Course Objectives

This course is designed to teach you the investment process. You will learn a conceptual framework for analyzing potential investments, and then apply this framework to bonds, stocks, derivatives, and portfolios of these assets. You should leave the class with the tools necessary to make intelligent investment decisions both personally and professionally. Examples include: buying a house, managing a retirement portfolio, and insuring against risk. Moreover, you will gain a better understanding of how financial markets work and what role they play in society.

Course Outline

Unit 1: Overview of financial markets, examples from savings and loans (Chapter 1).
Unit 2: A general framework for understanding risk and return (Chapters 5-9).
Unit 3: Bonds, both corporate and government (Chapters 14-15).
Unit 4: Stocks, including efficient markets hypothesis (Chapters 2, 3, 11-13, and 17-19).
Unit 5: Options and futures (Chapters 20 and 22).
Unit 6: Managed portfolios (Chapters 4, 24-27).

Exam Schedule

Please be sure that you are available to attend all of the exams. If you cannot, let me know as soon as possible.

- Midterm 1, covering Units 1 and 2, will be in class on 2/12/2013.
- Midterm 2, covering Unit 3, will be in class on 3/5/2013.
- Midterm 3, covering Unit 4, will be in class on 4/9/2013.
- Final Exam, covering the whole course but emphasizing Units 5 and 6, will be at 9:00am on 5/8/2013 for the 8:00am section, and 9:00am on 5/13/2013 for the 9:30am section.

Materials

Lecture Notes: I will provide a handout each class day with copies of the slides I use. These handouts will include all the formulas you need to solve problems, as well as an overview of the material we discuss in class. There will be a lot of discussion and non-slide learning in the course, so you should also plan to take your own notes. I will not post or e-mail electronic copies of the lecture notes since they will contain homework and exam solutions I don’t want future students to have access to. If you miss a class, please see me or a fellow student for a hard copy.
Textbook: *Investments* by Zvi Bodie, Alex Kane, and Alan Marcus, 9th Edition, ISBN 0077477561. I apologize for how expensive the textbook is. It is a valuable reference for the material I teach in the course, however everything that will be on the exams will be in the lecture notes I distribute during class, and the homework problems will not come directly from the book. Therefore, older editions, electronic versions (e.g. a Kindle rental for around $70), or copies shared with a friend will all be equally effective. I will also have a copy on reserve at PCL.

Calculator: You will need a scientific calculator for the course capable of doing powers (e.g. $1.04^{10}$) and logarithms. If you have a calculator with financial functions such as IRR, PV, FV, etcetera, please feel free to use it for homework and during exams, however such a calculator is not required. So that it can be used during exams, your calculator cannot be on your phone. **Please bring your calculator to class every day.**

Prerequisites

Finance 367 is restricted to students in a business major. Prerequisite courses are: Finance 357 or 357H; and credit or registration for Statistics 371G, 371H, 375, or 375H.

Course Requirements and Grading

Your grade in the course will be determined by a weighted average of your scores on the exams, homework, and participation. The weights I will use are:

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Weight</th>
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<tbody>
<tr>
<td>Midterm 1 (Units 1 and 2)</td>
<td>20%</td>
</tr>
<tr>
<td>Midterm 2 (Unit 3)</td>
<td>20%</td>
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<tr>
<td>Midterm 3 (Unit 4)</td>
<td>20%</td>
</tr>
<tr>
<td>Final Exam</td>
<td>20%</td>
</tr>
<tr>
<td>Homework</td>
<td>10%</td>
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<tr>
<td>Participation</td>
<td>10%</td>
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If it helps your grade, I will drop your worst midterm score and move the weight to the final. For example, if you score a 60% on Midterm 1, 75% on Midterm 2, 80% on Midterm 3, 100% on Homework and Participation, and 80% on the final, I will move the weight on Midterm 1 to the final, changing your overall grade from 79% to 83%. The reason for this policy is Investments is a challenging subject that sometimes takes a while for students to get accustomed to, often resulting in low scores on the early exams. If this happens, I want to reward you for continuing to work hard and getting a good grade on the final.

Using the above weights, I will compute the final course grade for each student in the class, and assign letter grades using a curve to adjust for the difficulty of the exams I write. The curve will be done for the class as a whole, not for individuals. In other words, someone with a final course grade of 88% will never get a higher letter grade than someone with a final course grade of 89%.

Description of Requirements

Exams. There will be three midterms, each held in class. My exams tend to include most of the material I have taught (rather than just a few big questions). The tests will include both qualitative and quantitative material. The qualitative questions are usually short answer or multiple choice.

Keeping up with the course material throughout the semester is by far the best way of studying for the exams. After each class, you should do your best to make sure you understand everything we talked about in that class. Doing the homework, reviewing notes, reading relevant chapters from
the textbook, looking at solutions to past homework, and asking questions during office hours or the next lecture are all good ways of keeping up with the material in the course.

**Homework.** I will assign homework every Tuesday that will be due the following Tuesday. The homework problems will be relatively straightforward and designed as a way for both me and you to check that you are understanding key concepts as we go along. You can ask me or fellow students for help, but need to do the actual solution and write-up yourself. Late homework will not be accepted, so if you are going to miss a class either bring the homework to my office beforehand or have a classmate turn it in. I will also drop your worst homework grade.

**Participation.** I expect you to attend class and I expect you to be on time. I know this can be a challenge, particularly in morning classes, but Investments is a challenging topic. If you don’t come to class, you will likely do very poorly on the exam. If you arrive late, you will be confused and moreover will disrupt other students and me. For these reasons, I take attendance at the start of class. **If you arrive after I start the lecture, you will be counted as absent for that class.** The lectures will start promptly at 8:00am and 9:30am and end at 9:15am and 10:45am, respectively.

I understand that things happen – you oversleep, a bus runs late, you’re sick, etcetera. To accommodate these and other unexpected problems, I excuse two absences or late appearances. After that, you lose half of your participation grade for each absence. Specifically, three absences will result in a maximum of 50% participation grade, and four or more a 0% participation grade. These points will have a big impact on your grade; missing 4 days of class is the equivalent of getting half the questions wrong on a midterm!

Here’s the good news: as long as your absences and late arrivals do not add up to more than two (note: that is a total of two, not two of each), and do not disrupt our class in any other way (packing up early, leaving early, talking to your neighbors, using your laptop, etcetera) you will get 100% on your participation grade, which can make a big difference in your final course grade.

**Continuous Feedback**

If you have any feedback about the course or my teaching at any time during the semester, please send it to travis.johnson@mccombs.utexas.edu. I am eager to hear about any ways I can make it the best possible experience for my students.

In case you are not comfortable sending me negative feedback directly, I have created an anonymous gmail account (username: fin367feedback, password: HookEmHorns) for you to send me feedback. However, you should also feel free to send non-anonymous feedback; your grading for the course will be mechanical and I will certainly not hold any feedback against you.

**Students with Disabilities**

Students with disabilities may request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, 512-471-6259, http://www.utexas.edu/diversity/ddce/ssd/.

**Religious Holidays**

By UT Austin policy, you must notify me of your pending absence at least fourteen days prior to the date of observance of a religious holy day. If you must miss a class, an examination, a work assignment, or a project in order to observe a religious holy day, you will be given an opportunity to complete the missed work within a reasonable time after the absence.
Academic Integrity

The McCombs School of Business has no tolerance for acts of scholastic dishonesty. The responsibilities of both students and faculty with regard to scholastic dishonesty are described in detail in the BBA Programs Statement on Scholastic Dishonesty at [http://www.mccombs.utexas.edu/BBA/Code-of-Ethics.aspx](http://www.mccombs.utexas.edu/BBA/Code-of-Ethics.aspx). By teaching this course, I have agreed to observe all faculty responsibilities described in that document. By enrolling in this class, you have agreed to observe all student responsibilities described in that document. If the application of the Statement on Scholastic Dishonesty to this class or its assignments is unclear in any way, it is your responsibility to ask me for clarification. Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course and/or dismissal from the University. Since dishonesty harms the individual, all students, the integrity of the University, and the value of our academic brand, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at [http://deanofstudents.utexas.edu/sjs/](http://deanofstudents.utexas.edu/sjs/) to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.

Who is your Professor?

I am Travis Johnson, Assistant Professor of Finance at McCombs. I was born in Madison, Wisconsin, got a Bachelors in Mathematics and Economics at MIT in 2007 and then a Ph.D. in Finance at Stanford University in 2012. I do research on information in financial markets using options and other derivative securities. I assisted in teaching four MBA courses in Finance at Stanford, and am very excited to be teaching Investment Management here at McCombs.