



Investment Management Spring 2012

Course Information

Course Number: FIN 367

Location: UTC 4.122

MWF 12:00 – 1:00 (03095)

MWF 1:00 - 2:00 (03105)

Instructor Information

Instructor: J. David Miller

Office: GSB 5.124D

Office Hrs: Tues & Thurs. 11:00 to Noon
Wednesday 2:00-3:00

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Prerequisites: Finance 357 or 357H, and Statistics 371G or 371H

Textbook: **Investment Analysis and Portfolio Management, 9th or 10th Ed.** Reilly, Brown, Southwest College Publishing

Course Description:

This course is an introductory investments course which will provide a basis for making investment decisions. The course is designed for those that want to become investment professionals and for those that want to be knowledgeable individual investors. The materials for the course will come from the textbook, as well as from the financial press and Chartered Financial Analyst exam prep materials.

Major Topics:

Elements of investments

- Background and Issues
- Financial Markets and Instruments
- How Securities are traded
- Mutual Funds and Other Investment Companies
- Investors and the Investment Process

Portfolio Theory

- Risk and Return
- Efficient Diversification
- Arbitrage Pricing Theory
- CAPM

Fixed Income Securities

- Bonds Pricing and Yields
- Managing Fixed Income Portfolios

Security Analysis

- Equity Valuation Models
- Efficient Markets
- Behavioral Finance and Technical Analysis
- Macroeconomic and Industry Analysis

Derivative Assets: Options and Futures

- Options Markets
- Option Valuation
- Futures Markets

Course performance tips:

- ◆ In this course, I will test on what I teach. If something is mentioned in class, it is considered testable material even if it is not in the slides or in the book.
- ◆ Don't focus on the details at the exclusion of the big picture
- ◆ **The use of note cards makes studying for the terminology portion of the exam much easier**
- ◆ Doing the assigned homework plus additional problems will help you do better on the exam
- ◆ Read the Wall Street Journal or the Financial Times daily. They provide context for the material we cover.

The class schedule is covered in Appendix A of this syllabus. Appendix B provides specific assignments.

A Cooperative Effort:

I hope that this course will be an important element of your education. I am most interested in your thoughts and how you are developing in the course and welcome your comments as the course progresses--with your feedback the course will be a better career-developmental experience for you and your fellow students. Also, if at any time what is expected of you is unclear, if you are having problems with specific assignments, or have other difficulties with the course please see me.

Course Evaluation

The course evaluation consists of four tests and two writing assignments.

Exam 1:	21%
Exam 2:	22%
Exam 3:	22%
Exam 4:	22%
Writing Assignments (2):	15% total (6% and 9% respectively)

Procedures: Appendix C of this syllabus discusses these tests. **An announcement will be made in class giving the exact time and locations for the final exam.**

Grade Adjustments

Purpose: In the past a very few students have not cooperated with me in the administering of the course. To minimize such occurrences, I may, at my discretion, penalize students by subtracting points from their grades for certain occurrences.

Procedures: Appendix D of this syllabus discusses these grade adjustments.

Calculator

You will need a business calculator for this class. The calculator should have the following keys: IRR, n, i, PV, PMT, FV, and CF. As long as those keys are present, the calculator is fine. If you may consider taking the CFA exam in the future, I recommend the Texas Instruments BA II Plus (this calculator one of only two calculators that may be used on the CFA exam). The other calculator which is permissible for the CFA exam is the HP 12c. **You should bring a financial calculator to every one of our class meetings.**

Study Guidelines

Before each class, you should review the slides and handouts which are posted on blackboard. Many students find it useful to print hard copies and bring them to class. This allows you to take notes directly on the slides and will make your exam preparation much easier. You should read the chapter in the book for any material that you are having difficulty understanding after reviewing my slides. I WILL NOT hold you responsible for topics covered in the text that are not in the slides or the homework! The slides and associated handouts contain everything you need to know.

You do not have to hand in the solutions to homework problems; however, I encourage you to thoroughly work through them. The test problems will appear simpler for those who work these questions. Any amount of reading of the chapters will not help you consolidate the material if you don't work out the problems. I will give more specific guidance concerning these problems as the semester progresses. To reiterate, students that thoroughly work through the problems and understand their logic will tend to do much better on the exams and will also be better prepared for future courses.

Course Policies and Procedures

Prerequisites:

I assume that you have a comprehensive understanding of accounting theory and an understanding of the basic financial concepts gained in finance 357. If you feel you are weak in a specific area of Fin 357, please speak to me and we can develop a plan to get you up to speed.

Course Policies

"Make-up or extra work" to improve your grade is not possible. Your final letter grade is determined solely by your scores on the tests, and writing assignments. In addition, no special considerations concerning your general academic situation can be offered. **The final grade in the course, once assigned, will not be changed except in the event of a recording error.**

You are responsible for all material assigned. Do not construe any guidance that I give as limiting what you are responsible for unless I explicitly state in an email to the class that certain material will not be covered on a test.

If you do not attend a class it is entirely your responsibility to determine what you have missed, including any administrative announcements I may have made. **Students that don't come to class tend to make C- and D's on the exams. Please keep this in mind before you decide to skip a class.**

I will use blackboard to send you emails throughout the course. **Please make sure that your email address for blackboard is correct and that it is an email account that you check regularly.**

Scholastic Dishonesty

Any individual suspected of cheating will be disciplined to the maximum extent possible. Storing information other than formulae in a calculator used in a test is cheating.

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://deanofstudents.utexas.edu/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.

Blackboard

The class uses Blackboard, part of The University's e-University Initiative. The Undergraduate Business Dean provides the following notice:

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>.

Appendix A: Course Schedule

The dates in this schedule are approximate; the actual pace of the class will determine the speed of the course. The topics covered for each exam may change based on material that we cover in class. I will announce any changes to what topics will be tested on each exam in a class meeting prior to the test. Changes that are announced in class will not necessarily be post on blackboard. It is your responsibility to know which topics will be covered by each exam.

<i>Dates</i>	<i>Subject</i>
Jan 18	Course Introduction
Jan 20	Topic 1. Introduction to Investments
Jan 23	Topic 1. Introduction to Investments (Continued)
	Topic 2. Professional Investment Management
Jan 25	Topic 2. Professional Investment Management (Continued)
Jan 27	Topic 3. Cost of Capital

Company Discussion and Stock Research Assignments

Jan 30	Topic 3. Cost of Capital (Continued)
Feb 1	Topic 3. Cost of Capital (Continued)
Feb 3	Topic 3. Cost of Capital (Continued)
Feb 6	Topic 4. Indexes
Feb 8	Topic 4. Indexes
Feb 10	Topic 5. Economy
Feb 13	Company Discussion and Equity Research Assignments
Feb 15	Review
Feb 17	Exam #1 (Topics 1-5)
Feb 20	Topic 6. Security Analysis
Feb 22	Topic 6. Security Analysis
Feb 24	Topic 6. Security Analysis
Feb 27	Topic 6. Security Analysis
Feb 29	Topic 6. Security Analysis
Mar 2	Topic 6. Security Analysis
Mar 5	Topic 7. Technical Analysis
Mar 7	Review
Mar 9	Exam #2 (Topics 6-7)

March 12-17 Spring Break

Mar 19	Topic 8. EMH vs. Behavioral Finance
Mar 21	Topic 9. Trades and Orders
Mar 23	Topic 9. Trades and Orders (EQUITY RESEARCH REPORTS DUE AT 2:30PM)
Mar 26	Topic 10. Bond Basics
Mar 28	Topic 10. Bond Basics
Mar 30	Topic 10. Bond Basics
Apr 2	Topic 11. Managing Fixed Income
Apr 4	Topic 11. Managing Fixed Income

Apr 6	Topic 11. Managing Fixed Income
Apr 9	Topic 12. Derivatives
Apr 11	Review
Apr 13	Exam #3 (Topics 8-11)
Apr 16	Topic 12. Derivatives
Apr 18	Topic 12. Derivatives
Apr 20	Topic 12. Derivatives
Apr 23	Topic 12. Derivatives
Apr 25	Topic 13. Evaluating Performance
Apr 27	Retirement Planning
Apr 30	Advanced Topics in Investments
May 2	Review
May 4	Private Equity and Angel Investors

Fourth Exam covering Topics 12, 13 and Retirement Planning exam will be held during final exam time slot. According to the University Schedule:

MWF 12:00 – 1:00 (03095) Saturday, May 12, 7-10PM

MWF 1:00 - 2:00 (03105) Friday, May 11, 9-Noon

Appendix B: Course Assignments

The major elements in the course are divided twelve chapters.

Readings: Most of the readings are from the text. A few topics have additional supplemental readings. I may add short articles from the business press to your reading assignment as the semester progresses.

Questions and Problems: Make sure that you understand the logic involved in the problem, not just its mechanics.

I do not collect homework or assign homework grades. While it is your decision whether or not to complete the homework, past experience shows that students that do not spend much time on the homework will not do as well as those who choose to do the homework. Problems from the homework will often appear on the exams, so it is in your interest to work the homework.

Section 1. Introduction to Investments

Reading: Text: Chapters 1-3

Questions and Problems: Ch 2. 4,5

Section 2. Professional Investment Management

Reading: Text, Chapter 24

Questions and Problems: Ch 24. Questions: 1,4,5,10 Problems:1,2,4,5,8

Section 3. Cost of Capital

Reading: Text, Chapters 1,7-9

Questions and Problems: Ch. 1 Questions 1-5, 12, 15 Problems: 1-3, 5-7 Appendix: 2,3

Ch 7. Questions 1,3,7, 13 Problems: 5a&b

Ch 8. Problem 2, 4, 6

Section 4. Indexes

Reading: Text, Chapter 5

Questions and Problems: Ch 5. Questions: 1,3,4,5 Problems: 1, 2a

Section 5. Economy

Reading: Text, Chapters 12-13

Questions and Problems: Ch. 12 Questions: 1,2,6 Problems: 2, 4

Section 6. Security Analysis

Reading: Text, Chapters 11-14

Questions and Problems: Ch. 11 Questions: 1, 2, 3, 4, 11, 13 Problems: 3, 4-10, 14, 15
Ch. 14 Questions: 1-3, 12, 17, 19, 26 Problems: 3, 12

Section 7. Technical Analysis

Reading: Text, Chapter 15

Questions and Problems: Ch. 15 Questions: 1-4, 13,17 Problems: 5, 6

Section 8. EMH vs. Behavioral Financial

Reading: Text, Chapter 6

Questions and Problems: Ch. 6 Questions: 2-4, 10, 16, 17, 20,

Section 9. Trades and Orders

Reading: Text, Chapter 4

Questions and Problems: Ch. 4 Questions 2-5, 10 Problems 1-7

Section 10. Bond Basics

Reading: Text, Chapters 17-18

Questions and Problems: Ch. 17 Questions 1-3, 5, 7, 8, 10, 11 Problems 1-5
Ch. 18 Questions 2, 5 Problems 1b&c, 2, 10, 11, 13a

Section 11. Managing Fixed Income

Readings: Text, Chapters 18-19

Questions and Problems: Ch. 18 Problems 3, 5, 7a, 9
Ch. 19 Problems 1,3, 4, 8

Section 12. Derivatives

Readings: Text, Chapters 20, 22-23

Questions and Problems: Ch. 22 2b&c, 10, 11a Also work Derivative Problem Set posted on Blackboard

Section 13. Evaluating Performance

Readings: Text, Chapter 25

Questions and Problems: Problems 1,2,3

Section 14. Retirement Planning

Readings: Slides Only

Questions and Problems: No HW

The stock research writing assignment will be discussed in class as well as posted on Blackboard in the Assignments section.

Each student will manage a simulated portfolio with initial cash balance \$1,000,000 over the semester. The investment period extends from February 6th to April 27th. You can make up to 200 trades and invest in any NYSE, NASDAQ-AMEX stock, a series of government and corporate bonds, a selection of over 2000 mutual funds and certain stocks trading on stock exchanges around the world, including London, Paris, Frankfurt, Mexico City and Tokyo. To manage your risk exposures, you can also invest in various options contracts.

The writing requirements related to portfolio management are two-fold:

1, At the end of the semester, students need to prepare a final performance report that (1) tracks the weekly performance of their portfolio, (2) analyzes the macroeconomic, financial market and stock-specific news events that may have affected the risk and return performance of their portfolios, and (3) evaluates statistically their

relative and absolute performance using various tools and techniques that we cover during the semester. Note that your grade is determined by the quality of the report, and is not related to the investment performance (so you can sleep at night). The report should be about 5 pages long (double-spaced, single-sided, 12-point font), not including various exhibits, figures and graphs to support the analysis. This paper will account for 9% of your course grade. Additional details will be provided in class.

A separate, 3-page long report will be assigned during the semester on a topic relevant to Investment Management. Further details on this paper will be provided during the semester. This paper will account for 6% of your course grade.

Appendix C: Test Policies

Grading:

The grade on each question will be the result of the grader's evaluation of your answer based on the test key and the general response of the class to the question. This evaluation will take into account not only the presence of key terms but also the degree to which the student has demonstrated an *understanding* of the issues involved in the question. The grade assigned is an informed and final evaluation, not the beginning offer in a bargaining process. In many items partial credit will be awarded.

For each test, I will indicate a tentative letter grade for your test score. However, the final letter grade will be based on a relative frequency distribution (percentile ranking) of the total points accumulated over the entire semester. This approach implies that your final grade will be determined by the relative performance of the entire class. That is, there is no predetermined standard as to what constitutes an A, B+, B-, etc. (e.g., the cutoff for an "A" may be below the 90th percentile ranking). Because of this relative ranking, questions about what your grade or standing in class cannot be answered until all tests have been taken and graded.

Grades will be posted on our BlackBoard site. Please confirm that the grade posted is correct.

Test reviews:

Some class time may be allocated after each in-class test for a review of that test. The purpose of this review is to reinforce the concepts covered in the test.

Tests will not be returned for you to keep. Graded exams will be made available after each exam and I will review the test answers with the class.

Students who disagree with the grade assigned may, request a regrade of a question in the examination. This request must be in writing (email is OK), giving the question in contention and the reason why the student feels that the answer given is correct. Students have 7 calendar days after the exams are returned to request a regrade of an exam question. I will not entertain any requests after the end of this period.

Test Policies

Students missing a test without my prior permission will receive the lowest grade awarded to students taking that test. Students missing a test with my permission will have the points for the missed test added to their final test. As an example, if you miss the second test, the points of that test will be added to the last test. In addition, I reserve the right to give a last test that differs from that given to the students who are taking the regular third test.

Requests for excuse from a test must be made in writing or email and, except for extreme emergencies, prior to the test.

I will give everyone notice when there are two minutes left on the exam. This is for students to complete their work and turn in their exams. When the final time is called on the exam, students who do not stop working and turn in their tests will have 5 points deducted from their test grade.

Appendix D: Grade Adjustments

While you primarily bear the consequences of your actions in this course, your actions may also have a direct effect on other students and me. In registering for my course you are entering into a contract with me that specifies the actions that we mutually agree to. If you do not live up to your part of our agreement, you face certain penalties. I hope that no penalties will be assigned this semester but you should, when planning your activities, keep the existence of these sanctions in mind.

- ◆ Failure to turn in tests when requested: Five points deducted from that exam.

Appendix E: Disabilities

Upon request, the University of Texas at Austin provides appropriate academic accommodations for qualified students with disabilities. Services for Students with Disabilities (SSD) is housed in the Office of the Dean of Students, located on the fourth floor of the Student Services Building. Information on how to register, downloadable forms, including guidelines for documentation, accommodation request letters, and releases of information are available online at <http://deanofstudents.utexas.edu/ssd/index.php>. Please do not hesitate to contact SSD at (512) 471-6259, 471-6441 TTY or via e-mail if you have any questions.

Appendix F: Religious Holidays

By UT Austin policy, you must notify me of your pending absence at least fourteen days prior to the date of observance of a religious holy day. If you must miss an exam in order to observe a religious holy day, you will be given an opportunity to take the exam within a reasonable time after the absence.

Finance 367 Sample Exam Questions

Fill in the Blank

1. _____ is the choice of specific securities within each asset class. (2 words)

Multiple Choice

- _____
1. The New York Stock Exchange is an example of this type of market
 - a. Over-the-counter Market
 - b. Dealer Market
 - c. Auction Market
 - d. Futures Market
 - e. Underwriting Market

Quantitative

1. You own a share of stock that gains 12% in year 1, loses 20% in year 2, gains 15% in year 3, and gains 20% in year 4. What is your geometric average return over the 4 years? (Set your calculator to 4 decimal places)

Answer: _____