



INVESTMENT MANAGEMENT

FINANCE 367

SPRING SEMESTER, 2018

<b>Professor</b>	Will Carpenter CBA 6.312, Will.Carpenter@mcombs.utexas.edu
<b>Class Hours / Room</b>	Tue / Thurs 3:30-5:00 pm / CBA 4.328
<b>Course Web Page</b>	via Canvas
<b>Office Hours</b>	Thursdays 5:00-6:00 pm, or by appointment. Please email both myself and your TA with any course questions or requests for office hours
<b>Teaching Assistants</b>	Gregory Manis (Gregory.Manis@mba18.mcombs.utexas.edu)

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## Course Objectives

This is an introductory course in the field of Investments.

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.

## 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.

## Text and Materials

### Required

**Textbook:** Bodie, Kane & Marcus, Investments (with Connect Plus access), 2014, 10/e, McGraw-Hill, ISBN 9781259162329.

**Case Materials:** Investment Management Coursebook is available at the University Co-Op. Individual cases (referenced in case assignments) can also be purchased directly from Harvard Business School Press.

**Lecture Notes:** Available online on the UT Canvas system before class. Lecture notes are meant as an outline to reduce the amount of rote copying of definitions and formulas but certainly not as

a self-contained lecture summary. Reading the lecture notes without attending class will most likely be of little benefit.

**Additional Readings:** Additional timely readings may be made available as Handouts. If you miss the handouts, it is your responsibility to make copies from another student.

**Strongly Recommended:** Bloomberg.com, Wall Street Journal, Financial Times, The Economist, or some other Financial News source.

## Course Requirements and Grading

Midterms (40%), Final (30%), Cases (10%), Homework (10%), Participation (10%)

Letter grades for the course will be based on the student's ranking in the course relative to other students. Based on guidelines from the BBA Program Office, there will be about 35% A's, 50% B's, and 15% C's or below. Plus/minus grades will be assigned for the final grade (there is no A+ though).

There is no opportunity in this course to do "extra credit" work. Your grade will be determined solely by the components listed above. If you are taking the course pass/fail you must complete all projects, take all exams, and earn a passing grade in order to pass.

## Exams

Midterm exams will be at common times on Wednesday evenings in UTC 3.134, as indicated on the schedule below. Please put these on your calendar and plan around them. The final exam will be at a common time scheduled by the registrar.

Each midterm exam will include questions up to that point in the class. The final exam will be comprehensive and will cover material from lectures, class discussions, assigned readings, and cases. Exams will strive to test comprehension, not merely memorization skills.

If it helps your overall course grade, we will replace your lowest midterm score with your final exam score. There will be no makeup midterms. If you need to miss a midterm for any reason, we will substitute your final exam score for the midterm. This can be done for only one midterm.

Keeping up with the course material throughout the semester is by far the best way of studying for the exams. After each class, you should do your best to make sure you understand everything we talked about in that class. Doing the homework, reviewing notes, reading relevant chapters from the textbook, looking at solutions to homeworks, and asking questions during office hours or the next lecture are all good ways of keeping up with the material in the course.

## Homework

Homework questions must be answered and submitted individually but may be discussed with other students.

Online homeworks are assigned through McGraw-Hill's Connect system. To establish a Connect account:

1. Go to <http://connect.mheducation.com/class/w-carpenter-fin367>
2. Click on the "register now" button. If you have trouble with registration, please contact Customer Support at <http://mpss.mhhe.com/>.
3. If possible, use your UT EID as your first name when you register.

Homeworks will be assigned weekly and are due by 11:59pm Sunday night. The first homework will be due on Sunday, January 21. Homeworks will be due most weeks and will typically cover material from the previous 2-3 lectures.

There will be a total of 11 homeworks, each consisting of 5-10 questions. Each homework will be equally

weighted. The Connect system will give you two attempts to answer each question without impacting your grade. Additionally, we will drop one question when calculating your grade on the homework (i.e., you may miss one question without impacting your grade). Your overall homework grade will be based on your 10 best homeworks (i.e., you may drop one homework). If you are sick, traveling, or have any other excused or unexcused absence, this may be your dropped homework.

## Cases

Case 1 must be done individually with no collaboration from other class participants. Case 2 may be done with up to two other students. Each group should submit a single writeup with the names of all group members.

The cases we will use are real-world situations where a decision-maker needs to address or resolve some type of financial problem. Part of the task will be to analyze the problem outlined in the case, and an equally important part will be to make decisions and to develop action implementations. Making decisions and planning actions based on your analysis is hard work, but it can also be fun. Most decisions in this class (and in the real world) will need to be made with incomplete information. Some problems will be clearly stated, others will be more difficult to discern. It is important to remember that the process in arriving at your answers or decisions may be the most important part of the exercise. Intelligent and reasonable people can end up with far-different conclusions depending on their initial assumptions (and still both get good grades!).

In general, the write-ups are to be brief and focused. You will *not* be awarded points for explaining aspects in the case but should focus on the solutions to the problems in the case. All exhibits, such as spreadsheet analysis or figures and tables, should be clearly labeled and referenced, and included in your word or pdf document. The report will be graded on the basis of the quality of the research, as well as of the professional presentation (neatness, clarity of exposition, etc.). The solutions must respond carefully to the course questions.

All cases must be submitted in hard copy with an electronic copy submitted online before the deadline. All answers should be in a word file. Supporting calculations should be included in an excel file. The electronic and hard copies must match exactly or it is considered cheating. Cases are often screened for plagiarism and similarities. Any material used in the case should be cited appropriately.

Professors and TAs are happy to provide clarifying information regarding the case and related concepts from class but are not there to walk a student through the case. TAs can answer some clarifying and conceptual questions but will not answer detailed questions about how to do specific calculations in the cases. Independent thought is necessary. To incentivize studying and working on cases in a timely manner, we can only guarantee a timely response to emails regarding case if they are received by 5pm the day before the case is due.

## Class Participation

Students are expected to attend classes and behave in a professional manner. Cell phones, laptops, and tablets are not allowed because they distract you, your neighbors, and me. Students must attend their assigned section unless they have specific permission from the Professor to attend a different section. Class participation consists of positive and constructive comments, questions, remarks, and answers in class. I expect you to come to class on time, fully prepared, and ready to participate in the discussion. Effective contribution means participating such that your answer or question moves our analysis and

understanding forward. Note that not all comments or questions in class contribute positively to your class contribution grade. I routinely cold-call.

To encourage and enable class participation, bring your name plate to lecture with you every day. If you lost your name plate or never received one, make one with paper and a thick pen.

Each student will make a short presentation (2-3 minutes) on a current event related to class at some point during the semester. Signups for these presentations will be discussed during the first lecture.

## Calculator

Each student is required to bring a calculator to classes and tests. At a minimum, the calculator must have  $\ln$ ,  $e^x$ , and  $x^y$ , 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 BAII 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 test, and there is no sharing of calculators during any test. Phones, tablets, laptops, or anything else with an internet connection cannot be used as a calculator.

## Email

The professors and TAs will respond to emails about course material or assignments. Response times may be slower on weekends so please plan ahead, particularly around exams and cases. To incentivize studying and working on assignments in a timely manner, we can only guarantee a timely response to emails regarding an exam or assignment if they are received by 5pm the day before a deadline or exam.

## 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.

*Readings:* Readings should be done in advance of the class in which material will be discussed. The outline below will advise of the relevant topic of discussion. In addition to the cases and textbook, I will occasionally assign additional readings, which are also mandatory.

*Electronic devices:* Cell phones, laptops, and tablets are not allowed in class because they distract you, your neighbors, and me. Please put away and silence all devices before class starts.

*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.

**Summary of Deadlines**

Sun	1/21/2018	11:59pm	Homework 1
Sun	1/28/2018	11:59pm	Homework 2
Tue	1/30/2018	4:00pm	Case I
Sun	2/04/2018	11:59pm	Homework 3
Sun	2/11/2018	11:59pm	Homework 4
Wed	2/21/2018	7:00pm	Midterm 1
Sun	2/25/2018	11:59pm	Homework 5
Tue	2/27/2018	4:00pm	Case II
Sun	3/04/2018	11:59pm	Homework 6
Sun	3/11/2018	11:59pm	Homework 7
SRPING	BREAK		
Wed	3/28/2018	7:00pm	Midterm 2
Sun	4/01/2018	11:59pm	Homework 8
Sun	4/08/2018	11:59pm	Homework 9
Wed	4/18/2018	7:00pm	Midterm 3
Sun	4/22/2018	11:59pm	Homework 10
Sun	4/29/2018	11:59pm	Homework 11
??	5/9-5/15	??	Final Exam

## Tentative Class Schedule

All readings correspond to Bodie, Kane, and Marcus, Tenth Edition. Readings are to be read ahead of class. **All homeworks are due Sundays by 11:59 pm each week.** Schedule Subject to Change check the latest version via Canvas.

Week 1	Tuesday, Jan 16 <b>ICE DAY</b>	Thursday, Jan 18 <b><u>The Investment Environment</u></b>  - Ch 1
Week 2	Tuesday, Jan 23 <b><u>Asset Allocation</u></b>  - Ch 2	Thursday, Jan 25 <b><u>Introduction to Risk, Return, and the Historical Record</u></b>  - Ch 5-5.7
Week 3	Tuesday, Jan 30 <b><u>Risk Aversion and Capital Allocation to Risky Assets</u></b>  - Ch 6-6.4, 6.6  - <b>Case I Due Tuesday 1/30 at 4pm in the Finance office 6.222</b>	Thursday, Feb 1 <b><u>Introduction to Portfolio Theory and the Harvard Management Company</u></b>  Harvard Management Company Case and HBS Note on Portfolio Optimization
Week 4	Tuesday, Feb 6 <b><u>Optimal Risky Portfolios</u></b>  - Ch 7-7.4	Thursday, Feb 8 <b><u>Index Models</u></b>  - Ch 8
Week 5	Tuesday, Feb 13 <b><u>The Capital Asset Pricing Model</u></b>  - Ch 9-9.3	Thursday, Feb 15 <b><u>The Capital Asset Pricing Model 2</u></b>  - Ch 9-9.3

Week 6	<p>Tuesday, Feb 20  <u><b>Midterm I, Evening Exam</b></u>          (No class during class time)          Wed 7:00PM - 9:00PM UTC 3.134</p>	<p>Thursday, Feb 22  <u><b>State Prices and Arbitrage</b></u>          - Ch 10.1-10.3</p>
Week 7	<p>Tuesday, Feb 27  <u><b>Multifactor Models</b></u>          - Ch 10.4-10.5          -  <b>Case II Due Tuesday at 4pm          in the Finance office 6.222</b></p>	<p>Thursday, Mar 1  <u><b>Dimension Fund Advisors and          Investment in Practice</b></u>          - DFA Case</p>
Week 8	<p>Tuesday, Mar 6  <u><b>The Efficient Market Hypothesis          and Empirical Evidence</b></u>          - Ch 11, 13.1-13.3</p>	<p>Thursday, Mar 8  <u><b>Bond Prices and Yields</b></u>          - Ch 14</p>
SPRING BREAK		
Week 9	<p>Tuesday, Mar 20  <u><b>The Term Structure of Interest          Rates</b></u>          - Ch 15</p>	<p>Thursday, Mar 22  <u><b>Managing Bond Portfolios</b></u>          - Ch 16</p>
Week 10	<p>Tuesday, Mar 27  <u><b>Midterm II, Evening Exam</b></u>          (No class during class time)          Wed 7:00PM - 9:00PM UTC 3.134</p>	<p>Thursday, Mar 29  <u><b>Behavioral Finance and Bubbles</b></u>          - Ch 12</p>

<p><b>Week 11</b></p>	<p>Tuesday, Apr 3 <b><u>Options Markets: Introduction</u></b></p> <p>- Ch 20</p>	<p>Thursday, Apr 5 <b><u>Options Valuation</u></b></p> <p>- Ch 21</p>
<p><b>Week 12</b></p>	<p>Tuesday, Apr 10 <b><u>Futures Markets 1</u></b></p> <p>- Ch 22</p>	<p>Thursday, Apr 12 <b><u>Futures Markets 2</u></b></p> <p>- Ch 23</p>
<p><b>Week 13</b></p>	<p>Tuesday, Apr 17 <b><u>The Financial Crisis</u></b></p> <p>- Ch 1.7, 2.2</p>	<p>Thursday, Apr 19 <b><u>Midterm III, Evening Exam</u></b> (No class during class time) Wed 7:00PM - 9:00PM UTC 3.134</p>
<p><b>Week 14</b></p>	<p>Tuesday, Apr 24 <b><u>Securities Trading</u></b></p> <p>- Ch 3</p>	<p>Thursday, Apr 26 <b><u>Investment Companies</u></b></p> <p>- Ch 4</p>
<p><b>Week 15</b></p>	<p>Tuesday, May 1 <b><u>Portfolio Performance Evaluation</u></b></p> <p>- Ch 24</p>	<p>Thursday, May 3</p> <p>- REVIEW</p>

**Final—Set by Registrar at Common Exam Time**



## Important Notifications

### 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://www.utexas.edu/diversity/ddce/ssd/>.

### Religious Holy Days

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.

### 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, 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 <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.

### Campus Safety

Please note the following recommendations regarding emergency evacuation, provided by 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 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>.

### 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.

