we take turns continuing to increment. The winner of the game is the person who says 50 first. If I give you the option to choose to go first or second, can you guarantee yourself a strategy to win?
- EX: 1, 5, 15, 21, ...
- EX: 9, 10, 13, 18, 27, ...





Answer

- You should go first and say 6.
- We can solve this by working backwards:
 - If we want to say **50** first,
 - We want to say **39** first. (Why?)
 - We want to say **28** first.
 - We want to say **17** first.
 - We want to say **6** first.
- This is a solved game: if you want to say n and can increment by x , always start the game by saying
 - $n \bmod (x + 1)$





What is value investing?



Value Investing

- Buying something for **less than its intrinsic value**
- “Buying a dollar for 50 cents”
- Identifying business that are
 - Fundamentally good
 - Mispriced by the market
- Investing with a **long-term time horizon** — does not rely on speculation

What Makes a Strong Value Investment?

Strong Business

Mispricing

Conviction



How do I find a good business?



Industry

- We seek to buy businesses with fundamentally strong industry characteristics and dynamics:
- **Which of the following companies has more competition?**



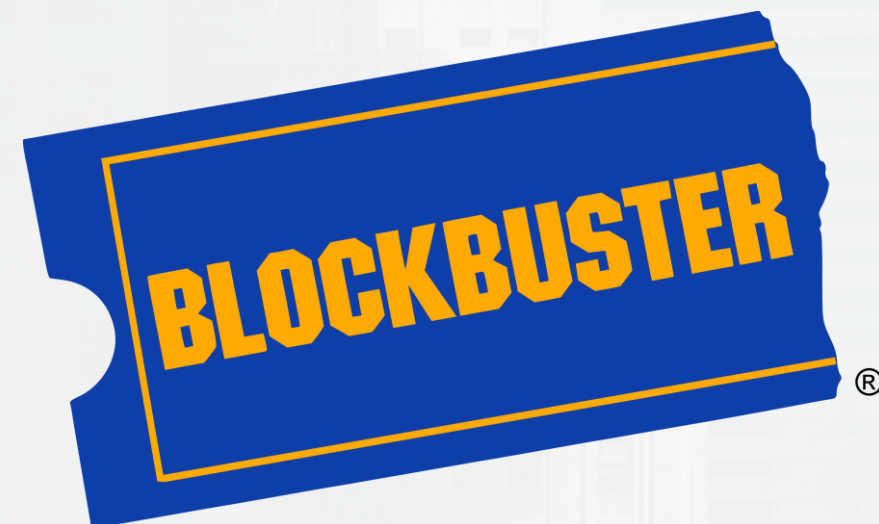
H&M



Google

Industry

- We seek to buy businesses with fundamentally strong industry characteristics and dynamics:
- **Which of the following companies is in a high-growth industry?**



NETFLIX

Economic Moats

- Moats are **structural** business attributes that allow companies to protect **long-term profits** and **market share**
- Moats offer **sustainable** profits and returns, which are much more important to us as value investors than **high** returns
- What moats do these companies hold?



Economic Moats

Intangible Assets

- Assets that prevent competition or allow companies to charge more



Network Effect

- Results in the value of a service growing as more people use the network



High Switching Costs

- High costs that arise from changing from one provider to another



Economies of Scale

- Per-unit cost declines as the company expands in scale



Economic Moats

Intangible Assets

Network Effect

High Switching Costs

Economies of Scale

Customer lock-in
Competitor lock-out

Greater economic power

Management Teams

- We seek management teams with **strong track records** and whose **incentives aligned with stockholders**
- **History of operational success:** industry experience, capital allocation decisions
- **Aligned incentives:** insider ownership, stock-based compensation

At the end of the day, we need to believe that management teams will successfully execute in order for our theses to play out.



How do we find a mispriced business?



Why Find Mispricings?

- Imagine I was selling you a share of Apple for \$1.00 USD...
- Would you buy it?

Market Summary > Apple Inc

177.97 USD

+2.96 (1.69%) ↑ today

Why Find Mispricings?

- What would happen as more people are looking to buy it?



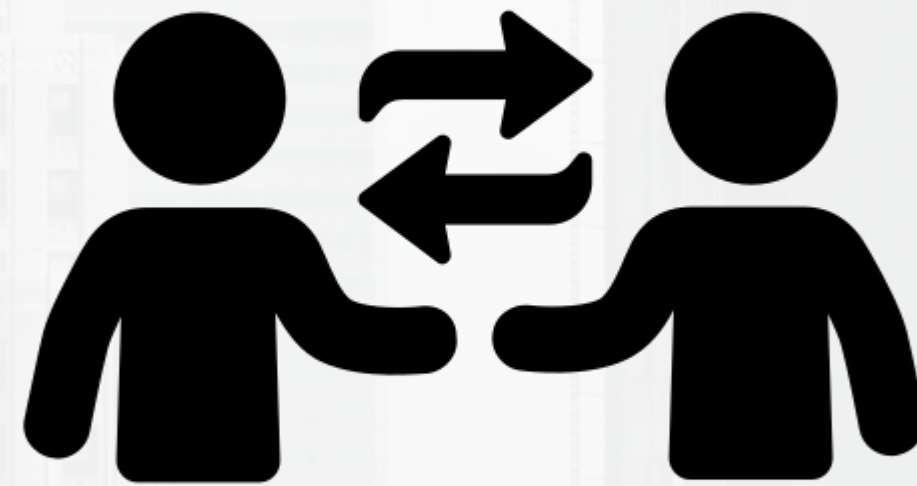
Why Find Mispricings?

- What would happen as more people are looking to buy it?
 - There would no longer be an opportunity to buy it for \$1.00 USD!



Why Find Mispricings?

- Another way of thinking about it – why is the counterparty selling?
- If someone is selling you a share for a “cheap price,” what do they misunderstand? Why are they willing to sell for such a low price?



Why Find Mispricings?

- **Conclusion: Not all good businesses are good investments**
 - We need to find a good business at a cheap price, which is not always easy – the person selling you that business likely has a good reason!
 - Therefore, you need to find a business that has been **mispriced/misunderstood** by someone else

Structural Mispricings

- **Small-cap equities:** can I play in a smaller space than others?
- **High-yield debt:** can I play lower-rated debt, while others cannot?
- **Sin stocks:** can I play in industries that others cannot?
- **Differences in time horizon:** can I wait for a long-term thesis to play out?

Behavioral Mispricings

- **Over or underearners:** are recent one-time headwinds or tailwinds being priced in as recurring?
- **Herd behavior:** is this company a beneficiary of a bubble?
- **Short-term market sentiment:** did a recent earnings or press release cause this stock to be oversold or overbought?
- **Business transformations:** is this company undergoing a company turnaround or change in management that has caused price dislocation?

Case Study: Spin-offs

- **Spin-off:** separation of a business segment from the parent company into a new, independent company
- Spin-off and parent company stocks consistently outperform the market
- **Opportunities for mispricings:**
 - **Forced selling:** new spin-off shares are distributed to parent shareholders — many of whom sell immediately
 - **Increased management focus:** each individual management team can focus on maximizing their company's value



How Do We Obtain Conviction?



Know Your Variant View

- Understand **why** the mispricing exists and **where** you are thinking differently from others
- Understand what others are thinking:
 - What do equity research analysts say?
 - What do other investors say?
 - What about a person taking the opposing trade?
- Conduct thorough **due diligence**, particularly on areas where you are variant from the market

Buy at a Discount

- Buy at a discount to intrinsic value
- Account for the possibility that things don't go the way you expect them to

We seek bets where we make a strong return under conservative assumptions and don't lose much money under worst-case assumptions

Swing Once, Swing Well

- Invest within your **circle of competency**
 - Know what you know and what you don't know
 - Most important thing is not how large your circle of competence is, but how well you've defined the perimeter

“What’s nice about investing is you don’t have to swing at pitches. You can watch pitches come in one inch above or one inch below your navel and you don’t have to swing. No umpire is going to call you out. You can wait for the pitch you want”



Case Studies

Common Long Ideas

- **Strong business with barriers to entry**
 - Awesome businesses that you want to hold forever
 - Market mispricing due to short-term fears
- **Smart management teams**
 - Strategically compound value over the long-term
- **Hidden opportunities**
 - Margin expansion, cost-cutting
- **Dirty, ugly, but cheap**
 - Bad business at an amazing price
- **Special situations**
 - Event-driven situations that the market is mispricing for various reasons
 - Spin-off, Distress/Bankruptcy, Busted IPOs, Credit, Merger-Arb

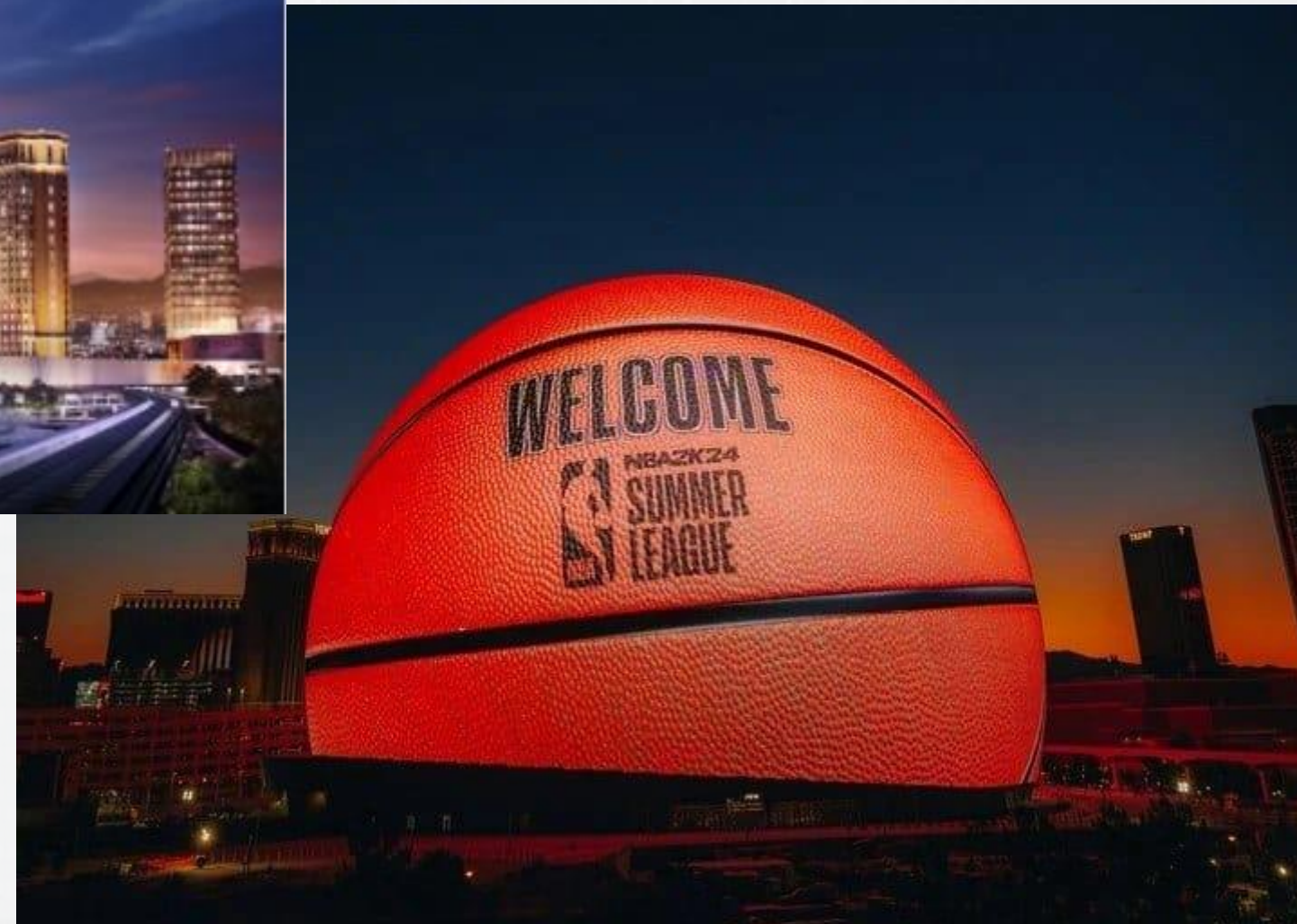
Common Short Ideas

- **Structural share donor**
 - Brick and Mortar retail
 - First-mover in high-growth industry without a moat
- **Frauds/accounting gimmicks**
 - Enron
- **Companies with crazy high-expectations, popular fads**
 - Plant-based meat
- **Overearning cyclical**
 - Industry in an upcycle (demand outstripping supply in the short-term), yet the market assumes this upcycle will last forever
- **Overleveraged companies**
 - Difficulty servicing debt
 - Unrealistic expectations



SPHR Case Study

A Hidden Gem: Sphere Entertainment



A Hidden Gem: Sphere Entertainment

Situation:



TAO GROUP
HOSPITALITY



SPHR

A Hidden Gem: Sphere Entertainment

Key Mispricings:

- 1** Absence of Sphere guidance and investor exasperation lead the market to misprice the true potential of the Sphere
- 2** Management's compensation structure incentivises them to deflate Sphere expectations ahead of launch
- 3** Sphere Entertainment's other assets (Tao, MSG Networks) limit downside risk in this trade

A Hidden Gem: Sphere Entertainment

Market Summary > Sphere Entertainment Co

36.89 USD

+ Follow

+11.88 (47.50%) ↑ past year

Closed: Sep 18, 4:00 PM EDT • Disclaimer

After hours 36.89 0.00 (0.00%)

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





VITL Case Study



Crazy Expectations: Vital Farms

- Branded pasture-raised egg company
- Eggs are produced in a more animal friendly manner and are sold for \$6 per dozen vs \$1-2 per dozen for normal eggs
- Company IPO'd in 2020 and did well coming off COVID tailwinds



Crazy Expectations: Vital Farms

Market Expectations

- Company can maintain its 70% market share
- The market will continue growing at a 20% CAGR
- Company multiples are compared to tech stocks, unlike its industry peers

Our View

- The industry has peaked, with pre-COVID product velocities down YoY
- Vital Farms growth will be more difficult, as remaining stores are value-focused
- Private-label brand competition stiffening at Whole Foods

Crazy Expectations: Vital Farms

Market Summary > Vital Farms, Inc.

10.92 USD

+ Follow

-24.34 (-69.03%) ↓ all time

Closed: Sep 18, 4:39PM EDT · Disclaimer

After hours 11.00 +0.080 (0.73%)

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



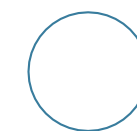


Get in Touch

Mailing List



Coffee Chats





Get in Touch (Cont'd)

Feel free to reach out to us over Facebook or email if you have any questions

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