



FIN 397.1 Investment Theory and Practice

Spring 2018 Syllabus

This Syllabus is your guide to success so please read it carefully and completely.

Successful completion of this course will provide the student with comprehensive knowledge of investment analysis and management and the theoretical underpinnings necessary for rational investment decision-making of both securities and portfolios.

Instructor: Gregory A. Alves | Greg.Alves@mcombs.utexas.edu
 Required Text: Investments 11e, by Bodie, Kane, & Marcus McGraw Hill, 2018
 Required Hardware: Notebook with Excel Installed, HP 10bII+ Calculator for Exams
 Office | Office Hour: GSB 4.126G | By appointment only – email me to schedule
 Course Room & Time: UTC 1.132 | TTH 9:30 a.m.-11:00 a.m.
 Teaching Assistant: Patrick Burns | patrick.k.burns@utexas.edu

Grading, Reporting & Key Due Dates

Assignment	Due Date	Percent
LearnSmart	Biweekly	5%
Homework	Biweekly	5%
Quizzes	Biweekly	15%
Block I Examination	1/30/2018	15%
Block II Examination	2/27/2018	15%
Block III Examination	4/3/2018	15%
Block IV Examination	5/3/2018	15%
Stock Trak	5/3/2018	15%

- +/- Grading: Letter grades A, A-, B+, B, B-, C+, C, C-, D+, D, D- or F
- No credit beyond the above graded assignments is allocated during or after the end of the semester
- Incompletes granted at my discretion consistent with the guidelines: <http://registrar.utexas.edu/catalogs>

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Course Outline

Part	Date	Class	Week	CH	Topic	Connect Due	
Introduction	Tuesday, January 16, 2018	1	1	1	Introduction	CH 1-4 Start 1/16 12:00 a.m. Due 1/27 12:00 a.m.	
	Thursday, January 18, 2018	2	1	2	Asset Classes and Financial Instruments		
	Tuesday, January 23, 2018	3	2	3	How Securities are Traded		
	Thursday, January 25, 2018	4	2	4	Mutual Funds and Other Investment Companies		
Portfolio Theory & Practice	Tuesday, January 30, 2018	5	3		Block 1 Examination (Chapters 1-4)	CH 5-8 Start 1/27 12:00 a.m. Due 2/10 12:00 a.m.	
	Thursday, February 1, 2018	6	3	5, 6	Risk, Return, and the Historical Record Capital Allocation to Risky Assets		
	Tuesday, February 6, 2018	7	4	7	Optimal Risky Portfolios		
	Thursday, February 8, 2018	8	4	8	Index Models		
	Tuesday, February 13, 2018	9	6	9	The Capital Asset Pricing Model		
	Thursday, February 15, 2018	10	6	10	Arbitrage Pricing Theory & Multifactor Models of Risk and Return		
	Tuesday, February 20, 2018	11	7	11	The Efficient Market Hypothesis		
	Thursday, February 22, 2018	12	7	12, 13	Behavioral Finance and Technical Analysis Empirical Evidence on Security Return		
Fixed-Income Securities	Tuesday, February 27, 2018	13	8		Block 2 Examination (Chapters 5-13)	CH 14-16 Start 2/24 12:00 a.m. Due 3/10 12:00 a.m.	
	Thursday, March 1, 2018	14	8	14	Bond Prices and Yields		
	Tuesday, March 6, 2018	15	9	15	The Term Structure of Interest Rates		
	Thursday, March 8, 2018	16	9	16	Managing Bond Portfolios		
	Spring Break Monday - Saturday March 12 - 17						
	Tuesday, March 20, 2018	17	11		Milton Friedman's Free To Choose: The Power of the Market		
Security Analysis	Thursday, March 22, 2018	18	11	17	Macroeconomic and Industry Analysis	CH 17-19 Start 3/10 12:00 a.m. Due 3/31 12:00 a.m.	
	Tuesday, March 27, 2018	19	12	18	Equity Valuation Models		
	Thursday, March 29, 2018	20	12	19	Financial Statement Analysis		
	Tuesday, April 3, 2018	21	13		Block 3 Examination (Chapters 14-19)		
Options, Futures, & Other Derivatives Applied Portfolio Management	Thursday, April 5, 2018	22	13	20	Options Markets: Introduction	CH 20-22 Start 3/31 12:00 a.m. Due 4/14 12:00 a.m.	
	Tuesday, April 10, 2018	23	14	21	Option Valuation		
	Thursday, April 12, 2018	24	14	22	Futures Markets		
	Tuesday, April 17, 2018	25	15	23	Futures, Swaps, and Risk Management		
	Thursday, April 19, 2018	26	15	24	Portfolio Performance Evaluation		
	Tuesday, April 24, 2018	27	16	25	International Diversification		
	Thursday, April 26, 2018	28	16	26	Hedge Funds		
	Tuesday, May 1, 2018	29	17	27	The Theory of Active Portfolio Management		
	Thursday, May 3, 2018	30	17		Block 4 Examination (Chapters 20-27)		
							CH 27 Start 4/28 12:00 a.m. Due 5/2 12:00 a.m.

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Relevant Stock|Trak Dates*

Day	Item
1/16 T	Provide Instructions Registration Begins
1/26 F	All Securities Weighted Are Traded – Full Investment
1/30 M	Registration Closes
4/20 F	Final Trades – End of Measurement Period
5/3 TH	Written Essay Due

* Make sure to read the Stock|Trak Instruction sheet carefully

Optional Readings

Links to Optional Supplementary Material

[The Misuse of Expected Returns](#)

[Elements of an Investment Policy Statement for Individual Investors](#)

[Elements of an Investment Policy Statement for Institutional Investors](#)

[Global Asset Allocation](#)

[U.S. Equity Indexes as Benchmarks](#)

[Shareowner Rights across the Markets](#)

[The Great Confusion: Reflections on Mean-Variance Optimization with Harry Markowitz](#)

[Is Beta Useful?](#)

[Commonality in the Determinants of Expected Stock Returns](#)

[blacklitterman.org](#)

[A Step-by-Step Guide to the Black-Litterman Model](#)

[The Efficient Market Hypothesis and Its Critics](#)

[Valuation Approaches and Metrics](#)

[Active vs Passive Investing](#)

[Derivatives in Portfolio Management](#)

[Manager Selection](#)

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LearnSmart®, Homework, Quizzes, and Examinations

You are required to join the online course for this class in order to complete the assignments and take all four examinations. The website for the course is:

<http://connect.mheducation.com/class/g-alves-spring-2018-03310>

The assignments are organized separately into groups that correspond to the schedule listed on page two. The assignment and completion dates are defined in the schedule as well as online. Please note that an incomplete assignment will be automatically submitted for grading on the due date. Therefore, incomplete assignments will be graded as such and a score of zero will be recorded for any assignment not attempted by the student. Generally speaking, you will have to complete a collection of assignments every two weeks. Please make sure to observe the times assignment is available and when it is due (time and date). The two-week increments afford some flexibility when planning your own unique schedule, however, recognize that you should start as early as possible so that you complete the assignments with enough time to study for the block examinations and prepare for class.

Each chapter assignment contains a LearnSmart® module, homework, and a quiz. LearnSmart® is an adaptive learning tool that provides guidance during the completion of your assignment and will prepare you for the homework, quizzes and ultimately the examinations. Make sure you answer all of the practice questions in the LearnSmart® assignment. Completing the LearnSmart® portion of the assignment before attempting the homework or quiz is advisable. You will note that all of the modules in LearnSmart® are available and can be accessed via a widget on the main course page if you wish to conduct your own self-study of the material for review. While attempting these prior to their due dates is not required, please be advised that you will only get credit for the assignment during the posted date range and finally when the assignment is due. Thus, while you may access a previously due assignment

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via the widget, your recorded score will remain. Ongoing access via the LearnSmart® widget is helpful because it will allow you to review prior to an examination.

The next item required to complete an assignment on Connect® is the homework. Each homework assignment has five questions. During the homework assignment, you will have access to a number of tools that will assist you including the ability to check your work. The homework is designed to provide at least some direction for the quiz. Occasionally, you may even find a question on the quiz exactly like one in the homework but with different values assigned. Given that both the homework and LearnSmart® provide you with access to significant study aids, the weighting for these two items sums to 10% of your grade. The quizzes also contain five questions each and are designed to demonstrate your knowledge. You will not have access to the efficient study aids provided during the homework, however, you will have access to your textbook. While you have access to your textbook, there is a time limit on the quiz that will likely limit your access as any significant delay will likely result in a reduced score. Therefore, you should have command over the material before attempting the quiz. Completing the LearnSmart® module and the homework will assist you greatly to this end.

Block Examinations

There is no final examination for this class. This benefit is balanced, however, by the workload demands during the term. You will notice on the schedule on page two that four block examinations are listed for the following dates:

Block 1 “Introduction”:

Examination Date: Tuesday, January 30, 2018 | Covers chapters 1-4

Block 2 “Portfolio Theory and Practice & Equilibrium in Capital Markets”:

Examination Date: Tuesday, February 27, 2018 | Covers chapters 5-13

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Block 3 “Fixed Income Securities & Security Analysis”:

Examination Date: Tuesday, April 3, 2018 | Covers chapters 14-19

Block 4 “Options, Futures, and Other Derivatives & Applied Portfolio Management:

Examination Date: Thursday, May 3, 2018 | Covers chapters 20-27

The four blocks are characterized by a theme of study summarized in the selected chapters covered in each block. These themes are highlighted in the titles above and correspond exactly to your textbook. You will notice in the contents of your textbook that the headings correspond exactly.

Each examination is worth 15% of your grade. Thus, 60% of your grade will be the result of your combined performance in these examinations. Each examination will include thirty multiple choice questions, many requiring calculations.

The examinations will be administered in class via Connect®. Thus, a notebook computer is required to complete the examination and you will be required to have online access via the University’s wireless connection (<https://management.pna.utexas.edu/>). Students are required to take the examination in class. Only a notebook and a calculator of the type listed on this syllabus will be allowed at the students’ seating area. A formula and scratch sheet will be provided by the instructor. All other items, i.e., phones, book bags, backpacks, etc. must be stowed at the front of the class. Once everyone is seated, a password will be provided at the start of class on the examination date in order for you to log in and complete the examination.

For any student renting a notebook computer to take the examination, I recommend that you make sure all updates have been made to the operating system and that the system requirements for Connect® are satisfied well in advance of the actual examination time.

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STOCK|TRAK® Project

Instructions for the StockTrak portfolio management project will be available for review on the first day of class, January 16th, and will represent 15% of your grade. The project is due on the last day of class, May 3rd. These detailed instructions will be provided online via Connect® as a companion to the syllabus. You will also be supplied with an Excel® file containing information to help you build your portfolio. While the instructions supplied in the spreadsheet are clear, you may have difficulty if this is new to you. If you are having trouble, write me an email or reach out to me in class immediately. I will take special time to meet with you and get you up to speed.

A brief summary of the project is as follows: You are starting a new investment advisory company. You have already registered your company as a Delaware LLC and will operate as a registered investment advisor here in the Great State of Texas. Since you have no performance history, you recognize that it will be difficult to secure an initial client base. You have decided, therefore, to use \$1,000,000 of your own capital to demonstrate your expertise and subsequently develop the performance history necessary to be considered by potential investors.

You have decided to select, at most, 100 securities from the S&P500 index. The index will also serve as your performance benchmark. You must decide on whether to choose an active strategy or a passive approach to the selection of securities and management of the portfolio. Both cases will require you to minimize the active share risk to the S&P500 index. The active case will require a forecast of alphas for each of the securities and manage the “active” exposure in the portfolio while still minimizing active share risk. While I will provide you with historical alphas, it is advisable that you develop your own forward-looking ones for the 100 securities that will ultimately be under consideration for inclusion in the portfolio.

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Your instructor will offer guidance to assist in your initial efforts to form the portfolio. The instructor will have access to the performance of the account during the term in order to evaluate your performance. In addition, the instructor will provide you with some initial insight into how to develop an S&P 500 index portfolio with 100 stocks or less. All students will be required to submit a one-page summary on May 3rd along with their quantitative analysis in the form of an Excel file (please see the detailed StockTrak instruction sheet on Connect®).

Basic Point Guidance

- My objective is that you learn and understand the material. I want you to succeed in this class and reach a point that exceeds your expectations! If you ever find yourself struggling with a concept, problem, or want to simply push the limits beyond what is required, make sure to write me an email with your question or see me during my office hour. I will make special time to help you when required.
- All electronic devices including notebooks are to remain powered off during class time. From time to time the instructor may request that you open your notebook computer for specific operations related to class.
- Your highest priority and mine is to attend every class and be on time.
- Examine the schedule – once the semester starts, you are committed to the schedule except for those items noted specifically in this syllabus and consistent with University of Texas at Austin policy. If you decide to proceed with this course, you are acknowledging your commitment to examination dates, the project due date, and the BMC due date listed above under the heading, “Grading and Reporting.”
- Please do not cheat or plagiarize in this course. I attempt to confirm this point is followed and I have identified cases in the past to the peril of those that violated this

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rule. Please see me for assistance before you even consider such conduct. I will do everything I can to help you learn the material.

CFA Society of Austin

If you will be pursuing a career in the investment management industry, I would ask that you consider the student membership opportunity provided by the CFA Society of Austin. I am not a Charterholder and it is not a requirement for success in the industry, however, I am a member of the Society myself and have benefited greatly from the experience. You will have to decide for yourself how the CFA designation might affect your career.

At a minimum, student membership reflects your commitment to the field and an acknowledgement of your pledge to uphold the highest level of ethical standards in the industry. You can review details regarding student membership on their website. A factsheet lists the opportunity in some detail at the following web address:

<http://www.cfaaustin.org/student-membership-fact-sheet/>

A student application form can be found at the following link:

<http://www.cfaaustin.org/wp-content/uploads/2013/02/CFA-Austin-Student-Membership-Application.docx>

Attendance

There is a high likelihood of the application of a grading curve to your final grade. This will be consistent with grading policy as established by the MBA Program Office. The objective grade distribution is expressed below:

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

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A student that misses more than three classes will not be eligible for any applied curve. A signature page will be issued at the start of each class to confirm attendance. Attendance is required and exceptions are granted only in those cases where the individual follows the guidelines for “Religious Holy Days.” **Please review this schedule carefully as you are committing to these dates and times.** It will be your responsibility to accommodate once the semester begins.

Religious Holy Days

University of Texas at Austin policy requires that 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, I will give you the opportunity to complete the missed work within a reasonable time after the absence.

Policy on Scholastic Dishonesty

The McCombs School of Business has no tolerance for acts of scholastic dishonesty. The responsibilities of both students and faculty with regard to scholastic dishonesty are described in detail in the Policy Statement on Scholastic Dishonesty for the McCombs School of Business. By teaching this course, I have agreed to observe all of the faculty responsibilities described in that document. By enrolling in this class, you have agreed to observe all of the student responsibilities described in that document. If the application of that Policy Statement to this class and its assignments is unclear in any way, it is your responsibility to ask me for clarification. Policy on Scholastic Dishonesty: 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, and the integrity of the University, policies on scholastic dishonesty will be strictly enforced. You should refer to the [Student Judicial Services website](#) or the General Information

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Catalog to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.

Campus Safety

Please note the following recommendations regarding emergency evacuation 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 (or <https://operations.utexas.edu/units/csas/bcal.php>).
- Further information regarding emergency evacuation routes and emergency procedures can be found at www.utexas.edu/emergency.

Students with Disabilities

Students with disabilities may request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, 512-471-6259, <http://diversity.utexas.edu/disability/>.