

**DEPARTMENT OF FINANCE
MCCOMBS SCHOOL OF BUSINESS
UNIVERSITY OF TEXAS AT AUSTIN**

FIN 367: Investment Management

Spring 2009

Tuesday & Thursday 08:00-09:30, UTC 1.104, unique # 02895

Tuesday & Thursday 09:30-11:00, UTC 1.104, unique # 02905

Tuesday & Thursday 12:30-02:00, UTC 1.104, unique # 02915

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Course Description

FIN 367 is an introductory investment course. It is intended for those students who want to become investment professionals (portfolio managers, professional investment advisors, or analysts) or knowledgeable individual investors. There are two major themes in the course: 1) valuation of various securities such as bonds, stocks, and major derivatives, and 2) combination of securities into portfolios with desired characteristics (optimally balanced risk and return). Students will study various opportunities arising from investing in financial instruments and the related risks. Special attention will be given to the ways of managing these risks. Also, several topics related to applied portfolio management will be covered, including evaluation of portfolio performance and strategies of major institutional investors.

Prerequisite

The prerequisite is FIN 357: students are expected to be familiar with basic concepts of finance covered in this class. Also, it will be assumed that students have some knowledge of probability theory and statistics (i.e., understand the concepts of expectation, standard deviation, and correlation). Although the coverage of purely quantitative methods will be limited, students will need to be able to do basic algebraic manipulations.

Course Materials

The material of the course will be covered in lecture notes, which will be available before each class. Understanding lecture notes in full is necessary for successful completion of course requirements. Although there are no required textbooks for this course, it is highly recommended that students read selected chapters from the following book:

Investments, by Z. Bodie, A. Kane, and A. Marcus, 8th ed., 2008, McGraw-Hill.

The recommended chapters (indicated below in the Course Schedule) significantly overlap with lecture notes and will be helpful for better understanding of class material. For those students who want to get additional practice in solving problems, the solutions manual is recommended:

Student Solutions Manual to accompany Investments, by Z. Bodie, A. Kane, and A. Marcus, 2006.

If you want to get deeper understanding of financial markets and the investment process the following books might be very useful:

A Random Walk Down Wall Street, by Burton G. Malkiel, W. W. Norton & Company;
When Genius Failed: The Rise and Fall of Long-Term Capital Management, by Roger Lowenstein, 2001, Random House.

In addition, students are encouraged to read *The Wall Street Journal*. Also, from time to time, recommended readings will be distributed in class. The course web site available through the UT Blackboard system (<https://courses.utexas.edu/webapps/login>) will serve as the official mechanism for distributing course materials including lecture notes, problem sets, and solutions.

Students will need a calculator on both midterm and final exams. There will be no computationally intensive problems in the exams and students are free to use any type of calculator (the use of financial calculators will not give any advantage). However, the problem sets will require computation of present values, yields, and internal rates of returns. To perform these computations students will need financial calculators, Excel, or other tools. The recommended financial calculators are: *Texas Instruments BA II Plus* (easier to use) and *Hewlett Packard 12C* (harder to use). These calculators are the only ones permitted on the CFA Exam.

Course Requirements and Grading

Grades will be based on the student's performance on the midterm exam, the final exam, three problem sets, and two projects (analyst report and portfolio project). The overall score

in the course will be determined *mechanically* as the weighted average of the component scores. The weights of each component and the due dates are as follows:

Midterm Exam	Thursday, March 12	20%
Three Problem Sets	See course schedule	30%
Analyst Report	Tuesday, April 7	10%
Portfolio Project	Thursday, May 7	10%
Final Exam	TBA	30%

The overall grade of each student will be determined by where the overall score lies in the distribution of all students' overall scores. The cut-offs in the distribution will be such that roughly 40% of students receive "A"s, 40% receive "B"s, and 20% receive grades below "B." **The exact curve cut-offs will depend on the level and shape of the overall score distribution.**

There is only one opportunity in this course to do "extra-credit" work. Those students who attend most of the lectures and actively participate in class discussions can get extra credit up to 5% at my own discretion. I expect that only few students will be rewarded in this way and the grade of majority will be determined solely by the components listed above.

Exams

There will be two exams, a midterm and a final. The final exam will be comprehensive. Both exams will have a closed book format. Students will be allowed to use one two-sided cheat sheet with the font not less than 10pt. Also, students are expected to bring their own calculators to the exams. Programmable calculators must be cleared before each test. Using laptops and sharing of calculators during the exams is strictly prohibited.

There will be no make-up versions of the mid-term exam. If student has to miss the midterm exam because of an excusable and verifiable reason, he/she must let me know this in advance. If student fails to show up for the mid-term without telling me beforehand, then a doctor's note must be presented stating that the student was too sick to take the test. Other personal reasons may be considered valid at my discretion. Missing the midterm without a valid reason will result in a grade of zero for the exam. If student misses the mid-term for a pre-approved or medical reason, then the percentage weight of the mid-term will be added to the weight of your final exam, which will be 50% (20% + 30%). Do not miss the final exam!

Problem Sets

Three challenging problem sets will be excellent preparation for the exams. Students are allowed and encouraged to form teams of up to three people to complete the problem sets.

Although the assignment can be split among team members, each student should fully understand how to solve all problems. All team members will get the same score based on the provided solutions for all problems. Although it is permissible to change the group or start working individually, students are encouraged to stay within the same group over the whole semester.

All problem sets must be turned in before the class on the due date. Late assignments turned in on the due date after the class will be penalized by subtracting 20% from the grade. Solutions turned in after the due date will automatically earn 0%. Do not forget to indicate all team members on the front page. Although hand written home assignments will be accepted, the submission of type written solutions is strongly encouraged.

Analyst report

There will be a list of 6 stocks out of which students will have to pick up one and write an analyst report. It is expected to be a 6-7 page document providing general overview of the company, discussing prospects, potential, and related risks. Also, students should demonstrate knowledge of valuation techniques and estimate the fair value of the company. The report must contain a recommendation whether to buy the stock, hold it, or sell it. Students will have approximately a month and a half to complete this project. Similar to problem sets, students are encouraged to work in groups of up to 3 members. Further instructions will be provided later.

Individual Portfolio Project

Each student will be asked to invest fictitious \$500,000 in various stocks, bonds, and derivatives using a StockTrak account (www.stocktrak.com) and manage the portfolio during the semester. The purpose of the project is to familiarize students with mechanics of investing and give a chance to apply the obtained knowledge in practice. The only deliverable for the project is a portfolio analysis paper of 3-4 pages due on Thursday, May 7th. In the paper, students have to explain their investment strategy, attribute the performance of the portfolio to various factors, and evaluate the overall outcome. The performance of the portfolio will not affect the grade. Instead, students will have to demonstrate their knowledge of portfolio theory and allocate their wealth in a judicious way. Note: this is an *individual* project and the work in groups is not allowed.

Academic Integrity

Each student is expected to abide by the University Code of Academic Integrity. Academic dishonesty will not be tolerated. Your responsibilities with regard to scholastic dishonesty are described in detail in the Policy Statement on Scholastic Dishonesty for the McCombs School of Business. In particular, the work on your examinations must be entirely your own. Talking is not permitted during the exams. You are not allowed to compare your

work with others, copy from others, or collaborate in any way. All examinations will be closed-book and any use of books, lecture notes, personal notes, and other materials (except the allowed cheat sheet) will be considered as cheating. **Any inappropriate behavior during the examinations will result in failure of the exam, and may lead to failure of the course and other University disciplinary actions.**

Except for the exams, students are allowed and encouraged to study together and discuss the material and concepts covered in the lectures with other students. It is permissible to give “consulting” help or receive “consulting” help from other students. However, this permissible cooperation should never involve one student having possession of a copy of all or part of work done by someone else, in any form including an e-mail, an e-mail attachment, or a hard copy. The only exception from this rule is the work of other team members when teams are allowed. Should copying occur, both the student (or the team) who copied work from another student (or the team) and the student (or the team) who gave material to be copied automatically receive a zero for the assignment. Penalty for copying or using the work of others can also be extended to include failure of the course and University disciplinary actions.

The University of Texas Honor Code

“The core values of The University of Texas at Austin are *learning, discovery, freedom, leadership, individual opportunity, and responsibility*. Each member of the university is expected to uphold these values through *integrity, honesty, trust, fairness, and respect toward peers and community*.”

Accommodations for Students with Disabilities

The University of Texas at Austin provides upon request appropriate academic accommodations for qualified students with disabilities. Students who require special accommodations need to get a letter that documents the disability from the Services for Students with Disabilities of the Office of the Dean of Students (471-6259-voice or 471-4641 – TTY for users who are deaf or hard of hearing). This letter has to be presented to me at the beginning of the semester and appropriate accommodations will be discussed at that time. Also, if you need any specific accommodations on the midterm or final exams you should remind me about them five business days before the exam.

Class Web Sites and Student Privacy

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>.

Feedback

Feedback is an important part of any learning. During this course I will be asking to give me feedback in an informal way mainly using the Ongoing Course Assessment tool (web.austin.utexas.edu/diia/oca/). Please let me know when something we discuss is not clear. It will enable me to provide additional information when needed or to explain a concept in different terms.

In addition, I will be asking for feedback about my teaching strategies, which I want to be as efficient as possible. This kind of feedback is very important to me. From time to time, I will ask you to complete short anonymous questionnaires and I encourage you to respond to them. Also, you have an opportunity to attract my attention or express your opinion on any class related issue in anonymous or personal way. Although I keep the right to ignore this sort of feedback, in many cases I will make appropriate steps to ensure that together we create an effective learning environment.

Miscellaneous Policies

- Please send course-related e-mails—*i.e.*, questions, clarifications, *etc.*—to me and the TA. This policy minimizes our response time.
- Although attendance will not be taken, you are responsible for everything covered or assigned in class. Note: the composition of lectures will not follow any textbook.
- Mobile phones, iPhones, and other similar electronic devices must be switched off in class at all times. In general, the use of laptops is not permitted. However, if you are accustomed to put notes electronically, you can get my individual permission for an open laptop. In this case be prepared to show me your notes after the class. Also, I can revoke the permission if I learn that you use laptop for class unrelated purposes. Laptops are strictly prohibited on the midterm and final exams.

Course Schedule*

	DAY	DATE	TOPIC	CHAPTER
			INTRODUCTION	
1	Tue	20-Jan	Course Overview, Introduction to Financial Markets	1, 2
2	Thu	22-Jan	Probability and Statistics: Basic Concepts	5
3	Tue	27-Jan	Valuation of Securities: Basic Concepts	
4	Thu	29-Jan	Investment Management: Objectives, Constraints, Tools	28
			FIXED INCOME SECURITIES	
5	Tue	3-Feb	Introduction to Fixed Income	14
6	Thu	5-Feb	Term Structure and Bond Pricing	15
7	Tue	10-Feb	Default Risk and Credit Spreads	14
8	Thu	12-Feb	Interest Rate Risk and Duration	16
9	Tue	17-Feb	Managing Bond Portfolios	16
			STOCKS	
10	Thu	19-Feb	Definitions, Indexes, Historical Performance	2, 5
11	Tue	24-Feb	Trading and Exchanges Problem Set #1 DUE	3
12	Thu	26-Feb	Financial Statements, Ratios, and Analyst Reports	17, 19
			PORTFOLIO THEORY	
13	Tue	3-Mar	Statistics of Portfolio Returns	5
14	Thu	5-Mar	Optimal Risky Portfolios and Portfolio Frontier	7
15	Tue	10-Mar	Diversification: Systematic vs. Idiosyncratic Risk Problem Set #2 DUE	7
16	Thu	12-Mar	Mid-term Exam: Fixed Income, Stocks, Portfolio Theory	
	Tue	17-Mar	<i>Spring Break – No Class</i>	
	Thu	19-Mar	<i>Spring Break – No Class</i>	

MTG	DAY	DATE	TOPIC	CHAPTER
			EQUILIBRIUM IN CAPITAL MARKETS	
17	Tue	24-Mar	Regression, Alpha, and Beta	8
18	Thu	26-Mar	CAPM: Theory and Evidence	9
19	Tue	31-Mar	Valuation of Stocks: Discounted Dividend Model	18
20	Thu	2-Apr	Efficient Markets Hypothesis	11
21	Tue	7-Apr	Behavioral Finance and Limits to Arbitrage Analyst Report DUE	12
			DERIVATIVES	
22	Thu	9-Apr	Introduction to Derivatives	2, 20
23	Tue	14-Apr	Options: Definitions, Markets, and Strategies	20
24	Thu	16-Apr	Valuation of Options: Binomial Model and Black-Scholes formula	21
25	Tue	21-Apr	Futures: Markets and Instruments	22
26	Thu	23-Apr	Hedging, Risk Management, and Arbitrage	23
			APPLIED PORTFOLIO MANAGEMENT	
27	Tue	28-Apr	Portfolio Performance Evaluation Problem Set #3 DUE	24
28	Thu	30-Apr	Institutional Investors: Mutual Funds	4
29	Tue	5-May	Institutional Investors: Hedge Funds and Other Investment Companies	4, 26
30	Thu	7-May	Course Review Portfolio Analysis Paper DUE	
	TBA	TBA	FINAL EXAM Date, Time, and Room Will Be Announced	All of the Above

*Course schedule is tentative and subject to changes.