INVESTMENT MANAGEMENT

Finance 367	The University of Texas at Austin	Fall 2003
Unique 02495	TTH, 8:00am – 9:30am	UTC 4.124
Unique 02500	TTH, 9:30am – 11:00am	UTC 4.124

Required Text: Bodie, Kane and Marcus, **Essentials of Investments, Irvin, Fifth Edition**

Office: GSB 4.126C	Office Hours: W	10:00am – 11:30am
Telephone: 471-6636	TTH	11:00am – 12:00pm
		or by appointment.

Course Description and Objectives:

Finance 367 is an introductory investment course which will provide a basis for making investment decisions. The course is intended for those students who want to become an investment professional **or** those who want to be a wise individual investor. It should enable the student to recognize what to avoid as well as investment opportunities. Real-world examples will be given to make connections with the theoretical framework. Equal amounts of quantitative techniques and descriptive information will be used. Those students who are interested in obtaining a securities license such as the NASD Series 7 for a General Securities Representative or accreditation as a Chartered Financial Analyst (C.F.A.) will find this course a good first step towards achieving these career goals. The major topics are shown below.

Elements of Investments
- Background and Issues
- Financial Markets and Instruments
- How Securities are Traded
- Mutual Funds and Other Investment Cos.
- Investors and the Investment Process

Portfolio Theory
- Risk and Return
- The Efficient Market Hypothesis

Fixed-Income Securities
- Bond Prices and Yields
- Managing Fixed-Income Investments

Security Analysis
- Macroeconomics
- Equity Valuation Models

Derivative Assets: Options and Futures
- Options Markets
- Option Valuation
- Futures Markets

International Diversification and Active Management
- Performance Evaluation
- International Diversification

Examination Schedule:

Two mid-term exams and the final exam are scheduled as follows:

Exam 1:	**Thursday,**	**September 25,**	**7pm-9pm,**	**Chapters 1-4, Tax Mat'l**
Exam 2:	**Thursday,**	**October 23,**	**7pm-9pm,**	**Chapters 5, 8, 9, 10**
Final :	**Thursday,**	**May 8,**	**7pm-9pm,**	**Chapters 11, 12, 14-16, 20**

The material covered on each examination may be revised as the course progresses.

The two mid-term exams have been scheduled on September 25 and October 23 at night from 7pm to 9pm to allow for a combined class test in a room to be announced later in the term. The final examination is scheduled for Thursday, December 11, from 7pm to 9pm in a room to be announced later in the term. The scheduled final exam time differs from that shown on the Course Schedule but has been carefully chosen to avoid conflicts with classes which do not have consolidated final examinations. You are responsible for showing up at the proper time and location for the final and two mid-term exams! The final examination times listed in the Course Schedule take priority over consolidated exams. However, the time for this final was selected when there were no other consolidated final exams scheduled in the College of Business Administration. Therefore, it should take priority over other consolidated final exams whose times may have been selected at a later date.

Taking the examinations at any other time is **not** possible. Any conflicts must be documented **in writing** and submitted to Mr. McAdams for his approval by Tuesday, September 9. The request must include the student's name, social security number, the section of the Finance 367 and the conflict. Check your schedules **now!** Please schedule job **interviews** and office visits **around** these examination times.

Course Evaluation:

The course grade will be determined as follows:

	Percent of Course Grade	Percent of Course Grade	
Portfolio Project	16%	**Exam 1:**	28%
		Exam 2:	28%
		Final Exam:	28%

Exams generally will be multiple choice. However, other types of questions such as short answer, fill-in-the-blank, matching or discussion questions may also be used. It is expected that approximately 50% will be quantitative and 50% will be verbal. A **tentative** letter grade for each test score will be assigned initially for each exam. A slight curve of a few percentage points may **or** may **not** be applied to the raw scores. The course letter grade cannot be determined and questions about your course grade or standing in class cannot be answered until all examinations have been taken.

Each student is expected to maintain information on a portfolio of securities during the semester. The portfolio project is divided into two parts. The first part, worth 8% of the course grade, is the purchase of selected securities. The second part, worth 8% of the course grade, is the liquidation of the securities portfolio. The projects will be graded on neatness, completeness and correctness. Details of this project will be presented during a class period. If you are taking the course **pass/fail** you must complete all projects and take all exams in order to pass the course.

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Finance 367 is a Restricted Course for students who are currently enrolled in a major program in the College of Business Administration. Note that several prerequisites apply for this course and are published in the Course Schedule. Prior completion of Finance 357 (with a grade of at least a C) and its prerequisites are among these requirements. See also the page entitled "Important Information for All Students Enrolled in Business Courses" for additional information.

Supplemental Materials

Staying abreast of current events makes the course more interesting and will increase the retention of information which you will find useful in your career. **The Wall Street Journal** is highly recommended for the course and specific articles will be referred to in class. **Business Week** provides a weekly update of economic conditions, information on specific companies and the investment outlook. Regular business news features on CNBC (cable channel 50). CNN (cable channel 46 and 47) and KLRU (cable channel 9 and 20) can also add relevance to the material being covered in the course. Numerous materials are available in the library which are very useful in analyzing specific investments. The library has two sets of **Value Line** on reserve.

Student Lecture Notes are available for purchase at the UT Copy Center in GSB 3.136, telephone number 471-8281. The lecture notes are outlines to facilitate taking notes during lectures. A Solutions to the End of Chapter Problems has been prepared by the publisher of the text. This publication should be available at the bookstore. Please ask Mr. McAdams about any problems or errors in the solutions which you may encounter.

Some popular books about different aspects of investing might be of interest to students who want to go beyond the material presented in the course. Among these are Peter Lynch's book Beating the Street and his previous best seller One Up on Wall Street. Others which might be of interest are Liar's Poker and A Random Walk Down Wall Street. For more practice with extra problems and a summarization of different topics presented in the class, Schaum's Outline Series: Theory and Problems of Investments by Francis and Taylor can be helpful and is available at most of the bookstores around the campus.

Calculators:

A financial calculator is recommended for this course and will be required to work problems on the valuation of bonds. You will use a calculator in other finance courses as well as in the real world**. Present Value/future value tables will not be furnished with the examinations**. The determination of bond prices requires the calculation of present values. The calculator should have exponent and root functions as well as present value and future value keys. It should be emphasized that the calculator cannot replace an understanding of the problem solving process. Restrictions on the use of certain types of calculators may be imposed and programmable calculators must be deprogrammed when used during an exam. You cannot share calculators with others during the exam. Be sure to learn how to use your calculator long **before** the scheduled exams. (The instructor is most familiar with the HP 12C but there are numerous calculators on the market which will be satisfactory for this course).

Other Course Policies: (VERY IMPORTANT)

1. Alternate exam dates cannot be given. Conflicts between the scheduled exams and other academic or work requirements should be brought to the instructor's attention **in writing** by **September 9**. Anyone bringing an examination conflict to Mr. McAdams attention after **September 9** with an excuse acceptable to Mr. McAdams will have to substitute a **special final examination** for the missed examinations or use some other method of making up for the missed exam as determined exclusively by Mr. McAdams. This includes those students who are too ill to take an examination. If you are ill, evidence of the illness documented by a doctor is required. You are expected to be present at the indicated time and date for all examinations. Students missing an exam without Mr. McAdams permission will receive zero on that exam. The **special final examination** will be **comprehensive** and include questions on the material covered in the missed examinations as well as that planned for the final examination. In short, do not miss one of the examinations.

2. **Make-up or extra work** to improve your grade is not possible. Your final letter grade is determined solely by your examination and portfolio project scores. In addition, your general academic situation cannot be considered. (For example, "I need a 'C' in this course to graduate.") The final grade in the course, once assigned, will not be changed except in the event of a recording error.

3. All **examinations** materials, including a formula sheet and scratch paper, will be provided. You need to bring No. 2 pencils, a financial calculator and a **picture I.D.** to the exam session.

4. **Any** individual suspected of cheating, including stealing or using stolen examinations, will be disciplined to the maximum extent possible. Specific seats will be assigned for all examinations including the final examination.

5. **Examinations** will not be returned. The method of review will be announced in class but will occur only during **the week directly following the examination**. You must bring your completed key from the exam for this review. If you feel your posted examination grade is incorrect, you must notify me in writing during this same one-week period. After one week, the examination papers will be stored and the problem will not be researched.

6. If you miss a class, it is entirely **your** responsibility to determine what you have missed including any administrative announcements I may have made. Some of the material covered on exams may not be in the text. Hence, you are urged to attend class regularly. It is helpful if you keep the same seat for the entire semester.

7. Office hours for Mr. McAdams may change during the semester. Such changes will be announced in class.

8. Should you have to leave class early, please have the courtesy of letting the instructor know before the beginning of the period and leave quietly so as not to disturb the other members of the class.

9. You cannot assume that all information needed for the examinations will be presented in class. It is imperative that the textbook be read and studied.

10. You should work the assigned problems at the end of each chapter.

Page 5

Study Guide

1. You need to **understand** what you are studying, whether it be conceptual or analytical. When you study, ask yourself such question as:

    i) What is the purpose of this concept or formula?
    ii) Why is it important?
    iii) How does the author demonstrate its importance?
    iv) How does it "fit" with what you have studied so far? –either in this class or in an earlier class.

2. I suggest that you read each chapter once **before** it is discussed in class and then read it again **after** the topic is covered in class. Reading the material beforehand will greatly assist in having meaningful class discussions. If you are having trouble with a concept or problem, see Mr. McAdams, during regular office hours as soon as possible.

3. The problem sets associated with each chapter are not to be handed in; however, it is important that you work and understand them. Working these problems is a necessary step in preparing for the exam. The examination problems will appear simpler for those who work the problem sets. Reviewing the key words and the questions at the end of the chapter will also be useful in mastering the material and preparing for the examinations.

4. Relying on your calculator as a means to simply **plug figures** for an answer will get you into trouble. Problems (academic and real world) do not always fit into a formula. Also, cramming right before an exam usually results in confusion, anxiety, and a lack of the **big picture.**

Other Information:

A class schedule is shown on the next page. This schedule may be modified somewhat as the semester progresses as some topics take more or less time than anticipated. The examination dates will generally not be changed. Supplemental readings and/or additional chapters from the textbook may be added or deleted at a later date.

CLASS SCHEDULE

Class	Date	Topic	Readings
1	Aug 28	Introduction	
2	Sep 2	Investment: Background and Issues	Chapter 1
3	Sep 4	Financial Markets and Instruments	Chapter 2
4	Sep 9	Financial Markets and Instruments	Chapter 2
5	Sep 11	How Sec. Are Traded – Buy Portfolio (9/12)	Chapter 3
6	Sep 16	How Securities Traded – PORTFOLIOS DUE	Chapter 3
7	Sep 18	Mutual Funds and Other Invest. Cos.	Chapter 4
8	Sep 23	Tax Deferral and Investment Returns	Special Handout
9	Sep 25	***REVIEW – 1st EXAM (7 – 9PM)***	(Chs. 1-4 + Tax)
10	Sep 30	Risk and Return: Past and Prologue	Sections (5.1 – 5.4)
11	Oct 2	The Efficient Market Hypothesis	Chapter 8
12	Oct 7	Bond Prices and Yields	Chapter 9
13	Oct 9	Bond Prices and Yields	Chapter 9
14	Oct 14	Managing Fixed Income Investments	Chapter 10
15	Oct 16	Managing Fixed Income Investments	Chapter 10
16	Oct 21	REVIEW	
17	Oct 23	***REVIEW – 2nd EXAM (7 - 9PM)***	(Chs. 5, 8, 9, 10)
18	Oct 28	Technical Analysis (Optional Class in FTTC)	None
19	Oct 30	Equity Valuation Models	Chapter 12
20	Nov 4	Equity Valuation Models	Chapter 12
21	Nov 6	Macroecon. and Ind. Anal.	Chapter 11
22	Nov 11	Options Markets	Chapter 14
23	Nov 13	Options Markets	Chapter 14
24	Nov 18	Options Valuation Sell Portfolio (11/18)	Sec 15.1, 3-5
25	Nov 20	Futures Markets PORTFOLIOS DUE	Chapter 16
26	Nov 25	Futures Markets	Chapter 16
27	Nov 27	***THANKSGIVING HOLIDAY***	
28	Dec 2	Performance Evaluation	Chapter 20
29	Dec 4	Review for Final Exam	
	Dec 11	***FINAL EXAM (7 - 9PM)***	(Chs. 11, 12, 14-16, 20)

Appendix B: Class Assignments

Problems located at the end of each chapter should be worked, understood, and related to the concepts presented in the class and in your readings. The solutions to these problems are available in the **solutions to end-of-chapter problems** produced by the textbook publisher and available at the bookstore. Mr. McAdams will assign specific problems related to the course as the semester progresses. Corrections to the solutions manual will be passed out in class.

Try working these problems first **without** referring to the solutions manual. After working the problems, check your answer with the solutions manual or with the answer presented in the back of the textbook. If you have trouble with the problems, refer to the solutions manual only after you have spent sufficient time struggling with the problem. You will not receive any benefit from working through a problem if you refer to the solutions manual too quickly. Most students have found some of these end-of-chapter problems to be difficult. They do reinforce points covered in the lecture and assist in preparing for the examinations. If you still have questions, see Mr. McAdams during his regular office hours.

Some of the **Concept Checks** in the textbook are difficult and a few beyond the scope of the material presented. **Each Concept Check** can be quite beneficial but the student should avoid getting frustrated if the answer (given at the end of the chapter) is not readily understood. Once again, if you still have questions, see Mr. McAdams during his regular office hours.

In order to successfully complete this course, the concepts must be studied **continuously** throughout the semester. For most students, the information cannot be mastered by waiting until exam time.

Important Information for All Students Enrolled In Business Courses, Fall 2003

1. It is your responsibility to know for which section of a course you are registered and to attend that section. You are responsible for verifying your schedule each semester by checking your fee receipt and copies of add/drop forms. If there is any doubt as to your official enrollment, you should check with your instructor to see if your name appears on his/her roster, or check with your Undergraduate Dean's Office (CBA 2.314 for Business majors) (Note: If you are registered Pass/Fair, the letter "Z" will be shown on your fee receipt.)

   <u>Failure to attend the correct section may result in receiving no credit for the section you attended and an "F" in the section for which you were enrolled.</u>

2. For **Business majors**: The only courses you are eligible to take on a pass/fail basis are those you plan to use as free electives or non-business electives. If you are taking a business course on a pass/fail basis, you may use it only to fulfill a free elective, not a requirement or an upper-division business elective. Finance majors must take Finance electives for a grade.

3. Students are no longer required to have a 2.2 g.p.a. to take upper-division business courses. However, enrollment in these courses is restricted. Non-Business and pre-business students generally may not enroll. See the Course Schedule for specific information

4. Business Foundation courses are offered for non-business students; NONE OF THESE COURSES WILL COUNT TOWARD THE B.B.A. DEGREE. These courses are: ACC310F, MIS311F, FIN 320F, LEB 320F, MAN 320F, MKT. 320F

INVESTMENT MANAGEMENT

FIN 367 THE UNIVERSITY OF TEXAS Fall 2003

WILLIAM MCADAMS

The following chapter problems should be worked through, but will not be turned in for a grade. An understanding of these problems as well as the problems worked through in a class by Mr. McAdams should help students prepare for the mid-term and final exams.

BACK OF CHAPTER PROBLEM SETS

CHAPTER	ASSIGNMENT
1	2, 5-7, 9-12, 14, 15
2	1-13, 20
3	1,2, 5-10, 15-21
4	1-11, 13, 14, 16, 17, 19-21
5	1-5, 9-11, 13, 14, 16, 17, 24
8	3-5, 8, 9, 11-14, 16, 17
9	1-6, 9-17, 18a, 18b, 19-32, 33a, 33b, 35-37
10	1-7, 9-13, 18, 23, 24, 30
11	1-8, 11, 18
12	1-3, 5-7, 9-11, 13, 16, 17, 21
14	1-6, 7a, 7b, 8, 10, 11a-c, 12, 14, 15b-d, 17-20, 22
15	1, 2, 4, 7, 8, 10-15, 24
16	1-4, 6-9, 11-17, 21, 22
20	None

Modifications and Additions to Solutions Manual

For Essentials of Investments by
Bodie, Kane and Marcus

The following are some corrections as well as explanations and additional information which applies to the **Solutions Manual** which accompanies the textbook, **Essentials of Investments, Fifth Edition**, by Zvi Bodie, Alex Kane and Alan J. Marcus.

Chapter 5

Problem 17:	Answers for compounded rates of return are correct, but the nominal return numbers shown in the calculation are wrong.

Chapter 10

Problem 9:	Computations for duration are correct, but the interest rate used in the calculation should be 8%, not 10%.