

FIN 367: Investment Management

Fall 2016

TTh 8:00am-9:30am UTC 1.104 #03790
TTh 9:30am-11:00am UTC 1.104 #03800

Professor	Inessa Liskovich
E-mail	inessa.liskovich@mcombs.utexas.edu
Office	CBA 6.318
Office Hours	Tuesday 4-5pm, or by appointment
Course Website	via Canvas
Teaching Assistants	Iman Dolatabadi; Iman.Dolatabadi@mcombs.utexas.edu Office Hours: Wednesday 5:30-6:30pm - CBA 1.312F Erica Jiang; xuweijiang0313@gmail.com Office Hours: Monday from 4-5pm - CBA 1.312E Avishai Schiff; avischiff@gmail.com Office Hours: Wednesday 10-11am - CBA 5.334G Amin Shams; amin.shams@mcombs.utexas.edu Office Hours: Thursday 1-2pm, CBA 3.332C Greg Weitzner; gregweitzner@gmail.com Office Hours: Tuesday 1:30-2:30pm - CBA 1.312A
Problem Sessions	Wednesday 7-8pm – UTC 1.116 Thursday 5-6pm – UTC 1.118

Course Description

The objective of this course is to provide you with a conceptual framework for analyzing potential investment opportunities and to teach you how to apply this framework to stocks, bonds, derivatives, and portfolios of these assets. Not only will you be exposed to these tools in this class, but you will also gain a better understanding of how financial markets work. We will cover the relationship between risk and return, portfolio choices, market efficiency, bond pricing, equity evaluation and derivatives markets. By the end of this class you will have the tools necessary to make investment decisions both personally and professionally.

Prerequisites

Finance 367 is a Restricted Course for students who are currently enrolled in a major program in the College of Business and Administration. Prerequisites include Finance 357 or 357H, and credit or registration for Statistics 371G, 371H, 375, or 375H. Proficiency in mathematics and the ability to use Excel are assumed.

Grading

Your grade in the course will be determined as follows:

Midterm 1: 20%; Midterm 2: 20%; Final: 30%; Homework: 10%; Cases: 10%; Participation: 10%

The final course grade for each student will be computed based on the above weights. Letter grades will be assigned on a curve so that the distribution of letter grades is in line with similar McCombs courses. Plus/minus grades will be assigned. There is no opportunity for “extra credit” work.

If you believe that an exam or case was incorrectly graded, you must submit a written statement explaining the problem. Once you submit for a re-grade the entire assignment or exam will be re-graded, not only the portion in question. It is possible that you end up with a lower grade than before.

Exams

There will be two midterm exams throughout the course and one final exam after the course is over. Please ensure that you are available to attend all exams. The midterms will be held in the evening instead of during regular class time. If you are unable to attend for a valid reason, let me know as soon as possible.

Each midterm will test material covered up to that point in the class. The final exam will be comprehensive. The exams will stress concepts over memorization. The best way to prepare for exams are to keep up with lecture notes, complete homework assignments, and attend problem sessions.

Homework

Homework questions must be answered and submitted individually but may be discussed with other students.

Online homework is assigned through McGraw-Hill's Connect system. To establish a Connect account:

1. Go to <http://connect.mheducation.com/class/--griffin-kruger-liskovich-fin-367-fall-2016>.
2. Click on the “register now” button. If you have trouble with registration, please contact Customer Support at <http://mpss.mhhe.com/>.
3. If possible, use your UT EID as your first name when you register.

Homework will be assigned weekly and are due by 11:59pm Sunday night. The first homework assignment (covering Chapters 1, 2, and 3) will be due on Sunday, September 4. Subsequent assignments will be due weekly and will cover material from the previous 2-3 lectures. There will be no homework due on the weeks of the midterms or on the week of Thanksgiving.

There will be a total of 11 homeworks, each consisting of 5-10 questions. Each homework will be equally weighted. The Connect system will give you two attempts to answer each question without impacting your grade. Additionally, we will drop one question when calculating your grade on the homework (i.e., you may miss one question without impacting your grade). Your overall homework grade will be based on your 10 best grades (i.e., you may drop one homework). If you are sick, traveling, or have any other excused or unexcused absence, this may be your dropped homework.

Cases

Case #1 must be done individually with no collaboration from other class participants. Case #2 may be done with up to two other students. Each group should submit a single writeup with the names of all group members.

The cases we will use are real-world situations where a decision-maker needs to address or resolve some type of financial problem. Part of the task will be to analyze the problem outlined in the case, and an equally important part will be to make decisions and to develop action implementations. Making decisions and planning actions based on your analysis is hard work, but it can also be fun. Unfortunately, most decisions in this class (and in the real world) will need to be made with incomplete information. Some problems will be clearly stated, others will be more difficult to discern. It is important to remember that the process in arriving at your answers or decisions may be the most important part of the exercise. Intelligent and reasonable people can end up with far-different conclusions depending on their initial assumptions.

In general, the write-ups are to be brief and focused. You will *not* be awarded points for explaining aspects in the case but should focus on the solutions to the problems in the case. All exhibits, such as spreadsheet analysis or figures and tables, should be clearly labeled and referenced, and included in your word or pdf document. The report will be graded on the basis of the quality of the research, as well as of the professional presentation (neatness, clarity of exposition, etc.). The solutions must respond carefully to the course questions.

All cases must be submitted in hard copy with an electronic copy submitted online before the deadline. All answers should be in a word file. Supporting calculations should be included in an excel file. The electronic and hard copies must match exactly or it is considered cheating. Cases are often screened for plagiarism and similarities. Any material used in the case should be cited appropriately.

Professors and TAs are happy to provide clarifying information regarding the case and related concepts from class but are not there to walk a student through the case. TAs can answer some clarifying and conceptual questions but will not answer detailed questions about how to do specific calculations in the cases. Independent thought is necessary. To reward students who start early and to discourage hurried work, emails regarding the case (either to the Professor or TAs) will only be read if they are sent before 8pm the night before the case is due.

Participation

Students are expected to come to class prepared, having completed all assigned readings for that lecture, and to participate *constructively* in the class discussion. You are encouraged to ask and answer questions during lecture, as long as they contribute to our understanding of the current analysis. Everyone must attend their assigned section unless they receive specific permission to attend a different section.

Students are expected to be professional in the classroom. Any distractions will result in a lower participation grade. These include (but are certainly not limited to) ringing phones, using a laptop for purposes unrelated to the class, and eating in the classroom.

Materials

Lecture Notes: These will be the most relevant materials for your exams, and will be posted on Canvas before class. Class lectures and discussions will center around the lecture notes but will cover crucial additional material as well.

Textbook: The textbook for this class is Investments by Zvi Bodie, Alex Kane, and Alan J. Marcus, 10th edition (with Connect Plus access). Connect Plus access is necessary in order to access the online homework assignments. I have reserved a copy for you at the PCL. You are also welcome to use the 9th edition, which covers similar material and will be equally effective.

Case Materials: Both cases are in the Investment Management Coursebook, available at the University Co-Op. Individual cases (referenced in case assignments) can also be purchased directly from Harvard Business School Press.

Calculator: You will need to bring a scientific calculator to classes and exams. It must be capable of computing powers, exponents, and logarithms. Calculators may not be shared during exams and programmable calculators must be cleared prior to the start of the exam.

Additional Readings: Additional relevant readings may be made available as handouts.

Privacy in Canvas: Information in Canvas is protected by your UTEID login. Please be aware that I will use a merged Canvas site for all sections of the course that I am teaching this semester. This will allow students in other sections to see that you are enrolled in the course and send you email from within Canvas. However, they will not actually learn your email address and no other personal data will be revealed through Canvas. If you have any concerns, please contact the ITS Help Desk at 475-9400 for help removing your name from view of other students.

Problem Sessions

The teaching assistants will lead weekly problem sessions related to the material we are covering in class. This is a great opportunity to get extra practice working through problems, and I encourage everyone to take advantage of it.

Guest Speaker

We are working on scheduling a course-wide guest speaker on business / finance ethics. I will announce details and requirements / credit for this event once we get it scheduled.

Questions

If you have questions about any material in class or on the homework, there are two main ways to get them answered. The first is to come to either my office hours or those of the TA's. The second is to submit the question via email or Canvas. Emails may be sent to the professors and TA's, and should include "Fin 367" in the subject line. Note that response times may be slower on weekends so please plan ahead, particularly around exams and cases.

If your question is one that other students would benefit from seeing the answer to, consider posting it on Canvas. The public setting allows all students to benefit from the answer and could be clarifying even for students that weren't thinking about the question.

Feedback

If you have any thoughtful feedback for me, please come speak to me in person or send me an email. It is useful for me to know as we go along how the pacing of the class and the concepts that we cover are registering with you. Note that negative feedback will certainly not impact your grade.

Course Schedule

All readings correspond to Investments, 10th edition. Readings are listed under each lecture title and are to be read ahead of class. The schedule is subject to change; check the latest version via Canvas.

Week 1		<p>Thursday, Aug 25</p> <p><u>The Investment Environment</u></p> <p>- Ch 1</p>
Week 2	<p>Tuesday, Aug 30</p> <p><u>Asset Allocation</u></p> <p>- Ch 2</p>	<p>Thursday, Sept 1</p> <p><u>Securities Trading and Investment Companies</u></p> <p>- Ch 3</p>
Week 3	<p>Tuesday, Sept 6</p> <p><u>Securities Trading and Investment Companies 2</u></p> <p>- Ch 4</p>	<p>Thursday, Sept 8</p> <p><u>Introduction to Risk, Return, and the Historical Record</u></p> <p>- Ch 5-5.7</p>
Week 4	<p>Tuesday, Sept 13</p> <p><u>Risk Aversion and Capital Allocation to Risky Assets</u></p> <p>- Ch 6-6.4, 6.6</p> <p>Case I Due Tuesday at 4pm in the Finance office 6.222</p>	<p>Thursday, Sept 15</p> <p><u>Introduction to Portfolio Theory and the Harvard Management Company</u></p> <p>- Harvard Management Company Case and HBS Note on Portfolio Optimization</p>
Week 5	<p>Tuesday, Sept 20</p> <p><u>Optimal Risky Portfolios</u></p> <p>- Ch 7-7.4</p>	<p>Thursday, Sept 22</p> <p><u>Index Models</u></p> <p>- Ch 8</p>

Week 6	<p>Tuesday, Sept 27</p> <p><u>The Capital Asset Pricing Model</u></p> <p>- Ch 9-9.3</p>	<p>Thursday, Sept 29</p> <p><u>The Capital Asset Pricing Model 2</u></p>
Week 7	<p>Tuesday, Oct 4</p> <p><u>Midterm I, Evening Exam</u> 7:00PM - 9:00PM</p> <p>(No class during class time)</p>	<p>Thursday, Oct 6</p> <p><u>State Prices and Arbitrage</u></p> <p>- Ch 10.1-10.3</p>
Week 8	<p>Tuesday, Oct 11</p> <p><u>APT and Multifactor Models</u></p> <p>- Ch 10.4-10.5</p>	<p>Thursday, Oct 13</p> <p><u>The Efficient Market Hypothesis and Empirical Evidence</u></p> <p>- Ch 11, 13.1-13.3</p> <p>Case II Due Friday at 4pm in the Finance office 6.222</p>
Week 9	<p>Tuesday, Oct 18</p> <p><u>Dimension Fund Advisors</u></p> <p>- DFA Case</p>	<p>Thursday, Oct 20</p> <p><u>Bond Prices and Yields</u></p> <p>- Ch 14</p>
Week 10	<p>Tuesday, Oct 25</p> <p><u>The Term Structure of Interest Rates</u></p> <p>- Ch 15</p>	<p>Thursday, Oct 27</p> <p><u>Managing Bond Portfolios</u></p> <p>- Ch 16</p>
Week 11	<p>Tuesday, Nov 1</p> <p><u>Midterm II, Evening Exam</u> 7:00PM - 9:00PM</p> <p>(No class during class time)</p>	<p>Thursday, Nov 3</p> <p><u>Options Markets: Introduction</u></p> <p>- Ch 20</p>
Week 12	<p>Tuesday, Nov 8</p> <p><u>Option Valuation</u></p>	<p>Thursday, Nov 10</p> <p><u>Futures Markets 1</u></p>

	- Ch 21	- Ch 22
Week 13	Tuesday, Nov 15 <u>Futures Markets 2</u> - Ch 23	Thursday, Nov 17 <u>Hedge Funds</u> Common Lecture: Inessa Liskovich - Ch 26
Week 14	Tuesday, Nov 22 <u>Portfolio Performance Evaluation</u> Common Lecture: Sam Kruger - Ch 24	Thursday, Nov 24 Thanksgiving Holiday
Week 15	Tuesday, Nov 29 <u>International Investing</u> Common Lecture: John Griffin - Ch 25	Thursday, Dec 1 <u>The Financial Crisis</u> Common Lecture: John Griffin - Ch 1.7
Week 16	Monday, Dec 5 <u>Review</u>	

Final—Set by Registrar at Common Exam Time

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://www.utexas.edu/diversity/ddce/ssd/>.

Religious Holy Days

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 a class, an examination, a work assignment, or a project in order to observe a religious holy day, you will be given an 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 BBA Program's Statement on Scholastic Dishonesty at <http://www.mcombs.utexas.edu/BBA/Code-of-Ethics.aspx>. By teaching this course, I have agreed to observe all faculty responsibilities described in that document. By enrolling in this class, you have agreed to observe all student responsibilities described in that document. If the application of the Statement on Scholastic Dishonesty to this class or its assignments is unclear in any way, it is your responsibility to ask me for clarification. 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, the integrity of the University, and the value of our academic brand, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at <http://deanofstudents.utexas.edu/sjs/> 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, provided by 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 shall 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
- Link to information regarding emergency evacuation routes and emergency procedures can be found at: utexas.edu/emergency.