

FIN s367 Investment Management (71475)

Syllabus – Summer 2010 (2nd Session)

Instructor: Kelvin Law
Department of Finance
GSB 3.332D, McCombs School of Business
University of Texas at Austin

Contact: klaw@mail.utexas.edu
Class time: M, Tu, W, Th 1-3pm
Class venue: UTC 1.116

Course website: UT Blackboard
Office hours: M, Tu, W, Th 3-5pm

1. Course objectives:

The primary objective of this finance course is to expose you to various fundamental investment concepts and theories. The target audience of this course is business students who intend to become financial professionals. Various fundamental finance and investment concepts will be discussed and analyzed throughout the course.

2. Textbooks:

- Required: Bodie, Zvi, Alex Kane, and Alan J. Marcus, *Essentials of Investments*, 8th edition, McGraw-Hill Irwin.
- Optional: Student solutions manual for *Essentials of Investment*, 8th edition.
- Other supplementary readings will be distributed throughout the course. These readings will primarily cover cases on recent financial issues.

3. Course structure:

This course will be briefly divided into five main sections. In the first part, we will explore various financial instruments and asset classes, discuss their risk-return attributes and the ways that they can help us to achieve targeted portfolio exposure. We will also look at how securities are traded in general and how uncertainty can be modeled financially. In the second part, we will cover modern theories on how various assets are priced. Fundamental building blocks in modern finance such as diversification and capital asset pricing model will be discussed. In the third part, we will walk through examples to see how securities and bonds are valued. Investment concepts such as market efficiency and behavioral finance will be explored. In the fourth part of this course, we will look at various derivative instruments, especially options and futures, and explore various ways to construct different payoff schemes. In the last part of this course, provided that time is permitted, we will go through some latest yet important financial issues that reshape our investment environment and opportunities in general.

4. How to study for this class?

- Pay attention during class and **take notes**.
- Focus on the lecture notes.
- Practice those assigned and practice problems.
- Read BKM textbook since all background information needed for examinations may not be presented and covered in class. Read the assigned chapters **before** each class.

- Use the practice problems to gain a thorough understanding of the basic concepts and to form a better expectation about examinations. Nevertheless, please do not expect the exam questions to be identical to those in practice problems or to those similar courses taught previously.

5. Students with disabilities:

The University of Texas at Austin provides upon request appropriate academic accommodations for qualified students with disabilities. Please contact the Office of the Dean of Students at 512-471-6259 or 512-471-4641 for further information.

6. Course structure (tentative):

The following is a tentative course structure and subject to change during the semester. You are responsible for any changes to this tentative structure announced in the class.

Main topics:	Required readings
1 Basic Investment Concepts	
- L1: Introduction – Asset classes, financial instruments and security trading	BKM 1-3
- L2: IPOs, mutual funds and hedge funds	BKM 3-4, 20.1, 20.6
- L3: Modeling uncertainty	
- Exam #1: Jul 22	
2 Portfolio Theory and Asset Pricing	
- L4: Basic statistical concepts and asset allocation	BKM 5-6
- L5: Portfolio theory	BKM 5-6
- L6: CAPM and APT	BKM 7
- Exam #2: Jul 29	
3 Security Valuation, Market Efficiency, and Behavior Finance	
- L7: Performance evaluation and market timing	BKM 18
- L8: Security valuation	BKM 13
- L9: Bond pricing	BKM 10-11
- L10: Efficient market hypothesis	BKM 8
- L11: Behavioral finance	BKM 9
- Exam #3: Aug 5	
4 Options and Futures	
- L12: Options market	BKM 15
- L13: Binomial model	BKM 16-17
- Individual research project due: Aug 9	
- L14: Black-Scholes options pricing model	BKM 16-17
5 Latest Financial Issues (tentative and may subject to change):	
- L15: CDOs and credit rating agencies	
- L16: High frequency and algorithm tradings	
- Exam #4: Aug12	

7. Examinations and grading:

There will be 4 in-class examinations (1 hour and 15 min each) and there will be **no final examination**. All examinations will be held during regular class hours, and are closed-book, closed-note. **No make-up examination** will be given. I will drop your lowest exam score as long as you score 50% or above on that exam. The difficulty of these examinations will vary throughout the semester.

Maximum possible score = 500

- Four examinations: 300 points (72% of your grade). I will drop your lowest exam score as long as you score 50% or above on that exam. As such, each exam will contribute 24% to your final grade. All examinations are equal-weighted if the lowest exam is not dropped.
- One individual research project: 100 points (20% of your grade).
- Class participation: 40 points (8% of your grade).

Description	Points	Rules
4 examinations	360	Lowest exam score is dropped as long as you score 50% or above on that exam.
1 individual project	100	Due on Aug 9 .
Class participation	40	Expectations described below.
Total	500	

8. Absence from examination:

If you are absent for exam without any valid medical or family reasons, you will receive **zero points** and there will be **no makeup exam**. Any medical or family emergency must be accompanied with authentic or certified written proof. If you were seriously sick and could not make it to an exam, you are required to provide a doctor's written note documenting that you were medically unfit to attend the exam. If you have a family emergency, you should also provide written documentation showing the immediate cause. Note that it is the students' sole responsibility to provide written proof to substantiate their absence. In any case, you are required to immediately notify me if you will not be able to attend the exam. After reviewing the documentation, I **may or may not** scale up the weight of the remaining examinations to reflect the absence. Again, no makeup exam will be offered.

9. Class participation:

Participation refers to students' constructive participation in class discussion. Constructive comments, questions and discussion are typical examples of what would be expected from students engaging in constructive participation. Students also should participate in an ethical manner and respect other students and the instructor. Any inappropriate class behaviors or violation of students' honor codes will reduce participation score. A student may receive zero participation score. Participation point will be given entirely at my own discretion and is based on my opinion with respect to a student's preparation, discussion/class participation and overall contribution to the class. Students may receive zero points on participation if appropriate. One of the components of participation score includes arrival on time. If you have schedule conflict and you must arrive late (for all classes or any specific class), please inform me immediately after class prior to your schedule conflict. I reserve the right to ask students who come late to leave the classroom.

10. Grade assignment (tentative and may subject to change):

I will upload your examination score on Blackboard after examination. However, grades will not be assigned until all examinations have been taken and will be uploaded to Blackboard. In general, 35% of students receive As, 40% receive Bs and 25% receive grades below a B. Plus/minus grades will be assigned for the final grade. I reserve the right to adjust this allocation in due course based on the overall class performance throughout the course but the proportion of students receiving As will only be higher but not lower than the one described above.

11. Zero tolerance policy on academic dishonesty:

I highly value academic honesty and have **zero tolerance** toward any form of academic dishonesty. I will directly report any academic dishonesty (e.g. **looking over shoulder to copy from another student's test paper during examination, plagiarism for individual research project**, etc.) to the appropriate authority without hesitation. Students who have been caught cheating in examinations will receive zero points for all examinations. In particular, *“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 Policy Statement on Scholastic Dishonesty for the McCombs School of Business. By teaching this course, I have agreed to observe all of the faculty responsibilities described in that document. By enrolling in this class, you have agreed to observe all of the student responsibilities described in that document. If the application of that Policy Statement to this class and its assignments is unclear in any way, it is your responsibility to ask me for clarification. Policy on Scholastic Dishonesty: 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, and the integrity of the University, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at <http://www.utexas.edu/depts/dos/sjs/> or the General Information Catalog to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.*

12. Continuous feedback:

I encourage you to give me feedback about the course content and materials, my teaching style and anything that would help you learn the course materials better. You are welcome to talk to me in person if you have any comments or suggestions. Alternatively, I have set up an anonymous gmail account. The login is fin367 and the password is ut367summer.

13. Regrading policies:

Any appeal to grading must be made in writing and submitted to me within **three class days** after the graded exams are returned. An appeal will not be valid for consideration unless it is accompanied with clear written grounds of appeal. All appeals will be considered and returned within one week subsequent to submission. Note that there is no guarantee that I will increase point following appeal as points may increase, remain unchanged or decrease following consideration and there were cases where students received lower scores after the appeal.

14. Class calendar (tentative):

Monday	Tuesday	Wednesday	Thursday
Jul 12 L1: Introduction – Asset classes, financial instruments and security trading	Jul 13 L2: IPOs, mutual funds and hedge funds	Jul 14 L3: Modeling uncertainty	Jul 15 L4: Basic statistical concepts and asset allocation
Jul 19 L5: Portfolio theory	Jul 20 L6: CAPM and APT	Jul 21 L7: Performance evaluation and market timing	Jul 22 Exam #1
Jul 26 L8: Security valuation	Jul 27 L9: Bond pricing	Jul 28 L10: Efficient market hypothesis	Jul 29 Exam #2
Aug 2 L11: Behavioral finance	Aug 3 L12: Options market	Aug 4 L13: Binomial model	Aug 5 Exam #3
Aug 9 L14: Black-Scholes options pricing model Individual research project due	Aug 10 L15: Latest financial issue 1: CDOs and credit rating agencies	Aug 11 L16: Latest financial issue 2: High frequency and algorithm tradings	Aug 12 Exam #4

15. Individual research project (Due date Aug 9)

The objective of this individual research project is to expose you to various latest financial issues happening on Wall Street. You are required to choose a topic and provide a written 4-7 page report summarizing (1) what happened, (2) why did that happen, (3) what were the impacts and/or consequences, and (4) what are the investment implications. Each report should be in font size 12 and is 1.5 spaced with 1 inch margin on each side. The following is a list of topics:

1. 2010 Flash crash
2. 2009 Electronic bank run
3. Magnetar and its role in housing episode
4. Flash trading and front running
5. Dark pools
6. High frequency traders and algorithm dominance
7. Supplemental liquidity providers and their roles in NYSE trading
8. SEC's prosecution on Goldman Sachs
9. Controversy on carried interest tax treatment
10. The impact of political donation on financial and/or accounting regulations
11. Changes in BP's analyst recommendations after its deepwater oil spill
12. Sin tax and stock return

You are required to choose one of the topics above and then find ten directly-related news or magazine articles from reputable sources such as one of the following: *The Wall Street Journal*, *The Financial Times*, *The New York Times*, *Time Magazine*, *The Economist*, *The Washington Post*, *Reuters*, *Newsweek*, *Barron's*, *Forbes*, *Institutional Investors*, etc. I will bring a sign-up sheet shortly after the class starts in the first week of the course. To avoid over-crowding, each topic is limited to three students only (so first-come, first-served). After collating these ten articles, **use your own words** and tell me what happened (e.g. investment bank Lehman Brothers went under), why did that happen (e.g. Lehman Brothers went under because of liquidity issues), what were the impacts and/or consequences (e.g. other investment banks were affected). You are free to decide on the content weight on (1) what happened, (2) what did that happen, (3) what were the impacts and/or consequences, and (4) what are the investment implications. The full score of this exercise is 100 point. As I am especially interested in (4) the investment implications on the topic that you have chosen so I will devote most of my attention and grading (60%) to that part. The other 40% will be equally divided among remaining contents.

If you have a better topic than the ten topics described above, you are more than welcome to research on it. The only thing I would ask from you is to have a quick check with me before you decide to research on that topic. You are required to append these ten articles at the back of your research report upon submission. If you cite from any of these articles, please properly reference it at the end of each citation (e.g. Lehman Brothers went under because... [article #6, paragraph 2]). Proper citation will help readers (i.e. me) read your research report more smoothly and easily.

Last but not least, the primary motivation of this exercise is to expose you to various latest financial issues. So, if you mechanically copy and paste (i.e. plagiarized) words from news or magazine articles, you will not learn and you will score very low or none in return.