



## Investment Management Fall 2011

### Course Information

**Course Number:** FIN 367

**Location:** UTC 3.124

**MW 3:30 – 5:00 p.m. (03495)**

### Instructor Information

**Instructor:** J. David Miller

**Office:** GSB 5.124D

**Office Hrs:** Monday 11:00 to 12:30

Wednesday 2:00 to 3:30

**E-mail:** David.Miller@mcombs.utexas.edu

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

**Textbook:** Essentials of Investments, Eighth Edition, Bodie, Kane and Marcus, McGraw-Hill Irwin.

### 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. Both theoretical and real world views will be presented.

### 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:

- ◆ Exam will cover more than just the book material. Class attendance is highly suggested.
- ◆ 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 three tests, two writing assignments, a stock research assignment, Stocktrack, plus instructor evaluation.

Exam 1: 27%  
Exam 2: 28%  
Exam 3: 28%  
Writing Assignments (2):15% total (9% and 6% respectively)  
Stock Research Assignment: 2%

**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.

## 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, other course work, and my evaluation of your class participation. 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 except as 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.

Use of calculators in the course will be addressed in more detail in the lectures. However, from the outset, it should be emphasized that the calculator cannot replace an understanding of the problem solving process.

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>.*

## **Study Guidelines**

There are two primary resources for the course

- ◆ The overheads and the class notes contain the important points in this course. I have identified the most important points for discussion in class. I also know what elements of the material are more difficult for students to understand and use the class meetings to make them clear in class. I have also developed examples that will make the text materials more understandable.
- ◆ The text is quite good, and provides a well-written, detailed structure for your efforts. It covers the materials in more depth than we can cover in class and provides many definitions, descriptions and examples that provide a comprehensive treatment of each topic.

You need to integrate the information contained in the above resources, understand what you are studying, whether it is conceptual or analytical, and apply it not only within the context of the course, but also to current business issues and topics covered in your other courses. Be an active student.

Ask yourself such questions as:

- i) What is the purpose of this concept or formula?
- ii) Why is it important?
- iii) How does the instructor or 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?

Rephrase the information in your own words. Develop your own examples. Form study groups and discuss finance among yourselves.

You should examine each chapter once right before it is discussed in class. I will discuss the major elements of the chapter and integrate it with other course material and other materials from other courses, but I do not have the time to discuss *everything* you need to know. Read the chapter thoroughly after the topic is covered in class, and then answer the questions, being sure to connect what these problems are focusing on with what we discussed in class and what is contained in the chapter. If you are having trouble with a concept/problem, see me as soon as possible.

You should work the problems in the assigned chapters. You do not have to hand in the solutions; 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.

## 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>
Aug 24	<b>Course Introduction</b>
Aug 29 Aug 31	<b>Chapter 1. Elements of Investments</b> <b>Company Discussion and Stock Research Assignments</b>
Sept 5 Sept 7	<b>Chapter 2. Asset Classes and Financial Instruments</b> <b>Chapter 2. Asset Classes and Financial Instruments (Continued)</b>
Sept 12 Sept 14	<b>Chapter 3. Securities Markets</b> <b>Chapter 3. Securities Markets (Continued)</b>
Sept 19 Sept 21	<b>Chapter 4. Mutual Funds and Investment Companies</b> <b>Chapter 5. Risk and Return – Past and Prologue</b>
Sept 26 Sept 28	<b>Chapter 5. Risk and Return – Past and Prologue</b> <b>Chapter 6. Efficient Diversification</b>
Oct 3 <b>Oct 5</b>	<b>Chapter 7. CAPM and APT and Review for Exam #1</b> <b>Exam #1 (Covering Chapters 1, 2, 3, 4 &amp; 5)</b>
Oct 10 Oct 12	<b>Chapter 10. Bond Prices and Yields</b> <b>Chapter 10. Bond Prices and Yields (Continued)</b>
Oct 17 Oct 19	<b>Chapter 11. Managing Bond Portfolios</b> <b>Chapter 11. Managing Bond Portfolios (Continued)</b>
Oct 24 Oct 26	<b>Chapter 13. Equity Valuation</b> <b>Chapter 12. Macroeconomic and Industry Analysis</b>
Oct 31 <b>Nov 2</b>	<b>Review for Exam #2</b> <b>Exam #2 (Covering Chapters 6, 7, 10, 11 &amp; 13)</b>
Nov 7 Nov 9	<b>Chapter 8 &amp; 9. Efficient Markets, Behavioral Finance and Technical Analysis</b> <b>Chapter 15. Options Markets</b>
Nov 14 Nov 16	<b>Chapter 15. Options Markets (Continued)</b> <b>Chapter 16. Options Valuation</b>

Nov 21	<b>Chapter 16. Options Valuation</b>
Nov 23	<b>Chapter 16. Options Valuation (Continued)</b>
<b>Nov 24-26</b>	<b>Thanksgiving Break</b>
Nov 28	<b>Retirement Planning and Review for Exam #3</b>
Nov 30	<b>Business Valuation</b>

## **Third Exam covering Chapters 8, 9, 12, 15, 16 and Retirement Planning**

The third exam will be held during final exam time slot.

## **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: These are the minimum you should do! I recommend you work all the questions and problems at the end of the assigned chapters. If you cannot, the listed problems are those that you must work to ensure that you have a good grasp of the materials. 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. Several problems from the homework will appear on the exams, so it is in your interest to work the homework.

### **Exam I Material Begins – Investments and Portfolio Theory**

#### **Chapter 1. Investments: Background and Issues**

Reading: Text, Chapter 1

Questions and Problems: 1, 3, 11, 14, 17, 19

#### **Chapter 2. Asset Classes and Financial Instruments**

Reading: Text, Chapter 2

Questions and Problems: 1-4, 6-9, 12, 13, 22, 26

#### **Chapter 3. Securities Markets**

Reading: Text, Chapter 3

Questions and Problems: 1-6, 9, 10, 13c, 14b&c 16, 17, 19

#### **Chapter 4. Mutual Funds and Other Investment Companies**

Reading: Text, Chapter 4

Questions and Problems: 1-7, 9-13, 18, 19, 24-26

#### **Chapter 5. Risk and Return: Past and Prologue**

Reading: Text, Chapter 5

Questions and Problems: 5, 10, 12a,b,c, 17, 18

## **Exam II Material Begins – Debt and Equity Valuation with Macroeconomic Analysis**

### **Chapter 10. Valuing Long-term debt**

Reading: Text, Chapter 10

Questions and Problems: 1, 3-9, 10, 14, 20, 23, 30, 31, 33, 34, 38a

### **Chapter 11. Managing Bond Portfolios**

Reading: Text, Chapter 11

Questions and Problems: 2, 3, 5, 8, 9, 10, 12, 15, 17

### **Chapter 13. Equity Valuation**

Reading: Text, Chapter 13

Questions and Problems: 4, 6, 8, 12, 14, 16

### **Chapter 9. Efficient Markets, Behavioral Finance and Technical Analysis**

Readings: Text, Chapter 8 and Chapter 9

Questions and Problems: Ch 8. 6, 7, 8, 12, 17, 18 Ch. 9 2, 5, 6

### **Chapter 12. Macroeconomic and Industry Analysis**

Readings: Text, Chapter 12

Questions and Problems: 1, 3, 4, 6, 13, 14, 17

## **Exam III Material Begins –Derivatives and Risk Management**

### **Chapter 15. Options Markets**

Readings: Text, Chapter 15

Questions and Problems: 1-3, 5, 7, 10, 11, 13, 18, 20b,c

### **Chapter 16. Options Valuation and Futures**

Readings: Text, Chapter 16, Chapter 17.1-17.3

Questions and Problems: 1-3, 10, 14, 18, 19, 23, 27

**The stock research assignment and the first writing assignments 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 simulation is professionally-managed by Stock-Trak® Portfolio Simulations based in Atlanta, GA ([www.stocktrak.com](http://www.stocktrak.com)). The investment period extends from September 7, 2011 to November 25, 2011. 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 experiment different strategies and see which “works”). 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.

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.

- ◆ Missing exams without my prior approval: As specified in Appendix C of this syllabus.
- ◆ Failure to turn in tests when requested: Five points deducted from that exam.

## Appendix E: Disabilities

*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, 471-4641 TTY.*

## 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: \_\_\_\_\_