

Summer Semester 2011

FIN s367: INVESTMENT MANAGEMENT

Unique 71475: MTWTH 12:00 PM – 1:45 PM, UTC 1.116

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Course Website: UT Blackboard

Location: UTC 1.116

Class Meetings: Monday-Thursday, 12:00 PM – 1:45 PM.

Course Objectives

This course has the following objectives:

- Introduce the fundamental concepts and theories of investment management: risk and return, diversification, asset allocation, market efficiency, valuation of stocks, bonds and options
- Develop an appreciation for the usefulness of these theories for investment decision making
- Increase investment decision-making skills through classroom lectures, discussions, problem assignments, and online portfolio simulation exercises
- Learn the analytical tools of portfolio management.

Required Materials

Required: Essentials of Investments, 8th Edition. Zvi Bodie, Alex Kane, and Alan Marcus (BKM)

Supplemental: Lecture notes, readings as well as solutions to selected problems will be available on the UT Blackboard system <https://courses.utexas.edu/webapps/login>

Calculators: Recommended for this course is a financial calculator capable of calculating present values, solving for yields, and performing other basic time value calculations. Students bear the responsibility for learning to operate their calculators proficiently. Programmable calculators must be cleared before each exam; and there is no sharing of calculators during the exam. Present Value/future value tables will not be furnished with the examinations. It should be emphasized that the calculator cannot replace an understanding of the problem solving process.

Prerequisites

Finance 367 is a Restricted Course for students who are currently enrolled in a major program in the College of Business Administration. Note that several prerequisites apply for this course and are published in the Course Schedule. Prior completion of Finance 357 or Finance 357 H (with a grade of at least a C) and its prerequisites are among these requirements.

Course Structure and Grading

The course consists of lectures, optional homework assignments, two quizzes and two exams (a midterm and a comprehensive final). Relevant course materials are posted on Blackboard.

Homework

Optional problem-solving practice assignments, with solutions, are available on Blackboard. These assignments have recommended problems from the BKM text and some additional problems. It is important that you work through these problems on your own.

Quiz (150 points)

- **First Quiz** (50 points): July 18, beginning of class. (30 minutes)
- **Second Quiz** (50 points): July 21, beginning of class. (30 minutes)
- **Third Quiz** (50 points): August 2, beginning of class. (30 minutes)

Exams (350 points)

All exams are in-class, closed-book. They cover material from lectures, assigned readings and team project presentations. Exams will strive to test comprehension and not merely memorization skills.

- **First midterm exam** (100 points): July 26, beginning of class. The exam will cover relevant text chapters (BKM), class lectures, and required readings. A sample midterm is posted on blackboard (this may not reflect the precise scope of your exam). (1hour and 45 minutes)
- **Second midterm exam** (100 points): August 4, beginning of class. The exam will cover relevant text chapters (BKM), class lectures, and required readings. A sample midterm is posted on blackboard (this may not reflect the precise scope of your exam). (1hour and 45 minutes)
- **Final Exam** (150 points): August 13 or 14 (TBA). The final exam covers the whole course. The exam will cover relevant text chapters (BKM), class lectures, and required readings. (1hour and 45 minutes)

Investment Report (100 points) : Stock-game and Individual Report

Each student will manage a simulated portfolio with initial cash balance \$1,000,000 over two weeks. The simulation is professionally-managed by Stock-Trak® Portfolio Simulations based in Atlanta, GA (www.stocktrak.com). The investment period extends from July 18 to August 1, 2011. You can make up to 20 trades and invest in any NYSE, NASDAQ-AMEX stock. Trades can be submitted via their

web page, or by phone (1-800-786-TRAK), by fax (678-475-0645), email stocktrak@stocktrak.com.

At the end of the semester, students will prepare a final performance report that (1) explains what factors drive them to choose their portfolio, (2) tracks the weekly performance of their portfolio, and (3) evaluates statistically their relative and absolute performance using various tools and techniques. The report should be less than or equal to 2 pages long (double-spaced, single-sided, 12-point font), not including various exhibits, figures and graphs to support the analysis. Evaluation will be based on the report (80%), and the performance (20%).

Both reports are due at 5pm on Monday August 8, 2011. Late reports will receive no credit.

Active class participation: up to 25 bonus points or 5% of your grade. It will be important if your grade is close to the boundary.

Final Grades:

540 – 600	A
510 – 539	A-
480 – 519	B+
450 – 479	B
420 – 449	B-
390 – 419	C+
360 – 389	C
330 – 359	C-
300 – 329	D+
270 – 299	D
240 – 269	D-
Below 240	F

If you are taking the course **pass/fail** you must complete all projects and take all exams in order to pass the course.

Course Policies and Administrative Procedures

- **Grades:** All grades are assigned after a careful examination of the work done. Any grade disputes should be submitted in writing to the instructor after 24 hours and within two weeks of the receipt of the disputed exam/paper. No adjustments will be made after this two-week period.
- **Extra Problems:** Students can work out additional end-of-chapter problems in the text. Solutions to these problems are posted on Blackboard. Students having difficulty with these problems should seek help from the instructor or his assistant.
- **Missed exams:** Students missing exams/quizzes with valid excuses should notify the instructor, in advance, where possible. If you fail to show up for an exam without instructor's pre-approval, then you must present a doctor's note stating that you were too sick to take the exam. They will have the final exam weighted proportionally more. Note that work pressures and travel obligations are not considered valid excuses.

How to Study for the Class?

- You need to understand what you are studying, whether it is conceptual or analytical. Relying on your calculator as a means to simply plug in numbers for an answer will get you into trouble. When you study, ask yourself such question as:

- i) What is the purpose of this concept or formula?
- ii) Why is it important?
- iii) How does the author demonstrate its importance?
- iv) How does it “fit” with what you have studied so far? – either in this class or in an earlier class.

- Mainly focus on the lecture notes.
- Read the BKM textbook for background information and get a broader perspective on the topics covered in class.
- Use the practice problems to gain further understanding of the basic concepts.
- To form better expectations about quizzes/exams and to prepare for them, please look at the practice quizzes and exams.
- I strongly encourage you to work in study groups. Discussion with colleague will enhance you to understand the subject.

Academic Dishonesty

The McCombs School has no tolerance for acts of academic dishonesty. Such acts damage the reputation of the school and the BBA 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 at <http://mba.mcombs.utexas.edu/students/academics/honor/index.asp> and within 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. As specific guidance for this course, you should consider the *writing* of all examinations to be an individual effort without any use of books, notes, or other unpermitted aids. Group *preparation* for examinations is acceptable and encouraged.

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 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 exams, 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 an exam 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.

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 exams 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 an exam 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 describes the conduct promoted by the Honor System, 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."

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 in the Student Services Building. Additional information is available online at <http://deanofstudents.utexas.edu/ssd/index.php>. Please contact SSD at (512) 471-6259, VP: (512) 232-2937 or via e-mail if you have any questions.

Background readings

The following readings are not part of the course and you will not be tested on these, but they are useful because they provide a broad perspective on some current economic realities.

- **Bailouts, Reframed as ‘Orderly Resolutions’**, by Robert Shiller, The New York Times, November 13, 2010.
- **What the Fed did and why: supporting the recovery and sustaining price stability**, by Ben S. Bernanke, The Washington Post, November 4, 2010
- **Stiglitz Interview on Fed, Economy (video)**, by Joseph Stiglitz, Bloomberg.com, November 3, 2010.
- **The Overconfidence Problem in Forecasting**, by Richard Thaler, The New York Times, August 21, 2010
- **When a First Pick Isn't the Best Pick**, by Richard Thaler, The New York Times, April 2, 2010
- **Economists Seek Breakup of Big Banks**, by Maya Jackson Randall, The Wall Street Journal, April 22, 2009.
- **A matter of life and debt**, The Wall Street Journal, October 21, 2008,
- **Information age: the 1% panic**, The Wall Street Journal, October 13, 2008, page A17.
- **Loose money and the roots of the crisis**, The Wall Street Journal, September 30, 2008, page A19.
- **The \$1.4 trillion question**, The Atlantic, January/February 2008, pages 36-48
- **Money: the century's agony**, The Wall Street Journal, December 10, 1999, page A18

Schedule

Tentative list of Topics

1. Basic Investment Concepts: 4 lectures and 1 quiz

Suggested Readings: BKM, Chapters 1-4

- Introduction: 1 lecture
- Types of Securities and Securities Trading: 2 lectures
- IPOs, Mutual Funds: 1 lecture
- *Quiz 1: July 18*

2. Portfolio Theory and Asset Pricing: 5 lectures, 1 quiz and 1 exam

- Modeling Uncertainty (**): 1 lecture

Suggested Readings: Focus on class notes

- Portfolio Theory (**): 3 lectures
Suggested Readings: BKM, Chapters 5-7, 25
- Asset Pricing: CAPM and APT (*): 1 lecture
Suggested Readings: BKM, Chapters 8-10
- *Quiz 2: July 21*
- **Exam 1: July 26**

3. Security Valuation, Market Efficiency, and Behavioral Finance: 8 lectures, 1 quiz and 1 exam

- Performance Evaluation and Market Timing (*): 1 lecture
Suggested Readings: BKM, Chapter 24
- Security Valuation: 1 lecture;
Suggested Readings: BKM, Chapter 18
- Bond Pricing: 1 lecture;
Suggested Readings: BKM, Chapters 14-16
- Efficient Market Hypothesis (*): 1 lecture
Suggested Readings: BKM, Chapter 11
- Behavioral Finance: 1 lecture
Suggested Readings: BKM, Chapter 12. Journal articles
- *Quiz 3: August 2*
- **Exam 2: August 4**

4. Options and Futures: 3 lectures and 1 exam

- Suggested Readings:* BKM, Chapters 20-22
- Basic Concepts: 1 lectures
- Binomial Model (**): 1 lecture
- Black-Scholes Model (*): 1 lecture
- **Final Exam: August 13 or 14 (TBA)**

Tentative Class Schedule

Introduction	July 11(Monday)
Types of Securities and Securities Trading	July 12
Asset Allocation	July 13
Modeling Uncertainty, Basic Statistical Concepts	July 14
Introduction to stock investment game Quiz 1	July 18 (Monday)
IPOs and Mutual Funds	July 19
Certainty Equivalent	July 20
Portfolio Theory Quiz 2	July 21
CAPM and APT	July 25 (Monday)
Exam 1	July 26

Performance Evaluation and Market Timing	July 27
Security Valuation	July 28
Bond Pricing	August 1 (Monday)
Efficient Market Hypothesis Quiz 3	August 2
Behavioral Finance	August 3
Exam 2	August 4
Option Markets	August 8 (Monday) (Investment Report due date)
Binomial Model	August 9
Black-Scholes Model	August 10
Final Review	August 11
Final Exam	August 13 or 14 (TBA)

This is only a tentative list of topics that I plan to cover during the semester. I may add or delete topics from this list as the semester progresses. You are responsible for any changes I announce in the class.