

ACCT 5xx
Alphanomics: Active Investing in Equity Markets
(Ver. 1/09/2022)

Co-Instructors

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Course Overview

The course is structured as a primer on active investing in public equity markets. Our starting premise is that, when information is costly to acquire and analyze, equilibrium prices cannot fully incorporate all value-relevant information. In reality, stock prices are established through a process of risky information-based arbitrage. Together we will examine the evidence on the types of the information that have proven useful in identifying attractive companies and making investment decisions in public markets.

The main goals of the course are to develop students' ability to: (1) assess the value and worth of individual firms under different assumptions, (2) identify attractive investment opportunities with quantitative stock screens, and (3) manage a portfolio of publicly traded stocks. Specific topics covered include: an overall framework for active investing, financial ratio analysis, cash flow analysis, equity valuation, earnings quality evaluation, fraud detection, quantitative stock selection, short-selling mechanics, trading fundamentals, and basic portfolio management.

This course is designed for students with a strong interest in public equity investing, either personal or professional. It should be particularly helpful to those with career aspirations in asset management, equity research, and financial consulting. Prior stock investing experience or a class in Financial Statement Analysis (e.g., ACCT510) would be useful. However, this course is designed to be accessible to anyone who has completed the equivalent of the core MBA-level training in economics, accounting, and finance.

This is a hands-on course with an emphasis on experiential learning. Students will use many analytical tools to evaluate individual companies, design stock screens, conduct back-tests, and assess portfolio risk. We will also review a number of academic research studies and build these insights into our investment process. There is no final exam. However, there will be six individual cases and a final group project. Much of the content is quantitative in nature and students can expect a moderate to heavy workload.

Instructor Bio

Charles M. C. Lee joined the Foster School in January 2022 and is the Kermit O. Hanson Professor of Accounting. He is also the Moghadam Family Professor, Emeritus, at the Graduate School of Business, Stanford University.

Professor Lee studies the effect of human cognitive constraints on market participants and other factors that impact the efficiency with which market prices incorporate information. He has published extensively in leading academic journals on topics that include behavioral finance, financial analysis, equity valuation, market microstructure, quantitative investing, and security market regulation.

As an academic, Dr. Lee has received numerous honors and award, including twelve school-wide (at Michigan, Cornell, and Stanford) Teaching Excellence Awards, as well as the Notable Contribution to Accounting Literature Prize. He was the Presidential Scholar of the AAA and has received the Stanford Asian American Faculty Award for Outstanding Achievements and Service to the Asian community. Recent honors include the Harry Lyman Hooker Distinguished Visiting Professorship, McMaster University, 2021; Keynote Speaker at the JIAR Annual Conference, 2021; and the Best Paper Award, AAA Spark Conference, Western Regional, 2021.

Dr. Lee also has extensive experience in asset management. From 2004 to July 2008, he was Managing Director at Barclays Global Investors (BGI; now Blackrock). As Global Head of Equity Research, he led the firm's world-wide active equity research team and was Co-Head of its North American active equity business. During his tenure, BGI had over \$300 billion in active equity asset under management. In 2011, he co-founded Nipun Capital, LP, an asset management firm focused on fundamental-based quantitative investing in Asia and Emerging Markets.

Professor Lee has served as Editor or Associate Editor of many academic journals, including: *The Accounting Review*, *Journal of Finance*, *Management Science (Finance)*, *Journal of Accounting and Economics*, *Journal of Accounting Research*, the *Review of Accounting Studies*, and the *Financial Analysts Journal*. His research has also been featured in such popular media outlets as: the *Economist*, the *New York Times*, the *Wall Street Journal*, *National Public Radio (NPR)*, the *LA Times*, *Business Week*, *CNBC*, *Forbes*, *Barron's*, *Worth*, *Smart Money*, and *Institutional Investors*.

Professor Lee received his BMath from the University of Waterloo (1981), and his MBA (1989) and PhD (1990) from Cornell University. He has been a faculty member at the Michigan Business School (1990-95) the Johnson Graduate School of Management, Cornell University (1996-2004), and the Graduate School of Business, Stanford University (2009-2021). From 1995-96 he was Visiting Economist at the New York Stock Exchange.

Prior to entering academic life, he spent five years in public accounting, the last three in the National Research Department of KPMG, Toronto, Canada. He holds a Certificate in Biblical Studies from Ontario Theological Seminary and is fluent in Mandarin Chinese.