

## **FIN 377-1: Portfolio Analysis and Management (Fall 2015)**

**Instructor:** Kelly Kamm, Department of Finance

**Office & Email:** CBA 6.304D; [kelly.kamm@mcombs.utexas.edu](mailto:kelly.kamm@mcombs.utexas.edu)

**Instructor Office Hours:** 5 to 6 pm MW, extra periodic office hours, by appointment

**T.A.s:** Second year MBA students Matt Jones, Sachid Sahoo, Tony Fazio

**Section 03870:** 11 to 12:30 MW in CBA 4.324, attendance required at assigned section

**Section 03875:** 2 to 3:30 MW in CBA 4.324, attendance required at assigned section

**Case Packet:** Digital Course Pack, web link will be distributed; required

**Other Required Materials:** Financial Calculator (HP 10B); WSJ for Portfolio Analysis (strongly suggested)

**Class Web Site:** Canvas, [utexas.instructure.com](http://utexas.instructure.com), spreadsheets & various items posted

**Trading Center:** Bloomberg, Fact Set, Capital IQ, Spreadsheet Work

**Group Portfolio Simulation:** Follow Portfolio Requirements / [www.stocktrak.com](http://www.stocktrak.com)

### **Readings: Portfolio Regulations and Case Analyses**

Diversified Asset Group Portfolio in Stock-Trak (\$1 million), by Kamm

Long-Short Hedge Group Fund in Stock-Trak (500,000), by Kamm

Dedicated Futures (and Options) Group Fund in Stock-Trak (100,000), by Kamm

The Yield Curve and Growth Forecasts, by Francis Warnock

Diversified Bond Portfolios, Kamm

Introduction to Portfolio Theory, by Andre Perold

Diversified Asset Portfolios and Leveraged Funds, by Kamm

Partners Healthcare, by Joshua Coval

Walt Disney's Sleeping Beauty Bonds, by Carlis Baldwin

Deutsche Bank: Finding Relative Value Trades, by Chacko et al

Does the Capital Asset Pricing Model Work, by David Mullins

Behavioral Finance at JP Morgan, by Banker and Sesia

Thomson Asset Management, by Fruhan and Banko

Measuring Mutual Fund Performance, by Charles Williams

Martingale Asset Management LP in 2008, 130/30 Funds ..., by Viciara and Tung

Harvard Management Company (2010), by Perold and Stafford

Illinois Teachers' Retirement System: Private Equity Performance, by Susan Chaplinsky

The Hedge Fund Industry, by William Fruhan

Amaranth Advisors: Burning Six Billion in Thirty Days, by Anuroop Duggall

Valuing Yahoo in 2013, by Viciara and Khosla

Note on Commodity Futures, by A. Nancy Donahue et. al

Betting on Gold Using a Futures-Based Gold ETF, by Pedro Matos

Note on Basic Option Properties, by George Chacko et. al

Note on Option Valuation, by George Chacko et. al

### **Readings, Lecture Notes, Spreadsheets and Cases: Where Posted, Printed or Purchased**

Portfolio Regulations and Project or Assignment Directions posted to canvas prior to due date

Cases written by Kamm, PPTs, and Excel Spreadsheets – posted to canvas

Print your own PPTs prior to class if desired

Cases with Copyrights – link sent for Digital Course Packet purchased at Harvard, extra for print

## **COURSE OVERVIEW:**

The pre-requisite for this course is FIN367, Investment Theory. FIN377-1, Portfolio Management, is a course overview of the areas of portfolio management and security analysis. Topics covered include: portfolio theory, behavioral finance, stock and bond analysis, various types of funds such as hedge funds, endowment and pension funds, futures and options, and evaluation of performance and risk. The course is designed for upper-level finance majors to provide them with advanced skills in economic analysis, security analysis and portfolio management.

Students get hands-on practice at selecting securities and managing a portfolio using Stock-trak, an investment simulation product in “real time”. The instructor will provide each group with \$1,000,000 to manage in the regular portfolio, \$500,000 in the long-short fund and \$100,000 in the futures fund. The instructor will guide you toward building a portfolio of investments that will include the following securities: domestic and foreign stock, bonds, real estate and / or commodities. You will also set up portfolios to help you learn about hedge funds. The professor gives portfolio requirements with which your group need comply so that you build a portfolio that accomplishes the intended objective. In groups of about five students, you will undertake current financial research to decide which exchange traded funds and securities you will hold (or short) in your funds. Additional features that students practice include the use of stop and limit orders as well as leverage and short selling.

In this course a combination of methods is utilized with *special emphasis on student involvement*. Some of the methods are: lecture, case review, spreadsheet modeling in Excel, working with trading center financial software (Bloomberg and Fact Set), group meetings and research outside of class, and discussion of current financial events. Class attendance is very important; students who attend regularly tend to do better. The professor utilizes the lecture format to introduce key topics, to demonstrate financial models & techniques, and to guide students in their portfolio projects. Students take an *active* part in this class; you will likely find that the level of learning depends on your effort level both during class and outside of class. Group members are encouraged to assist one another and learn from one another. The emphasis on student involvement encourages students to learn by doing and encourages the self-motivation so important to the workplace. If a student is unable to fulfill his or her commitment to the group, he or she may be asked to work alone.

## **EXPECTATIONS: PROFESSIONAL CLASSROOM & GROUP CONDUCT:**

Professional behavior is expected in the classroom and will help us have a rewarding and enjoyable learning experience. Arriving on time, excellent attendance, being attentive and participating are all essential for the success of the class. When class starts, all of us will cease side conversations and focus time allotted on classroom material. Electronic devices are prohibited during class; this includes checking text messages under backpacks or your desk. Computers are used only in the trading center or for presentation days. Two combinations of the following will count as an absence: using electronic devices, late arrival to class (so check where we are at—the classroom or trading center), leaving or walking around during class, and leaving prior to the end of class. In order for an absence to be marked as excused, you will need to scan and send me an attachment via email. If the absence meets the university requirements for an excused absence, then it will be recorded as excused. It is up to you to manage your schedule and arrive on time so as to keep excused absences to three or fewer over the term. If you wish to have one unexcused absence for reasons not covered under university policy, then keep excused absences down to two.

Also, you are expected to attend and arrive on time to group meetings and contribute in a meaningful and productive way to all group work. If a student is not able to meet his or her commitments, the other group members shall notify the professor as soon as possible. *In accordance with academic integrity, students may not earn credit for work to which they have not contributed at a reasonable level; if someone in your group has not contributed at a meaningful level, leave his or her name off the project or presentation and then email me to call my attention to the issue.* Once I am aware of the issue, the student may be redirected, receive partial or zero credit, and / or removed from the group. Adherence to the above expectations regarding professional behavior helps ensure a high participation / evaluation grade. Inability to meet these expectations will lead to a lowering of the final participation / evaluation grade.

## **EVALUATION:**

Final grades will be determined as follows:

### **Stock Projects and Presentations throughout term (Individual or Group) 20%**

Three series of stock projects / assignments are equally weighted. The first is an individually submitted Portfolio Project in which you demonstrate your ability to use Excel, Bloomberg and Morningstar as you evaluate a Diversified Bond Portfolio and a Diversified Asset Portfolio. The next is a group Stock Project Assignment that includes a series of three write ups with Excel attachments (as well as articles showing your research) on each of the three stock-trak funds. These first two projects will be graded on completeness and correctness, professional nature of the exhibits, and how well researched and written if applicable. Please see read the rest of syllabus for where to turn and late policies. The third item in this category is the group presentation at the end of the term highlighting one or possibly two of the three portfolios that you have invested according to the regulations. The presentation is evaluated on timely / early arrival and set up, professional nature of PPT, analysis, interest to peers, and communication ability.

### **First, In-Class Test (Individual Grade) 22.5%**

The first test will be given about half way through the term. The test will consist of a multiple choice section counting for about 40% of the grade and a problem solving / analysis / short essay counting for about 60% of the grade. The test will evaluate students' understanding of all material covered to date including: material learned from preparing and discussing the cases; theory, application and interpretation related to portfolio management topics; articles covered in class discussion; and your hands-on experience from working in the trading center. To do well on tests, it is important to attend class, read material prior to class, review class notes, and work through problems and excel spreadsheets. (Problems and spreadsheets are posted periodically on canvas. Work through these examples to master your understanding. Then check the solutions that also are posted.) Students may prepare and bring a page of hand-written formulas / notes to use during the test.

### **Second, In-Class Test (Individual Grade) 22.5%**

The second test will be completed in class on the last day. The test will consist of a multiple choice section counting for about 40% of the grade and a problem solving / analysis / short essay counting for about 60% of the grade. Test questions will primarily focus on material covered after the first test; it will be cumulative only in so far as the course material is cumulative. The test will evaluate students' understanding of all material covered to date including: material learned from preparing and discussing the cases; theory, application and interpretation related to portfolio management topics; articles covered in class discussion; and your hands-on experience from working in the trading center. To do well on tests, it is important to attend class, read material prior to class, review class notes, and work through problems and excel spreadsheets. (Problems and spreadsheets are posted periodically on canvas. Work through these examples to master your understanding. Then check the solutions that also are posted.) Students may prepare and bring a page of hand-written formulas / notes to use during the test.

### **Final Portfolio Project Paper (Group Grade) 20%**

This paper takes the place of the cumulative final so you should look at the due date written on the syllabus schedule instead of consulting the final exam catalog. In groups, students set up a basic portfolio diversified over various asset classes, a long-short hedge fund, and a futures hedge fund. In the basic diversified portfolio, students invest in domestic stocks, foreign stocks, bonds, REITs and commodities. In the long-short hedge fund, a student group might elect, for example, to buy 80% of stocks and short 20%. In the futures hedge fund, students will be long or short several futures contracts as well as one or more options. In the paper, students shall analyze the performance of the funds over the term. Analysis of portfolio statistics and performance shall

be demonstrated by way of exhibits. The paper must display evidence of research in the attached Bibliography. References used may be recent articles from the Wall Street Journal, Economist, etc. The paper will entail: approximately 12 pages written, 12 or more exhibit pages, and a page or more of references. See additional documents regarding the paper as well as the university policy on academic honesty. Please have bound using coil binding. The paper is not graded on portfolio ranking; it will be graded on strength of analysis, demonstration of your understanding and ability to apply concepts learned in the course, exhibits, and how well it is written. Please see read the rest of the syllabus for where to turn and late policies.

### **Professor Evaluation/Participation & Peer Review (Individual Grade)**

**15%**

Class participation is based on the contribution of each student to the class as a whole and to the group efforts. Solid performance in this area depends on: consistent attendance; demonstration that you are prepared for class particularly the cases; effort level toward group papers and presentations; strong reviews by peers in their evaluations; and adherence to class policies (see below for class policies including prohibition of improper use of electronics during class). For most students, participation serves as a slight curve toward the final grade. After all components prior to this one have been scored, the grades are combined to provide an “objective average” or “starting point” grade for participation. Students with strong attendance, excellent professional conduct and committed participation in group work will receive this grade or higher (up to a letter grade) for the participation grade. *Strong attendance is defined as attending ninety percent or more of class periods unless excused by university policy\**; *ninety percent or better attendance equates to three or fewer absences. A student with poor attendance (missing more than 20% of class periods—six or more classes), or poor effort in group work, or anyone who is disruptive earns a zero. Thus the grade in this final category may range from zero to a grade of A or 96 or perhaps higher.* The vast majority of students—those with good class performance and solid participation, receive an A or B for the participation curve. This last component, if high, tends to help students on the borderline—for example a grade of 79 prior to participation will likely result in a final grade of an 80.

\*Any two combinations of the following will count as an absence: using electronics, late arrival to class (so check where we are at—the classroom or trading center), leaving during class, leaving prior to the end of class.

### **Final Letter Grades**

Final letter grades will be determined so that a class G.P.A. of approximately 3.4 is obtained. This G.P.A. is within the recommendations provided by the UPO office and the department of finance curriculum committee. Let me give you a general idea of what such a G.P.A. could imply. If about 40% of the class were assigned grades distributed equally over A- and A and about 60% of the class were assigned grades of B+, B, and B-, then the class average G.P.A. would be almost a 3.4. The instructor for the course does not, though, necessarily adhere to a specific percentage breakdown of A, A-, B+, B, B-, C+ and the like. Since this is an elective course, most terms very few students earn grades in the C range but it does happen. Usually these are cases of poor peer evaluations, poor attendance, and missed work. Thus the example given was for illustrative purposes to help you understand one way a 3.4 average G.P.A. might be achieved. Since class grades will be assigned based on this method and no number cutoffs are given, the professor for the course will attempt to share distribution information, to the extent it is possible, on various items with the class. Soon after grades for the first short paper and first test have been posted, the professor will share with the class what the grade assignments would be if given on that day. This information is for illustrative purposes and so that students may get a general sense of where they stand in terms of evaluation. Note again, the guidelines posted are general and apply only to those who have strong participation and peer review. *If an upward curve is needed on tests or final grades, only those with strong attendance and peer evaluation are eligible to receive the curve.* Grade assignments and cutoffs may change by the end of the term depending on new items submitted.

## Various Class Policies

### I. Electronics, Religious Holidays, Accommodations, other Policies

Electronics—I follow the department of finance policy on the use of electronics in class. This policy states that use of any electronic devices or tools (laptops, cell phones, various MP3 players, I-pod touch devices, etc.) during class is prohibited unless specifically requested by the professor of the class. This means that laptops are closed and all other devices are put away prior to the start of class; students shall not initiate nor receive text messages during class nor use Touch devices. If we need use of computers, we will be in the trading center; in the less likely event that we are in the classroom and need use of an electronic device, the instructor will make an announcement. Adherence to this policy facilitates the students' abilities to process class material and helps lead to a solid participation grade; failure to follow the policy disrupts the class and leads to a poor participation grade.

Religious Holidays—The University is fortunate to have diversity in its student body including diversity of thought and practice that includes religious diversity. I do my best to avoid scheduling major projects around religious holidays but due to the great diversity of practices at the University, an unexpected scheduling issue may arise. In keeping with University policy -- I will excuse you from class on the day that is important for your religion, and if any unexpected conflict arises, we will make alternative plans. The best way to handle this situation from your end is to give me advance notice if you see a conflict. By UT Austin policy, you must notify me of your pending absence at least fourteen days prior to the date of observation of a holy day. If you miss a class, an examination, a work assignment, or a project in order to observe a religious holiday, you will be given an opportunity to complete the missed work within a reasonable amount of time after the absence.

Test Times-- I adopt class policies that encourage students to keep up on material such that with attendance and solid time management, students should find themselves adequately prepared to be able to study and take exams. You are required to take exams at the scheduled date unless you have a university excused absence. If you know you will have a university excused absence, contact me ahead of time to see if something can be arranged prior to the test. Submit documentation to verify. No make-up exam is offered after the test. If you miss an exam and have a university excused absence, you will be offered a *cumulative exam at the end of the term*.

Test Review after the Test— Once tests are graded and ready to be reviewed, I will have a three week period when you may review your test during office hours. To be able to review your test, please stop by during that time frame.

Accommodations—I follow the university policy on special accommodations and am happy to work with you on this matter. *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.* At the beginning of the term or prior to the first major project or test, please submit to me a letter prepared by the Service office listed above. Also, it is especially helpful if you email me one week ahead of the scheduled test (or project) reminding me of the nature of the accommodation so that we have plenty of time to make arrangements.

Attendance at your section – You are required to attend your own section. Attendance at the other section is not permitted. One exception to this rule is allowed per term (per student) if the student submits a request prior to the class and the instructor is able to accommodate the request. No guarantees are made on accommodating such a request since most days require attendance at your section.

Documenting a family emergency—The office of the Dean of Students is able to provide student services that can assist you in the event of a family emergency. To get that assistance and to document that situation with me as your faculty member, look at the following web address for how to proceed:  
[deanofstudents.utexas.edu/emergency/](http://deanofstudents.utexas.edu/emergency/).

Late Work and Presentation Arrival– The policy on work submitted late (projects, papers, peer evaluations, etc.): 1 second to 10 minutes late = -8 points; 10 minutes to 20 minutes = -15; professor closes collection box in her office at 20 minute mark; after 20 minutes email professor regarding issue and intended turn in, 20 minute mark to 1 day = -25; each day later than 24 hours = original -25 plus -15 for each day. (If the assignment is based on 10 points, the deduction will be .8, 1.5 etc.) On presentation days, if the presentation is not open prior to the start of class or if any member arrives late, deduction = -10 to -25.

## II. Honor Code, McCombs School Statement on Academic Integrity

### Group Work and Academic Integrity

Students are expected to contribute in an approximately equal fashion to all group assignments. In a group of five, it may not be the case that everyone contributes exactly equally at 20% of the final product on a particular assignment. *If, however, a group member contributes either nothing or does contribute something but it is small relative to peers, then academic integrity would require you to do two things: one, leave that student's name off the work and two, send an email to the instructor notifying her of the situation.*

### Honor Code

The core values of the University of Texas at Austin are learning, discovery, freedom, leadership, individual opportunity, and responsibility. Each member of the University is expected to uphold these values through integrity, honesty, trust, fairness, and respect toward peers and community.

*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.*

### **The following was taken from the website for the Dean of Students:**

A fundamental principle for any educational institution, academic integrity is highly valued and seriously regarded at The University of Texas at Austin. More specifically, you and other students are expected to maintain absolute integrity and a high standard of individual honor in scholastic work undertaken at the University. This is a very basic expectation that is further reinforced by the University's [Honor Code](#). At a minimum, you should complete any assignments, exams, and other scholastic endeavors with the utmost honesty, which requires you to:

- acknowledge the contributions of other sources to your scholastic efforts;
- complete your assignments independently unless expressly authorized to seek or obtain assistance in preparing them;
- follow instructions for assignments and exams, and observe the standards of your academic discipline; and
- avoid engaging in any form of academic dishonesty on behalf of yourself or another student.

For the official policies on academic integrity and scholastic dishonesty, please refer to [Chapter 11](#) of the *Institutional Rules on Student Services and Activities*.

### Plagiarism

Plagiarism is (a) ... serious violation of academic integrity. In simplest terms, this occurs if you represent **as your own work** any material that was obtained from another source, regardless how or where you acquired it. Using **verbatim** material (e.g., exact words) without proper attribution (or credit) constitutes the most blatant

form of plagiarism. However, other types of material can be plagiarized as well, such as **ideas** drawn from an original source or even its **structure** (e.g., sentence construction or line of argument). By merely changing a few words or rearranging several words or sentences, you are **not** paraphrasing. Making minor revisions to borrowed text amounts to plagiarism.

Undergraduate Writing Center: The undergraduate writing center offers free and expert help to aid the student in becoming a better writer. The center is located on the 2<sup>nd</sup> floor of the Flawn Academic Center. A consultation can be set up via the phone number 512 471-6222. For further information about assistance provided, see <http://www.uwc.utexas.edu/about>.

### III. Campus Safety

From the Dean's office:

*Please note the following recommendations regarding emergency evacuation from the Office of Campus Safety and Security, 512-471-5767, <http://www.utexas.edu/safety/> :*

- .. Occupants of buildings on The University of Texas at Austin campus are required to evacuate buildings when a fire alarm is activated. Alarm activation or announcement requires exiting and assembling outside.*
- .. Familiarize yourself with all exit doors of each classroom and building you may occupy. Remember that the nearest exit door may not be the one you used when entering the building.*
- .. Students requiring assistance in evacuation should inform their instructor in writing during the first week of class.*
- .. In the event of an evacuation, follow the instruction of faculty or class instructors.*
- .. Do not re-enter a building unless given instructions by the following: Austin Fire Department, The University of Texas at Austin Police Department, or Fire Prevention Services office.*
- .. Behavior Concerns Advice Line (BCAL): 512-232-5050*
- .. Further information regarding emergency evacuation routes and emergency procedures can be found at: [www.utexas.edu/emergency](http://www.utexas.edu/emergency)*

## Schedule

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| W, August 26               | Class 1: Introduction to Portfolio Analysis and Management   |
| <b>Learning Objectives</b> | Course overview  |
| <b>Readings</b>            | Syllabus; Wall Street Journal  |
| M, August 31               | Class 2: Overview of Leverage, Shorting, Order Types, Derivatives  |
| <b>Learning Objectives</b> | Leverage, Shorting, Stop & Limit Orders<br>Overview of Futures, Forwards and Options<br>Setting up the Group Stock-Trak Portfolios |
| <b>Readings</b>            | Stock-Trak Diversified Asset Portfolio, the Long-Short Hedge Fund<br>Stock-Trak Dedicated Futures (and Options) Fund               |

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| W, September 2             | Class 3: The Yield Curve and the Economic Environment  |
| <b>Learning Objectives</b> | The Yield Curve and Business Conditions (Expansion or Recession)<br>Term Spread, Credit Risk Premium<br>Economy & Markets overview past year   |
| <b>Readings</b>            | The Yield Curve and Growth Forecasts - Warnock   |
| M, September 7             | Labor Day Holiday – No Class   |
| W, September 9 TC          | Class 4: Diversified Bond Portfolio Construction (2pm class ends early)  |
| <b>Learning Objectives</b> | Bloomberg and Morningstar: Historical Yield Curves, Bond ETFs & returns<br>Portfolio Construction for a Diversified Bond Portfolio   |
| <b>Readings</b>            | Diversified Bond Portfolio (Passively managed using ETFs) - Kamm   |
| <b>Due</b>                 | Set up Groups of 5 in Canvas upon Professor Instruction (Start meeting)  |
| M, September 14            | Class 5: Risky Assets, the Riskless Asset, and the Optimal Portfolio   |
| <b>Learning Objectives</b> | Risky Assets, Correlation Coefficients, and Efficient Frontier<br>Riskless Asset, Borrowing and the Optimal Portfolio<br>Portfolio Standard Deviation vs. Average of Assets in Portfolio |
| <b>Readings</b>            | Introduction to Portfolio Theory - Perold  |
| W, September 16 TC         | Class 6: Diversified Asset Portfolio Construction; Use of Leverage   |
| <b>Learning Objectives</b> | Portfolio Construction for a Diversified Asset Portfolio<br>Portfolios with Leverage and Long Short Funds  |
| <b>Readings</b>            | Diversified Asset Portfolios and Leveraged Funds - Kamm  |
| <b>Due</b>                 | Register in Stock-Trak at end of class, one account per group (per fund)   |
| M, September 21            | Class 7: Various Risky Asset Classes and the Efficient Frontier: Analysis  |
| <b>Learning Objectives</b> | Five Risky Asset Classes and Efficient Frontier<br>Historical Correlation Coefficients vs. Future  |



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| <b>Readings</b>            | Partners Healthcare - Coval  |
| <b>Due</b>                 | 5 minutes before class: Individual Portfolio Project (Signed)  |
| <i>W, September 23 TC</i>  | Class 8: Various Risky Asset Classes and the Efficient Frontier: Application   |
| <b>Learning Objectives</b> | Main Take-Away from Individual Portfolio Project work<br>Graphing Efficient Frontiers in Excel and Identifying the Optimal Portfolio       |
| <b>Readings</b>            | Introduction to Portfolio Theory & Partners Healthcare – Excel Applications  |
| <b>Due</b>                 | Invest Basic Fund and Long-Short in Stock-Trak by Sunday, 11:59pm  |
| <i>M, September 28</i>     | Class 9: Fixed Income Management and Yield Curve Trades  |
| <b>Learning Objectives</b> | Fixed Income Valuation, Interest Rate risk & Duration<br>Zero-coupon yield curve & Relative Value Trades                                   |
| <b>Readings</b>            | Walt Disney's Sleeping Beauty Bonds – Baldwin<br>Deutsche Bank: Finding Relative Value Trades – Chacko et al                               |
| <b>Due</b>                 | 5 min before class: Group Portfolio Reports Div. Asset & Long-Short Funds  |
| <i>W, September 30 TC</i>  | Class 10: Fixed Income Management and Yield Curve Trades: Application  |
| <b>Learning Objectives</b> | Duration in Excel; Graphing the Bond Price Interest Rate Curve<br>Deutsche Bank Yield Curve Model vs. Bootstrap Results – Potential Trades |
| <b>Readings</b>            | Walt Disney Bonds & Deutsche Bank Rel Val Trades – Excel Applications  |
| <b>Due</b>                 | Register in Stock-Trak futures & options fund, one account per group<br>Invest Basic Fund Futures (and Options) Fund by Sunday, 11:59pm    |
| <i>M, October 5</i>        | Class 11: Research and the CAPM, Behavioral Finance  |
| <b>Learning Objectives</b> | Tests of the CAPM and implications for market compensation for risk<br>Anomalies, Behavioral Finance, Momentum & Value Strategies          |
| <b>Readings</b>            | Does the CAPM Work - Mullins<br>Behavioral Finance at JP Morgan – Banker and Sesia   |

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| <b>Due</b>                 | 5 min before class: Group Portfolio Report Futures (& Options) Fund  |
| <i>W, October 7 TC</i>     | Class 12: Professionally Managed Equity Funds: Analysis and Application  |
| <b>Learning Objectives</b> | Analyzing two Thompson Portfolios: Market Timing and Value Information Ratio; Standard Deviation and Sharpe Ratio<br>Portfolio Beta, Treynor Ratio and Jensen's Alpha; Portfolio Optimization          |
| <b>Readings</b>            | Thompson Asset Management – Fruhan and Banko   |
| <i>M, October 12</i>       | Class 13: Mutual Fund Performance and Morningstar Ratings  |
| <b>Learning Objectives</b> | Measuring Mutual Fund Performance, Importance of Benchmark Morningstar Rating System, upside risk, downside risk   |
| <b>Readings</b>            | Measuring Mutual Fund Performance - Williams   |
| <i>W, October 14 TC</i>    | Class 14: Short Extension Funds; the 130/30 Strategy   |
| <b>Learning Objectives</b> | Martingale Asset Management, a Quantitative Value Oriented Fund<br>130/30 Fund, increased Tracking Error and the Optimal Shorting Ratio  |
| <b>Readings</b>            | Martingale Asset Management in 2008, 130/30 Funds – Viciara and Tung   |
| <i>M, October 19</i>       | Class 15: Test 1: 16 multiple choice and 5 problem solving and analysis  |
| <b>Bring</b>               | Pencil, Financial Calculator, 1-page handwritten notes   |
| <i>W, October 21 TC</i>    | Class 16: Analysis of Performance Rankings in Portfolios   |
| <b>Learning Objectives</b> | Analysis of Risk & Return in the Three Portfolios; Current Financial Events  |
| <b>Readings</b>            | Wall Street Journal Articles   |
| <i>M, October 26</i>       | Class 17: Endowment and Pension Models of Investing  |
| <b>Learning Objectives</b> | Harvard Endowment Model: Policy Portfolio and Evolving Asset Mix<br>Hybrid Model of Investing, Risk Management, Stress Tests<br>Pension Fund Obligations, PE Allocation and Performance (Illinois TRS) |
| <b>Readings</b>            | Harvard Management Company (2010)- Perold and Stafford<br>Illinois Teachers' Retirement System: Private Equity Performance   |

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| W, October 28              | Class 18: Hedge Fund Strategies, Risk and Return After Fees  |
| <b>Learning Objectives</b> | Types of Hedge Funds; Incentive Fees, History of Hedge Funds<br>Long-Short Hedge Fund Outperformance / Underperformance<br>Highly Levered Hedge Funds and Collapse, Betting on Futures spreads |
| <b>Readings</b>            | The Hedge Fund Industry – Fruhan<br>Amaranth Advisors: Burning 6 Billion in Thirty Days - Duggall  |
| M, November 2              | Class 19: Valuing Yahoo 2013 from the Perspective of Hedge Funds   |
| <b>Learning Objectives</b> | Equity Valuation Methods: DCF and Sum of Parts, YHOO buy or sell?<br>Do Activist Hedge Funds Add Value?  |
| <b>Readings</b>            | Two Hedge Fund Cases and Valuing Yahoo in 2013   |
| W, November 4 TC           | Class 20: Hedge Fund Analysis: Application   |
| <b>Learning Objectives</b> | Natural Gas Futures Curves and Spreads: Bloomberg<br>Yahoo's 2013 Valuation Based on Various Assumptions: Excel  |
| <b>Readings</b>            | Valuing Yahoo in 2013 – Viciera and Khosla (continued)   |
| M, November 9              | Class 21: Futures Pricing, Curves, Futures Based ETFs  |
| <b>Learning Objectives</b> | Commodity Futures Pricing Models, Causes of Backwardation<br>Physical vs. Futures Based Gold ETF   |
| <b>Readings</b>            | Note on Commodity Futures – Donahue et al<br>Betting on Gold Using a Futures-Based Gold ETF - Matos  |
| W, November 11 TC          | Class 22: Futures Pricing and Futures Based ETFs: Application  |
| <b>Learning Objectives</b> | Futures Curves in Bloomberg, Calculating Margin Calls<br>Estimate Impact of Negative Futures roll yield: Excel   |
| <b>Readings</b>            | Commodity Futures and Betting on Gold Using a Futures-Based Gold ETF   |
| <b>Due</b>                 | Submit Group Preferences for Portfolio Presentations   |
| M, November 16             | Class 23: Option Properties and Option Valuation   |
| <b>Learning Objectives</b> | Put-Call Parity, Hedging with options and Portfolio Insurance<br>Black-Scholes Option Pricing Model and Implied Volatility   |

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| <b>Readings</b>            | Note on Basic Option Properties and Note on Option Valuation– Chako   |
| <i>W, November 18 TC</i>   | Class 24: Option Pricing Model Calculator Application   |
| <b>Learning Objectives</b> | Use Option Calculator to Price Options, Historical vs. Implied Volatility<br>Pricing a Non-Traded Option from Implied Volatility on a Traded Option |
| <b>Readings</b>            | Trading Strategies with Options – Conroy (recommended)  |
| <i>M, November 23</i>      | Class 25: Test 2: 16 multiple choice and 5 problem solving and analysis   |
| <b>Bring</b>               | Pencil, Financial Calculator, 1-page handwritten notes  |
| <i>W, November 25</i>      | Class 26: Kamm Review of Presentations and Final Group Portfolio Paper  |
| <b>Learning Objectives</b> | Presentation Assignments by date and by Fund to Focus<br>Overview of Final Group Portfolio Paper  |
| <i>M, November 30</i>      | Class 27: Short Presentations on Stock-Track Portfolios   |
| <b>Learning Objectives</b> | Arrive 10 minutes early if presenting and have presentation downloaded<br>Analysis by Half of Class on Portfolio Performance                        |
| <i>W, December 2</i>       | Class 28: Short Presentations on Stock-Track Portfolios   |
| <b>Learning Objectives</b> | Arrive 10 minutes early if presenting and have presentation downloaded<br>Analysis by Other Half of Class on Portfolio Performance                  |
| <i>W, December 9</i>       | Final Group Portfolio Paper (takes place of Final Exam)   |
| <b>Due</b>                 | Final Group Portfolio Paper, 2 pm, Kamm office, CBA 6.304D  |
| <b>Due</b>                 | Final Peer Evaluations (Individual), 2 pm, Kamm office, CBA 6.304D  |