Production of Investment Newsletters in Investments Courses

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ABSTRACT

The production of an investment newsletter by students in an investments course can provide an integrated and comprehensive learning experience that offers numerous educational benefits. The experience allows students to apply concepts and principles taught in the course to real world companies and situations, and to simultaneously enhance research, writing, computing, and critical thinking skills.

Introduction

Faculty members are often looking for projects that will get students deeply involved in the subjects that they are covering. In this paper we discuss one such project that we use to get students deeply involved in the security analysis process; the production of an investment newsletter.

The value of experiential learning is widely acknowledged. Bloom (1956), Kolb (1984) and many others have written extensively about the educational value of active engagement in the application and integration of skills, knowledge and theory that are being taught in the classroom. Several such activities have been proposed for use in investment courses.

Stock market games or portfolio management simulations are widely used in investment courses (see Hatfield (1993), Kagan, Mayo and Stout (1995), and Saunders (1999), for example). In these simulations, students are generally granted some initial amount of fictitious money to invest in a portfolio of securities and, over time, manage the portfolio in an attempt to earn a favorable return. Several web-based simulations exist (e.g., StockTrak, Virtual Stock Exchange, and The Stock Market Game) to help facilitate the process of tracking results and to increase the realism of the process. Such simulations generate interest in securities and the financial markets, and can be used to illustrate various security selection and portfolio management topics. The primary weakness of such simulations, particularly within a one-semester time frame, is that they often encourage participants seeking to “win” the simulation to undertake activities that are at odds with some of the very principles we are seeking to teach. For example, students often minimize diversification of their portfolio, seek the most risky securities, and ignore fundamental analysis in favor of short-term momentum trading. Also, unless there is some attempt to calculate risk-adjusted returns, the risk component of investing may be minimized.

Removing the simulation component has been accomplished at numerous schools where student managed investment funds (SMIF) have been created. These real-dollar portfolios that are managed by students provide a rich hands-on investment experience of great value. Block and French (1991), Lawrence (1994), and Kahl (1997) are but a few of the authors to describe the benefits of, and operational methods for, SMIF programs. While the educational benefits of SMIFs are not questioned, they can present practical difficulties at some schools. Issues with obtaining the initial funds for the SMIF, developing a proper infrastructure to support the program, and concerns about liability are sometimes roadblocks to starting a SMIF program.

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Other forms of experiential learning in investments courses include projects and/or assignments that integrate the Value Line Investment Survey (Chen (2003)), the Wall Street Journal’s Dartboard Portfolio (Adams and Cyree (2004)) and various other computer and web-based resources (e.g., Albrecht (1995), Saunders (1999), and Maher, Schooley and Fry (2001)).

This paper presents an alternative form of experiential learning, the production of an investment newsletter, which we have found to be a valuable learning exercise in an investments course. We do not propose that it is superior to all of the other forms of experiential learning noted above. In fact, our school has a Student Managed Investment Fund which both authors have directed, and we have used portfolio simulations and other projects with favorable outcomes. However, we believe the investment newsletter project provides value in a variety of ways that will be discussed, and can even be used as a complimentary device with portfolio simulations or student managed investment funds.

**What Is An Investment Newsletter?**

Investment newsletters take many forms, but most have the general purpose of providing investors with recommendations of stocks (or other financial instruments) to invest in or to avoid. The recommendations are supported by up-to-date analysis and projections, are written in a clear, concise, business style, and presented in a professional looking format. While some investment newsletters rely on market timing strategies and/or the utilization of options, leverage, or other more sophisticated investing techniques, our approach is to produce a straightforward equity-only newsletter that focuses most of the attention on company fundamentals and basic security analysis.

**Overview of Investment Newsletters as an Educational Methodology**

The production of investment newsletters as part of a class requires students to produce a tangible result that will be seen as having a scope that is bigger than a class project. The fact that the newsletter is distributed to external constituencies increases the motivation level for some students and gets them to work harder than they would in a typical class project. In addition, sending the newsletter to interested parties, such as alumni, contributors, and executives of companies that are analyzed, gives both the student and the college or university excellent exposure that can benefit everyone involved.

We have used investment newsletters in both introductory level investments courses and more advanced investments courses. Often students in investments courses seem to want to focus on only one thing: how to select hot stocks that will be short-term winners and avoid those that will be losers. Most introductory level investments courses; however, need to be much broader and deeper, exposing students to a wide array of investment terminology, different types of financial instruments (bonds, mutual funds, options, and futures, in addition to stocks), methods of analyzing and valuing financial instruments, and some of the longer-term history of investing. In an effort to cover these basic concepts and yet still expose students to a hands-on experience of selecting and analyzing stocks in a current market environment, the production of an investment newsletter works very well.

For more advanced investment courses that have a strong emphasis on security analysis, the investment newsletter provides an excellent means of showcasing the students’ excellent work. It is not often that we have an opportunity to put our students work on display in such a manner that draws the attention of people outside of the academic setting. The investment newsletter provides such an outlet.

**The Introductory Investment Courses**

The stock analysis and newsletter project for the introductory investments course begins with assigning a company/stock to each student to analyze. Assigning the company, rather than letting the students select their own, provides several benefits such as having students analyze different types of companies (different industries, sizes, past performance, etc.). Also, the companies assigned are headquartered in the southeastern United States and are in relatively close proximity to our university. Where possible we use companies with headquarters or major operations in our home state. These are often companies that students are familiar with, or even where they know people that work at the company. The result is a good mix of companies with a regional flavor that makes the assignment more ‘real’ to students.
Students collect both qualitative and quantitative information on the firm. They are encouraged to use information from the companies (e.g., annual reports and press releases), library resources and internet resources. During the semester as we study various stock analysis concepts and stock valuation methods, the students are given a series of graded homework assignments that they are to perform using their assigned stock. These assignments allow the students to attempt to perform narrowly focused tasks that will be key components of their final stock recommendation report. Over time, different assignments have been utilized, but several common ones include: (1) performing an in-depth ratio analysis, (2) undertaking an “information scavenger hunt” that forces students to dig into printed and/or internet information sources and helps them realize the depth and breadth of information that is publicly available, (3) estimating future company earnings, (4) estimating the beta for their company’s stock, (5) undertaking a qualitative SWOT (strengths, weaknesses, opportunities & threats) analysis to focus on the business fundamentals of the company, and (6) performing a stock valuation using various models and methods. They receive feedback on each homework assignment before they have to incorporate that component in the final report. Near the end of the semester, they must prepare their stock recommendation report in a specific format that must fit on one page.

The final reports are graded on the basis of the quality of the analysis and information as well as the quality of presentation and writing. Reports are often given a preliminary grade, with suggested corrections, and students are allowed to make an additional revision of their report. The best four reports are selected to serve as the body of the investment newsletter. This introduces an element of competition to the process that seems to motivate most students. Also, limiting the final newsletter to the best reports insures that what we distribute to constituents outside the college is a quality product. Regardless of essentially doing the analysis in steps and with multiple instances of feedback, there will still be reports that are not of very good quality. Finally, we do one additional homework assignment that consists of writing an overview and outlook for the overall stock market. This encourages consideration of broad macroeconomic factors that influence equity values (e.g., interest rates, overall economic growth, employment, government policies, etc.) and helps to tie together many of the concepts that have been learned during the semester. Portions of the best of these assignments are blended together to produce a cover page for the newsletter that provides ‘Our View of the Stock Market.’

The Advanced Investment Courses

The advanced investment courses where we produce an investment newsletter are the courses that are responsible for managing our student managed investment fund. As part of the management of this fund students are required to find stocks that they believe to be good investments, produce detailed stock analysis reports and recommend the stocks to the class for consideration. In addition, the students must provide updated reports for stocks that are currently held in the fund. Through the updated reports and presentations, the students may recommend selling some of the stocks held by the fund. In addition to working on individual stock analysis for the class, there are also industry analyst and economic analyst who write reports for the class. These reports are used by the stock analyst as part of their analysis projects.

All of the required parts for the production of an investment newsletter are produced by the class; therefore, the production required putting all of the pieces together. Basically the investment newsletter is a very positive byproduct of the class.

Benefits of the Newsletter Assignment

The stock analysis and newsletter production assignment provides numerous learning benefits for the students involved.

(1) Real World Example Of Material Covered In Class - By utilizing real companies and current data in the introductory investment course rather than just textbook examples, students seem to be more interested in the concepts, analytical tools, and theories that we study. In our rapidly changing world, students often experience the realism (and frustration) of dealing with information that dramatically changes during the course of their analysis. Also, students seem to be more connected to, or interested in, the regionally based companies that we analyze (in the introductory investments course). It is not
uncommon for some of the students to contact, or even visit, the company to try to get questions answered or to obtain a better understanding of the company.

(2) Development Of Computer Skills - Collecting information related to the project, doing the homework assignments that feed into the stock report, and preparing the final report itself all require significant computer usage. Students extensively explore the Internet as they collect information about their company. Students are provided a list of some of the more popular finance and investment sites and are encouraged to find others for data collection. Historical financial data must be downloaded from a couple of sites and then utilized as one part of the analysis. Historical stock price data is downloaded, moved into a spreadsheet program (Excel), and graphed as a price chart for the stock. That graph must then be imported into a word processing document as part of their final recommendation report. Spreadsheet software is generally used for other portions of the assignment such as forecasting company earnings, estimating the underlying value of the stock, and calculation and comparison of financial ratios. The final report is prepared with word processing software (Word) with information from the spreadsheets integrated into the report. For the introductory investments course a one page report is required. For the advanced courses, the students are not limited in the length of the report, but are strongly encourage to make certain that the information included in the report is relevant and of value to the potential readers. Rather than just being a plain text report, their report must match a specific formatting guide that forces the use of columns, creation of data tables, importing of graphical material, and several other items. While the techniques involved are not extremely complex, many students are not exposed to several of these techniques prior to taking the course.

(3) Development of Analytical Skills - Although there is a good deal of structure to the assignment, there are many pieces of the assignment that require students to evaluate different analytical methods or tools that we have discussed and decide, for their company, which approach is most appropriate. Then, actually applying the concept to a real company with real financial data often forces students to be creative, or make certain assumptions, that cannot be easily replicated in textbook problems or questions. Students often come to realize that most of the real work in performing a ratio analysis, earnings forecast, or stock valuation is not simply putting numbers into a formula and calculating ‘the answer’ but rather deciding how, where, and why they can obtain feasible input values after they have a thorough understanding of the company’s business. In addition, the students face the challenge of presenting the results of their analysis in a meaningful and understandable manner. They come to realize that the ability to organize and convey their analysis to others is just as important as the actual analysis itself.

(4) Development of Writing Skills – For the introductory investments course forcing students to examine and analyze a broad array of material and then produce a strong summary report that is only one page long is very useful in improving their business writing skills. Filling up space is no longer a problem. Instead, the problem is filtering out the less important information, focusing on the truly important items, and writing a clear and convincing story that presents their ultimate conclusion (to buy, hold, or avoid the stock). For students in all courses, due to the fact that they are developing input for a professional quality newsletter, it is stressed that there is absolutely no room for typos, misspelled words, formatting errors, columns of numbers without labels or headings, or numbers that don’t line up. This degree of attention to detail seems to be one of the more difficult things to convey, but perhaps one of the more important things that many students need to learn. In the advanced courses all of the students’ reports are included in the newsletter; therefore, students must revise their reports until they are correct. The more revisions required, the lower the grade received on the report. The students in the advanced courses are seniors or graduate students, this project gives an opportunity to prepare them for the type of work that they must produce when they leave college and get a job and gives and opportunity to stress that they must always strive to produce “A” quality work because “C” quality work is not acceptable in the ‘real world.’

(5) Promotes A Long Term Fundamental View Of Investing – By forcing an analysis of the underlying company and undertaking specific valuation exercises that depend on future long-term business performance, students are more likely to develop a fundamental view of investing with a longer-term time horizon. An alternative learning exercise that is sometimes used in investment courses is the creation and tracking of a simulated portfolio of investments. While such an exercise does tend to
generate student interest and encourage them to pay attention to real world investment information and issues, it can also unduly focus attention on short-run performance at the exclusion of other important concepts. Too often, students in simulated portfolio competitions start to view stocks (or other investment instruments) in terms of their short-term price charts and lose sight of the underlying business fundamentals that we are more often trying to convey. If such simulations focus on performance over one-semester, which students often gravitate towards even when professors suggest otherwise, the concepts being taught may not be reinforced by the simulation exercise.

(6) Using The Newsletter As A Promotional Tool – Many students have found that the newsletter and/or their individual recommendation report become a valuable ‘promotional’ tool in a job search. When recruiters ask students if they can describe or provide examples of projects or papers that illustrate their utilization of analytical skills, computer skills, or writing skills, numerous students have used this newsletter as an example. It seems to be effective for several reasons. It is different – not just another research paper or case analysis. It is very concise (which appeals to many business people), and yet the student can explain a variety of analytical techniques and computer skills that were used in the project.

The newsletters have also been used as a promotional tool for the Department and College. Upon completion of the newsletter, copies are mailed to the Chief Executive Officer and Chief Financial Officer of each of the companies that are highlighted in the newsletter, and to numerous business people in the region (stockbrokers, financial planners, bankers, etc.). In addition, the newsletters produced by the advanced courses are sent to contributors to the student managed investment fund. Quite a few of these people have responded, almost always with significant praise for the work the students have done. Being able to tell students that top management at their company and other people familiar with our university may see their work provides students with even more incentive to do a good job.

Preparing Newsletters as a Class Project in Other Fields

A class-produced newsletter project may be useful to adapt in other fields. Professionally produced newsletters exist in many different fields (e.g., health care, technology, politics, sports, etc.). While the format, content, and details of production would certainly require adjustment, the basic benefits of the project should still be available in a variety of areas. Regardless of the underlying topic, this project forces students to explore current real-world information, to understand and critically analyze the information, and to be able to write about it in a clear and concise manner. It also can involve a variety of computer skills and can enhance a learning environment where attention to detail is important. The project can be designed to involve both individual work and group cooperation and is especially well suited to situations where the overall project can be broken down into various component steps. Then, it is easier to give students feedback on these various steps (i.e., smaller homework assignments) before the final product is due.

A Potential Dilemma

Faculty members who are considering using investment newsletters in their classes need to be aware that they are in for a lot of work. It takes a considerable amount of time and energy to produce such a newsletter; however, we believe that the results are worth the effort required. Also, for an introductory investment class be aware that the investment newsletter project will present a conflict with the goal of providing a broad overview course that exposes students to a wide cross-section of investment instruments, concepts, and terminology. With the implementation of the newsletter production project, it will be necessary to spend more time on stock analysis (to try to provide students with as many tools as possible to do a good job for the newsletter) than may be typical for an introductory course. In addition, several students have commented that they felt like they had indeed learned how to do a sound stock analysis, but only at the very end of the semester were they fully prepared to produce a report of the quality that they would want to send to business world professionals. Students have also asked when, or if, we would cover certain investment related topics that they think would be interesting and useful. Sometimes these are topics that have been crowded out of the introductory course by the newsletter project. In an intermediate or advanced investments course, students should already have the broad overview knowledge, and fitting
in the newsletter project may provide less conflict than may be experienced with an introductory course. Ultimately, a professor or school considering this type of project must decide where it will best fit for their situation, course goals, and overall curriculum.

**Conclusion**

The production of an investment newsletter by students in an investments course can provide an integrated and comprehensive learning experience. The experience allows students to apply concepts and principles taught in the course to real world companies and situations, and to simultaneously enhance research, writing, computing, and critical thinking skills. Overall, feedback from students that have participated in this learning experience has been very positive. Despite a significant effort that is also required from the instructor, we believe this can be a very valuable component of an investment course.

**References**


