PORTFOLIO MANAGEMENT AND SECURITY ANALYSIS

SPRING 2009

Professor	Laura Starks and Sandy Leeds
Office	CBA 6.328 and GSB 5.164
Office Hours	By appointment – email any time
Phone	471-5899 and 471-6830
E-Mail	Laura.Starks@mccombs.utexas.edu / sandy.leeds@mccombs.utexas.edu
Course Web Page	via Blackboard
Teaching Assistants	Mukund Joshi and Erin McCarthy

Course Objectives

The purpose of this course is to provide a conceptual and theoretical foundation for the activities of student managers involved with the on-going operations of The MBA Investment Fund, LLC. Using a blend of academic- and practitioner-oriented readings, projects, and group analytical sessions, managers will be introduced to both the conventional wisdom and state-of-the-art methods used in performing many of the Fund's functional tasks, including security research, security trading, and organizational coordination. It is assumed that students have completed (or are concurrently enrolled in) the relevant prerequisite courses in finance, accounting, and statistics.

Materials

Investment Analysis and Portfolio Management, 9e by F. Reilly and K. Brown (Thomson-Southwestern, 2009)
Investments / Portfolio Management and Security Selection (Sanford J Leeds, 2008)

Course Requirements and Grading

Your grade in the course will be determined as follows:

	Points
Industry Assignment	15
Stock Pitch	15
Peer Evaluation	20
Industry Update	5
Morning Meeting	10
Bond Assignment	15
Performance Return Assignment	20
	100

Description of Requirements

Industry Assignment

You have been given an extensive list of questions to answer concerning your two industries. Your answers will be reviewed to determine the thoroughness and insight that you exhibit. You should always realize that presentation and formatting are important components of communication and it will impact your grade accordingly. This will be graded by my TAs – as they have completed this assignment last year and they will have reasonable expectations.

Stock Pitch

You will submit a written stock pitch by Spring Break. It will be judged on the persuasiveness of the argument, the insight that you have, the thoroughness exhibited and the effectiveness of the presentation. PLEASE REALIZE THAT WHILE I WILL ONLY GRADE THIS ONE STOCK PITCH, YOU MUST DO TWO STOCK PITCHES THIS SEMESTER: ONE IN MARCH AND ONE IN APRIL.

Peer Evaluation

In late April, you will be asked to evaluate all of your peers on the Fund. You will be evaluated on the quality of your comments about your peers as well as your peers' comments about you. If you are going to manage people, you need to be ready to give accurate feedback. I will not be happy with feedback that rates everyone equally. I have worked on a lot of teams and it is not realistic to think that everyone contributes equally. This also places a responsibility on you to contribute, to know your peers outside of your team and to make sure that they know you. Your team's evaluations will have a heavier weighting (75%) than the evaluations you receive from people outside of the team (25%). You should keep notes throughout the semester. You should also consider what you should say to anyone who is underperforming in your eyes.

Industry Update

You will submit an update on your industries on April 1. Each industry update should be a few pages and should include key information that an investor would want to know. You can look at my "Market Updates" as an example (even thought that is done on a macro level). Your update could include insights on earnings, product updates, management changes, how the economy is affecting the industry, etc. The key is to consolidate information and develop insights.

Morning Meetings

Each team will conduct a morning meeting twice during the semester (one each half of the semester). You will be graded on the quality of your preparation as well as the effectiveness of your communication. We want to understand your approach to each industry that you cover.

Bond Assignment
You will be given a series of questions to answer concerning a bond offering. This assignment will be in the second half of the semester (when we cover bonds).

Performance Return Assignment
This project will require you to apply concepts involving assessing performance relative to a benchmark, the effect of expenses, identifying peer groups, measuring risk / return and risk-adjusted measures, factor models, tracking error and other issues.

Policies:
Enrollment in this course is restricted to the current set of student managers for The MBA Investment Fund. While this exclusivity creates a more collegial atmosphere than you will experience in most classes, it is important to keep in mind that there is a serious academic purpose to this course that is distinct from the day-to-day activities of the Fund. Accordingly, when evaluating the quality of your work and effort at the end of the semester, we will curve together the scores for the entire section to determine the final distribution. In each class, a full range of grades will be considered. In borderline situations, both class participation and your general effort throughout the semester will be determining factors.

You should treat this course as you would any of your other Fund responsibilities; that is, missing a class session is comparable to missing a Fund business meeting. Whether present or not, you will be held responsible for everything covered or assigned in class. Further, your general conduct in class (including your attendance and promptness) will be a part of your class participation grade. Finally, unless we specifically use laptops for an in-class assignment, they should not be open during class.

McCombs Classroom Professionalism Policy

The highest professional standards are expected of all members of the McCombs community. The collective class reputation and the value of the Texas MBA experience hinges on this.

Faculty are expected to be professional and prepared to deliver value for each and every class session. Students are expected to be professional in all respects.

The Texas MBA classroom experience is enhanced when:

- **Students arrive on time.** On time arrival ensures that classes are able to start and finish at the scheduled time. On time arrival shows respect for both fellow students and faculty and it enhances learning by reducing avoidable distractions.
- **Students display their name cards.** This permits fellow students and faculty to learn names, enhancing opportunities for community building and evaluation of in-class contributions.
- **Students minimize unscheduled personal breaks.** The learning environment improves when disruptions are limited.
- **Students are fully prepared for each class.** Much of the learning in the Texas MBA program takes place during classroom discussions. When students are not prepared they cannot contribute to the overall learning process. This affects not only the individual, but their peers who count on them, as well.
- **Students attend the class section to which they are registered.** Learning is enhanced when class sizes are optimized. Limits are set to ensure a quality experience. When section hopping takes place some classes become too large and it becomes difficult to contribute. When they are too small, the breadth of experience and opinion suffers.
- **Students respect the views and opinions of their colleagues.** Disagreement and debate are encouraged. Intolerance for the views of others is unacceptable.
- **Laptops are closed and put away.** When students are surfing the web, responding to e-mail, instant messaging each other, and otherwise not devoting their full attention to the topic at hand they are doing themselves and their peers a major disservice. Those around them face additional distraction. Fellow students cannot benefit from the insights of the students who are not engaged. Faculty office hours are spent going over class material with students who chose not to pay attention, rather than truly adding value by helping students who want a better understanding of the material or want to explore the issues in more depth. Students with real needs may not be able to obtain adequate help if faculty time is spent repeating what was said in class. There are often cases where learning is enhanced by the use of laptops in class. Faculty will let you know when it is appropriate to use them. In such cases, professional behavior is exhibited when misuse does not take place.
- **Phones and wireless devices are turned off.** We've all heard the annoying ringing in the middle of a meeting. Not only is it not professional, it cuts off the flow of discussion when the search for the offender begins. When a true need to communicate with someone outside of class exists (e.g., for some medical need) please inform the professor prior to class.

Remember, you are competing for the best faculty McCombs has to offer. Your professionalism and activity in class contributes to your success in attracting the best faculty to this program.

Academic Dishonesty

I have no tolerance for acts of academic dishonesty. Such acts damage the reputation of the school and the degree and demean the honest efforts of the majority of students. The minimum penalty for an act of academic dishonesty will be a zero for that assignment or exam.

The responsibilities for both students and faculty with regard to the Honor System are described on http://mba.mccombs.utexas.edu/students/academics/honor/index.asp and on the final pages of this syllabus. As the instructor for this course, I agree to observe all the faculty responsibilities described therein. During Orientation, you signed the Honor Code Pledge. In doing so, you agreed to observe all of the student responsibilities of the Honor Code. If the application of the Honor System to this class and its assignments is unclear in any way, it is your responsibility to ask me for clarification.

Students with 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, VP: (512) 232-2937 or via e-mail if you have any questions.

Honor Code Purpose

Academic honor, trust and integrity are fundamental to The University of Texas at Austin McCombs School of Business community. They contribute directly to the quality of your education and reach far beyond the campus to your overall standing within the business community. The University of Texas at Austin McCombs School of Business Honor System promotes academic honor, trust and integrity throughout the Graduate School of Business. The Honor System relies upon The University of Texas Student Standards of Conduct (Chapter 11 of the Institutional Rules on Student Service and Activities) for enforcement, but promotes ideals that are higher than merely enforceable standards. Every student is responsible for understanding and abiding by the provisions of the Honor System and the University of Texas Student Standards of Conduct. The University expects all students to obey the law, show respect for other members of the university community, perform contractual obligations, maintain absolute integrity and the highest standard of individual honor in scholastic work, and observe the highest standards of conduct. Ignorance of the Honor System or The University of Texas Student Standards of Conduct is not an acceptable excuse for violations under any circumstances.

The effectiveness of the Honor System results solely from the wholehearted and uncompromising support of each member of the Graduate School of Business community. Each member must abide by the Honor System and must be intolerant of any violations. The system is only as effective as you make it.

Faculty Involvement in the Honor System

The University of Texas at Austin McCombs School of Business Faculty's commitment to the Honor System is critical to its success. It is imperative that faculty make their expectations clear to all students. They must also respond to accusations of cheating or other misconduct by students in a timely, discrete and fair manner. We urge faculty members to promote awareness of the importance of integrity through in-class discussions and assignments throughout the semester.

Expectations Under the Honor System

Standards

If a student is uncertain about the standards of conduct in a particular setting, he or she should ask the relevant faculty member for clarification to ensure his or her conduct falls within the expected scope of honor, trust and integrity as promoted by the Honor System. This applies to all tests, papers and group and individual work. Questions about appropriate behavior during the job search should be addressed to a professional member of the Career Services Office. Below are some of the specific examples of violations of the Honor System.

Lying

Lying is any deliberate attempt to deceive another by stating an untruth, or by any direct form of communication to include the telling of a partial truth. Lying includes the use or omission of any information with the intent to deceive or mislead. Examples of lying include, but are not limited to, providing a false excuse for why a test was missed or presenting false information to a recruiter.

Stealing

Stealing is wrongfully taking, obtaining, withholding, defacing or destroying any person's money, personal property, article or service, under any circumstances. Examples of stealing include, but are not limited to, removing course material from the library or hiding it from others, removing material from another person's mail folder, securing for one's self unattended items such as calculators, books, book bags or other personal property. Another form of stealing is the duplication of copyrighted material beyond the reasonable bounds of "fair use." Defacing (e.g., "marking up" or highlighting) library books is also considered stealing, because, through a willful act, the value of another's property is decreased. (See the appendix for a detailed explanation of "fair use.")

Cheating

Cheating is wrongfully and unfairly acting out of self-interest for personal gain by seeking or accepting an unauthorized advantage over one's peers. Examples include, but are not limited to, obtaining questions or answers to tests or quizzes, and getting assistance on case write-ups or other projects beyond what is authorized by the assigning instructor. It is also cheating to accept the benefit(s) of another person's theft(s) even if not actively sought. For instance, if one continues to be attentive to an overhead conversation about a test or case write-up even if initial exposure to such information was accidental and beyond the control of the student in question, one is also cheating. If a student overhears a conversation or any information that any faculty member might reasonably wish to withhold from the student, the student should inform the faculty member(s) of the information and circumstance under which it was overheard.

Actions Required for Responding to Suspected and Known Violations

As stated, everyone must abide by the Honor System and be intolerant of violations. If you suspect a violation has occurred, you should first speak to the suspected violator in an attempt to determine if an infraction has taken place. If, after doing so, you still believe that a violation has occurred, you must tell the suspected violator that he or she must report himself or herself to the course professor or Associate Dean of the Graduate School of Business. If the individual fails to report himself or herself within 48 hours, it then becomes your obligation to report the infraction to the course professor or the Associate Dean of the Graduate School of Business. Remember that although you are not required by regulation to take any action, our Honor System is only as effective as you make it. If you remain silent when you suspect or know of a violation, you are approving of such dishonorable conduct as the community standard. You are thereby precipitating a repetition of such violations.

The Honor Pledge

The University of Texas at Austin McCombs School of Business requires each enrolled student to adopt the Honor System. The Honor Pledge best describes the conduct promoted by the Honor System. It is as follows:

"I affirm that I belong to the honorable community of The University of Texas at Austin Graduate School of Business. I will not lie, cheat or steal, nor will I tolerate those who do."

"I pledge my full support to the Honor System. I agree to be bound at all times by the Honor System and understand that any violation may result in my dismissal from the Graduate School of Business."