



FIN 397.1: INVESTMENT THEORY AND PRACTICE

Spring 2016

Sections: #03760 (MW 8:00-9:30 am) and #03765 (MW 9:30-11:00 am)

Professor: Keith C. Brown
Office: CBA 6.256

Office Hours: MW 11:00 am– 12:30 pm
or by appointment

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Objective: To become a successful investor, an individual must command a considerable amount of financial market knowledge as well as a wide variety of qualitative and quantitative skills. This course is designed to provide students with a solid conceptual and analytical basis for making investment decisions. In addition to establishing a background for evaluating and managing financial risk and return dynamics, as well as how global capital markets are organized and function, the focus of the course will be on the examination and valuation of the major investment vehicles and strategies popular today. In particular, we will consider how investors allocate their financial assets by forming, managing, and evaluating the performance of portfolios consisting of instruments such as stocks, bonds, alternative assets, futures and option contracts, exchange-traded funds and mutual funds. Although the ultimate objective will be to develop a theoretical background upon which the student can expand his or her knowledge of the field of investments, the topical treatment will be rather practically oriented. This course is also appropriate for anyone contemplating a career as professional investment advisor, portfolio manager, or security analyst.

Prerequisites: The prerequisite courses for FIN 397.1 are: (i) completion of BA 385T (Financial Management); or (ii) completion of BA 285T (Financial Management) and completion of or concurrent enrollment in FIN 286 (Valuation). There will be no exceptions to this policy.

Required Materials: Students will be expected to have access to the following course materials on a continual basis throughout the entire semester:

(1) Textbook:

Investment Analysis and Portfolio Management 10e by F. Reilly and K. Brown
(Cengage South-Western, 2012)

(2) Supplementary Readings:

As detailed in the Course Outline, in addition to formal assignments from the textbook there will also be a significant amount of supplementary reading in the form of journal articles and other lecture notes. All of these supplementary readings can be downloaded from the course website.

(3) Financial Calculator:

Any business calculator with versions of the following function keys will be acceptable: PV, FV, PMT, i, n, CF and IRR. (The HP 12c is considered by many to be the finance industry standard, along with the TI BA II Plus.) The use of a calculator will be required on the in-class portion of all examinations in the course. It will also be useful to have your calculator available for each class session.

Course Structure: The material covered in the course can be divided into the following parts and sections that will be taught over 25 class sessions (excluding periods devoted to examinations):

Part 1:

- I - Overview of the Investment Process
- II - Portfolio Theory, Risk Analysis & Asset Pricing Models

Part 2:

- III - Investment Instruments: Equity & Fixed-Income Securities
- IV - Investment Instruments: Alternative Asset Classes

Part 3:

- V - Investment Performance Measurement
- VI - Investment Instruments: Derivative Securities

(1) Location of Daily Class Sessions:

The class will meet every Monday and Wednesday of the semester, with the exception of the following days on which no session will be held: (i) March 7 and 9 (Global Connections trips); and (iii) March 14 and 16 (Spring Break). All sessions will be held in our assigned classroom (**UTC 1.116**). Each class session will run between 75-80 minutes in length.

On a few occasions during the semester, we may hold our class meeting—or an additional information session—in the Financial Trading and Technology Center (FTTC) classroom to facilitate our use of the myriad financial databases now available to us. These FTTC sessions will be announced in advance.

(2) Class Session Topic Coverage:

The Course Outline gives a specific session-by-session breakdown of the topics we will cover in class. Throughout the semester, I will announce in class the details of the precise assignment for subsequent sessions; this information will also be posted in the appropriate location on the course home page. If you have any questions about what is to be covered in any class, please consult the website or ask me directly before the class session.

The course home page on Canvas will also serve as an important mechanism for communicating course-related information. However, anything crucial to your class performance that is posted online also will be available through either more traditional outlets (e.g., e-mail, class handouts) or upon request. In addition to electronic versions of many of the materials distributed in class, the website will contain a file that summarizes the material covered in previous classes as well as one that specifies the required readings and problems for the next session. These files will be updated—assuming there are no network problems—no later than 2:00 pm on the day before a class session.

Electronic files containing the class outlines and lecture notes will also be posted no later than 2:00 pm on the day before a class session. As a rule, the lecture notes will be distributed in class, but the session outlines will not be distributed; if you would like to have the outlines available during the lecture, you should print them and bring them with you to class.

Class sessions will be conducted as a combination of a lecture-oriented format with an interactive discussion of the daily assignment. To get the most out of each session, you should plan to (i) read the assigned textbook passages and supplementary articles in advance, and (ii) work out the details of the assigned case studies and end-of-chapter problems. *Please*

note that these daily case study and problem assignments will not be collected or graded; their purpose is to better prepare you for the class sessions themselves. For your convenience, the solution manual to the end-of-chapter problem sets for the entire book has been posted on the course website; solutions to the case studies will be posted on the course website after the session in which the material is discussed. Additionally, a supplementary set of problems and solutions has also been posted on the course Canvas site, for those of you who would benefit from more practice working problems.

Grading
Policies:

There will be several sources of evaluation in this course:

Examination #1	23%
Examination #2	23%
Examination #3	23%
Group Project	21%
Class Participation	<u>10%</u>
	100%

As noted, your mastery of the course material will be evaluated with three distinct graded components: Examinations, a Group Project, and Class Participation.

(1) Examinations:

There will be an examination given at the end of each of the three parts of the course:

The first examination will consist of two components: (i) an in-class portion of the exam will be given during the regularly scheduled class period on **Monday, February 22**; and (ii) a take-home portion of the exam will be distributed on Friday, February 19 and be due before the in-class portion of the exam commences. Collectively, the test will include all of the material covered from the beginning of class through the previous class session.

The second examination will consist of two components: (i) an in-class portion of the exam will be given during the regularly scheduled class period on **Wednesday, April 6**; and (ii) a take-home portion of the exam will be distributed on Sunday, April 3 and be due before the in-class portion of the exam commences. Collectively, the test will include all of the material covered after the first examination through the previous class session.

The third examination will be given during **Final Examination Week**. It will not contain a separate take-home portion. The length and topic coverage of the final exam will be determined at a later date.

It is expected that you will be present at the time and date for each of the examinations. **No makeup examinations will be given without the prior consent of the instructor.** Such consent will only be given for demonstrable conflicts and with the proper documentation.

Two other course policies regarding examination should be noted: (i) copies of examinations from past semesters *will not* be released or posted; and (ii) students *may not* be allowed to keep their graded examinations, but will have ample opportunity to review their performance.

(2) Group Project:

The Group Project component of your grade will consist of a semester-long project that will allow you to explore several different aspects of the investment management process, including the asset allocation decision, the creation of client-specific portfolios using different investment strategies, the valuation and selection of individual securities, and a performance evaluation of a security portfolio. The specific description associated with this assignment will be distributed formally in late January.

Completion of the assigned project will require you to work in **groups of three or four people**. You will be assigned to the same group for the entire semester, but you will be allowed to select your own group. While you will be able to work fully with other members

within your assigned group, you *will not be permitted* to collaborate in any form with members of other groups. At the end of the semester, you will have the opportunity to provide a peer evaluation of the other members of the group to help determine the quality of each person's relative contribution.

The same grade will be assigned to every member of the group, *assuming each person contributes equal effort and output to the assignment*. Further, no late projects will be accepted for any reason.

(3) Class Participation:

Your class participation score will be based on two elements: (1) *the consistency of your attendance in your assigned section*, and (2) *the quality of your contributions to the daily in-class discussions*. Class participation grades (as a percent of the overall course) will range from 10 (i.e., excellent attendance, frequent and substantive in-class contributions) to 0 (i.e., poor attendance, no in-class contributions, disruptive behavior).

As reflected by the Course Outline, consideration of the solutions to the case studies and assigned end-of-chapter questions and problems is an important focus, so it is vital that you consider them *before* each class meeting. You will be responsible for being prepared to discuss answers to all of the questions pertaining to a particular topic, even if some of them are not eventually covered in class. You also will be held responsible for everything covered or assigned in class which, at times, will depart significantly from the material contained in the textbook and articles.

To facilitate our in-class discussions of the various case studies and problem sets, I will expect you to *bring your name card to each class session* and have it displayed at all times.

(4) Final Course Grades:

At the end of the semester, the raw number of points that you earned on each graded component will be weighted by the percentages listed above. The weighted total scores for all students in both sections of the course will be combined to establish an overall final distribution.

Your final grade for the course will be determined by where your weighted average total score lies within the overall final distribution for the combined class. Consistent with the policy of adopted by the MBA Program Office, the following target grade assignment will be applied:

A (4.00): 25%; A- (3.67): 20%; B+ (3.33): 15%; B (3.00): 35%; B- or below (2.67): 5%

Please recognize, however, that this target distribution is not intended to be a guarantee; it presumes the successful completion of all course components on the part of each student. It also presumes that each student abides by the Professional Policy and the Honor Code, both of which are described below.

Class
Attendance
Policy:

Simply put, **I expect that you will attend and contribute to the course section in which you are enrolled on a daily basis**. As noted, a considerable amount of the material that is covered in class (and on which you will be tested) *will not* appear in the textbook, the supplementary readings, or even the class lecture notes that will be posted on the course website. Therefore, I consider consistent attendance to be a crucial element in maximizing your potential for learning to be a successful investor.

That said, I also recognize that myriad issues can arise during a semester (e.g., missed buses, off-campus interviews) that lead to absences. **Accordingly, I will excuse a total of three absences during the semester, regardless of the reason.**

I will take attendance at the beginning of each class session. You will only be allowed to sign the attendance sheet if you come to class on time and stay for the entire session. That is, *instances of tardiness or leaving class early without explicit prior permission will be counted as the equivalent of an absence.*

You may not attend a section of the course in which you are not enrolled without the prior written (i.e., by e-mail) consent of the instructor. Unauthorized attendance in a different section will be treated as an absence.

Finally, please note that signing the attendance sheet for another student under any circumstance is considered an act of academic dishonesty and will be handled accordingly.

Other Class
Policies:

The following additional policies will also be in place this semester:

(1) Academic Dishonesty:

Academic dishonesty (as defined by The Standard for Academic Integrity from the University of Texas Office of the Dean of Students) will not be tolerated and will be dealt with in the most severe manner possible. In promoting a high standard of academic integrity, the University broadly defines scholastic dishonesty—basically, all conduct that violates this standard, including *any act designed to give an unfair or undeserved academic advantage*, such as: (i) Cheating, (ii) Plagiarism, (iii) Unauthorized Collaboration, (iv) Falsifying Academic Records, (v) Misrepresenting Facts, and (vi) Any other acts (or attempted acts) that violate the basic standard of academic integrity.

I assume that all students in this course will act as if bound by this Standard and you can expect the same from me. In particular, I will expect that on every individual assignment or examination the work you submit will be entirely your own and that you will provide a level and quality of input to the group projects commensurate with that of your colleagues. Failure to do so may result in failure on the project or failure in the course.

Expectations Under the McCombs School of Business Honor System:

- *Standards*

If a student is uncertain about the standards of conduct in a particular setting, he or she should ask the relevant faculty member for clarification to ensure his or her conduct falls within the expected scope of honor, trust and integrity as promoted by the Honor System. This applies to all tests, papers and group and individual work. Questions about appropriate behavior during the job search should be addressed to a professional member of the Career Services Office. Below are some of the specific examples of violations of the Honor System.

- *Lying*

Lying is any deliberate attempt to deceive another by stating an untruth, or by any direct form of communication to include the telling of a partial truth. Lying includes the use or omission of any information with the intent to deceive or mislead. Examples of lying include, but are not limited to, providing a false excuse for why a test was missed or presenting false information to a recruiter.

- *Stealing*

Stealing is wrongfully taking, obtaining, withholding, defacing or destroying any person's money, personal property, article or service, under any circumstances. Examples of stealing include, but are not limited to, removing course material from the library or hiding it from others, removing material from another person's mail folder, securing for one's self unattended items such as calculators, books, book bags or other personal property. Another form of stealing is the duplication of copyrighted material beyond the reasonable bounds of "fair use." Defacing (e.g., "marking up" or highlighting) library books is also considered stealing, because, through a willful act, the value of another's property is decreased. (See the appendix for a detailed explanation of "fair use.")

- *Cheating*

Cheating is wrongfully and unfairly acting out of self-interest for personal gain by seeking or accepting an unauthorized advantage over one's peers. Examples include, but are not limited

to, obtaining questions or answers to tests or quizzes, and getting assistance on case write-ups or other projects beyond what is authorized by the assigning instructor. It is also cheating to accept the benefit(s) of another person's theft(s) even if not actively sought. For instance, if one continues to be attentive to an overhead conversation about a test or case write-up even if initial exposure to such information was accidental and beyond the control of the student in question, one is also cheating. If a student overhears a conversation or any information that any faculty member might reasonably wish to withhold from the student, the student should inform the faculty member(s) of the information and circumstance under which it was overheard.

- *Actions Required for Responding to Suspected and Known Violations*

As stated, everyone must abide by the Honor System and be intolerant of violations. If you suspect a violation has occurred, you should first speak to the suspected violator in an attempt to determine if an infraction has taken place. If, after doing so, you still believe that a violation has occurred, you must tell the suspected violator that he or she must report himself or herself to the course professor or Associate Dean of the Graduate School of Business. If the individual fails to report himself or herself within 48 hours, it then becomes your obligation to report the infraction to the course professor or the Associate Dean of the Graduate School of Business. Remember that although you are not required by regulation to take any action, our Honor System is only as effective as you make it. If you remain silent when you suspect or know of a violation, you are approving of such dishonorable conduct as the community standard. You are thereby precipitating a repetition of such violations.

The Honor Pledge

The University of Texas at Austin McCombs School of Business requires each enrolled student to adopt the Honor System. The Honor Pledge best describes the conduct promoted by the Honor System. It is as follows:

"I affirm that I belong to the honorable community of The University of Texas at Austin Graduate School of Business. I will not lie, cheat or steal, nor will I tolerate those who do."

"I pledge my full support to the Honor System. I agree to be bound at all times by the Honor System and understand that any violation may result in my dismissal from the McCombs School of Business."

(2) *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 MBA 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.

The Texas MBA 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.
- **Students are fully prepared for each class.** Much of the learning in the Texas MBA program 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.
- **Students 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.** When students are surfing the web, responding to e-mail, instant 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. Faculty office hours are spent going over class material with students who chose not to pay attention, rather than truly adding value by helping students who want a better understanding of the material or want to explore the issues in more depth. Students with real needs may not be able to obtain adequate help if faculty time is spent repeating what was said in class. There are often cases where learning is enhanced by the use of laptops in class. Faculty will let you know when it is appropriate to use them. In such cases, professional behavior is exhibited when misuse does not take place.
- **Phones and wireless devices are turned off.** 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 the professor prior to class.

Remember, you are competing for the best faculty McCombs has to offer. Your professionalism and activity in class contributes to your success in attracting the best faculty to this program.

(3) Prohibition Against Using Electronic Devices in the Classroom:

Consistent with the policy of the Department of Finance, the use of computers and other electronic devices in class is generally prohibited. On occasion, however, the use of laptop computers may be permitted in class solely for the purpose of facilitating our classroom discussion of the case studies *and* when authorized in advance by the instructor.

Please note that accessing the internet, recreational programs, or e-mail and messaging accounts will never be permitted under any circumstances and is strictly forbidden. Failure to observe this policy will be considered to be the equivalent of an absence from the particular class and repeated transgressions could result in being dropped from the course.

(4) 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.

(5) Campus Safety:

The University has requested that all students be made aware of the following information regarding campus safety:

Please note the following recommendations regarding emergency evacuation from 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 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*
- *Further information regarding emergency evacuation routes and emergency procedures can be found at: www.utexas.edu/emergency.”*

(6) 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.

COURSE OUTLINE

The following outline lists the topic coverage, reading requirements, case studies, and problem sets for the semester. Some of the "Assignment" listings refer to the end-of-chapter problems that can be found in the 10th edition of Reilly and Brown's (RB) *Investment Analysis and Portfolio Management* textbook. For the RB assignments, the question and problem numbering system refers to the relevant chapter and question or problem (e.g., Q1.2 refers to the second *question* in Chapter 1, P2.3 refers to the third *problem* in Chapter 2). All of the supplemental materials can be downloaded from the "Assigned Readings & Case Studies" folder in the course website on Canvas.

I. Overview of the Investment Process

Class #1: Wednesday, January 20

Topic: The Global Investment Setting: Background and Review

Reading: RB Chapter 1, Appendix 1

A. Ilmanen, "Understanding Expected Returns," *CFA Institute Conference Proceedings Quarterly*, June 2012

Assignment: Q1.11, P1.5, P1A.1, P1A.2, P1A.3 (Note: These should be a review of established concepts.)

Class #2: Monday, January 25

Topic: Global Capital Markets & Security Types

Reading: RB Chapter 3, Appendix 3
Chapter 16 (pp. 569-577)

J. Bogle, "The Index Mutual Fund: 40 Years of Growth, Change, and Challenge," *Financial Analysts Journal*, January-February 2016

Assignment: Q3.1, Q3.16, P3.4, P3A.1, P3A.2

Class #3: Wednesday, January 27

Topic: The Asset Allocation Decision

Reading: RB Chapter 2

R. Ibbotson and P. Kaplan, "Does Asset Allocation Policy Explain 40, 90, or 100 Percent of Performance," *Financial Analysts Journal*, January-February 2000

T. Idzorek and M. Kowara, "Factor-Based Asset Allocation vs. Asset-Class-Based Asset Allocation," *Financial Analysts Journal*, May-June 2013

Assignment: Q2.9; Asset Allocation and the U.S. Investment Landscape Case Study

Class #4: Monday, February 1

Topic: Market Indicators & Indexed Investing

Reading: RB Chapter 5 (pp. 123-133), Appendix 5
Chapter 16 (pp. 551-558)

K. Brown, "Using Indicators of Market Performance," Lecture Notes, January 2016

Assignment: Q16.4, P16.8; Calculating Indicators of Market Performance Case Study

Class #5: Wednesday, February 3

Topic: Security Markets and Trading

Reading: RB Chapter 4

R. Preece and S. Rosov, "Dark Trading and Equity Market Quality," *Financial Analysts Journal*, November-December 2014

Assignment: Q4.3, Q4.10, Markets and Trading Case Study

II. Portfolio Theory, Risk Analysis & Asset Pricing Models

Class #6: Monday, February 8

Topic: Risk & Diversification: Fundamentals, Downside Risk & Efficient Optimization Principles

Reading: RB Chapter 7 (pp. 181-198)

K. Brown, "A Brief Review of the Portfolio Formation Process," Lecture Notes, January 2016

Assignment: P7.5, P7.7; Portfolio Risk and Return Calculations Case Study

Class #7: Wednesday, February 10

Topic: Risk & Diversification: Efficient Frontier & Capital Market Line

Reading: RB Chapter 7 (pp. 198-201), Appendix 7
Chapter 8 (pp. 207-216)

Assignment: Q8.1, P8.3, Efficient Portfolio Formation Case Study

Class #8: Monday, February 15

Topic: Risk Components & Risk Parity

Reading: K. Brown, "The Components of Portfolio Risk," Lecture Notes, January 2015

T. Lee, A. Spellar, and P. Bouchev, "Understanding Risk Parity," Clifton Group Working Paper, 2013

Assignment: Asset Class Risk Analysis Case Study

Class #9: Wednesday, February 17

Topic: Risk & Expected Return: Capital Asset Pricing Model & Multi-Factor Models

Reading: RB Chapters 8 (pp. 216-229, 232-234)
Chapter 9 (pp. 241-247, 250-261)

K. Brown, "Some Useful Facts About Beta," Lecture Notes, January 2016

Assignment: P8.8, P9.2; Estimating Risk Factor Models Case Study

Class #10: Monday, February 22

Topic: Examination #1

III. Investment Instruments: Equity & Fixed-Income Securities

Class #11: Wednesday, February 24

Topic: Equity Investing: Valuation Process & Discounted Cash Flow Analysis

Reading: RB Chapter 11 (pp. 327-347), Appendix 11

K. Brown, "The Foundations of Stock Valuation," Lecture Notes, January 2016

Assignment: Q11.1, Dividend Discount Model Case Study

Class #12: Monday, February 29

Topic: Equity Investing: Discounted Cash Flow Analysis (cont.) & Comparable Multiples

Reading: RB Chapter 14 (pp. 467-477)

K. Brown, "Some Thoughts on Cash Flow," Lecture Notes, January 2016

Assignment: P14.8; Company Valuation Analysis Case Study

Class #13: Wednesday, March 2

Topic: Equity Investing: Relative Valuation & Portfolio Strategies

Reading: RB Chapter 11 (pp. 347-352)

Chapter 14 (pp. 494-499)

Chapter 16 (pp. 558-573)

K. Brown, "The Conceptual Relationship Between DCF and Relative Valuation Techniques," Lecture Notes, January 2016

Assignment: Q14.21, P16.5; Comparable Multiples Valuation Case Study

Class #14: Monday, March 21

Topic: Equity Investing: Market Efficiency & Behavioral Finance

Reading: RB Chapter 6 (pp. 149-161, 165-177)

M. Statman, "Behavioral Finance: Finance With Normal People," *Borsa Istanbul Review*, 2014

G. Bhandari and R. Deaves, "The Demographics of Overconfidence," *Journal of Behavioral Finance*, First Quarter 2006

Assignment: Q6.24

Class #15: Wednesday, March 23

Topic: Fixed-Income Investing: Instruments & Valuation

Reading: RB Chapter 17 (pp. 591-598, 615-620)

Chapter 18 (pp. 623-632, 640-647)

K. Brown, "The Fundamentals of Bond Valuation," Lecture Notes, January 2016

Assignment: Q17.8, P18.2; Bond Valuation Case Study

Class #16: Monday, March 28

Topic: Fixed-Income Investing: Valuation (cont.) & Strategies

Reading: RB Chapter 18 (pp. 654-674)

Chapter 19 (pp. 691-699, 713-722)

M. Kritzman, "What Practitioners Need to Know about Duration and Convexity," *Financial Analysts Journal*, September-October 1992

Assignment: Q18.7, P18.3, Q19.8; Analyzing Bond Portfolio Strategies Case Study

IV. Investment Instruments: Alternative Asset Classes

Class #17: Wednesday, March 30

Topic: Alternative Assets: Overview & Role in Portfolio

Reading: RB Chapter 24 (pp. 912-916, 938-945)

B. Singer, R. Staub, and K. Terhaar, "Determining the Appropriate Allocation to Alternative Investments," *CFA Institute Conference Proceedings Quarterly*, April 2002

L. Phalippou, "Private Equity: Performance, Risk, and Fund Selection," *CFA Institute Conference Proceedings Quarterly*, September 2010

Assignment: Endowment Investment Committee Case Study

Class #18: Monday, April 4

Topic: Alternative Assets: Hedge Funds

Reading: RB Chapter 24 (pp. 929-938)

S. Lack, "The Hedge Fund Mirage: The Illusion of Big Money and Why It's Too Good to Be True," *CFA Institute Conference Proceedings Quarterly*, December 2012

R. Ibbotson, P. Cheng, and K. Zhu, "The ABCs of Hedge Funds: Alphas, Betas, and Costs," *Financial Analysts Journal*, Jan-Feb 2011

Assignment: Hedge Fund Performance Analysis Case Study

Class #19: Wednesday, April 6

Topic: Examination #2

V. Investment Performance Measurement

Class #20: Monday, April 11

Topic: Overview & Traditional Performance Measures: Peer Comparisons and Basic Risk-Adjusted Measures

Reading: RB Chapter 25 (pp. 959-972, 997-998)

Assignment: Q25.8, P25.1, P25.2, P25.3

Class #21: Wednesday, April 13

Topic: Traditional Performance Measures: Advanced Risk-Adjusted Measures

Reading: RB Chapter 25 (pp. 972-978, 980-982, 990-993)

V. Harlow and K. Brown, "The Right Answer to the Wrong Question: Identifying Superior Active Portfolio Management," *Journal of Investment Management*, Fourth Quarter 2006

Assignment: Q25.5; Mutual Fund Performance Measurement Case Study

Class #22: Monday, April 18

Topic: Holdings-Based Performance Measures & Attribution Analysis

Reading: RB Chapter 25 (pp. 982-990)

Assignment: Q25.6, P25.8; Portfolio Holdings and Attribution Case Study

VI. Investment Instruments: Derivative Securities

Class #23: Wednesday, April 20

Topic: Forward & Futures Contracts: Fundamentals

Reading: RB Chapter 20 (pp. 741-747, 754-755, 767-768)
Chapter 21 (pp. 781-785)

Assignment: P20.1a(1)-b(1), P20.2a(1)-b(1), Futures Contract Risk and Return Case Study

Class #24: Monday, April 25

Topic: Forward & Futures Contracts: Valuation & Strategy

Reading: RB Chapter 21 (pp. 786-796, 800-806)

Assignment: Q21.7, P21.4; Stock Index Arbitrage Case Study

Class #25: Wednesday, April 27

Topic: Option Contracts: Fundamentals & Basic Valuation

Reading: RB Chapter 20 (pp. 747-750, 755-765)
Chapter 22 (pp. 821-828)

Assignment: P20.4; Analyzing Call and Put Options Case Study

Class #26: Monday, May 2

Topic: Option Contracts: Advanced Valuation

Reading: RB Chapter 22 (pp. 830-847)

K. Brown, "The Foundations of Option Valuation," Lecture Notes, January 2016

Assignment: Q22.5, P22.6; Option Valuation Case Study

Class #27: Wednesday, May 4

Topic: Option Contracts: Portfolio Strategies

Reading: RB Chapter 20 (pp. 768-772)
Chapter 22 (pp. 850-859)

Assignment: P22.11; Altering Portfolio Risk With Derivatives Case Study

THIS OUTLINE SHOULD BE CONSIDERED REPRESENTATIVE OF THE MATERIAL WE WILL COVER DURING THE SEMESTER; IT IS SUBJECT TO CHANGE UPON PROPER NOTIFICATION.

Biographical Sketch of the Course Instructor



Keith C. Brown
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Keith Christopher Brown currently holds the positions of University Distinguished Teaching Professor and Fayez Sarofim Fellow in the Department of Finance at the McCombs School of Business, University of Texas at Austin. He received his M.S. and Ph.D. in Financial Economics from the Krannert Graduate School of Management at Purdue University. Since leaving school in 1981, he has specialized in teaching Investment Management, Portfolio Management and Security Analysis, Capital Markets, and Derivatives courses at the BBA and MBA levels and has received eighteen awards for teaching innovation and excellence. In 2006, he was elected to the University's prestigious Academy of Distinguished Teachers. Keith's publications have appeared in such journals as *Journal of Finance*, *Journal of Financial Economics*, *Review of Financial Studies*, *Journal of Financial and Quantitative Analysis*, *Review of Economics and Statistics*, *Financial Management*, *Journal of Financial Markets*, *Financial Analysts Journal*, *Journal of Portfolio Management*, *Journal of Investment Management*, *Journal of Fixed Income*, *Journal of Retirement*, *Journal of Applied Corporate Finance*, and *Advances in Futures and Options Research*. He received a Graham and Dodd Award from the Financial Analysts Federation as a co-author of one of the best articles published by *Financial Analysts Journal* in 1990 and a Smith-Breeden Prize from the *Journal of Finance* in 1996. Keith is also a co-author of two textbooks, *Interest Rate and Currency Swaps: A Tutorial* (with Donald J. Smith) and *Investment Analysis and Portfolio Management, 10e* (with Frank K. Reilly).

Keith is the co-founder and Senior Partner of Fulcrum Financial Group, a portfolio management, business valuation, and investment advisory firm located in Austin, Texas and Las Vegas, Nevada. For more than fourteen years, he has served as President and Chief Executive Officer of The MBA Investment Fund, LLC, a private capital appreciation fund managed by students at the University of Texas and also was the Director of the Department's Hicks, Muse, Tate & Furst Center for Private Equity Finance. From May 1987 to August 1988 Keith was based in New York as a Senior Consultant to the Corporate Professional Development Department at Manufacturers Hanover Trust Company. He has also lectured extensively in the global Executive Development programs for companies such as Fidelity Investments, Commonfund Institute, JP Morgan Chase Bank, Merrill Lynch, Lehman Brothers, Chase Securities, Union Bank of Switzerland, Chemical Bank, Chase Bank of Texas, USAA Investment Management, Security Commission of Malaysia, The Beacon Group, Motorola, Halliburton, Association for Investment Management and Research, and spent thirteen months as a senior planner with a San Diego, California-based financial planning firm. In August of 1988, Keith received his charter from the CFA Institute. He currently serves as Advisor to the Board of Trustees of Teacher Retirement System of Texas and the Board of Directors of University of Texas Investment Management Company and as Associate Editor for *Journal of Investment Management*, *Journal of Behavioral Finance* and *International Journal of Portfolio Analysis & Management*. For five years he held the position of Research Director for the Research Foundation of the CFA Institute.