



INVESTMENT MANAGEMENT

FINANCE 367

FALL SEMESTER, 2016

Professor

Sam Kruger
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Sections

TuTh 12:30pm, UTC 1.104 (03815)
TuTh 2:00pm, CBA 4.348 (03825)
TuTh 3:30pm, CBA 4.348 (03830)

Office Hours

Tuesdays 10:00-11:00am, or by appointment.

Course Web Page

via Canvas

Teaching Assistants

Iman Dolatabadi (Iman.Dolatabadi@mcombs.utexas.edu)

Office Hours: Wednesday 5:30-6:30 - CBA 1.312F

Erica Jiang (xueweijiang0313@gmail.com)

Office Hours: Monday from 4-5pm - CBA 1.312E

Avi 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

Course Objectives

This course is meant as a survey in the field of Investments.

The course will focus on the application of financial theory to the issues and problems of investment management. Topics will include portfolio optimization and asset allocation, the basics of bond and derivative pricing, the theory of asset pricing models and their implications for investments, as well as evaluating investment management performance.

The main objective of this course is to provide students with a framework for making financial decisions related to Investments. These decisions are relevant for institutional investors (pension, mutual, and hedge funds), individual investors, corporate treasurers, and anyone who seeks to use or understand domestic or international investing.

Prerequisites

Finance 367 is a Restricted Course for students who are currently enrolled in a major program in the College of Business and Administration. Note that several prerequisites apply for this course and are published in the Course Schedule. Prior completion of Finance 357 or Finance 357 H, Statistics 371G or Statistics 371 H are among these requirements. In addition, proficiency in mathematics and spreadsheet packages is assumed. Students who are uncertain as to whether they satisfy these requirements should notify the instructor.

Text and Materials

Required

Textbook: Bodie, Kane & Marcus, Investments (with Connect Plus access), 2014, 10/e, McGraw-Hill, ISBN 9780840087942.

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

Lecture Notes: Available online on the UT Canvas system before class. Lecture notes are meant as an outline to reduce the amount of rote copying of definitions and formulas but certainly not as a self-contained lecture summary. Reading the lecture notes without attending class will most likely be of little benefit.

Additional Readings: Additional timely readings may be made available as Handouts. If you miss the handouts, it is your responsibility to make copies from another student.

Strongly Recommended: Bloomberg.com, WSJ, Financial Times, The Economist, or some other Financial News source.

Course Requirements and Grading

Mid-term 1 (20%), Mid-term 2 (20%), Final (30%), Homework (10%), Cases (10%), Participation (10%)

Letter grades for the course will be based on the student's ranking in the course relative to other students (i.e., the curve). The curve will be in line with similar McCombs courses. In general, there will be about 35% A's, 50% B's, and 15% C's or below. Plus/minus grades will be assigned for the final grade (there is no A+ though).

There is no opportunity in this course to do "extra credit" work. Your grade will be determined solely by the components listed above. If you are taking the course pass/fail you must complete all projects and take all exams in order to pass.

Homework

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

Online homeworks are 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.

Homeworks will be assigned weekly and are due by 11:59pm Sunday night. The first homework (covering Chapters 1, 2, and 3) will be due on Sunday, September 4. Subsequent homeworks will be due weekly and will cover material from the previous 2-3 lectures.

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 homeworks (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 before 8pm the night before the case is due.

Class Participation

Students must attend their assigned section unless they have specific permission from the Professor to attend a different section. Class participation consists of positive and constructive comments, questions, remarks, and answers in class. I expect you to come to class on time, fully prepared, and ready to open the discussion. Effective contribution means participating such that your answer or question moves our analysis and understanding forward. *Note that not all comments or questions in class contribute positively to your class contribution grade.* At my discretion, I may test your preparation for class with unannounced quizzes.

Exams

Each mid-term exam will include questions up to that point in the class. The Final Exam will be comprehensive and will cover material from lectures, class discussions, assigned readings, guest lectures, and cases. Exams will strive to test comprehension, not merely memorization skills.

Calculator

Each student is required to bring a calculator to classes and tests. At a minimum, the calculator must have \ln , e^x , and x^y , buttons. Although a business calculator is not required for the course, I strongly encourage its use as it will be helpful for this as well as future course work in finance, accounting, and other business disciplines. A student business calculator (such as HP 10bII, TI BAI Plus or calculators with similar capabilities) should be adequate for all business courses. Because of the variety of calculators used, students will be expected to learn how to use their calculators on their own. Programmable calculators must be cleared before each test, and there is no sharing of calculators during any test.

Email

The professors and TAs will respond to thoughtful emails. Response times may be slower on weekends so please plan ahead, particularly around exams and case. Please include "Fin 367" in the subject line of course-related emails.

Students should engage in respectful and thoughtful use of email to the Teaching Assistants and the Professor. This type of correspondence will be demanded in the business world and students should practice these skills.

Problem Sessions

The teaching assistants will lead weekly problem sessions related to the material we are covering in class on Wednesdays (7-8pm, UTC 1.116) and Thursdays (5-6pm, UTC 1.118). This will be a good chance 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.

Course Policy

Fairness to Students: I strive to treat students with dignity and fairness. This does not mean that I will agree with your ideas. If you feel that I have been unfair in any way, please let me know. It takes courage to do so.

Readings: Readings should be done **in advance of the class** in which material will be discussed. The outline below will advise of the relevant topic of discussion. Additional handouts may be made available in class. However, if a student misses a class/handout, (whether excused or unexcused) it is their responsibility to obtain the reading from another student, not the instructor or TA.

Grading: There are **no verbal appeals** of grade changes. Exams will not be returned and can be reviewed only during the week following the reception of the grade. You should submit a **written** statement explaining the problem within one week of receiving your grade and we will be happy to re-grade any exam or assignment. The entire exam or case will be re-graded and the score may increase, remain the same, or decrease.

Academic Honesty: I take academic honesty very seriously. I expect you to adhere to The McCombs Code of Ethics and to comply with collaboration restrictions noted in the syllabus and on assignments throughout the semester.

Tentative Class Schedule

All readings correspond to Bodie, Kane, and Marcus, Tenth Edition. Readings are to be read ahead of class.
 Schedule Subject to Change check the latest version via Canvas.

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

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

Week 12	Tuesday, Nov 8 <u>Option Valuation</u> - Ch 21	Thursday, Nov 10 <u>Futures Markets 1</u> - 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

Important Notifications

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 should inform the 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: <http://www.utexas.edu/emergency>.