Advanced Managerial Finance (BA 519)

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Financial Management

- Crucial element in the setup of any organization
  - Really Important Things You Need to Know
- Does not exist in isolation
- It only exists within the context of a company's broader operating characteristics and strategies

Really important things you need to know (to advance your career today)

#1: "Finance. Eat your spinach. Finance is at the core of so many successful companies that no CEO aspirant can afford to avoid schooling in it... This will help you understand, among other things, how your company raises and allocates capital. It will also make clear why that new product your team has designed might not be launched, despite its sensational showing in test markets: The numbers indicate that most likely the returns will never clear the hurdle rate that will cover the cost of capital it requires and deliver a profit as well."

Fortune Magazine, January 15, 1996, p. 36.

Financial Management--Contd.

- How does a fin. manager **create value for the firm's shareholders?**
- Financial management functions:
  - Investment decision
  - Financing decision
  - Working Capital decision
- An optimal combination of the three decisions will create value!

What can you expect from BA 519?

- What does today's Manager (YOU) need to know about Financial Management?

1. Theoretical understanding of concepts and analytic techniques that make up the discipline called **FINANCE**
   - Capital asset pricing model (CAPM), Asset Valuation, Capital budgeting, market signaling, agency problem,.....

What can you expect from BA 519?

2. Application & Interpretation of these techniques in decision making

- Growth in Judgment RATHER than a simple accumulation of knowledge

Course Preparation

- Time Constraints!
- Facilitator of Learning!
- Read assigned material ***Prior*** to the class
- Why is the class demanding??
  - Quantitative nature of discipline
  - Review background material
  - Theoretical foundation of Finance
  - Real-life decision making

Course Preparation-- Contd.

- **Print** Power Point slides (from the web)

  http://www.wku.edu/~indudeep.chhachhi/hmba519.htm

Syllabus-- Contd.

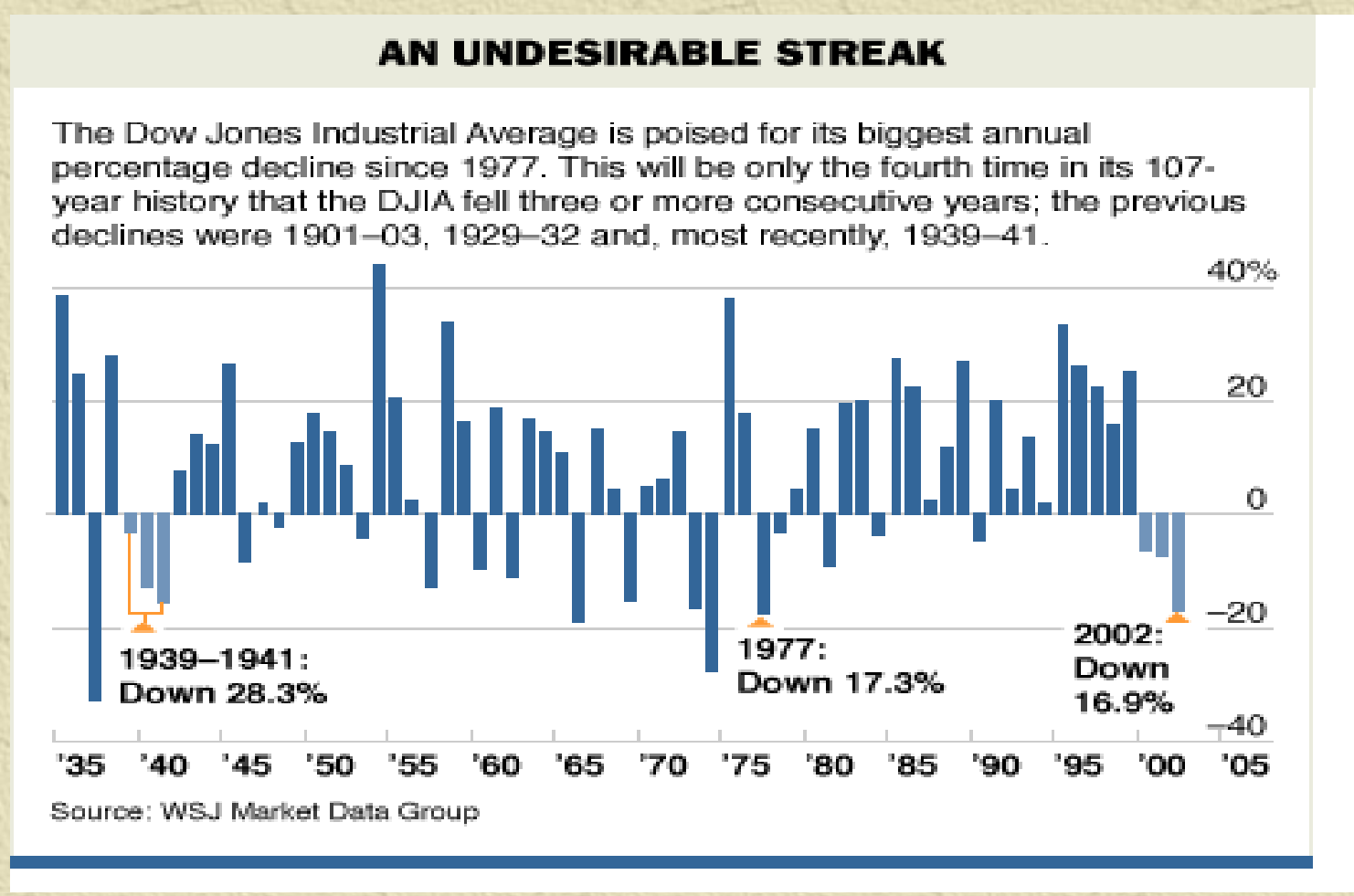
- Case Discussions
  - Real-life decision making
  - Learning “judgement”
- Readings
- Class participation
- Grading

Economic Roller Coaster!!

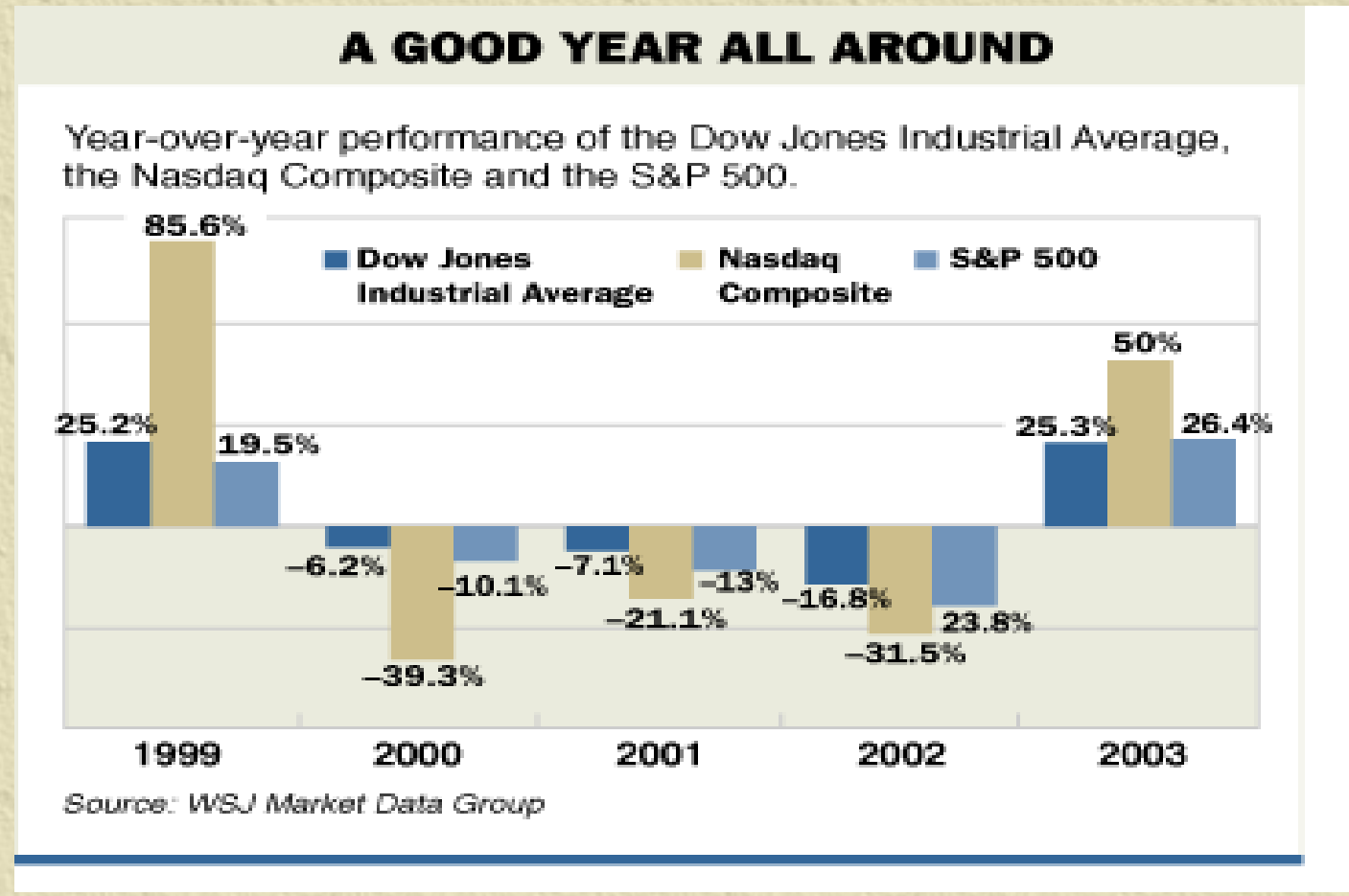
Duration of the bull market	**9+ years**
% change in the 1990s (NASDAQ)	**+794.7 %**
% change the 1990s (DJIA)	**+317.6 %**
Annual % (LT av.) change (DJIA)	**15.36% (10%)**

Volatility is the name of the game: **The best year ever** in NASDAQ (1999 with 86% gains) followed by the **worst year ever** (2000 with 39% loss). 2001down 21%, 2002 down 31.5%, *2003 up 50% and 2004 up 8.6%*

Stock Market Indices--1933-2002



Stock Market Indices--1999-2003



Numbers behind this Bull Market

- 1995 - 1999: Indices went up each year in the ball park of 20%!!
- 2000 - 2002: First time since 1939-41 that indices were down three consecutive years!
- Two consecutive UP years (Thank God!@)
- What's Next???

Corporation vs. Partnership

- Partnerships: Unlimited liability *BUT* limited growth opportunities
- Corporation: Limited liability, unlimited growth opportunities, *BUT* Double Taxation *AND AGENCY PROBLEM*

Pay for Performance?

- Pay Packages getting “risk-free.”
  - Signing bonuses, “guaranteed” bonuses, stock option repricing….
- Where have the directors gone?
  - Pay-setting process has to be fair & equitable.

Goal of a Corporation

- Is **NOT**
  - to maximize sales
  - to maximize market share
  - to maximize profits
- At best incomplete and at worst misleading
- Can result in failure over the long-term!
- PRIMARY GOAL should be to:
- **Maximize Shareholder Wealth.**