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Inside the Johns Hopkins finance class that's 'guaranteed' to get you a job on Wall Street

PORTIA CROWE
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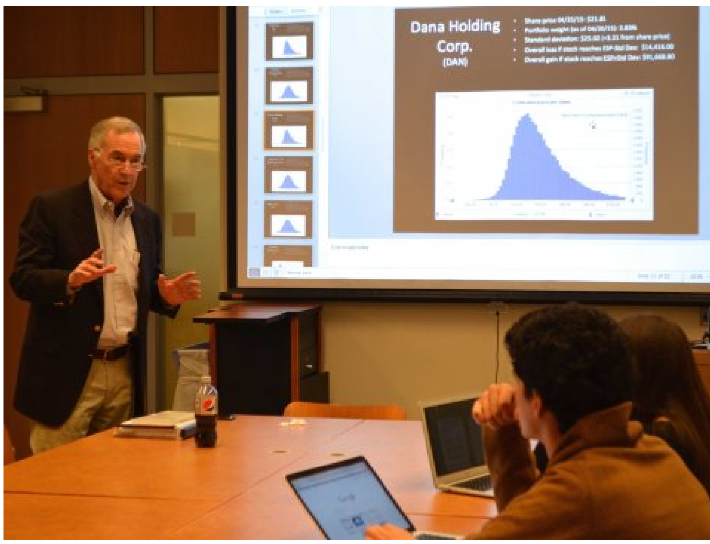

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Professor Steve Hanke designed the course to produce "the top people in the country."

Kelly Chu stands at the front of the room and explains a complex spreadsheet displayed on a projector.

With precision she describes the discounted free cash-flow model she built of a food-services and construction company, and walks through its revenue-growth assumptions before making a recommendation on whether or not to invest.

Chu is not a wealth manager or an investment banker. Wearing flip-flops and jeans, the 21-year-old is a junior at Johns Hopkins University, and she's presenting to her applied economics and finance class, a course at a non-Wall Street target school that guarantees its alumni top jobs on the Street, according to the professor.

Chu's classmates are other undergraduates (during a discussion of the Russian-ruble crisis of 1998, a student points out she was 4 years old). They look like other 20-somethings in a Friday-afternoon seminar, with their heads in hand and droopy-eyed faces buried in laptops. You wouldn't know they're even paying attention, but when the professor tosses out an unexpected question — about an intricate math equation or the name of a Nobel laureate — they snap back answers in seconds.

Professor Steve Hanke, who's been at Hopkins for 45 years, created the course two decades ago.

It's evolved but has always focused on "producing the top people in the country."

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These students are heading to jobs and internships on Wall Street.

Most graduates become analysts, though a minority go into trading. (Hanke has been a currencies and commodities trader for over 50 years.) They all come away with job offers from their first-choice banks or hedge funds.

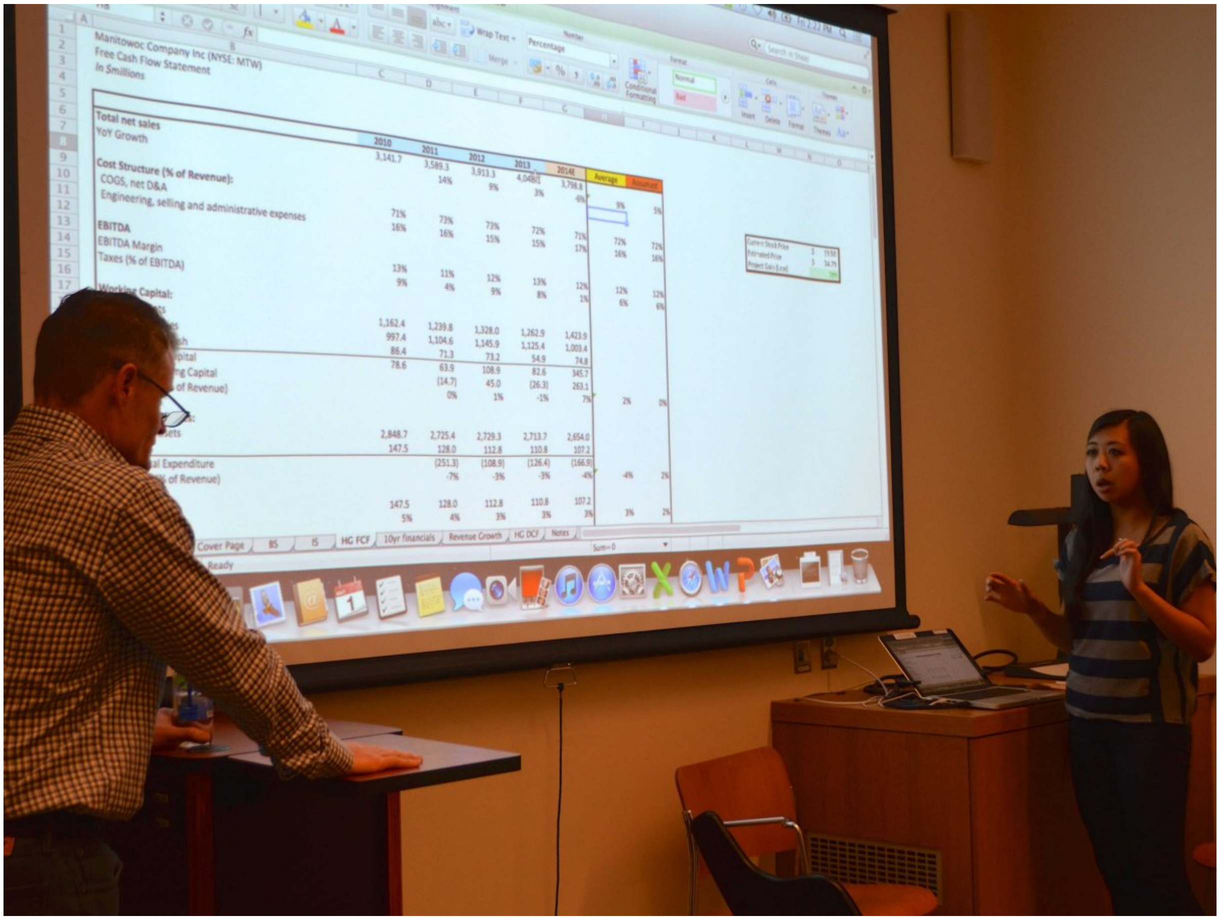
Of the 20 students of Hanke's who are graduating this year, eight are going to JPMorgan. The rest took jobs at Goldman Sachs, Morgan Stanley, Bank of America Merrill Lynch, UBS, Deutsche Bank, Jefferies, Stifel, T. Rowe Price, Campbell and Co., and Millennium Management. Most of the sophomores and juniors took summer internships on Wall Street too.

Danny Elkin, who's graduating in May, said he feels indebted to Hanke for the experience.

"We don't have the kind of resources or the kind of connections of Princeton or Harvard or Duke," he said. "But if you're in this class, then I think you have something great to talk about during interviews. It can give you good ideas for stock pitches in interviews.

"I don't think my situation would have ended up like it did if I hadn't had the opportunity," he said.

Elkin's situation turned out well: He got five job offers from top firms and will be heading to JPMorgan's asset-management department.



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Students build their own models every two weeks.

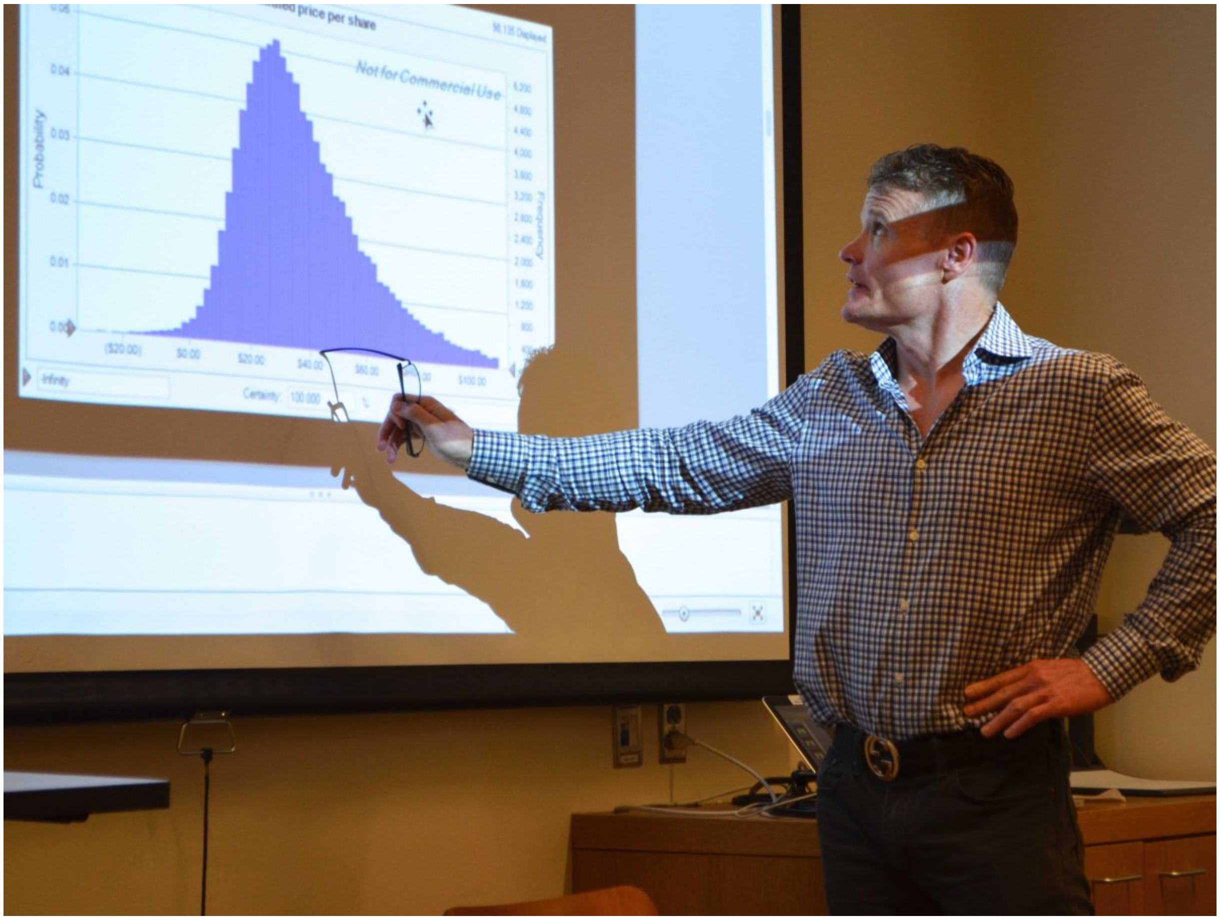
Students are allowed to take the course for credit up to three or four times, but the challenge is getting into it.

Students have to submit résumés and transcripts and a have one-on-one interview with Hanke. (The bar is high: Most students have at least 3.7 GPAs.)

Every two weeks students build a model on a company assigned by Hanke or his informal assistant, Ryan Guttridge, a fellow at the Johns Hopkins Institute for Applied Economics.

On off weeks, students write papers about their models, and then spend class time analyzing their findings together. Most MBA programs, Hanke notes, require students to build only one or two models throughout their entire program.

That they're building these models so frequently helps give them a leg up, but the real reason for their success could be the unusual type of models they're building.



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The models are based on a unique discount free cash-flow system developed by Professor Hanke and Ryan Guttridge, an informal participant in the class.

Hanke and Guttridge developed their own modeling system to teach to the students. They build free cash-flow statements from scratch — meaning from SEC filings, not from data providers or other unverifiable sources.

Then they measure drivers of cash flow, like revenue and margins, via Monte Carlo simulations, a technique that uses random sampling and runs multiple trials to home in on the probability of outcomes.

They end up with a distribution of share prices, instead of a single point value or price estimate, and look to buy stocks that are priced on the cheaper side of the distribution and have a higher probability of the price increases.

"Ultimately, when you're buying a stock, you're buying a series of cash flows — a series of expected cash," Guttridge said.

For him, modern finance faces a big problem because most analysts' forecasts ignore that distribution. "What isn't in the analysis is that the risk has totally changed," as share prices increase, he said.

The students follow a nearly 50-step process to build these models:

The Hanke-Guttridge Model Checklist

TO: Prof. Steve H. Hanke
Applied Economics an

And while it may not be as sexy as rattling off a price estimate on the spot in a job interview, in a way this training gives the students some control in interviews.

"They're interested but they don't know a lot about it, so instead of them grilling you and putting you on your toes, you're kind of explaining to them what you did," says Elkin.

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Most of the students are undergrads, but they're beating out MBA grads for Wall Street positions.

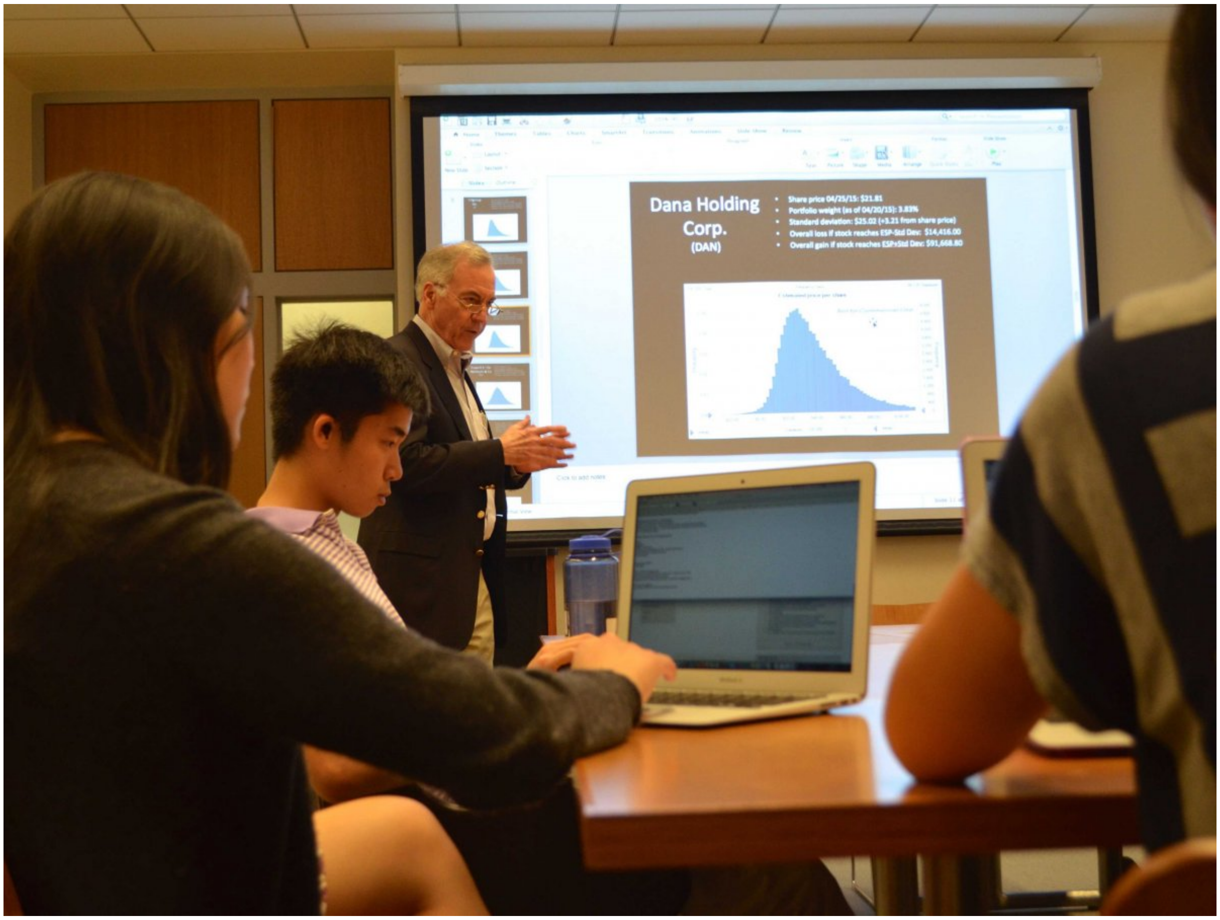
Plus, he said, "When you start out the interview and you start talking about the nuances of the model ... you can skip the basic accounting questions, and it allows you to differentiate yourself."

Guttridge said their model is not unique; it closely resembles billionaire investor Warren Buffett's thinking, he said. Especially the part of Buffett's 2013 letter where he talks about buying a farm.

"He says, 'I'm going to buy the farm and on average I know what the farm's going to produce,'" Guttridge said. "That's exactly what we do. We just have a very formal, fairly rigorous framework around it."

Guttridge said their model is akin, philosophically, to private equity firms. That's because the distributions they come up with are most accurate when they're not faced with time constraints, and private equity firms don't have the kinds of calendar-year deadlines that investment banks do.

So it makes sense that many of their students wind up in private equity.



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Hanke and Guttridge said they'd hire their own students if they could beat Wall Street to it.

Some recent grads have even been recruited to private equity right out of college, according to Hanke, which is extremely rare. Usually, those firms recruit the cream of the crop from analysts at major investment banks.

"I think the students are higher quality and more skilled than the first-year analysts that are on the Street right now," said Hanke.

They're high enough quality that he and Guttridge regularly use their classwork to make investment decisions for their wealth-management firm, Hanke-Guttridge Capital Management, which they founded in 2013.

They'd hire their own graduates, they said, if they only could beat Wall Street to it.

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