



## Investment Management Fall 2012

### Course Information

**Course Number:** FIN 367

**Sections:**

MW 11:00 UTC 1.132 (03455)

MW 12:30 UTC 1.132 (03465)

MW 2:00 UTC 3.104 (03475)

### Instructor Information

**Instructor:** J. David Miller

**Office:** GSB 5.124D

**Office Hrs:** Tuesday & Thursday 12:30 to 2:00

**E-mail:** David.Miller@mcombs.utexas.edu

**Prerequisites:** Finance 357 or 357H, and Statistics 371G or 371H

**Textbook:** Investment Analysis and Portfolio Management, 10th Ed. Reilly, Brown, Southwest College Publishing

### Course Description:

This course is an introductory investments course which will provide a basis for making investment decisions. The course is designed for those that want to become investment professionals and for those that want to be knowledgeable individual investors. The materials for the course will come from the textbook, as well as from the financial press and Chartered Financial Analyst exam prep materials.

### Major Topics:

#### **Elements of investments**

- Background and Issues
- Financial Markets and Instruments
- How Securities are traded
- Mutual Funds and Other Investment Companies
- Investors and the Investment Process

#### **Portfolio Theory**

- Risk and Return
- Efficient Diversification
- Arbitrage Pricing Theory
- CAPM

#### **Fixed Income Securities**

- Bonds Pricing and Yields
- Managing Fixed Income Portfolios

#### **Security Analysis**

- Equity Valuation Models
- Efficient Markets
- Behavioral Finance and Technical Analysis
- Macroeconomic and Industry Analysis

#### **Derivative Assets: Options and Futures**

- Options Markets
- Option Valuation
- Futures Markets

### Course performance tips:

- ◆ In this course, I will test on what I teach. If something is mentioned in class, it is considered testable material, even if it is not in the slides or in the book.
- ◆ Don't focus on the details at the exclusion of the big picture
- ◆ **The use of note cards makes studying for the terminology portion of the exam much easier. The note cards created during the semester will also make preparation for the final exam easier if you decide to take it.**
- ◆ Doing the assigned homework plus working additional problems will help you do better on the exam
- ◆ Read the Wall Street Journal or the Financial Times daily. They provide context for the material we cover.

### A Cooperative Effort:

I hope that this course will be an important element of your education. I am most interested in your thoughts and how you are developing in the course and welcome your comments as the course progresses--with your feedback the course will be a better career-developmental experience for you and your fellow students. Also, if at any time what is expected of you is unclear, if you are having problems with specific assignments, or have other difficulties with the course please see me.

### Course Evaluation

The course evaluation consists of three tests and two writing assignments. The plus/minus system will be used in accordance with departmental policy.

Exam 1: 28.33%  
Exam 2: 28.33%  
Exam 3: 28.33%  
Research Analyst Report 10%  
Portfolio Report 5%

### **Optional Cumulative Final to Replace Lowest Exam Grade**

An optional cumulative final exam will be given during the official final exam time provided by the University. The final exam will contain questions from all material covered during the semester. Students are not required to take the final exam, but may elect to take the exam. The score on the exam will replace the single lowest exam grade from the three exams given during the semester.

### Grade Adjustments

**Purpose:** In the past a very few students have not cooperated with me in the administering of the course. To minimize such occurrences, I may, at my discretion, penalize students by subtracting points from their grades for certain occurrences.

### Calculator

You will need a business calculator for this class. The calculator should have the following keys: IRR, n, i, PV, PMT, FV, and CF. As long as those keys are present, the calculator is fine. If you may consider taking the CFA exam in the future, I recommend the Texas Instruments BA II Plus (this calculator one of only two calculators that may be used on the CFA exam). The other calculator which is permissible for the CFA exam is the HP 12c. **You should bring a financial calculator to every one of our class meetings.**

### Study Guidelines

Before each class, you should review the slides and handouts which are posted on blackboard. Many students find it useful to print hard copies and bring them to class. This allows you to take notes directly on the slides and will make your exam preparation much easier. You should read the chapter in the book for any material that you are having difficulty understanding after reviewing my slides. I WILL NOT hold you responsible for topics covered in the text that are not in the slides or the homework! The slides and associated handouts contain everything you need to know.

You do not need to hand in the solutions to homework problems; however, I encourage you to thoroughly work through them. The test problems will appear simpler for those who work these questions. Any amount of reading of the chapters will not help you consolidate the material if you don't work out the problems. I will give more specific guidance concerning these problems as the semester progresses. To reiterate, students that thoroughly work through the problems and understand their logic will tend to do much better on the exams and will also be better prepared for future courses.

## Course Policies and Procedures

### Prerequisites:

I assume that you have a comprehensive understanding of accounting theory and an understanding of the basic financial concepts gained in finance 357. If you feel you are weak in a specific area of Fin 357, please speak to me and we can develop a plan to get you up to speed.

### Course Policies

"Make-up or extra work" to improve your grade is not possible. Your final letter grade is determined solely by your scores on the tests, and writing assignments. In addition, no special considerations concerning your general academic situation can be offered. **The final grade in the course, once assigned, will not be changed except in the event of a recording error.**

You are responsible for all material assigned. Do not construe any guidance that I give as limiting what you are responsible for unless I explicitly state in an email to the class that certain material will not be covered on a test.

If you do not attend a class it is entirely your responsibility to determine what you have missed, including any administrative announcements I may have made. **Students that don't come to class tend to make C- and D's on the exams. Please keep this in mind before you decide to skip a class.**

I will use blackboard to send you emails throughout the course. **Please make sure that your email address for blackboard is correct and that it is an email account that you check regularly.**

**Laptops and tablets should be powered off before class begins. Please also silence your cell phones as they can be distracting to those around you.**

### Scholastic Dishonesty

Any individual suspected of cheating will be disciplined to the maximum extent possible. Storing information other than formulae in a calculator used in a test is cheating.

*"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 Program's Statement on Scholastic Dishonesty at <http://www.mcombs.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/> to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty."*

## **Blackboard**

The class uses Blackboard, part of The University's e-University Initiative.

*Password-protected class sites will be available for all accredited courses taught at The University. Syllabi, handouts, assignments and other resources are types of information that may be available within these sites. Site activities could include exchanging e-mail, engaging in class discussions and chats, and exchanging files. In addition, class e-mail rosters will be a component of the sites. Students who do not want their names included in these electronic class rosters must restrict their directory information in the Office of the Registrar, Main Building, Room 1. For information on restricting directory information see: <http://www.utexas.edu/student/registrar/catalogs/gi02-03/app/appc09.html>.*

## **Course Schedule**

The dates in this schedule are approximate; the actual pace of the class will determine the speed of the course. The topics covered for each exam may change based on material that we cover in class. I will announce any changes to what topics will be tested on each exam in a class meeting prior to the test. Changes that are announced in class will not necessarily be posted on blackboard. It is your responsibility to know which topics will be covered by each exam.

<b><i>Dates</i></b>	<b><i>Subject</i></b>
Aug 29	<b>Course Introduction</b>
Sept 3	Labor Day Holiday
Sept 5	<b>Topic 1. Introduction to Investments</b>
Sept 10	<b>Topic 1. Introduction to Investments/ Topic 2. Professional Investment Management</b>
Sept 12	<b>Topic 2. Professional Investment Management (Continued)</b>
Sept 17	<b>Investment Research Assignment / Topic 3. Cost of Capital</b>
Sept 19	<b>Topic 3. Cost of Capital (Continued)</b>
Sept 24	<b>Topic 4. Indexes</b>
Sept 26	<b>Topic 5. Economic Analysis</b>
Oct 1	<b>Topic 6. Security Analysis</b>
Oct 3	<b>Topic 6. Security Analysis</b>
Oct 8	<b>Topic 7. Technical Analysis and Review</b>
Oct 10	<b>Exam #1 (Topics 1-6)</b>
Oct 15	Return Exams and <b>Topic 8. EMH vs. Behavioral Finance</b>
Oct 17	<b>Topic 9. Trades and Orders</b>
Oct 22	<b>Topic 10. Bond Basics</b>
Oct 25	<b>Topic 10. Bond Basics Research Analyst Report DUE AT 4:00 PM in FINANCE DEPT. AND ON BLACKBOARD SAFEASSIGN</b>
Oct 29	<b>Topic 10. Bond Basics</b>
Oct 31	<b>Topic 11. Managing Fixed Income</b>
Nov 5	<b>Topic 11. Managing Fixed Income and Review</b>
Nov 7	<b>Exam #2 (Topics 7-10)</b>
Nov 12	Return Exams and <b>Topic 11. Managing Fixed Income</b>
Nov 14	<b>Topic 12. Derivatives - Options</b>

Nov 19	<b>Topic 12. Derivatives - Options</b>
Nov 21	<b>Topic 12. Derivatives - Options</b>
Nov 26	<b>Topic 12. Derivatives – Futures and Forwards and Review</b>
Nov 28	<b>Exam #3 (Topics 11, 12)</b>
Dec 3	<b>Return Exams, and Retirement Planning</b>
	<b>Portfolio Report DUE AT 4:00 PM in FINANCE DEPARTMENT AND ON BLACKBOARD SAFEASSIGN</b>
Dec 5	<b>Private Equity and Angel Investors, Course Wrap up</b>

### **Tentative Final Exam Times According to the University Schedule:**

**MW 11:00 Wednesday, Dec 12, 2-5PM**

**MW 12:30 Friday, Dec 14, 2-5PM**

**MW 2:00 Saturday, Dec 15, 2-5 PM**

### **Course Assignments**

I have spent considerable time creating custom homework problem specifically for this course. It is designed to help you practice the types of problems that you will likely see on the exams. The homework problems and solutions will be posted on blackboard.

I do not collect homework or assign homework grades. While it is your decision whether or not to complete the homework, past experience shows that students that do not spend much time on the homework will not do as well as those who choose to do the homework. Problems from the homework will often appear on the exams, so it is in your interest to work the homework. The list below shows which chapters of the textbook correspond to the lectures.

**Section 1. Introduction to Investments** Chapters 1-3

**Section 2. Professional Investment Management** Chapter 24

**Section 3. Cost of Capital** Chapters 1,7-9

**Section 4. Indexes,** Chapter 5

**Section 5. Economy** Chapters 12-13

**Section 6. Security Analysis** Chapters 11-14

**Section 7. Technical Analysis** Chapter 15

**Section 8. EMH vs. Behavioral Financial** Chapter 6

**Section 9. Trades and Orders** Chapter 4

**Section 10. Bond Basics** Chapters 17-18

**Section 11. Managing Fixed Income** Chapters 18-19

**Section 12. Derivatives** Chapters 20, 22-23

**Section 13. Evaluating Performance** Chapter 25

## Section 14. Retirement Planning Slides Only

Each student will manage a simulated portfolio with initial cash balance \$1,000,000 over the semester. The investment period extends from September 21st to November 30th. You can make up to 200 trades and invest in any NYSE, NASDAQ-AMEX stock, a series of government and corporate bonds, a selection of over 2000 mutual funds and certain stocks trading on stock exchanges around the world, including London, Paris, Frankfurt, Mexico City and Tokyo. To manage your risk exposures, you can also invest in various options contracts.

The writing requirements related to portfolio management are two-fold:

1, Students will work in groups of two to create an 8 page report similar to those produced by professional Research Analysts. Each group will select a stock in class on September 17<sup>th</sup>, which it will analyze and produce a written report on that security. Specific guidelines for this report will be discussed in class as well as posted on Blackboard. Each group will submit 1 (one) combined report and each member of the group will receive the same grade on the report. Choose your groups carefully, as the report will account for 10% of your final grade. This paper is due on October 25th, at 4:00 PM. in the Finance Department Office and should also be submitted on Blackboard SafeAssign by the same time. Any paper submitted after 4 PM will be considered late and a penalty of 5 points per day will be assessed.

2, At the end of the semester, students will individually prepare a final performance report for their StockTrak Portfolio. Note that your grade is determined by the quality of the report, and is not related to the investment performance (so you can sleep at night). The report should be no more than 2 pages long (double-spaced, single-sided, 12-point font) in total. This paper will account for 5% of your final course grade. This paper is due on December 3<sup>rd</sup>, at 4:00 PM. in the Finance Department Office and should also be submitted on Blackboard SafeAssign by the same time. Any paper submitted after 4 PM will be considered late and a penalty of 5 points per day will be assessed. Additional details on the contents of the paper will be provided in class and will be posted on Blackboard.

## Test Policies

### Grading:

The grade on each question will be the result of the grader's evaluation of your answer based on the test key and the general response of the class to the question. This evaluation will take into account not only the presence of key terms but also the degree to which the student has demonstrated an *understanding* of the issues involved in the question. The grade assigned is an informed and final evaluation, not the beginning offer in a bargaining process. In many items partial credit will be awarded.

For each test, I will indicate a tentative letter grade for your test score. However, the final letter grade will be based on a relative frequency distribution (percentile ranking) of the total points accumulated over the entire semester. This approach implies that your final grade will be determined by the relative performance of the entire class. That is, there is no predetermined standard as to what constitutes an A, B+, B-, etc. (e.g., the cutoff for an "A" may be below the 90th percentile ranking). Because of this relative ranking, questions about what your grade or standing in class cannot be answered until all tests have been taken and graded.

Grades will be posted on our BlackBoard site. Please confirm that the grade posted is correct.

### Test reviews:

Graded exams will be made available during class after each exam and I will review the test answers with the class. The purpose of this review is to reinforce the concepts covered in the test. The exams must be returned after the exam review. Any attempt to keep an exam or avoid returning it at the end of class will be considered to be an honor code violation on your part.

Students who disagree with the grade assigned may, request a regrade of a question in the examination. This request must be in writing (email is OK), giving the question in contention and the reason why the student feels that the answer given is correct. Students have 7 calendar days after the exams are returned to request a regrade of an exam question. I will not entertain any requests after the end of this period.

## **Exams**

Students missing one of the three exams must take the optional final and use that grade to replace the missed exam.

I will give everyone notice when there are two minutes left on the exam. This is for students to complete their work and turn in their exams. When the final time is called on the exam, students who do not stop working and turn in their tests will have 5 points deducted from their test grade.

## **Grade Adjustments**

While you primarily bear the consequences of your actions in this course, your actions may also have a direct effect on other students and me. In registering for my course you are entering into a contract with me that specifies the actions that we mutually agree to. If you do not live up to your part of our agreement, you face certain penalties. I hope that no penalties will be assigned this semester but you should, when planning your activities, keep the existence of these sanctions in mind.

- ◆ Failure to turn in tests when requested: Five points deducted from that exam.

## **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.”*

## **Campus Safety**

*“Please note the following recommendations regarding emergency evacuation from the Office of Campus Safety and Security, 512-471-5767, <http://www.utexas.edu/safety/> :*

*.. Occupants of buildings on The University of Texas at Austin campus are required to evacuate buildings when a fire alarm is activated. Alarm activation or announcement requires exiting and assembling outside.*

*.. Familiarize yourself with all exit doors of each classroom and building you may occupy.*

*Remember that the nearest exit door may not be the one you used when entering the building.*

*.. Students requiring assistance in evacuation should inform their instructor in writing during the first week of class.*

*.. In the event of an evacuation, follow the instruction of faculty or class instructors.*

*.. Do not re-enter a building unless given instructions by the following: Austin Fire Department, The University of Texas at Austin Police Department, or Fire Prevention Services office.*

*.. Behavior Concerns Advice Line (BCAL): 512-232-5050*

*.. Further information regarding emergency evacuation routes and emergency procedures can be found at: [www.utexas.edu/emergency](http://www.utexas.edu/emergency).”*

# Finance 367

## Sample Exam Questions

### Fill in the Blank

\_\_\_\_\_ is the choice of specific securities within each asset class. (2 words)

### Multiple Choice

\_\_\_\_\_

The New York Stock Exchange is an example of this type of market

- a. Over-the-counter Market
- b. Dealer Market
- c. Auction Market
- d. Futures Market
- e. Underwriting Market

### Quantitative

You own a share of stock that gains 12% in year 1, loses 20% in year 2, gains 15% in year 3, and gains 20% in year 4. What is your geometric average return over the 4 years? (Set your calculator to 4 decimal places)

Answer: \_\_\_\_\_