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

Finance 397.1 - Investment Theory and Practice

Spring 2011
Monday & Wednesday 2:00p – 3:30pm, GSB 3.130, unique #03250

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Class website: Blackboard
Office Hours: Monday, 5:00 – 6:00

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TA office hours and location: posted on BlackBoard

Course Description

Finance 397.1 is an introductory survey investments course. The course covers the primary financial securities - stocks (equity), bonds (fixed income and/or debt), and options (derivatives) – and methods for combining these underlying assets into a portfolio (portfolio theory). Throughout the course, a great deal of emphasize is put on the use of data to both understand patterns of returns and to apply the tools we discuss. The first half of the course covers general overview material, portfolio theory, market efficiency, and return predictability. The second half of the course starts with a discussion of the money management industry and performance evaluation and continues with fixed income analysis and derivatives (futures and options). Students will get an opportunity to apply the concepts learned in class through an ongoing group portfolio project.

Course Requirements and Grading

Grades will be based on the student's performance on the two problem sets, the ongoing portfolio project, two exams, and class participation. The weights on each component of the overall course grade are as follows:

Portfolio Return Problem Set	Monday, Feb 21	10%
Fixed Income/Derivatives Problem Set		
	Monday, May 2	10%
Portfolio Project	ongoing	20%
Exam I	Wednesday, March 2	25%
Exam II	Wednesday, May 4	25%
Class Participation	ongoing	10%

Make-up and extra-credit assignments are generally not possible. Your grade will be determined solely by the components listed above. If you fail to turn in the assignments or problem sets when they are due you will not be able to make up the assignment or the points.

Problems from the text will be assigned, but will not be graded. The problems assigned will be useful as study guides for the exam. I will post solutions to relevant problems on the blackboard site.

Class Attendance and the use of laptop computers in class

Class attendance is mandatory. If you are missing a class for a good reason please let me know beforehand.

You cannot use your laptops in class; it just doesn't seem to work.

Course Materials

The recommended text for the course, available at the Co-op, is:

Investments, Bodie, Kane, and Marcus, Ninth Edition, © 2011, McGraw-Hill.

Guest Speakers

Shimon Kogan and I have arranged for three guest speakers to come and provide their perspective as leading practitioners on various investment related topics. Due to the logistics involved in arranging these talks, we will combine sections on the days scheduled for the talks. To minimize conflict with other classes, these talks are scheduled for the late afternoon. Please take a note of these dates to ensure your attendance. We will have question(s) on the final exam related to materials that will be covered exclusively in these talks.

Portfolio Project

In the portfolio project, you and your team will act both as fund managers and as investors. As fund managers, your goal is to maximize payoffs by maximizing the money under management. As investors, your goal is to generate the highest returns by deciding on the fund(s) you invest in.

Set-up

Student teams of 3-5 members. As fund managers, you will invest the money received from other teams in stocks and bonds. Portfolio teams are encouraged to trade the portfolio over the course of the semester as economic and firm-specific factors change. You are also encouraged to form a strategy that guides to investment process. As investors, you start out with $1,000,000 of factitious money that you need to allocate across funds managed by other teams.

Deliverables for the Portfolio Project

1) Wednesday, February 16 - submit a report that serves as a short fund prospectus. In the report, you should provide information that potential investors in the fund would find useful. For example, you should discuss the proposed investment strategy and its risk characteristics. The report should be no longer than five pages. In addition, you will receive in-class "air-time" to promote your fund in front of your classmates.

2) Monday, February 21 - submit your allocation decision across the funds offered by your classmates. This allocation will remain constant until April 7. Details on how to submit the allocation will be provided.

3) Monday, April 4 - submit a three to five page memo (five pages max) containing, but not necessarily limited to, the following items:
   - A table summarizing portfolio performance for the period since inception;
   - Evaluation of last period's performance in light of the fund's strategy;
   - Discussion of the fund's strategy going forward.

4) Wednesday, April 6 - submit your allocation decision across the funds offered by your classmates. This allocation will remain constant until the end of the course. Details on how to submit the allocation will be provided.

Total points (20) earned on the portfolio project will be assigned as follows:
- 15 points: your performance as fund managers, measured by the average money the fund attracted over the semester.
- 5 points: your performance as fund investors, measured by the Sharpe ratio; your objective is to maximize this ratio.

Individual grades will be allocated in accordance to the average of team member grades.

General and Miscellaneous Policies

- Professor Shimon Kogan (teaching the other sections of the course) and I will coordinate very closely in terms of material covered, load, and grading policy. We further plan on cross-teaching some of the subject matters based on our research.

- 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, it is expected that the work on your examinations will be entirely your own and that you will provide a level and quality of work on your group projects commensurate with your colleagues. Failure in these regards may result in failure on the examination, projects, or course.

- The University of Texas at Austin provides upon request appropriate academic accommodations for qualified students with disabilities. For more information, contact the Office of the Dean of Students at 471-6259.

Course Schedule and Readings

meeting	DAY	DATE	TOPIC	CHAPTER
			FIRST HALF	
			THE CORE INVESTMENT PROCESS	
1	Wed	Jan-19	Class introduction; Calculating returns	5
2	Mon	Jan-24	Equity Premium	5
3	Wed	Jan-26	Diversification	5
4	Mon	Jan-31	Understanding the Sources of Risk	9
			ADDING VALUE -- SEPARATING ALPHA FROM BETA	
5	Wed	Feb-2	Market Efficiency	12.1
6	Mon	Feb-7	The Fama-French Factors	13.1-13.3
7	Wed	Feb-9	Explaining Returns on the Fama-French Factors	13.1-13.3
8	Mon	Feb-14	Cross-Sectional Predictability	-
9	Wed	Feb-16	***Portfolio Presentations (I)***	
10	Mon	Feb-21	Consumption-based Factors	-
11	**Thu**	**Feb-24**	**Guest Speaker Talk**	
12	Mon	Feb-28	Time Series Predictability	-
13	Wed	Mar-2	**Exam I**	
			GLOBAL TRIP WEEK AND SPRING BREAK	
			SECOND HALF	
			THE MONEY MANAGEMENT INDUSTRY	
14	Mon	Mar-21	The Money Management Industry	4

15	Wed	Mar-23	Performance Evaluation of Mutual Funds	24
16	Mon	Mar-28	Hedge Funds	26
17	**Thu**	**Mar-31**	**Guest Speaker Talk**	
18	Mon	Apr-4	***Portfolio Presentations (II)***	
			FIXED INCOME	
19	Wed	Apr-6	Fixed Income (I)	14, 15
20	Mon	Apr-11	Fixed Income (II)	14, 15
			DERIVATIVES	
21	Wed	Apr-13	Futures and Forwards	22, 23
22	Mon	Apr-18	Commodity Returns	22, 23
23	**Thu**	**Apr-21**	**Guest Speaker Talk**	
24	Mon	Apr-25	Options (I)	20, 21
25	Wed	Apr-27	Options (II)	20, 21
			WRAP-UP	
26	Mon	May-2	Review	-
27	Wed	May-4	**Exam II**	