

Finance case study case study sample

[Finance](#), [Investment](#)



What is Miller's management approach?

I would assess Bill Miller as an intellectual investor who has been successful for continual fourteen years with his long-term vision and success concerns. He was clearly a Fundamental analysis advocate. One key pattern in his strategy was the purchase of stocks having a high intrinsic value with low prices.

Though there were some allegations regarding the market skills of Bill Miller and his investment instincts, it was proved that the mantra of management that Miller followed was based on his investment knowledge, market skills and slightly luck. We can trace certain elements in the management approach used by Miller which may be summarized as:

The winning cost is the one with the lowest average. Do not have dilemma buying a stock when it exhibits good fundamentals.

Stock fundamentals should be the basis of stock picks; the stocks with high intrinsic values being selected.

Those stocks should be purchased that have a low expectation. The perspective to be taken is that of a contrarian.

Avoidance of high turnover promotes taking a long view.

How well has Value Trust performed in recent years? In making that assessment, what benchmark(s) are you using? How do you measure investment performance? What does good performance mean to you?

For recent 15 years, Value Trust has exceeded S&P 500 by average 3.67% of total return. The beta value of Value Trust against the S&P 500 is 1.31 as shown in Morningstar's report, and Morningstar has rated it with five-star

rating.

Net Asset Value (NAV) and Annual Total Return can be used for evaluating the performance of the Mutual Fund Investment. The Net Asset Value is the Fund's value obtained by deducting liabilities from its total assets, which is then divided by an outstanding number of mutual fund shares. Similarly, Annual Total Return is the measure of change in Net Asset Value added with fund's income distribution like capital gains and dividends with respect to its initial Net Asset Value and is expressed as a percentage.

Net Asset Value = (Total Assets - Total Liabilities)/ shares outstanding

Annual Total Return = (Change in NAV + Capital Gain + Dividend Gain)/NAV at beginning

Sharpe Ratio can be implemented to evaluate the performance. The Trust's ratio is 1. This is an indication that the fund's portfolio is giving proper expected return for the risk.

Sharpe Ratio = (Expected Portfolio Return - Risk-Free Rate)/ Portfolio Standard Deviation.

The other measures that can be used to evaluate the performance are as follows:

Jensen Measure: It is the average return on the portfolio over that is predicted with CAPM method and given that portfolio's beta value and average market return is known.

Treynor Measure: It is calculated as Return on Portfolio - Average Return of the Risk-Free Rate divided by Beta.

These above-mentioned tools can be used to measure the performance.

What might explain the fund's performance? To what extent do you believe

an investment strategy or core competencies, such as Miller's, explain performance?

Miller's Methodology:

Purchasing cheap stocks of high intrinsic value.

Exploring least promising market area.

Look least average cost.

Long-term thinking and anticipate

Cyclically underpriced stock & secularly underpriced stock mix.

Active and passive approach to low and high stocks respectively.

Ability in taking huge risk

Miller's methodology considers behavioral finance that considers anticipation of the overreaction of the market over incident and news and also takes positivity on aspects taken distrustful by the market. Miller stated " If the year ended on different months that the results would be much different."

The Even small difference in his strategy can have a big impact on returns.

Are there any factors, which you believe invites caution about value Trusts' current and future performance?

Yes, I believe that there needs to be considerable caution regarding the future. There will be higher difficulties for the Company to maintain the current record. It is because of the high availability of stocks in only a few concentrated Companies which comprise funds. This low number of Companies with high stocks will bring about problems of portfolio management. In the long run, there may come a time when Value Trust needs to make continuous efforts of the stock increase. The correlation of the purchased stocks is to be high so that there are differentiated returns.

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5. Would you invest in Value Trust, as of autumn 2005, given the information in the case? Explain your rationale.

Yes, I would invest in the Value Trust. The steady growth in the mutual funds in the recent years would be the incentive for the investment. This growth may be reflected in the mutual fund industry growth rate increase from 361 in 1970 to 8, 044 in 2005. As per the information provided in the case, the annual return rate for the Value trust at its inception stage was 16. 39%. The weak efficient nature of markets is depicted by this information. There is the presence of an adequate amount of analyzable data, which helps us assume that the predicted outcome will be appropriate. I can thus make a robust decision about the future. There are a number of varied mutual funds growing, which reflect that the market liquidity has increased and also the investor demand aimed at equity. I am specifically interested in the stockpiling ability of Bill, which I feel adds to the Value Trust investment prospects.