



FIN 397.1 Investment Theory and Practice

Fall 2016 Syllabus

This Syllabus is your guide to success so please read it carefully and completely.

Successful completion of this course will provide the student with comprehensive knowledge of investment analysis and management and the theoretical underpinnings necessary for rational investment decision-making of both securities and portfolios.

Instructor:	Gregory A. Alves Greg.Alves@mcombs.utexas.edu
Required Text:	<u>Investment Analysis and Portfolio Management 10e</u> , by F. Reilly and K. Brown Cengage South-Western, 2012
Required: BMC	https://talentsearch.bloomberginstitute.com/login
Required Hardware:	Notebook with Excel Installed, HP 10bII+ Calculator for Exams
Office:	GSB 4.126G
Office Hour:	W 11:30 a.m. to 12:30 p.m.
Course Room & Time:	CBA 4.344 MW 12:30 p.m. to 2:00 p.m.
Teaching Assistant:	Jorge Martinez

Grading, Reporting & Key Due Dates

Assignment	Due Date	Percent
Examination I: Objectives, Return, Risk, and Allocation	10/3/2016	23%
Examination II: Valuation and Portfolio Management	11/7/2016	23%
Examination III: Derivatives & Performance Measurement	12/5/2016	23%
Stock Trak® Project	11/30/2016	21%
Bloomberg Market Concepts (BMC)	12/5/2016	-10% if not certified
Class Participation	All Term	10%

- +/- Grading: Letter grades A, A-, B+, B, B-, C+, C, C-, D+, D, D- or F
- No credit beyond the above graded assignments is allocated during or after the end of the semester
- Incompletes may be granted at my discretion and in accordance with the *General Information Catalog* found here: <http://registrar.utexas.edu/catalogs>

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Readings and Reading Due Dates

Textbook	Links to Optional Supplementary Material	Due prior to class
CH 1, A.1	The Misuse of Expected Returns	8/29/2016
CH 2, A.2	Elements of an Investment Policy Statement for Individual Investors Elements of an Investment Policy Statement for Institutional Investors	8/31/2016
CH 3, A.3	Global Asset Allocation	9/7/2016
CH 5, A.5	U.S. Equity Indexes as Benchmarks	9/12/2016
CH 4	Shareowner Rights across the Markets	9/14/2016
CH 7	The Great Confusion: Reflections on Mean-Variance Optimization with Harry Markowitz	9/19/2016
CH 8	Is Beta Useful?	9/21/2016
CH 9	Commonality in the Determinants of Expected Stock Returns	9/26/2016
None	blacklitterman.org A Step-by-Step Guide to the Black-Litterman Model	9/28/2016
CH 6: pp. 149-6.3.3	The Efficient Market Hypothesis and Its Critics	10/5/2016
CH 11: pp. 327-11.4.10, A.11	Valuation Approaches and Metrics	10/10/2016
CH 14: 14.4-14.4.4		10/12/2016
CH 11: 11.5-11.5.5 CH 14: 14.8-14.8.4		10/17/2016
CH 16	Active vs Passive Investing	10/19/2016
CH 17: pp. 591-17.2.3, 17.4-EOC CH 18: pp. 623-18.3.4		10/24/2016
CH 18: 18.4-EOC		10/26/2016
CH 19: pp. 691-19.4		10/31/2016
CH 19: 19.5-EOC		11/2/2016

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Readings and Reading Due Dates (continued)

Textbook	Links to Optional Supplementary Material	Due prior to class
CH 20: pp. 741-20.1.2, 20.2.2, 20.4.1 CH 21: pp. 781-21.1.2	Derivatives in Portfolio Management	11/9/2016
CH 21: 21.2-21.4.2, 21.4.4		11/14/2016
CH 20: 20.1.3-20.1.4, 20.2.3-20.3.4 CH 22: pp. 821-22.1.2		11/16/2016
CH 22: 22.2-22.3.3		11/21/2016
CH 20: 20.4.2-EOC CH 22: 22.4-22.4.6		11/28/2016
CH 25	Manager Selection	11/30/2016

Course Outline

Class #	Week #	Weekday	Date	Lecture Topic, Exam, Project Item
1	1	Wednesday	8/24/2016	Introduction Stock Trak® Registration Begins
2	2	Monday	8/29/2016	Descriptions of Historical Security Behavior
3		Wednesday	8/31/2016	IPS and Client Types
	3	Monday	9/5/2016	Holiday
4		Wednesday	9/7/2016	The Global Opportunity Set Stock Trak® Registration Ends
5	4	Monday	9/12/2016	Stock Trak® Project Instructions
6		Wednesday	9/14/2016	Securities Markets and Trading Stock Trak® Begin Trading
7	5	Monday	9/19/2016	Descriptions of Historical Portfolio Behavior
8		Wednesday	9/21/2016	Modeling Systematic and Unsystematic Risk

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Course Outline (continued)

Class #	Week #	Weekday	Date	Lecture Topic, Exam, Project Item
9	6	Monday	9/26/2016	Multifactor Modeling of Risk and Return
10		Wednesday	9/28/2016	Inputs to the Portfolio Problem
11	7	Monday	10/3/2016	<u>Examination I</u> Objective, Return, Risk & Allocation
12		Wednesday	10/5/2016	Efficient Market Hypothesis
13	8	Monday	10/10/2016	DCF Valuation Introduction
14		Wednesday	10/12/2016	Estimating Intrinsic Value
15	9	Monday	10/17/2016	Relative Valuation
16		Wednesday	10/19/2016	Equity Portfolio Management Strategies
17	10	Monday	10/24/2016	Fundamentals of Fixed-Income
18		Wednesday	10/26/2016	Fixed-Income: Spot & Forward Rates, Volatility
19	11	Monday	10/31/2016	Fixed-Income: Portfolio Strategies
20		Wednesday	11/2/2016	Fixed-Income: Portfolio Matching
21	12	Monday	11/7/2016	<u>Examination II</u> Valuation and Portfolio Management
22		Wednesday	11/9/2016	Introduction to Forwards and Futures
23	13	Monday	11/14/2016	Forward and Futures Contracts in Detail
24		Wednesday	11/16/2016	Introduction to Options
25	14	Monday	11/21/2016	Option Valuation Stock Trak® Final Trade Date
		Wednesday	11/23/2016	Holiday
26	15	Monday	11/28/2016	Option Strategies
27		Wednesday	11/30/2016	Stock Trak® Due Performance Measurement
28	16	Monday	12/5/2016	<u>Examination III</u> BMC Certification Due Derivatives & Performance Measurement

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Basic Point Guidance

- My objective is that you learn and understand the material. I want you to succeed in this class and reach a point that exceeds your expectations! If you ever find yourself struggling with a concept, problem, or want to simply push the limits beyond what is required, make sure to write me an email with your question or see me during my office hour. I will make special time to help you when required.
- All electronic devices including notebooks are to remain powered off during class time. From time to time the instructor may request that you open your notebook computer for specific operations related to class.
- Your highest priority and mine is to attend every class and be on time.
- Examine the schedule – once the semester starts, you are committed to the schedule except for those items noted specifically in this syllabus and consistent with University of Texas at Austin policy. If you decide to proceed with this course, you are acknowledging your commitment to examination dates, the project due date, and the BMC due date listed above under the heading, “Grading and Reporting.”
- It should be obvious, but do not cheat or plagiarize in this course. I make an effort to confirm this point is followed and I have identified cases in the past to the peril of those that violated this rule. Get to me for help before you even consider such conduct.

Examinations

Three examinations will be administered during the semester to demonstrate your knowledge and understanding of the material presented during the regularly scheduled lectures, textbook reading assignments, and related subject material provided by the instructor in whatever form. Each examination represents a block of understanding and follows the schedule of topics

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presented under the heading, “Course Outline,” listed above. Examination dates are firm as mentioned above. A missed examination will result in a score of zero. There will be no final examination. Graded examinations will not be returned.

Stock|Trak® Project

You will be required to manage an S&P500 index or index plus portfolio through the *McCombs School of Business Virtual Markets Trading Simulator*. Registration begins on the first day of class and ends on 9/7/2016. A separate set of detailed instructions will be provided as a companion to the syllabus along with an Excel® file containing the necessary information to help you organize the analysis and establish guidelines for completing the project. The instructions and the spreadsheet will be provided to each student via email. A short summary of the project is as follows: You are starting a new investment advisory company. The company is registered as a Delaware LLC operating in and is a Texas state registered investment advisor. Since you have no performance history, you recognize the difficulty in securing an initial client base. You have decided, therefore, to use \$500,000 of your own capital to demonstrate your expertise by producing the performance history necessary to be considered by potential investors.

You have decided to select 100 securities for consideration from the S&P500 index. The S&P500 index will serve as your performance benchmark. You must decide on whether to choose an active strategy or passive approach to the security selection and management of the portfolio. Both cases will require you to minimize tracking error to the S&P500 based on the instructions provided. The active case will require additional effort to estimate alphas for each of the securities and manage the “active” exposure in the portfolio while still minimizing tracking error.

After following the instructions, you should be prepared to trade the portfolio by the September 19th initial trade date. You will trade the portfolio to full investment, i.e., little if any cash balance

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will remain in your account. Over the next 10 weeks you will operate the portfolio as you see fit, however, the initial instructions represent the mandate of the portfolio. You will be measured against this mandate. Thus, if you are a passive manager, your critical performance measure will be tracking error against the S&P500 index. If you performed a number of trades, you will incur transaction costs. If these trades do not serve the mandate, you will likely negatively impact the portfolio. The desired outcome for the active case will be to outperform the S&P500 while still minimizing tracking error. If this is achieved, you will be able to demonstrate that your portfolio had the same total risk, and yet produced a return that is x basis points above the S&P500. Given that we only have 10 weeks, much of the performance may be due to chance alone, however, while it may be difficult to identify if your alpha has any real statistical significance, it is much easier to identify portfolio management mistakes like excessive turnover or cash balance levels that impact performance, inconsistent portfolio risk levels, etc.

The instructor will have access to your account information during the management period in order to evaluate your performance. In addition, the instructor will provide you with some initial insight into how to develop an S&P 500 index portfolio with 100 stocks. The instructor is examining the performance of a number of other potential advisors (your fellow students) and will highlight the top three performers as we progress given their passive or active mandate. All students will be required to submit a five-page summary on November 30th along with their quantitative analysis in the form of an Excel file (please see the detailed instruction sheet to follow separately).

Bloomberg Market Concepts (BMC)

During the semester and at your convenience, you are required to earn a certificate of completion for BMC training by the last class day. BMC is an 8-hour, self-paced e-learning course that provides an interactive introduction to the financial markets. BMC consists of 4 modules - Economics, Currencies, Fixed Income and Equities - woven together from

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proprietary Bloomberg data, news, analytics and television. BMC covers the essentials of the financial markets through these modules and integrates more than 70 Bloomberg Terminal functions. The course is available through www.bloomberginstitute.com or through the Bloomberg Professional Service at BMC<GO>. Thus, you may complete this effort in the Financial Education and Research Center lab or online from your own computer. The links below provide information about the Center as well as additional information about Bloomberg:

- <https://www.mcombs.utexas.edu/Centers/FERC>
- <https://www.mcombs.utexas.edu/Centers/FERC/Resources>
- <https://www.mcombs.utexas.edu/~media/Files/MSB/Centers/EDS/Getting%20Started%20Guide%20for%20Students%202014.pdf>

Key benefits of the program include the following:

- Learn the language of finance
 - Supplement your university learnings with practical knowledge of the markets
 - Familiarize yourself with the Bloomberg Professional Service
- Get Bloomberg on your resume
 - Receive a certificate of completion
 - Demonstrate your comfort with the gold standard market data platform
- Discover the inner workings of the markets
 - Learn what moves markets and drives valuations
 - Familiarize yourself with key benchmarks that professionals monitor

The steps below allow access to BMC:

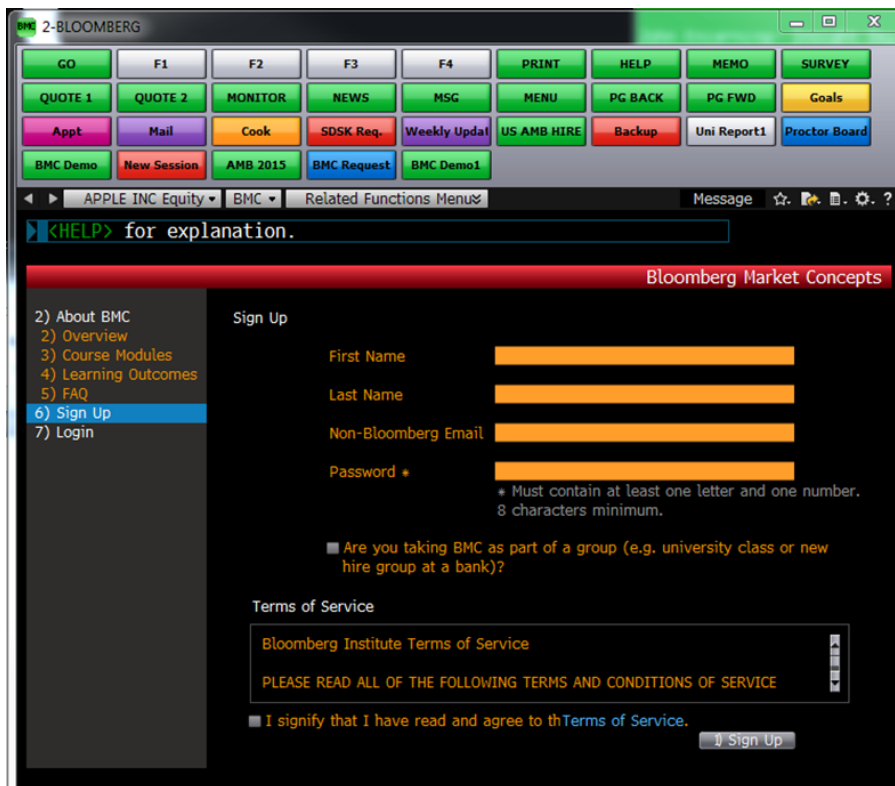
1. Log into Bloomberg terminal.
2. Run the function BMC<GO> by entering BMC into the command line and hitting enter.

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3. Click Sign Up and create a BMC account using a non-Bloomberg email, preferably your university email.



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4. Since you are taking BMC as part of a class or group, please check the box found under the password field.
5. Enter the group code, which I will provide and click OK.
6. Check the box to confirm that you have read and agree to the Terms of Service.
7. Click Sign Up.
8. Check your non-Bloomberg email address, as you will be receiving a confirmation with instructions and a link to activate your account. Click on the Activate my account link.
9. Begin BMC. You are welcome to exit and re-enter the BMC course as necessary since the course is self-paced. Once you finish all 4 modules, you will receive a certificate of completion.

CFA Society of Austin

If you will be pursuing a career in the investment management industry, I would ask that you consider the student membership opportunity provided by the CFA Society of Austin. I am not a Charterholder and it is not a requirement for success in the industry, however, I am a member of the Society myself and have benefited greatly from the experience. You will have to decide for yourself how the CFA designation might affect your career.

At a minimum, student membership reflects your commitment to the field and an acknowledgement of your pledge to uphold the highest level of ethical standards in the industry. You can review details regarding student membership on their website. A factsheet lists the opportunity in some detail at the following web address:

<http://www.cfaaustin.org/student-membership-fact-sheet/>

A student application form can be found at the following link:

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<http://www.cfaaustin.org/wp-content/uploads/2013/02/CFA-Austin-Student-Membership-Application.docx>

Attendance

There is a high likelihood of the application of a grading curve to your final grade. This will be consistent with grading policy as established by the MBA Program Office. The objective grade distribution is expressed below:

A (4.00): 25% | A- (3.67): 20% | B+ (3.33): 15% | B (3.00): 35% | B- or below (2.67): 5%

A student that misses more than three classes will not be eligible for any applied curve. A signature page will be issued at the start of each class to confirm attendance. Attendance is required and exceptions are granted only in those cases where the individual follows the guidelines for "Religious Holy Days." **Please review this schedule carefully as you are committing to these dates and times.** It will be your responsibility to accommodate once the semester begins.

Religious Holy Days

University of Texas at Austin policy requires that 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 a class, an examination, a work assignment, or a project in order to observe a religious holy day, I will give you the opportunity to complete the missed work within a reasonable time after the absence.

Policy on Scholastic Dishonesty

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

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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](#) 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.

Campus Safety

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 (or <https://operations.utexas.edu/units/csas/bcal.php>).

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- Further information regarding emergency evacuation routes and emergency procedures can be found at www.utexas.edu/emergency.

Students with Disabilities

Students with disabilities may request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, 512-471-6259, <http://diversity.utexas.edu/disability/>.