



Syllabus

FIN 367 Investment Management, Spring 2017
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1 Course Overview

1.1 Objective

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.

The course is taught as a combination of lecture and hands-on-learning. Students take an active role in the class via a active asset management game that simulates the real world decision making of professional portfolio managers.

1.2 Prerequisites

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

1.3 Course Materials

- **Lecture Notes:** these are the main course text and material to prepare for your exams. Lecture notes will be handed out at the beginning of each class day. These handouts will include all the formulas you need to solve problems, as well as a broad overview of the material we discuss in class. You will need to attend and take your own notes during class for many important discussions and topics not on the handouts but that also comprise material covered in the exams.
- **Calculator.** Any calculator capable of power and logarithm operations is acceptable (in the unlikely case that you don't already have a calculator, the [TI-30XS](#) is cheap and more than capable for our needs). You will need to use the calculator in the exams, so you cannot replace it with your phone or computer. Please bring your calculator to class every day.
- **Textbook:** Investments by Zvi Bodie, Alex Kane, and Alan Marcus, 10th Edition. This textbook is a valuable additional reference for the material I teach in the course. Exam and homework questions will be more closely related to lecture notes and discussions. Because of that, and because this textbook is so expensive, older editions (9th edition is very close to 10th), electronic versions (e.g., a Kindle rental for around \$70) will all be equally effective. We will not use Connect or any other electronic service offered by the textbook's editor.

1.4 Grading

You can collect up to 100 points in this course as follows:

1. Three Exams (25 points each).
2. Mutual Fund Management Game (10 points).

3. Assignments (10 points).
4. Participation (5 points).

1.4.1 Exams

- The three exams given during the semester will carry equal weight toward your final grade. Exams will be non cumulative. The tests will include both qualitative and quantitative material. The qualitative questions are usually short answer or multiple choices. The exams will cover topics from the lecture notes, class discussions, assignments, and assigned readings from the textbook . Needless to say: the best way to prepare for the exams is to keep up with the course material throughout the semester.
- 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.

1.4.2 Mutual Fund Management Game

- The game consists in the construction, marketing, and management of a institutional portfolio.
- More information about the the game, including a tentative timeline of events, can be found later in the Syllabus. I will provide full details about the game during the second week of classes.

1.4.3 Assignments

- Assignments are due before class a week after they are made available. You can either give me your assignment just before lecture or you can take it to the Finance department reception (CBA 6.222). If you chose the latter, make sure to time stamp it (as evidence that you in fact met the deadline), and ask one of our assistants to place it in my mailbox. Keep in mind that the Finance department is only open from 8am until 5pm (weekdays).
- Students must submit their assignment solutions individually. However, I encourage you to discuss and work on the assignments with your classmates.
- If you get stuck on any problem, do not hesitate to come to my office hours for help. In total, my TAs and I offer 6 different options of hours of office hours per week to make sure that at least one suits you. Make sure to take advantage of this resource!

- Late homeworks will not be accepted. No exceptions! If you cannot make it to the class in which a homework is due, please take your homework to the Finance department reception (CBA 6.222), time stamp it (as evidence that you in fact met the deadline), and ask one of our assistants to place it in my mailbox.
- We will have a total of 9 assignments. The final assignment score will only take into account your highest 8 scores. Some assignments might be mandatory (i.e., the associated score cannot be dropped from your final assignment score). I will announce this beforehand.

1.4.4 Participation

- The participation grade is meant to improve the quality of our interactions and classroom atmosphere. Being respectful and having a professional attitude towards your classmates, TAs, and instructor, as well as fully abiding by [UT's Honor Code](#) is all you need to earn your full 5 participation points.

1.5 Course Policy

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

Teaching Notes: Lecture notes will not be posted on Canvas, emailed, or distributed in any other electronic form. If you miss a class, please see me during my office hours to get a hard copy of the lecture notes.

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.

2 Important Notifications

2.1 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 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.

2.2 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 day. If you must miss an examination or a group presentation in order to observe a religious holiday, you will be given the opportunity to complete the missed work within a reasonable time after absence.

2.3 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 Programs Statement on Scholastic Dishonesty at 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 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.

2.4 Campus Safety

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

2.5 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.

Tentative Schedule for FIN 367, Spring 2017, PART 1/3
(subject to adjustments, see course calendar on Canvas for most updated version)

Week	Date	Topic	Readings*	Deliverables**
Week 1	Tuesday, Jan 17	Course Overview		
	Thursday, Jan 19	The Investment Environment	Ch 1 & Ch 2	
Week 2	Tuesday, Jan 24	Valuing Investment	Ch 5	
	Thursday, Jan 26	Risk and Return	Ch 5	
Week 3	Tuesday, Jan 31	Portfolio Choice: I	Ch 6	
	Thursday, Feb 2	Portfolio Choice: II	Ch 7	HW1
Week 4	Tuesday, Feb 7	Portfolio Choice: III (Practice)	Ch 7	
	Thursday, Feb 9	CAPM: Theory	Ch 9	HW2
Week 5	Tuesday, Feb 14	CAPM: Empirical	Ch 10 & 13	
	Thursday, Feb 16	The Efficient Market Hypothesis	Ch 11	HW3
Week 6.a	Tuesday, Feb 21	First Midterm		

* Unless otherwise noted, chapter numbers refer to both the 9th and 10th editions of Investments by Zvi Bodie, Alex Kane, and Alan Marcus.

** HW = homework deliverable. MG = management game deliverable. Homeworks will be distributed the week before the due date.

Tentative Schedule for FIN 367, Spring 2017, PART 2/3
(subject to adjustments, see course calendar on Canvas for most updated version)

Week	Date	Topic	Readings*	Deliverables**
Week 6.b	Thursday, Feb 23	Structured Finance, Index and ETFs		HW4
Week 7	Tuesday, Feb 28	Trading Activity	Ch 2 & Ch 3	MG1: Prospectus MG2: Presentation Slides
	Thursday, Mar 2	Group Presentations (Trading Starts)		
Week 8	Tuesday, Mar 7	Equity Valuation I	Ch 18	
	Thursday, Mar 9	Equity Valuation II	Ch 19	HW5
Week 9	Tuesday, Mar 14	(Spring Break)		
	Tuesday, Mar 16	(Spring Break)		
Week 10	Tuesday, Mar 21	Bond Basics	Ch 14	
	Thursday, Mar 23	Bond Markets (Gov. and Corporate)	Ch 19	
Week 11	Tuesday, Mar 28	Term Structure of Interest Rates	Ch 15	
	Thursday, Mar 30	Interest Rate Risk and Bond Portfolios	Ch 16	HW6
Week 12.a	Tuesday, Apr 4	Second Midterm		

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** HW = homework deliverable. MG = management game deliverable. Homeworks will be distributed the week before the due date.

Tentative Schedule for FIN 367, Spring 2017, PART 3/3
(subject to adjustments, see course calendar on Canvas for most updated version)

Week	Date	Topic	Readings*	Deliverables**
Week 12.b	Thursday, Apr 6	Derivatives: Futures	Ch 22 (9th Ed) Ch 20 (10th Ed)	
Week 13	Tuesday, Apr 11	Derivatives I	Ch 20	
	Thursday, Apr 13	Derivatives II	Ch 21	HW7
Week 14	Tuesday, Apr 18	Derivatives III (Trading Ends)	Ch 22	
	Thursday, Apr 20	Performance Evaluation	Ch 2 & Ch 24	HW8
Week 15	Tuesday, Apr 25	Behavioral Finance I	Ch 12	
	Thursday, Apr 29	Behavioral Finance II	Ch 12	HW9 MG3: Letter to Investors
Week 16	Tuesday, May 2	Review for exam		
	Thursday, May 4	Final Exam		

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** HW = homework deliverable. MG = management game deliverable. Homeworks will be distributed the week before the due date.

3 Mutual Fund Management Game

Tentative Rules (Subject to Change until Game Kickoff (1/31))

3.1 Goal

The goal of this game is to give you the opportunity to act as a fund manager and develop your understanding and intuition about all main aspects of portfolio management.

3.2 Overview

Students will be randomly assigned into teams.¹ Each team represents the management of an active mutual fund. Group will prepare and submit their fund prospectuses and presentation slides on Tuesday Feb 28th. Trading will start Thursday, March 2nd and end on Tuesday April 18th. Each fund must be active (i.e., as opposed to being passive and simply tracking a benchmark). Each group starts with 100 transactions and must conduct a minimum of 20 trades. Each team should define and document the fund's investment objectives as described below. Teams should raise funds from classmates who will act as "financial advisors" representing individual clients.² This game emphasizes not only the portfolio construction, but also the importance of the communication and marketing aspects of investment management. Students are encouraged to utilize various research resources, such as the Wall Street Journal, Financial Times, Reuters.com, Bloomberg, Morningstar.com, Valueline.com, Thomson Investext Plus database, Mergent Online database, WRDS database, Hoovers Online database, LexisNexis database, Standard and Poors Industry Surveys and Stock Reports (NetAdvantage), etc.

¹The number of students per group will be determined by the total enrollment in each session and announced in the 1/31 lecture. As a general rule, we need at least 6 funds to make this an interesting exercise.

²This will be part of an assignment and will be explained in details later in the course. But I can anticipate that "financial advisors" are not allowed to invest in their own funds.

3.3 Tentative Game Timeline

Date	Event
Tuesday, Jan 31	Group composition announced Details about trading platform announced
Tuesday, Feb 28	Funds submit prospectuses and presentation slides
Thursday, Mar 2	Funds sell their funds to financial advisors (Group presentation) First trading day
Tuesday, Apr 18	Last trading day
Thursday, Apr 29	Funds distribute their “letter to investors”

3.4 Fund prospectus

The fund prospectus is a 2 page document and should contain the following sections:³

3.4.1 Fund Name

You are free to choose any name for your fund, as long as it is not too generic (e.g., “Mutual Fund”).

3.4.2 Investment Objectives and Benchmark

These are the fund’s goals and the types of securities chosen to achieve those goals. In this section you should disclose the fund’s benchmark (including ticker symbol and/or ISIN). Types of investment objectives include long-term capital growth, stable income, high total return, etc. Mutual funds cannot change these objectives after the prospectus is submitted.

³You are free to choose the format and font size. But you must state the name of the fund at the top of the first page and use the order of the all sections given below:

3.4.3 Risks of Investing in the Fund

Because investors have varying degrees of risk tolerance, the risk section of a prospectus is very important. It details the risks associated with a particular fund, such as credit risk, interest rate risk, market risk, etc.

3.4.4 Management

Here you should inform your investors about how your group will be compensated. In reality, there are dozens of different types of fees charged by funds. For simplicity we will consider the most common fee: management fee. To keep prospectuses as comparable as possible with each other, you should make sure to express the management fees charge by your fund as % of fund net asset value (NAV) per year.

1. Management fees: these should be expressed in % of fund NAV **for the entire eight week period**.
2. Performance fees: these should be expressed in % of excess fund returns over the benchmark (defined in the first section of the prospectus). Performance fees will be accounted at the end of the eight week period.

3.4.5 Fund Management

A short description of the fund's managers. This should include information about the manager's relative expertise and different roles in the fund management.

3.5 Evaluation of the Active Asset Management Game

There are two components to the final management game grade:

1. 40%: Fund Team Presentation. Groups will be evaluated by an outside guest panel. Although I will not evaluate the presentations, I strongly suggest groups to practice at least a few times before the event. I also suggest groups to carefully think about the material presented: the information should be insightful and relevant for potential clients. Groups should also be well prepared to answer questions from the panel members and from the audience.

2. 30%: Total fees collected by the fund until the last trading date: The procedure is the following: funds will be ranked based on the amount of collected fees. The top third of the groups earns 100% of available points. The second third earns 85% of available points. The bottom third earns 80% of available points.
3. 30%: Letter to investors. Here groups should briefly discuss the performance of their funds to their clients. I will provide more details about this later in the course.

Note that the prospectus will not be graded. However, the prospectus is important since it will affect how your classmates invest in your fund. The prospectus in fact is evaluated indirectly through the amount of funds raised by your fund.