

Finance 397 – Investment Theory and Practice

(Unique # 03730)
Fall 2013

Professor	Travis Johnson
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Office	CBA 5.158
Office Hours	Tuesdays 10:00 to 11:30, Thursdays 4:00 to 5:30
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Course webpage	via Canvas, http://canvas.utexas.edu
Teaching assistants	I prefer you e-mail me or come to office hours if you have questions.

Course Objectives

This course is designed to teach you the investment process. You will learn a conceptual framework for analyzing potential investments, and then apply this framework to bonds, stocks, derivatives, and portfolios of these assets. You should leave the class with the tools necessary to make intelligent investment decisions both personally and professionally. Examples include: buying a house, managing a retirement portfolio, and insuring against risk. Moreover, you will gain a better understanding of how financial markets work and what role they play in society.

Course Outline

Unit 1: Overview of financial markets, examples from savings and loans (Chapter 1).

Unit 2: A general framework for understanding risk and return (Chapters 5-9, 10, and 13).

Unit 3: Bonds, both corporate and government (Chapters 14-16).

Unit 4: Stocks, including efficient markets hypothesis (Chapters 2, 3, 11-13, and 17-19).

Unit 5: Options, derivatives, and structured finance (Chapters 4, 20-22, and 26).

Exam Schedule

Please be sure that you are available to attend all of the exams. If you cannot, let me know as soon as possible.

- Midterm 1, covering Units 1 and 2, will be in class on **9/25/2013**.
- Midterm 2, covering Unit 3, will be in class on **10/16/2013**.
- Midterm 3, covering Unit 4, will be in class on **11/11/2013**.
- Final Exam, covering the whole course but emphasizing Unit 5, will be 9:00am to noon on Thursday **12/12/2013**.

Materials

Lecture Notes

I will provide a handout each class day with copies of the slides I use. These handouts will include all the formulas you need to solve problems, as well as an overview of the material we discuss in class. There will be a lot of discussion and non-slide learning in the course, so you should also plan to take your own notes. I will not post or e-mail electronic copies of the lecture notes since they will contain homework and exam solutions I don't want future students to have access to. If you miss a class, please see me or a fellow student for a hard copy.

Textbook

Investments by Zvi Bodie, Alex Kane, and Alan Marcus, 9th Edition, ISBN 0077477561. I apologize for how expensive the textbook is. It is a valuable reference for the material I teach in the course, however everything that will be on the exams will be in the lecture notes I distribute during class, and the homework problems will not come directly from the book. Therefore, older editions, electronic versions (e.g. a Kindle rental for around \$70), or copies shared with a friend will all be equally effective.

Calculator

You will need a scientific calculator for the course capable of doing powers (e.g. 1.04^{10}) and logarithms. If you have a calculator with financial functions such as IRR, PV, FV, etcetera, please feel free to use it for homework and during exams, however such a calculator is not required. So that it can be used during exams, your calculator cannot be on your phone. **Please bring your calculator to class every day.**

Prerequisites

Finance 397 is restricted to MPA students. Prerequisite courses are: Finance 285T or 385T (Managerial Finance); and credit or registration for Finance 286 (Valuation).

Course Requirements and Grading

Your grade in the course will be determined by a weighted average of your scores on the exams, homework, and participation. The weights I will use are:

Midterm 1 (Units 1 and 2)	20%
Midterm 2 (Unit 3)	20%
Midterm 3 (Unit 4)	20%
Final Exam	20%
Homework	10%
Participation	10%

If it helps your grade, I will drop your worst midterm score and move the weight to the final. For example, if you score a 60% on Midterm 1, 75% on Midterm 2, 80% on Midterm 3, 100% on Homework and Participation, and 80% on the final, I will move the weight on Midterm 1 to the final, changing your overall grade from 79% to 83%. The reason for this policy is *Investments* is a challenging subject that sometimes takes a while for students to get accustomed to, often resulting in low scores on the early exams. If this happens, I want to reward you for continuing to work hard and getting a good grade on the final.

Using the above weights, I will compute the final course grade for each student in the class, and assign letter grades using a curve to adjust for the difficulty of the exams I write. The curve will be done for the class as a whole, not for individuals. In other words, someone with a final course grade of 88% will never get a higher letter grade than someone with a final course grade of 89%.

Description of Requirements

Exams

There will be three midterms, each held in class. My exams tend to include most of the material I have taught (rather than just a few big questions). The tests will include both qualitative and

quantitative material. The qualitative questions are usually short answer or multiple choice.

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 past homework, and asking questions during office hours or the next lecture are all good ways of keeping up with the material in the course.

Homework

I will assign about 8 homework assignments during the course of the semester, each due a week after they are assigned. The homework problems will be designed as a way for both me and you to check that you are understanding key concepts as we go along. You can ask me or fellow students for help, but need to do the actual solution and write-up yourself. Late homework will not be accepted, so if you are going to miss a class either bring the homework to my office beforehand or have a classmate turn it in. I will also drop your worst homework grade.

Participation

Part of your grade will be based on the **quality (not quantity)** of your contributions to class discussions. In addition to organized discussions, please feel free to ask questions at any point during lectures. If you find something confusing, a few of your classmates probably do as well, so please let me know!

Part of class participation is attending class and being on time. I know this can be a challenge, but Investments is a challenging topic. If you don't come to class, you will likely do very poorly on the exam. If you arrive late, you will be confused and moreover will disrupt other students and me. For these reasons, I take attendance at the start of class. **If you arrive after I start the lecture, you will be counted as absent for that class.** The lectures will start promptly at 2:00pm and end at 3:15pm.

I understand that things happen – a bus runs late, you're sick, you have an interview, etcetera. To accommodate these and other unexpected problems, I excuse two absences or late appearances. After that, I will start deducting points from your participation grade.

Your participation grade will also be influenced by your adherence to the McCombs Classroom Professionalism Policy (described below).

McCombs Classroom Professionalism Policy

The highest professional standards are expected of all members of the McCombs community. The collective class reputation and the value of the Texas MPA experience hinges on this. You should treat the Texas MPA classroom as you would a corporate meeting called by your boss.

Faculty are expected to be professional and prepared to deliver value for each and every class session. Students are expected to be professional in all respects.

The Texas MPA classroom experience is enhanced when:

- Students arrive on time. See above for a discussion of my attendance policy.
- Students minimize unscheduled personal breaks. The learning environment improves when disruptions are limited.
- Students are fully prepared for each class. Much of the learning in the Texas MPA program takes place during classroom discussions. When students are not prepared they cannot con-

tribute to the overall learning process. This affects not only the individual, but their peers who count on them, as well.

- Students attend the class section to which they are registered. Learning is enhanced when class sizes are optimized. Limits are set to ensure a quality experience. When section hopping takes place some classes become too large and it becomes difficult to contribute. When they are too small, the breadth of experience and opinion suffers.
- Students and faculty respect the views and opinions of their colleagues. Disagreement and debate are encouraged. Intolerance for the views of others is unacceptable.
- Laptops are closed and put away. Laptops will not be needed at any point during the lectures. If you have one out, I will ask you to put it away because it distracts you, your neighbors, and me. I will provide hard copies of the lecture notes before each lecture with plenty of white space for additional notes.
- Phones and wireless devices are silent and do not vibrate. We've all heard the annoying ringing in the middle of a meeting. Not only is it not professional, it cuts off the flow of discussion when the search for the offender begins. When a true need to communicate with someone outside of class exists (e.g., for some medical need) please inform me prior to class.

Continuous Feedback

If you have any feedback about the course or my teaching at any time during the semester, please send it to travis.johnson@mcombs.utexas.edu. I am eager to hear about any ways I can make it the best possible experience for my students.

In case you are not comfortable sending me negative feedback directly, I have created an anonymous gmail account (username: [johnson.teaching.feedback](mailto:johnson.teaching.feedback@gmail.com), password: HookEmHorns) for you to send me feedback. However, you should also feel free to send non-anonymous feedback; your grading for the course will be mechanical and I will certainly not hold any feedback against you.

Students with Disabilities

Upon request, the University of Texas at Austin provides appropriate academic accommodations for qualified students with disabilities. Services for Students with Disabilities (SSD) is housed in the Office of the Dean of Students, located on the fourth floor of the Student Services Building. Information on how to register, downloadable forms, including guidelines for documentation, accommodation request letters, and releases of information are available online at <http://deanofstudents.utexas.edu/ssd/index.php>. Please do not hesitate to contact SSD at (512) 471-6259, VP: (512) 232-2937 or via e-mail if you have any questions.

Religious Holidays

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.

Academic Integrity

I have no tolerance for acts of academic dishonesty. Such acts damage the reputation of the school and the degree and demean the honest efforts of the majority of students. The minimum penalty

for an act of academic dishonesty will be a zero for that assignment or exam. The responsibilities for both students and faculty with regard to the Honor System are described on the final pages of this syllabus. As the instructor for this course, I agree to observe all the faculty responsibilities described therein. As a Texas MPA student, you agree to observe all of the student responsibilities of the Honor Code. If the application of the Honor System to this class and its assignments is unclear in any way, it is your responsibility to ask me for clarification.

As specific guidance for this course, you should consider the writing of all examinations to be an individual effort. You will be allowed to use the textbook, copies of the lecture notes, formula sheets, a calculator, and anything else that you want to bring with you as long as it doesn't allow communication with others. Specifically, no laptops or cell phones can be visible during exams.

Who is your Professor?

I am Travis Johnson, Assistant Professor of Finance at McCombs. I was born in Madison, Wisconsin, got a Bachelors in Mathematics at MIT in 2007 and then a Ph.D. in Finance at Stanford University in 2012. I do research on information in financial markets using options and other derivative securities. I assisted in teaching four MBA courses in Finance at Stanford and taught Finance 367 (Investments for undergraduates) at McCombs in the Spring of 2013.