



Syllabus for FIN 367  
**Investment Management**  
Undergraduates  
Spring 2014  
Version: 20-Jan-2014e



- Instructor:** Professor Mark S. Seasholes
- Web:** [www.seasholes.com](http://www.seasholes.com)
- Email:** Please try to talk to me before or after class.  
If email is a must, please use the following address: *Mark.Seasholes@mcombs.utexas.edu*
- Office:** 6.228
- Office Hours:** Monday and Wednesday afternoons 2:00 – 3:00pm or by appointment
- Assistant:** Guoyu (Michael) Lin  
Please contact the TA via Blackboard  
Available for office hours, help, etc.
- Homepage:** This course uses Blackboard  
If you are looking for assignments, handouts, and/or files, please check Blackboard
- |                  |                        |                        |
|------------------|------------------------|------------------------|
| <b>Classroom</b> | Section 01 (03485)     | Section 02 (03490)     |
|                  | UTC 1.144              | UTC 1.144              |
|                  | Mondays and Wednesdays | Mondays and Wednesdays |
|                  | 8:00am to 9:30am       | 9:30am to 11:00am      |
- Overview:** This is the second finance course in a typical undergraduate program. Students learn how to value assets given forecasts of future cash flows. The course also concentrates on the risk characteristics of different asset classes. The course can roughly be divided into three parts. The first part focuses on fixed income and discounting (bonds and bond math). The second part deals with measuring risk, pricing risk, and forming portfolios (equities). The third part of the course introduces derivatives. This course combines the theoretical underpinnings of finance with real world examples. Before taking this course students should understand time value of money (discounting) and basic corporate finance. Note, and as detailed in this document, all exams are mandatory for all students.

## Readings:

**Required Textbook:** Bodie, Kane & Marcus, *Investments*, 2014, 10/e, McGraw-Hill, ISBN 978-0-07-786167-4. This textbook will be referred to as “BKM” throughout this syllabus and course.

**Recommended Readings:** Bloomberg.com, WSJ, Financial Times, The Economist, and/or other news sources.

**Lecture Notes:** These will be available online on the UT Blackboard system by class time. Lecture notes are meant as an outline to reduce the amount of rote copying of definitions and formulae. They are certainly not meant to be a self-contained lecture summary. Reading the lecture notes without attending class will most likely be of little benefit.

**Blackboard:** Please check the blackboard site frequently for course updates.

**Timing of Readings:** Readings should be done in advance of the indicated class. The outline below gives the topic of discussion for each class. Additional handouts may be made available for 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.

## Calculator

Each student is required to bring a calculator to classes and tests. At a minimum, the calculator must have “ln”, “ex”, and “x” 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 exam, and there is no sharing of calculators during any exam.

## Grading

Final grades are a weighted average of six items: These items are: class participation, graded assignments, three mid-terms, and a final exam.

a. Class participation	5.0 %
b. Graded assignments	10.0
c. Mid-Term Exam I	15.0.....Focus on Fixed Income
d. Mid-Term Exam II	15.0.....Focus on Equities
e. Mid-Term Exam III	20.0.....Focus on Derivatives
f. Final exam	35.0.....Material is Cumulative
<b>Total</b>	<b>100.0 %</b>

Students are responsible for all material covered in class, including assigned readings and exercises. As mentioned above, we cover three broad areas in this course. When preparing for the final exam, students should concentrate on the class notes and suggested problems.

There are only written (not verbal) appeals for re-grading. However, such appeals must follow certain steps and involve some risk. First, exams will not be returned, but can be reviewed during the week following the reception of the grade (only). Students may submit a written statement explaining any problems within one week of receiving an exam grade. However, and while we are happy to re-grade any exam or assignment, we will re-grade the entire exam or assignment. A student’s overall score may go up, down, or stay the same.

## **Class Participation and Attendance**

Class contribution consists of positive and constructive comments, questions, remarks, and answers in class. Attending class, as well as arriving to class on time, help foster a sense of positive contributions. The professor expects students to come to class on time, fully prepared, and ready to open a discussion. Effective contributions include participating in such a manner that your answer or question moves our analysis and understanding forward. Thoughtful contributions often involve careful analysis.

We expect students to attend each and every class meeting. Some amount of the material is covered in class and not in textbooks. Therefore, consistent attendance is a crucial element in maximizing learning. That said, we also recognize that a myriad issues can arise during a semester (e.g., missed buses, oversleeping) that lead to absences. An excessive number of unexcused absences (six or more) will be interpreted as a sign of neglect and lack of preparation, and can lead to a student being dropped from the course.

Note that not all comments or questions contribute positively to one's course grade. In addition, as with your future employer, your participation includes participating in the course in an ethical manner. Any violations of the honor code or inappropriate attitudes in class will be met with zero participation points, a zero on the assignment in question, and follow-up under University guidelines.

## **Graded Assignments**

There will be at least four graded assignments. More information on these will be posted on Blackboard.

Assignments turned in after the start of class (on the day they are due) will lose 20% of the grade. Additional 20% reductions will be imposed for each additional day an assignment is late.

## **Mid-Term Exams**

There are three (3) midterm exams. These exams are focused. The first exam will cover fixed income. The second will cover equities. The third will cover derivatives.

All three exams will take place in the evening. We are scheduling the exams in the evening so both sections of this course can take an exam at the same time.

Automatic option: The lowest midterm exam score will be automatically replaced with the final exam score if and only if this option improves a student's overall grade.

{Please excuse me, but this policy is not negotiable} As a strict rule, there are no "make-up" exams. It is a student's responsibility to schedule the rest of his or her activities such that s/he are able to attend the midterm exams. All students should plan to take the exams at the officially scheduled times. If a student has a possible conflict, please email the TA or professor before Thurs 23-Jan-2014.

## **Final Exams**

The final exam will be scheduled by the University. Currently, the final exam date is not known. The final exam will be cumulative and cover all course material.

Automatic option: The lowest midterm exam score will be automatically replaced with the final exam score if and only if this option improves a student's overall grade.

{Please excuse me, but this policy is not negotiable} As a strict rule, there is no "make-up" exam. It is a student's responsibility to schedule the rest of his or her activities such that s/he are able to attend the final exam. All students should plan to take the final exam at the officially scheduled time. If a student has a possible conflict, please email the TA or professor within five days of the relevant University announcement.

## **Fairness to Students**

The professor strives to treat students with dignity and fairness. This does not mean that he will agree with all of your viewpoints. If you feel that the professor has been unfair in any way, please let him know. It takes courage to do so, but he is willing to discuss a range of topics with students.

## **Prerequisites**

Finance 367 is a “Restricted Course for students who are currently enrolled in a major program at the College of Business Administration. There are several prerequisites for this course that include Finance 357 or 357H, as well as Statistics 371 or 371H.

Students should have a basic knowledge of Microsoft Excel before starting the course. They should know the difference between absolute and relative references. They should be able to use functions such as NPV, IRR, AVERAGE, STDEV, etc. Finally, students should be able to plot data with Excel’s internal functions. For those who feel they do not have sufficient Excel experience, we strongly suggest completing the Excel’s tutorials before the third class meeting.

## **Communicating Via Email with the Course TA**

During the week, the TA will respond to thoughtful and carefully crafted emails. Students should engage in respectful and more formal use of email when communicating with the teaching assistant and the professor. This type of correspondence will be demanded in the business world and students can practice relevant skills.

## **Use of Electronic Devices in Classrooms**

Consistent with Department of Finance policies, the use of computers and other electronic devices in class is generally prohibited. For this course, however, the use of laptop computers may be permitted in class solely for the purposes of note-taking and discussion of the homework problems.

Please do not access the internet, recreational programs, and/or e-mail and messages during class. If there are email messages that you must respond to, please do not come to class. Instead, please go to the library and handle your email messages there.

## **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, the professor has agreed to observe all faculty responsibilities described in that document. By enrolling in this course, each student has agreed to observe all responsibilities described in the above document. If the application of the Statement on Scholastic Dishonesty to this course or its assignments is unclear in any way, it is your responsibility to ask the professor 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. If you are confused about plagiarism, please see:

[http://deanofstudents.utexas.edu/sjs/scholdis\\_plagiarism.php](http://deanofstudents.utexas.edu/sjs/scholdis_plagiarism.php)

<http://www.yale.edu/bass/writing/sources/plagiarism/what.html>.

## **Sections and Auditing**

Please only attend the section you have enrolled in. Also, and unfortunately, there is no option to audit this course.

## **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 websites listed below. Please do not hesitate to contact SSD at:

Tel: 512-471-6259

VP: 866-327-8877 then 512-232-2937

Web: <http://www.utexas.edu/diversity/ddce/ssd/>  
<http://deanofstudents.utexas.edu/ssd/index.php>

## **Religious Holy Days**

Following UT Austin policies, students must notify professors of a pending absence at least fourteen days prior to the date of observance of a religious holy day. If a student must miss a class, a graded assignment or mid-term exam in order to observe a religious holy day, special accommodations will be made.

## **McCombs Policy on Classroom Professionalism**

The highest professional standards are expected of all members of the McCombs community. The collective class reputation and the value of the program's experience hinges on this.

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.

Email and Internet usage are not allowed during lectures. Mobile phones and other electronic devices have to be switched off during class at all times.

The Texas classroom experience is enhanced when:

- Students arrive on time. On time arrival ensures that classes are able to start and finish at the scheduled time. On time arrival shows respect for both fellow students and faculty and it enhances learning by reducing avoidable distractions.
- Students display their name cards. This permits fellow students and faculty to learn names, enhancing opportunities for community building and evaluation of in-class contributions.
- Students minimize unscheduled personal breaks. The learning environment improves when disruptions are limited. Should you have to leave class early, please have the courtesy of letting the instructor know before the beginning of the period and leave quietly so as not to disturb the other members of the class.
- Students are fully prepared for each class. Much of the learning takes place during classroom discussions. When students are not prepared they cannot contribute 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.
- Laptops are closed and put away. When students are surfing the web, responding to e-mail, text messaging each other, and otherwise not devoting their full attention to the topic at hand they are doing themselves and their peers a major disservice. Those around them face additional distraction. Fellow students cannot benefit from the insights of the students who are not engaged.
- Phones and wireless devices are either off or completely on silent mode. Any student text-messaging or emailing during class will be asked to leave the class. We've all heard the annoying ringing in the middle of a meeting. When a true need to communicate with someone outside of class exists (e.g., for some medical need) please inform the professor prior to class.

## **Campus Safety**

Please note the following recommendations regarding emergency evacuation from the Office of Campus Safety and Security, 512-471-5767 and <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>.

## Course Topics and Assignments

All Assignments are Due by the Start Class on the Day Indicated

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### Week 1

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**Mon 13-Jan-2014** Topics: Diagnostic questionnaire (Class #01)

**Wed 15-Jan-2014** Topics: Course introduction (Class #02)  
Introduction to bonds  
Readings: BKM Chapter 14  
Focus on Sections 14.1 – 14.3

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### Week 2

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**Mon 20-Jan-2014** Topics: MLK Day (Class #03)  
No Class Today !

**Wed 22-Jan-2014** Topics: YTM and Yield Curves (Class #04)  
Readings: BKM Chapter 14  
Focus on Sections 14.4 – 14.5  
See Section 5.2 for descriptions of EARs and APRs  
Sec Section 24.1 for a description of time-weighted returns  
Check: Students should be comfortable doing the following problems:  
14.3; 14.5; 14.7; 14.9; 14.11; 14.19; 14.21; 14.23

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### Week 3

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**Mon 27-Jan-2014** Topics: Forward Rates (Class #05)  
Readings: BKM Chapter 15  
Focus on Sections 15.1 – 15.6  
Check: Students should be comfortable doing the following problems:  
15.3; 15.5; 15.7; 15.9; 15.11; 15.13; 15.15; 15.17; 15.19

**Wed 29-Jan-2014** Topics: Theories of the Term Structure (Class #06)  
Readings: BKM Chapter 15  
**Due: Graded Assignment #1**  
**The assignment will be available on Blackboard**

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**Week 4**

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<b>Mon</b>	<b>03-Feb-2014</b>	Topics:	Real vs. Nominal Rates	(Class #07)
		Readings:	BKM Chapter 16 and Section 5.1 Focus on Sections 16.1 – 16.4	
<b>Wed</b>	<b>05-Feb-2014</b>	Topics:	Duration and Convexity	(Class #08)
		Readings:	BKM Chapter 16	
		Check:	Students should be comfortable doing the following problems: 16.3; 16.5; 16.9; 16.11; 16.13; 16.15; 16.17; 16.19; 16.21; 16.23	

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**Week 5**

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<b>Mon</b>	<b>10-Feb-2014</b>	Topics:	<b>Midterm I – Evening Exam</b> <b>No Morning Class</b>	(Class #09)
			<b>Day/Date</b> <b>Time</b> <b>Room</b> <b>Mon-Feb 10, 2014</b> <b>7:00PM - 9:00PM</b> <b>UTC 3.122</b>	
<b>Wed</b>	<b>12-Feb-2014</b>	Topics:	Wrap-Up Fixed Income Topics	(Class #10)
		Readings:	TBA	

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**Week 6**

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<b>Mon</b>	<b>17-Feb-2014</b>	Topics:	How Securities are Traded	(Class #11)
		Readings:	BKM Chapter 3 Read Sections 3.1 – 3.10 for background	
		Check:	Students should be comfortable doing the following problems: 3.7; 3.9; 3.11; 3.13; 3.15	
<b>Wed</b>	<b>19-Feb-2014</b>	Topics:	Mutual Funds and Other Investment Vehicles	(Class #12)
		Readings:	BKM Chapter 4 Read Sections 4.1 – 4.8 for background	
		Check:	Students should be comfortable doing the following problems: 4.3; 4.5; 4.7; 4.9; 4.11; 4.13; 4.15; 4.17; 4.23	



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*Week 7*

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**Mon 24-Feb-2014**      Topics:      Historical Stock Prices and Returns      (Class #13)  
Readings:      BKM Chapter 5  
Read Sections 5.1 – 5.9  
Check:      Students should be comfortable doing the following problems:  
5.1; 5.3; 5.7; 5.9; 5.11; 5.13;  
CFA 5.3; 5.4; 5.5;

**Wed 26-Feb-2014**      Topics:      Portfolios and Historical Data      (Class #14)  
Readings:      BKM Chapter 5  
**Due:      Graded Assignment #2**  
**The assignment will be available on Blackboard**

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*Week 8*

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**Mon 03-Mar-2014**      Topics:      Portfolio Math      (Class #15)  
Readings:      BKM Chapter 6  
Read Sections 6.1 – 6.6  
Check:      Students should be comfortable doing the following problems:  
6.3; 6.5; 6.9; 6.10 – 6.12; 6.13; 6.15; 6.17; 6.21; 6.23;

**Wed 05-Mar-2014**      Topics:      Optimal Risky Portfolios      (Class #16)  
Readings:      BKM Chapter 7 – 8  
Read Sections 7.1 – 7.5  
Read Sections 8.1 – 8.3; Look over 8.4 – 8.5  
Check:      Students should be comfortable doing the following problems:  
7.5; 7.7; 7.9; 7.11; 7.13; 7.17; 7.21; 7.23;  
8.5; 8.7; 8.9; 8.11; 8.15; 8.17;

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***SPRING BREAK***

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*Week 9*

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**Mon 17-Mar-2014**      Topics:      Multifactor Models      (Class #17)  
Readings:      BKM Chapter 9 – 10  
                    Read Sections 9.1 – 9.4  
                    Read Sections 10.1; 10.4 – 10.5  
Check:          Students should be comfortable doing the following problems:  
                    9.1; 9.3; 9.7; 9.9; 9.11; 9.13; 9.15; 9.17; 9.19; 9.21;  
                    10.5; 10.9; 10.11; 10.19

**Wed 19-Mar-2014**      Topics:      **Midterm II – Evening Exam**      (Class #18)  
                    **No Morning Class**  
                    **Day/Date**      **Time**      **Room**  
                    **Wed-Mar 19, 2014**      **7:00PM - 9:00PM**      **UTC 3.122**

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*Week 10*

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**Mon 24-Mar-2014**      Topics:      Introduction to Options Markets      (Class #19)  
Readings:      BKM Chapter 20  
                    Read Sections 20.1 – 20.6  
Check:          Students should be comfortable doing the following problems:  
                    20.3; 20.5; 20.7; 20.9; 20.11; 20.13; 20.15;

**Wed 26-Mar-2014**      Topics:      Portfolios of Options      (Class #20)  
Readings:      BKM Chapter 20  
Check:          Students should be comfortable doing the following problems:  
                    20.19; 20.21; 20.23; 20.25; 20.27

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*Week 11*

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**Mon 31-Mar-2014**      Topics:      Option Valuation      (Class #21)  
Readings:      BKM Chapter 21  
                    Read Sections 21.1 – 20.5  
Check:          Students should be comfortable doing the following problems:  
                    21.3; 21.5; 21.11; 21.13; 21.15

**Wed 02-Apr-2014**      Topics:      Option Valuation      (Class #22)  
Readings:      BKM Chapter 21  
**Due:              Graded Assignment #3**  
                    **The assignment will be available on Blackboard**



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*Week 15*

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<b>Mon</b>	<b>28-Apr-2014</b>	Topics:	International Finance	(Class #29)
		Readings:	BKM Chapter 25 Read Sections 25.1 – 25.5 for background	
<b>Wed</b>	<b>30-Apr-2014</b>	Topics:	Strategic and Tactical Asset Allocation	(Class #30)
		Readings:	TBA	
		<b>Due:</b>	<b>Graded Assignment #4</b> <b>The assignment will be available on Blackboard</b>	

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*Final Exam*

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**TBA**

The university will schedule a final exam for this course.  
The final will be scheduled during the finals period.  
As of today, there is no word when the final will take place.