On **October 15, 17, 22 and 24** at the BA School of Business and Finance (BASBF) it will take place an open and free guest lecture series, “Investment Perspectives – from a Hedge Fund Guy”. Time – from18.00 till 19.45.

Investment Finance Perspectives – Draft Syllabus

1. Risk
    a. Pretend you are a Financial Adviser: How do you respond when someone you do not know asks you to recommend investments that feature only ‘very limited risk?’
    b. Can a credit obligation from the U.S. government be riskier than publicly traded stocks?
2. Future Returns – Investor expectations
    a. Investor return expectations are formed by:
        i. Historical returns
        ii. The media
        iii. Hope and need
        iv. And for some few investors, financial and economic analysis.
    b. What insights can we obtain about the economics of the world stock markets (or even asset ownership generally) by examining the economics of a “simple” asset class such as rental farmland in Zemgale, LV?
        i. Farmland economics – the simplicity of understanding income (earnings), capital expenditures, growth in valuation.
        ii. Corporate economics – the complexities of income (earnings), capital expenditures, growth in valuation.
3. Future Returns – The Reality: With all of the previously mentioned complexities, Investors have wildly different ideas as to what returns they can / should) achieve with a publicly traded stock portfolio (and for that matter, returns from investments in many classes). What returns can be reasonably expected?
    a. For publicly traded stocks, is a 4% annual expected return too little? Is 15% too much? What about inflation?
        i. Why are historical returns not a good indicator of future performance?
    b. What factors will either *substantially increase or decrease future returns* from the *reasonable expectations*?
        i. GDP growth, earnings growth, systemic risk, monetary policy, regulatory easing/tightening, political risk.
        ii. Why has the performance of U.S. publicly traded equities been significantly in excess of inflation? Explain the “mountain” (the pattern of returns in the S&P 500 since 1980, and, the returns in Zemgale, farmland since 1991). How did that happen?

4. How does Investment psychology - Fear and FoMO affect return expectations – short and long term?
    a. Improved sentiment appears to have been a leading contributor to investment returns over the last 50 years.
    b. Is it easier for a Wall Street trader to sell a High Yield bond at 92 that went from 90 to 92? Or, a bond at 90 that was 92?
    c. Implications of fear for retail investors – not good.
5. People dramatically over-estimate their expertise.
    a. In this class we will illustrate this with a group test. [Questionnaires were completed on Day One.]
    b. Corollary: If people over-estimate their expertise of their current knowledge, they will under-estimate future variability of *nearly everything*.
6. The numbers – Earnings and EBITDA
    a. What is “E” as in earnings?
    b. [What is EBITDA? Why does the financial media focus on Earnings and Price / Earnings while Investment Analysts focus on EBITDA and EV/EBITDA?]
7. P/E ratios – useful or arbitrary? Magical or contrived?
    a. Why do research analysts and portfolio managers, when analysing investments, frequently use the phrase, “companies like this trade at a multiple of x.”
        i. What does that mean? Who sets the multiple? What are the implications of this?
        ii. Why does a company trade at a multiple of x? Rather than x+2 or x-2.
8. More about P/E ratios
    a. Do multiples change? If so, what makes them change.
        i. Can a P/E ratio react violently up or down even if E changes only modestly?
    b. Why is use of constant P/E (or P/EBITDA) ratios in investment modelling inherently circular?
    c. If you were given the choice of being the world’s best predictor of the next year’s earnings or the next years multiple, which would you choose?
        i. Why is predicting the future multiple the most difficult thing that an investor in a specific stock must do?
9. Is it disloyal for Latvians to invest in a portfolio of non-Latvian assets?
    a. Conversely: What prudent investing rule(s) are you breaking with a Latvia-only portfolio?
    b. What are the benefits to Latvia (if any) of a citizen investing in non-Latvian financial assets?
    c. What about other investments? Do they produce benefits for Latvia?

        i. Local businesses, exporters of goods and services, Angel Funds.

10. ETFs – SPX, NASDAQ 100, NASDAQ Comp
11. Can investments (predictably) make one rich? If not, what are the benefits of investing?
12. What should a person's investment timeframe be?
    a. You are a young 35'ish investor – do you want the stock market to go up or down today?
    b. Financial Advisors often frame their target date for your investments at age 65. What do you think?
13. Should I employ a Financial Adviser? (Also known as a Financial Planner?)
    a. First of all, you may not be eligible to hire an adviser since you may not satisfy minimum investment sizes.
    b. Cons
        i. Expensive, fees can easily exceed 1% or even 3% annually.
        ii. Most Advisers under-perform the market (after fees)
        iii. Adviser firms are often staffed by friendly, well-meaning investment neophytes.
    c. Pros
        i. (Initial) use of an adviser, for psychological reasons, may be a good way to get coaxed into investing. Some investors will always need a third party standing behind them.
        ii. Additionally, you will definitely learn something by having a financial advisor (at least for some period of time). If you quiz your adviser thoroughly during the period he/she is retained, you may quickly learn what he/she knows and be shocked to learn how little he/she knows.
        iii. In other words, it may be useful to use an Adviser for a limited period of time to start investing – i.e., to get over the barriers you have in your mind. Then after some modest period, go out on your own.
    d. Picking individual stocks?
        i. Your competition On Wall Street does this 24/7. They are professional – does this mean that they know what they are doing? Do they have an advantage over you, a new, part-time investor with limited resources?
        ii. Due to the inherent nature of managed money (limitation on withdrawals, etc) you are more likely to be affected by greed or FoMO.
14. How should you react to someone who has a stock pick for you?
    a. Fundamental questions – get answers and test their knowledge – you will (probably) be surprised by how little they know.
    b. Ask them: "Do you own it? What else do you own?"

15. Other sources of investment learning.
    a. Books are the best – two types: by academics and investors used in combination.
    b. Investment clubs, but only on an ancillary basis.
    c. Of course – media.
16. Specific Investment Advice from Berzins.
    a. None – that was not point of these lectures.