



INVESTMENT MANAGEMENT

FINANCE 367

FALL SEMESTER, 2017

Professor

Travis Johnson

CBA 5.158 travis.johnson@mcombs.utexas.edu

Office Hours

Wednesdays 5-6:30pm or by appointment.

Course Web Page

via Canvas

Teaching Assistants

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

Office Hours: Wednesday 4-5 – CBA 3.332C

Erica Jiang (xuweijiang0313@gmail.com)

Office Hours: Monday 4-5pm – CBA 1.312F

Avi Schiff (avishai.schiff@mcombs.utexas.edu)

Office Hours: Friday 9-10 am – CBA 5.334G

Lee Seltzer (lee.seltzer@mcombs.utexas.edu)

Office Hours: Thursday 1-2pm – CBA 1.312J

David Xu (xiaoyu.xu@mcombs.utexas.edu)

Office Hours: Wednesday 10-11pm – CBA 1.312A

Qifei Zhu (qifei.zhu@mcombs.utexas.edu)

Office Hours: Tuesday 1-2pm – CBA 5.334V

Course Objectives

This is an introductory course 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. Several prerequisites apply for this course and are published in the Course Schedule: Prior completion of Finance 357 or Finance 357 H, and credit or registration for Statistics 371G, 371H, 375, or 375H. In addition, we assume proficiency in algebra, calculator use, and a spreadsheet package like Excel. 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 9781259162329.

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, Wall Street Journal, Financial Times, The Economist, or some other Financial News source.

Course Requirements and Grading

Midterms (40%), Final (30%), Cases (10%), Homework (10%), Participation (10%)

Letter grades for the course will be determined by the student's ranking in the course relative to other students across all sections. Based on guidelines from the BBA Program Office, 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, take all exams, and earn a passing grade 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/--johnson-kruger-liskovich-fin-367-fall-2017>.
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 and 5) will be due on Sunday, September 10. 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 negatively 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 absence, this may be your dropped homework.

Cases

Cases 1 and 3 must be done individually with no collaboration from other class participants. Cases 2 and 4 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. As in the real world, most decisions in the cases 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 (and still both get good grades!).

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 or pdf file. Supporting calculations should be included in an Excel file. The electronic and hard copies must match exactly (other than the supporting spreadsheet) 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 incentivize studying and working on cases in a timely manner, we can only guarantee a timely response to emails regarding case if they are received by 5pm the day before the case is due.

Exams

Midterm exams will be on Monday evenings at common times across all 367 sections, as indicated on the schedule below. Please put these on your calendar and plan around them. The final exam will be at a common time scheduled by the registrar.

Each midterm exam will include questions on up to that point in the class but emphasis topics presented since the prior midterm. The final exam will be comprehensive and will cover material from lectures, class discussions, assigned readings, and cases. Exams will strive to test comprehension, not merely memorization skills.

If it helps your overall course grade, we will replace your lowest midterm score with your final exam score. There will be no makeup midterms. If you need to miss a midterm for any reason, we will substitute your final exam score for the midterm. This can be done for only one midterm.

Keeping up with the course material throughout the semester is by far the best way of studying for the exams. After each class, you should do your best to make sure you understand everything we talked about in that class. Doing the homework, reviewing notes, reading relevant chapters from the textbook, looking at solutions to homeworks, and asking questions during office hours or the next lecture are all good ways of keeping up with the material in the course.

Class Participation

Students are expected to attend classes and behave in a professional manner. Cell phones, laptops, and tablets are not allowed because they distract you, your neighbors, and me. 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 participate in 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. I will routinely cold-call on students.

To encourage and enable class participation, bring your name plate to lecture with you every day. If you lost your name plate or never received one, make one with paper and a thick pen.

Each student will choose a topic for a brief (3-5 minute) class discussion on a current event related to investments once during the semester. Signups for these discussions will be via a Google spreadsheet discussed during the first lecture.

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 BAII 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 have memory cleared before each test, and there is no sharing of calculators during any test. Phones, tablets, laptops, or anything else with an internet connection cannot be used as a calculator.

Email

The professors and TAs will respond to emails about course material or assignments. Response times may be slower on weekends so please plan ahead, particularly around exams and cases. To incentivize studying and working on assignments in a timely manner, we can only guarantee a timely response to emails regarding an exam or assignment if they are received by 5pm the day before a deadline or exam.

Problem Sessions

The teaching assistants will lead weekly problem sessions related to the material we are covering in class on Wednesdays (7-8pm, WAG 201) and Thursdays (5-6pm, UTC 1.144). This will be a good chance to get extra practice working through problems, and I encourage everyone to take advantage of it.

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.

Readings: In addition to the cases, I will occasionally assign reading for the class. These readings are mandatory, and I will cold call. Additionally, each lecture will clearly indicate which chapters from the textbook it covers, so you can optionally read those chapters before or after the lecture depending on your preference. There will also be some topics discussed in lecture that are not in the textbook, and some topics from the textbook we don't cover in lecture.

Grading: There are no verbal appeals of grade changes. Exams will not be returned and can be reviewed only during TA office hours during the two weeks 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.

Summary of Deadlines

Sun	9/10/2017	11:59pm	Homework 1
Tues	9/12/2017	4:00pm	Case 1
Sun	9/17/2017	11:59pm	Homework 2
Sun	9/24/2017	11:59pm	Homework 3
Sun	10/1/2017	11:59pm	Homework 4
Mon	10/2/2017	7:00pm	Midterm 1
Fri	10/13/2017	4:00pm	Case 2
Sun	10/15/2017	11:59pm	Homework 5
Sun	10/22/2017	11:59pm	Homework 6
Sun	10/29/2017	11:59pm	Homework 7
Mon	10/30/2017	7:00pm	Midterm 2
Wed	11/8/2017	4:00pm	Case 3
Sun	11/12/2017	11:59pm	Homework 8
Sun	11/19/2017	11:59pm	Homework 9
Mon	11/20/2017	7:00pm	Midterm 3
Fri	12/1/2017	4:00pm	Case 4
Sun	12/3/2017	11:59pm	Homework 10
Sun	12/10/2017	11:59pm	Homework 11
??	12/14-12/20	??	Final Exam

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		<p>Wednesday, Aug 30 <u>The Investment Environment</u></p> <p>- Ch 1</p>
Week 2	<p>Monday, Sept 4 No Class (Labor Day)</p>	<p>Wednesday, Sept 6 <u>Measures of Risk and Return</u></p> <p>- Ch 5-5.7</p>
Week 3	<p>Monday, Sept 11 <u>Risk Aversion and Capital Allocation to Risky Assets</u></p> <p>- Ch 6-6.4, 6.6</p> <p>Case 1 Due Tuesday 9/12 at 4pm in the Finance office 6.222</p>	<p>Wednesday, Sept 13 <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 4	<p>Monday, Sept 18 <u>Optimal Risky Portfolios</u></p> <p>- Ch 7-7.4</p>	<p>Wednesday, Sept 20 <u>Index Models</u></p> <p>- Ch 8</p>
Week 5	<p>Monday, Sept 25 <u>The Capital Asset Pricing Model</u></p> <p>- Ch 9-9.3</p>	<p>Wednesday, Sept 27 <u>The Capital Asset Pricing Model 2</u></p> <p>- Ch 9-9.3</p>

Week 6	<p>Monday, Oct 2</p> <p><u>Midterm I, Evening Exam</u> <u>(No class during class time)</u> 7:00PM - 9:00PM</p>	<p>Wednesday, Oct 4</p> <p><u>State Prices and Arbitrage</u></p> <p>- Ch 10.1-10.3</p>
Week 7	<p>Monday, Oct 9</p> <p><u>Multifactor Models</u></p> <p>- Ch 10.4-10.5</p>	<p>Wednesday, Oct 11</p> <p><u>The Efficient Market Hypothesis and Empirical Evidence</u></p> <p>- Ch 11 - Ch 13.1-13.3</p> <p>Case 2 Due Friday 10/13 at 4pm in the Finance office 6.222</p>
Week 8	<p>Monday, Oct 16</p> <p><u>Dimension Fund Advisors and Behavioral Finance</u></p> <p>- DFA Case - Ch 12</p>	<p>Wednesday, Oct 18</p> <p><u>Bond Prices and Yields</u></p> <p>- Ch 14</p>
Week 9	<p>Monday, Oct 23</p> <p><u>The Term Structure of Interest Rates</u></p> <p>- Ch 15</p>	<p>Wednesday, Oct 25</p> <p><u>Managing Bond Portfolios</u></p> <p>- Ch 16</p>
Week 10	<p>Monday, Oct 30</p> <p><u>Midterm II, Evening Exam</u> <u>(No class during class time)</u> 7:00PM - 9:00PM</p>	<p>Wednesday, Nov 1</p> <p><u>Options Markets: Introduction</u></p> <p>- Ch 20</p>
Week 11	<p>Monday, Nov 6</p> <p><u>Option Valuation</u></p> <p>- Ch 21</p>	<p>Wednesday, Nov 8</p> <p><u>Futures Markets 1</u></p> <p>- Ch 22</p> <p>Case 3 Due Wednesday 11/8 at 4pm in the Finance office 6.222</p>

Week 12	Monday, Nov 13 <u>Futures Markets 2</u> - Ch 23	Wednesday, Nov 15 <u>The Financial Crisis</u> Common Lecture: Travis Johnson - Ch 1.7, 2.2
Week 13	Monday, Nov 20 <u>Midterm III, Evening Exam</u> (No class during class time) 7:00PM - 9:00PM	Wednesday, Nov 22 No Class (Thanksgiving Holiday)
Week 14	Monday, Nov 27 <u>Securities Trading</u> - Ch 3	Wednesday, Nov 29 <u>Investment Companies</u> - Ch 4 Case 4 Due Friday 12/1 at 4pm in the Finance office 6.222
Week 15	Monday, Dec 4 <u>DFA & Investment in Practice</u> Common Lecture: Inessa Liskovich - Ch 26	Wednesday, Dec 6 <u>Portfolio Performance Evaluation</u> Common Lecture: Sam Kruger - Ch 24
Week 16	Monday, Dec 11 <u>Asset Allocation and Wrap-up</u> - Ch 2	

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>.

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.