FIN 367
INVESTMENT MANAGEMENT

SYLLABUS
SPRING 2009

1. INSTRUCTOR

Instructor:	Visiting Associate Professor David R. Gallagher
Location:	CBA 6.254, McCombs School of Business
Contact:	david.gallagher@mccombs.utexas.edu or 232-6842
Office Hours:	Monday 10:30-12:00 (otherwise by appointment)

About David Gallagher

David R. Gallagher is a visiting associate professor in the Department of Finance at the McCombs School of Business. He has been a faculty member of the Australian School of Business at The University of New South Wales in Sydney since 2002. He holds a Ph.D. from the School of Business at The University of Sydney. His research and teaching interests include institutional investors, portfolio management and capital markets. He is a director of the Australian Centre for Research in Finance and a research leader in the Capital Markets CRC.

Teaching Assistants

Haiwei Jang (Harvey) - msbbq314@mccombs.utexas.edu

Room: GSB 5.324D (McCombs); Phone: 471-1674; Consult: 3-5PM Mondays

Bomi Lee - msbbq064@mccombs.utexas.edu

Room: GSB 5.324D (McCombs); Phone 471-1674; Consult: 3-5PM Wednesdays

2. INFORMATION ABOUT THE COURSE

Teaching times and Locations

Course materials, including lecture notes and research papers, will be available on the course webpage via the University of Texas at Austin Blackboard system. https://courses.utexas.edu/webapps/login

Section 1 (02920): Tuesdays and Thursdays 12:30-2:00PM UTC 1.132
Section 2 (02925): Tuesdays and Thursdays 2:00-3:30PM CBA 4.332
Section 3 (02930): Tuesdays and Thursdays 3:30-5:00PM CBA 4.332

Prescribed Textbook

The prescribed textbook for the course is BODIE, KANE and MARCUS, *Investments*, McGraw-Hill/Irwin, 8th Edition, and the accompanying Student Solutions Manual to Investments by Bodie, Kane and Marcus, 8th Edition. Additional readings, if outlined, will be made available to students on the course webpage.

Course Structure

Week	Dates*	Topic	BKM Chapter(s)**
1	20/22 Jan	Introduction	1-2
2	27/29 Jan	Securities Markets	3
		Mutual Funds, Hedge Funds, LICs	4; 26
3	3/5 Feb	Risk and Return	5
		Portfolio Theory	6
4	10/12 Feb	Portfolio Optimization	7
		Index Models	8
5	**17/19 Feb**	**Examination #1^**	**Wks 1-4 ONLY**
6	24/26 Feb	Asset Pricing	9-10
7	3/5 Mar	Market Efficiency	11
		Behavioral Finance	12
8	10/12 Mar	Anomalies and Security Returns	13
		SPRING BREAK	-
9	24/26 Mar	Valuation of Equity Securities	18
		Financial Statements & Valuation	19
10	**31 Mar / 2 Apr**	**Examination #2^**	**Wks 6-9 ONLY**
11	7/9 Apr	Fixed Interest Securities	14-15
12	14/16 Apr	Bond Portfolio Management	16
13	21/23 Apr	Derivative Securities***: Options	20
		Option Valuation	21
14	28/30 Apr	Portfolio Performance Evaluation	24
		International Diversification	25

		Fund Manager Evaluation	
15	5/7 May	**Examination #3^**	**Wks 11-14 ONLY**

* Tuesdays and Thursdays
** BKM=Bodie, Kane and Marcus, *Investments*, 8th Edition
^ Examination material covers all material including as noted, including BKM textbook material, lecture notes, BKM textbook problems, readings assigned etc. Assessment across the relevant weeks for each examination may not necessarily be equally distributed. Examination A will be on Tuesdays in Weeks 5, 10 and 15 (e.g. multiple choice/short answer). Thursday classes in weeks 5, 10 and 15 will be Examination B (problems, short answer/ essays).
***Brief coverage of Futures markets included.

3. Course Aims

Course Aims

This course provides an introduction to investments, and is relevant for students contemplating careers as portfolio managers, investment advisors, buy/sell side analysts etc. The course examines financial theories, empirical evidence and practical methods related to investment management. Topics covered include risk and return, portfolio formation, asset pricing models, behavioral finance, fixed income securities, equity security analysis, risk management using derivative securities (options), and portfolio performance evaluation. The course provides both theoretical and practical insights concerning the management of investment assets.

4. Student Responsibilities and Conduct

Workload

It is expected that students will spend time preparing prior to each class. Students will be expected to go beyond the materials presented in class, including reading the textbook, undertaking problems from the selected textbook, and reading the research papers assigned. In periods where you need to complete assignments or prepare for examinations, the workload may be greater than usual.

Over-commitment in terms of workload has been a cause of failure for many students. You should take the required workload into account when planning how to balance study with employment and other activities.

Practice Problems (BKM Problem Sets)

Practice problems from the Bodie, Kane and Marcus textbook *Investments* will be assigned for each week of material covered. These *suggested* problems will not be graded, but should be useful in your preparation for the examinations and review of the theory/practical issues covered in classes. Students should allow sufficient time to attempt these problems and review the solutions from the Bode Kane and Marcus *Student Solutions Manual* throughout the course. These problems can be attempted in either the same week as the lecture materials are presented, or one week in arrears to the lecture material. The Concept section of the BKM textbook could also be covered as potential preparation for assessment.

Week	Topic	Chapter(s)	BKM Problems
1	Introduction	1	1:2; 5; 7; 8; 11; 12; 14; 17; 18
		2	2:1; 3; 5; 8; 9; 10; 11; 17
2	Securities Markets	3	3: 5; 7; 8; 11; 13; 14
	Mutual Funds, Hedge Funds,	4	4:2; 3; 4; 5; 7; 12; 13; 17; 21
	LICs	26	26:1; 2; 3; 5; 9
3	Risk and Return	5	5:1; 2; 6; 7; 12; 14
	Portfolio Theory	6	6:2; 4; 5; 6; 10; 11; 12; 13; 14; 15; 16; 17; 18; 19; 26; 27
4	Portfolio Optimization	7	7:2; 4; 5; 6; 7; 8; 9; 10; 12; 13; 14
	Index Models	8	8: 1; 4; 5; 6; 7; 8; 9; 10; 11; 12; 13; 14; 17
5	**Examination #1**	-	-
6	Asset Pricing: CAPM	9	9:1; 5; 6; 7; 8; 9; 10; 11; 12;17; 20
	Arbitrage Pricing Theory	10	10: 1;2; 4; 5; 6; 8; 10; 15
7	Market Efficiency	11	11:2; 3; 7; 8; 9; 14; 17
	Behavioral Finance	12	12:1; 2; 4; 5;
8	Anomalies and Security Returns	13	13:2; 3; 5; 6
	SPRING BREAK	-	-
9	Valuation: Equity Securities	18	18:1; 2; 3; 4; 5; 6; 7; 8; 9; 10
	Financial Statements & Valuation	19	19: 1; 2; 3
10	**Examination #2**	-	-
11	Fixed Interest Securities	14	14:1; 2; 4; 5; 7; 9; 12; 23
		15	15:1; 3; 6; 11
12	Bond Portfolio Management	16	16:1; 2; 3; 4; 5; 6; 8; 11; 17; 18
13	Derivative Securities: Options	20	20: 1; 3; 4; 5; 6; 7; 8; 17
	Option Valuation	21	21: 1; 4; 11; 12; 13; 14; 15
14	Portfolio Performance Evaluation	24	24:1; 2; 4; 5; 7; 8; 9; 10; 13
	International Diversification	25	25: 1; 6
	Fund Manager Evaluation	-	-
15	**Examination #3**	-	-

Readings

This course has additional readings that are also included in the syllabus. The main outcomes from these research papers and monographs may be directly assessable, but their primary use will be to provide contextual support and depth to the text material in specialized areas. I will aim to address the most important parts of these papers/monographs during class.

Week 2:

Investment Company Institute (2008), Investment Company Factbook, http://www.icifactbook.org/

Trading on NYSE: http://www.nyse.com/about/education/1098034584990.html

Week 3:

Dimson, E., Marsh, P., and Staunton, M. (2000), Risk and Return in the 20th and 21st Centuries, Business Strategy Review, Vol. 11(2): pp1-18

Dimson, E., Marsh, P., and Staunton, M. (2006), The Worldwide Equity Premium: A Smaller Puzzle, SSRN Working Paper http://ssrn.com/abstract=891620

Week 4

Chan, L., Karceski, J., and Lakonishok, J. (1999), On Portfolio Optimization: Forecasting Covariances and Choosing the Risk Model, Review of Financial Studies, Vol. 12(5): pp937-974

Week 6

Fama, Eugene F. and French, Kenneth R., (2003), The Capital Asset Pricing Model: Theory and Evidence, CRSP Working Paper No. 550; Tuck Business School Working Paper No. 03-26. Available at SSRN: http://ssrn.com/abstract=440920 (subsequently published in the Journal of Economic Perspectives, 2004)

Week 8

Fama, Eugene F. and French, Kenneth R., (2007), Dissecting Anomalies. CRSP Working Paper No. 610, available at SSRN: http://ssrn.com/abstract=911960

Week 9

Piotroski, J. (2000), Value Investing: The Use of Historical Financial Statement Information to Separate Winners from Losers, Journal of Accounting Research, Vol. 38: pp1-41

Chan, K., Chen, L., Jegadeesh, N., and Lakonishok, J. (2006), Earnings Quality and Stock Returns, Journal of Business, Vol. 79(3): pp1041-1082

Attendance

A roll call will be taken each class. Attendance is expected, and students are responsible for all materials that are taught during the lectures. Students are also responsible for ensuring they are aware of all announcements given at the class and/or on the course webpage.

General Conduct and Behavior

You are expected to conduct yourself with consideration and respect for the needs of your fellow students and teaching staff. Conduct which unduly disrupts or interferes with a class, such as ringing or talking on mobile phones, text messaging etc. is not acceptable. Students will also not be permitted to use laptop computers during class.

Scholastic Dishonesty

The University enforces strict rules relating to scholastic dishonesty. Students will be expected to be familiar with the policy. For information regarding the McCombs School of Business' policy statement on scholastic dishonesty, please see http://www.mccombs.utexas.edu/udean/Scholastic_Responsibility.asp

Keeping Informed

You should take note of all announcements made in lectures or on the course web site. You will be deemed to have regularly visited the course webpage and be aware of all course materials uploaded, and all notices posted. In other words, students are responsible for covering all materials in the course, either in lectures, the textbook, readings or research papers.

Calculators

Students should use non-programmable calculators. Given there is need for financial computations, these types of calculators could be beneficial (although not required). Students are responsible for having a calculator available to them, and one that they know how to operate correctly. Calculators must be brought to all examinations. Calculators cannot be shared between students during examinations.

5. Learning Assessment

Grading

Grading will be determined in aggregate based on all the components of the assessment outlined in the Syllabus. Final scores will be determined as a weighted average of each component. The final grade of each candidate may be moderated (upwards) based on the distribution of all students' overall scores.

Assessment Components

Student assessment for the course is outlined as follows:

75% - Three examinations (25% each)

15% - Individual assignment

10% - Team presentation

The final grade will be determined as a weighted-average of the component scores in each assessment category.

Week	Mode of Assessment	Date of Assessment
5	Examination #1 (Part A)	Tue 17 February
5	Examination #1 (Part B)	Thu 19 February
10	Examination #1 (Part A)	Tue 31 March
10	Examination #2 (Part B)	Thu 2 April
13	Individual Assignment^	Thu 23 April
15	Examination #3 (Part A)	Tue 5 May
15	Examination #3 (Part B)	Thu 7 May

^ The individual assignment is due in class on Thursday 23rd April. Assignments not received before end of class will be deemed late and will attract a zero grade for that assessment.

Examinations (75% of Final Grade)

There will be three examinations (in two parts) held in class, and closed book. There will be no final examination. Materials assessed in the examinations will *include* lecture notes, practice problems, textbook materials, assigned readings, and team project presentations.

Students will need to bring along their own UT-approved calculators (i.e. non-programmable) to all the exams. No make-up exams will be offered, but students experiencing illness or misadventure, which can be supported using a doctor's note as evidence, will be eligible to have their missed examination re-weighted across the other examinations (students can only claim if illness/ misadventure for a maximum of one exam). If students experience a scheduling conflict with the examination, they should make contact with me immediately, and not within 24 hours of the examination. Students missing an exam without a valid reason will score zero for the relevant examination.

Students will not have their examinations returned after grading. Review of the exam can only occur in the week after the grades have been communicated to students. Students who believe they need to challenge their grade must make contact via email during the week immediately after the examination grades are made available to students. An oral test may then be used for the entire course material as a means of adjudicating the proficiency of a student's knowledge of the material.

Individual Assignment: Managing a Portfolio of Assets (15% of Final Grade)

Students will have the opportunity of gaining practical insights into the management of assets within a portfolio. Using the Stock-Trak investment management simulation (www.stocktrak.com), students can build their portfolio

using an initial cash balance (on paper) of $1 million. I ask that students keep the assets available as simple as possible, and for this purpose please only invest in American-listed or American domiciled securities.

The portfolio must have a combination of direct equities (traded on NYSE, NASDAQ, AMEX) and bonds (both government and corporate). The use of derivatives is permissible (but not necessary), but derivatives should only be used in the portfolio for risk management purposes (i.e. hedging purposes) and not speculative trading strategies.

The trading period will begin from the third week of class (week commencing Monday 2nd February 2009) and conclude Friday 16 April (last trading day).

Other particulars of importance are:

- Students must select a strategic asset allocation between equities and bonds. This will depend on the type of client for which you are electing to manage the portfolio. This asset allocation is permitted to vary over time.
- The value of the portfolio must have at least a 75% allocation outside of passive instruments (e.g. index funds, Exchange-traded funds)
- Equities must comprise between 50-70% of the portfolio, and zero ownership of international stocks (just US stocks listed on US exchanges)
- Bonds (domestic only) must comprise between 20-40% of the portfolio
- Cash must not exceed 50% of the portfolio after the first month of trading, and beyond the first month must remain below 25% of the portfolio.
- It is not compulsory to trade in derivatives.
- The portfolio must own a minimum of 15 assets/securities.
- Mutual funds can be owned in the portfolio, providing they do not exceed 25% of the portfolio, and their use ensures the asset allocation parameters are not violated.
- Students are permitted to trade a maximum of 10 times per week (to a cumulative aggregate of 200 trades over the entire event window).

Students are expected write a brief investment report (maximum of 10 pages) concerning their investment experience on Stock-Trak relative to the investment objectives articulated at the outset. Presentation quality here is important in highlighting the major performance/risk outcomes of the portfolio. The use of tables and graphs will be of significant benefit, as well as written commentary and analysis. I am more looking for how the strategy in aggregate was executed, and what the major drivers/detractors were to the portfolio as a whole. Among the issues needing coverage includes the following:

- The investment philosophy adopted in management of the portfolio (e.g. value, growth, style neutral, etc.)
- What was the target (i.e. strategic) asset allocation (and why), how did it vary over the course of the trading period, and was the asset allocation commensurate with the investment objectives
- Report the weekly performance of the aggregate portfolio over the trading window, segmented by asset class and securities owned. Students should also compare this performance to the benchmark return of the portfolio

given the strategic asset allocation set at the commencement of the trading window.

- Analysis of the total and risk-adjusted return of the portfolio in the period, where the S&P500 is the target portfolio to beat. Is this benchmark appropriate given the assets held by your portfolio?
- What macroeconomic, sector or asset-specific events arose over the period that impacted positively/negatively on the investment experience
- What decisions were made that, in hindsight, could have been done better in the management of the portfolio, and why?
- How was risk management executed in the portfolio? Were the investment constraints (i.e. asset allocation ranges, number of assets owned, trading frequency restrictions) observed (and how)?
- The extent to which trading costs, trade frequency and portfolio turnover would have impacted on the investment experience.

Note: Grades will be determined on the means by which students have executed their investment strategy and managed their portfolio in response to market opportunities, threats and portfolio management requirements. Grades will not be determined based on the success or otherwise of the portfolio's performance in the period.

Team Presentation (10% of Final Grade)

Students should form groups (group size will depend on the size of the class) at the beginning of the semester (by end of the first week). I will allocate randomly a topic which should be presented in class. Presentations (i.e. MS-PowerPoint-type format) should be about 15 minutes in length.

USBs should be used to load the slides onto my PC well before the commencement of the class. All students will be expected to equally share in the formal presentation and the preparation of the slides. I will be grading the team's presentation overall, so each member of the group will receive the same score. I will also require a printed version of your slides prior to your presentation in class.

The case study areas for presentation are as follows:

Case 1: Explain why the recent financial crisis of October 2008 has arisen? What are the factors? (Thursday 29 Jan.)

Case 2: What is the equity risk premium? Has this premium changed over time, and what is the forecast of the premium for the future? (Thursday 5 Feb.)

Case 3: What is diversification in portfolio management? How many stocks are needed to maximise the diversification benefits available to investors? How important is liquidity in portfolio management? (Thursday 12 Feb.)

<<Exam week #1>>

Case 4: What risk factors are priced in capital markets? What risk models tend to be widely used in measuring the abnormal returns of mutual fund managers? (Thursday 26 Feb.)

Case 5: Are mutual fund managers and individual investors successful in exploiting inefficient markets? (Thursday 5 Mar.)

Case 6: Are stock prices predictable? Explain some of the strategies used in the market as methods of predicting stock prices. (Thursday 12 Mar.)

<<Spring Break>>

Case 7: Explain the accruals anomaly with respect to corporate earnings and stock returns? Is the anomaly economically significant? (Thursday 26 Mar.)

<<Exam week #2>>

Case 8: Explain how bond ratings are determined. Who are the major ratings agencies and what methodologies are used to rate a bond? What impact do changes in bond ratings have on bond prices/returns in the market? (Thursday 9 Apr.)

Case 9: Warren Buffett (of Berkshire Hathaway fame) is considered by many to perhaps be the world's most successful investor. Why is it argued that his value-style strategy has been so successful? What evidence exists in research concerning value versus growth-oriented investment strategies? (Thursday 16 Apr.)

Case 10: Insider trading is illegal in capital markets. Which market participants have a higher likelihood of holding inside information? How might insider trading be detected, and at what points in the company's cycle is insider trading more likely to arise? Is insider trading more likely to arise on equity markets or on derivatives markets? What empirical evidence exists on the subject of insider trading and detection? (Thursday 23 Apr.)

Case 11: Explain how hedge funds are different to mutual funds? Do hedge funds generate superior performance? What are some of the important distinctions between hedge funds and mutual funds (Thursday 30 Apr.)

<<Exam week #3>>

NOTE: I reserve the right to make modifications to this Syllabus. Modifications will be notified to students in class and/or via the course webpage on Blackboard. Students are responsible for all announcements made that result in variations to the Syllabus.