

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

Finance 367 : Investment Management

Fall 2007

Tuesday & Thursday 12:30-2:00, UTC 4.104, unique #03160  
Tuesday & Thursday 2:00-3:30, UTC 4.104, unique #03150  
Tuesday & Thursday 3:30-5:00, UTC 4.104, unique #03165

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Office Hours: Tuesdays & Thursday 5:30-7:00 and by appointment

*Teaching Assistant:* TBA

TA Office Hours: TBA

Finance 367 is a Restricted Course for students who are enrolled in a major program in the College of Business Administration. Please note that several prerequisites apply for the course and are published in the Course Schedule.

Course Description

Finance 367 is a course in investment analysis. It is intended for students who want to become investment professionals, knowledgeable individual investors, or both. The course covers the primary financial securities—bonds, stocks, and derivatives—, their valuation and methods for combining these underlying assets into a portfolio. Each student will have an opportunity to apply the concepts learned in class through a portfolio project.

Course Outline

First, we will cover the overall layout of U.S. financial markets and the financial instruments available in these markets. After this brief overview, we will learn more about the concepts of risk and return. We will study portfolio theory, which tells us how to measure investment risk and how risk can be mitigated by combining financial assets into a portfolio. Next, we will take a look at the equilibrium implications of portfolio theory, before turning to the efficient market hypothesis and its behavioral critique. The midterm-exam (**Thursday, October 18**) will be about all material that was covered in class up to that date. All assigned readings are fair game. Next, we study fixed income securities (bonds). Because bonds pay a fixed amount of interest on a set schedule to

investors, the pricing of bonds is primarily an application of the time value of money concept. This concept should be familiar to students satisfying the central prerequisite to this course (FIN 357). We will learn how to value coupon bonds and how to manage bond portfolios. Following our work on fixed income securities, we will study equity securities (stocks). Because stocks represent a residual ownership stake in a company, the cash flows to stockholders are generally more variable than the cash flows to bondholders. The course will cover various valuation methods for stocks, focusing on dividend growth models but also discussing other valuation techniques. We will then discuss derivative securities (options and futures). We will analyze the uses of options to construct various payoff schemes and the valuation of options. Finally – if time allows – the course will conclude with the topic of investment mechanics. We will learn how the financial securities studied in this course are traded in real markets and how to judge investment performance. Course content might be changed at the discretion of the instructor. The final exam will cover all of the material in the course.

### Course Requirements and Grading

Grades will be based on the student's performance on one mid-term exam, one final exam, a portfolio report, at least one presentation and a report on the presentation topic. Your overall score in the course will be determined *mechanically* as the weighted average of the four component scores. The weights on each component of the overall course grade are as follows:

Mid-Term Exam	Thursday, October 18 <sup>th</sup>	25%
Presentation	At least once during semester	10%
Paper on Presentation	One week after the presentation	10%
Portfolio Analysis Paper	Due on December, 6 <sup>th</sup>	20%
Final Exam (Comprehensive)	TBA	35%

All components – with the exception of the presentation – have to be individual contributions. You are not allowed to work together on them. In contrast, the presentation has to be prepared by teams of two to four students. Although you prepare the presentation as a team, every participant has to hand in an individual paper on the presentation topic one week after the presentation. Please make sure that you adhere to the principles in the academic integrity section. Details on the presentation format and the paper will be given in class. Presentation topics will be announced on an ongoing basis.

There will not be make-up versions of the mid-term exam. If you miss the mid-term for a *pre*-approved reason, then the percentage weight of the mid-term will be added to the other components in the following way: 10% more weight on the final exam and 5% more weight on each of the other components (Presentation, Paper on Presentation, Portfolio Project Report). Do not miss the final exam. Extra work to improve your grade is not possible. In addition, your general academic situation cannot be considered (e.g. “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.

Your overall grade will be determined by where your overall score lies in the distribution of all students' overall scores. The cut-offs in the distribution will be such that roughly 35% of students receive "A"s, 35% receive "B"s, and approximately 30% receive grades below a "B." The exact curve cut-offs will depend on the *final* level and shape of the overall score distribution. If you are exactly at a cut-off point, I will consider your class participation in deciding about your final grade.

**What is a valid pre-approved reason for missing a test?**

If you develop a schedule conflict with the mid-term, then I must approve your reason for missing the first test no later than Thursday, October 11<sup>th</sup>. If you fail to show up for the mid-term without telling me beforehand, then you must present a doctor's note stating that you were physically unable to take the test. Other personal reasons may be considered valid at my discretion. If you miss the mid-term without a valid reason, then you will receive a zero. Again, do not miss the final.

There is no opportunity in this course to do "extra-credit" work. Your grade will be determined solely by the components listed above.

At the end of each lecture, I will suggest optional problems from the text that may be useful as study guides for the examinations. A solutions manual accompanying the text, containing solutions to the problems in the text, is available for purchase at the Co-op bookstore.

**Student Presentations**

Topics for student presentations will be posted on Blackboard at least one week before the respective class in which the presentation should be given. Topics are announced on an ongoing basis (but not for every class). You have to present at least once. As soon as all class members have presented, there is the possibility for additional presentations. If you decide to do so, you can now do that individually or as a group again. You have to present *and* hand in another presentation report. Only the best aggregate presentation/paper grade will count. Individual presentations are only possible after you presented as part of a group. Your group (or yourself in the case of a second presentation) can apply for a topic by sending an e-mail with information about the group participants (full name of all participants). You can either send a complete preference list with the topics announced or just name one or two topics from the list. Please fill out the form provided on Blackboard and send that via e-mail. You can also suggest an own topic if you want to. Topics will be assigned at the discretion of the instructor. Typically, the allocation will be based on a first-come first-serve principle. Preference will be given to students who did not yet present and to students who applied for a topic before but were not assigned for a presentation. Make sure to apply for a topic early in the semester, as

topics tend to get more difficult towards the end and demand can exceed supply. Furthermore, if you apply early but did not get a topic assigned you will be preferred if you apply again later. The individual paper on the presentation topic has to be handed in one week after the presentation at the latest. The paper has to be short (2-3 pages), only elaborating on the most important aspects of your topic. Papers must be double spaced, use a font size of 12, and exhibits will not count against the page requirement.

### Course Materials

The course textbook is available at the Co-op. The required text for the course is:

Essentials of Investments, Bodie, Kane, and Marcus, 6<sup>th</sup> ed., 2006, McGraw-Hill.

Alternative text books will be presented in the first lecture. A recommended, but not required, book for the course is the solutions manual to the Bodie/Kane/Marcus (BKM) book.

Reading assignments will include textbook chapters and possibly a few short, online articles (will be announced in the course). In addition, students are strongly encouraged to read investment articles in *The Wall Street Journal*. From time to time, I will assign reading assignments from various sources (like text chapters, *Wall Street Journal* and online articles). Students are expected to complete the reading prior to the class meetings. Also, you are encouraged to bring me articles that you find interesting and relevant to class topics.

The course web site, available through the UT Blackboard system, will serve as the official mechanism for distributing course materials, including the online articles:

<https://courses.utexas.edu/webapps/login>

You are required to check the blackboard site daily for course-updates.

Finally, students will need a calculator. A financial calculator capable of calculating present values, solving for yields, and performing other basic time value calculations is strongly suggested. Time value tables will not be distributed with the tests in this class. Students bear the responsibility for learning to operate their calculators proficiently. Programmable calculators are not allowed for tests; and there is no sharing of calculators during the test. The recommended financial calculators are: *Texas Instruments BA II Plus* (easier to use; suggested) and *Hewlett Packard 12C* (harder to use). In addition, these calculators are the only ones permitted on the CFA Exam.

### Individual Portfolio Project

Each student will invest a fictitious \$500,000 in various financial instruments using a StockTrak account (will be provided for free to class participants). The only deliverable

for the project is a *portfolio analysis paper due on December 6<sup>th</sup>*. Performing this analysis will require each student to research and select securities for his or her portfolio that meet certain guidelines (described in detail later). The trading period will probably be September 20 – November 28 (details follow). Without an appropriate portfolio to reference, completing this paper will be impossible. Details on the project will be announced in class. The portfolio analysis paper has to be 5 pages long (no shorter than that, no longer than 6 pages). Papers must be double spaced, use a font size of 12, and exhibits will not count against the page requirement.

### Homework

I will assign homework problems at the end of the chapters. The homework will not be graded but will give you a better understanding of the topic and will prepare you for the midterms and the final.

### Academic Integrity

Each student of this course is expected to abide by the University Code of Academic Integrity. Any work submitted by a student in this course for academic credit will be the student's own work.

You are allowed and encouraged to study together and to discuss information and concepts covered in the lectures with other students. You can give "consulting" help to or receive "consulting" help from such 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 the form of an e mail, an e mail attachment file, a diskette, a hard copy, or in any other form.

Should copying occur, both the student who copied work from another student and the student who gave material to be copied both automatically receive a zero for the assignment. Penalty for violation of this Code can also be extended to include failure of the course and University disciplinary action.

During examinations, you must do your own work. Talking or discussion is not permitted during the examinations, nor may you compare papers, copy from others, or collaborate in any way. All examinations will be closed-book. Any collaborative behavior during the examinations will result in failure of the exam, and may lead to failure of the course and University disciplinary action.

### 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 or 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 the instructor at the beginning of the semester and accommodations needed will be discussed at that time. The student has to remind the instructor of any testing accommodations that will be needed five to ten business days before an exam.

### Feedback

Feedback is an important part of any learning. Without feedback on how well you understand the material it is more difficult to make significant progress. During this course I will be asking you to give me feedback on your learning in informal as well as formal ways such as exams. 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 and whether they are helping or hindering your learning. This kind of feedback is very important to me. I encourage you to respond to give me feedback so that together we can create an effective teaching and learning environment.

### General and Miscellaneous Policies

- Alternate exam dates cannot be given. You are expected to be present at the indicated time, place and date for all examinations. Students missing an exam without permission will receive zero on that exam.
- Examinations will not be returned. The method of review will be announced in class but will occur only during the week after the grade is posted. If you feel your posted examination grade is incorrect, you must notify me in writing during this same one-week period, explaining in detail where you think an incorrect evaluation occurred. I will then re-grade the exam, which might result in a change of your grade (up or down).
- If you miss a class, it is entirely your responsibility to determine what you have missed including any administrative announcement I may have made. Much of the material covered on exams is not in the text. Hence, you are urged to attend class regularly.
- **DON'T BE LATE TO CLASS.** If a student is late to class, the instructor reserves the right to ask that student to leave the classroom. Should you need to come late

or must leave class early, please have the courtesy of letting the instructor know by e-mail or before the beginning of the period and enter/leave quietly so as not to disturb the other members of the class.

- You cannot assume that all information needed for the examination will be presented in class. It is imperative that the textbook, assigned problems and other assigned material be read and studied.
- Please send all course-related e-mails—*i.e.*, questions, clarifications, *etc.*—to me *and* the TA (tba). This policy minimizes our response time.
- During lectures, you should always be prepared to answer questions. I will address questions to individuals and to the class as a whole at my discretion. These questions will assume that you have completed the assigned readings *prior* to the class session.
- Although attendance will not be taken, you are responsible for everything covered or assigned in class. The lectures will sometimes depart significantly from the reading material assigned.
- The use of laptop computers is not permitted during lectures. Mobile phones, Blackberries, and other electronic devices have to be switched off during class at all times.

## **NOTE**

I reserve the right to make modification to this syllabus. The modifications (if any) will be announced in class. You are responsible for all announcements made in class.

Course Schedule (rough outline, subject to change at instructor's discretion):

Mtg	Day	Date	Topic	Readings
1	Thur	30-Aug	Course Outline and Organization, Prerequisites	Syllabus
2	Tue	4-Sep	Introduction, Financial Instruments, Financial Markets, Mutual Funds	BKM 1-4 & Material Announced in Class
3	Thur	6-Sep		
4	Tue	11-Sep		
5	Thur	13-Sep		
6	Tue	18-Sep	Portfolio Theory, Efficient Markets and Behavioral Critique	BKM 5-8 & Material Announced in Class
7	Thur	20-Sep		
8	Tue	25-Sep		
9	Thur	27-Sep		
10	Tue	2-Oct		
11	Thur	4-Oct		
12	Tue	9-Oct		
13	Thur	11-Oct		
14	Tue	16-Oct		
15	Thur	18-Oct	MIDTERM EXAM	
16	Tue	23-Oct	Debt Securities, Equity Valuation, Derivatives, Special Topics	BKM 9-17, 19 & Material Announced in Class
17	Thur	25-Oct		
18	Tue	30-Oct		
19	Thur	01-Nov		
20	Tue	06-Nov		
21	Thur	08-Nov		
22	Tue	13-Nov		
23	Thur	15-Nov		
24	Tue	20-Nov		
25	Tue	27-Nov		
26	Thur	29-Nov		
27	Tue	4-Dec		
28	Thur	6-Dec	WRAP UP	
		TBA	FINAL EXAM	Everything