

## INVESTMENT MANAGEMENT

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Course Home Page: via Blackboard

Office Hours: T/TH 3:00 pm– 4:30 pm  
or by appointment

**Objective:** What does it mean if the market is up? How do you select an optimal portfolio given your level of desired risk? Would an option collar work for your investment strategy? Both finance professionals and everyday investors face these questions and more. The goal of this course is to provide the knowledge, skills, and tools so that students can answer these questions and be on their road to understanding investment management. 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 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 portfolios consisting of instruments such as stocks, bonds, 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:** Finance 367 is a restricted course for students who are currently enrolled in a major program in the McCombs School of Business. Please note that several prerequisites apply for this course and are published in the Course Schedule. Prior completion of Finance 357 or Finance 357H and its prerequisites are among these requirements. It will be assumed that students enrolled in this course are equipped with all of the accounting, economics, mathematics and statistics tools that have been part of their prior course work.

**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 all examinations in the course. Other calculators can be used, but a business calculator will make certain calculations easier.

**Grading Policies:**

There will be several sources of evaluation in this course:

Examination #1	25%
Examination #2	25%
Examination #3	25%
Homeworks	15%
Class Participation & Attendance	<u>10%</u>
	100%

As noted, student's mastery of the course material will be evaluated with three distinct graded components: Examinations, Homeworks, and Class Participation & Attendance.

(1) *Examinations:*

The three examinations given during the semester will carry equal weight toward the student's final grade. The tests will involve a combination of questions designed to assess both analytical and interpretative (i.e., qualitative) skills. Each examination will be designed to include problem-solving, short-answer and multiple choice questions. The difficulty level of the multiple choice questions will be similar that found on professional credentialing examinations, such as for the Chartered Financial Analyst (CFA) designation.

Each test will be closed-book, closed-note. All necessary materials (i.e., test booklet, equation sheet, extra paper) will be provided. Students will need to bring to each exam the following items: writing instruments, financial calculator, and picture ID card. Students will not be allowed to use laptop computers or any other electronic devices (except a calculator) during the examinations.

The examinations will test all of the material that is covered in class, some of which may not appear in the textbook or other assigned readings. The quantitative test problems will be modeled after (but not be identical to) the assigned homework problems and other numerical examples that are demonstrated during the relevant class sessions. A topic review sheet will be provided prior to each examination to help in the preparation process.

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 *will not* be allowed to keep their graded examinations, but will have ample opportunity to review their performance.

(2) *Homeworks:*

The homework component of your grade will consist of *eight separate homeworks* that will be spread throughout the semester. These homeworks will allow students to test their knowledge and practice methods covered in the lectures. They will also serve as preparation for the exams. The homeworks will consist of 3-5 short answer and quantitative questions. They will be posted on Blackboard before class on the day assigned, and be **due by 5 PM on the day listed on the syllabus in the course outline. LATE ASSIGNMENTS WILL NOT BE ACCEPTED.** Students can submit homeworks via Blackboard, in class, or in

hard copy form in the Finance Office located on the 6<sup>th</sup> Floor of the CBA building. **Note that the finance office closes at 4:30 PM on most weekdays.** If turning in by hand please request the office assistant to place the homework in Adam Winegar's mailbox. In addition, **if turning in by hand you must timestamp the front page prior to turning in.**

Students are allowed to work in groups on the homeworks. However, **each student should turn in his or her own copy.** Note that some exam questions will be styled similar to homework problems, so mastery of the homework assignments is an important part of exam preparation. Therefore, simply copying another student's homework will not provide adequate preparation and will likely result in student underperformance.

Homeworks will be graded on a scale from 0 to 2. Students will receive a 2 if the homework is mostly correct and significant effort was made. Students will receive a 1 if the homework has limited major errors but effort was apparent. Students will receive a 0 if the assignment is not turned in or has numerous major errors. **I will drop the lowest homework score for each student, such that the final grade will be based on each student's highest seven scores.**

*(3) Attendance Policy and Class Participation:*

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 will be 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, oversleeping) that lead to absences. **Accordingly, I will excuse a total of two absences during the semester, regardless of the reason.** After two incidents of absence from class, **I will begin to deduct points from your class participation grade.** If a student has five or more incidents of absence, **they will receive a zero for the class participation portion of the final grade.**

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.* 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.

Finally, note that participation and not just attendance is a key element of this course. Students are encouraged to ask questions and bring up points of discussion, as this will add to both the classroom experience and each student's understanding. Further, **I will occasionally cold-call on students regarding material covered in past/current lectures or assigned readings.** Please be prepared for each class. Multiple instances of failure to answer in cold calls will result in a lower class participation grade.

Also, as further described below, a portion of each class will be devoted to current market events and practical topics that may fall outside the typical purview of this course. Students are especially encouraged to ask questions or bring in new discussion ideas during this time.

*(4) Final Course Grades:*

**Grading Distributions**

Letter grades for the course will be based on the student's ranking in the course relative to other students (i.e., the curve). The breakdown of grades is as follows: 20% A's, 10% A-, 10% B+, 25% B's, 10% B-, 10% C+, and 20% C's or below. I reserve the right to make adjustments to this distributions based on how the class performs as a whole.

**Grade Dispute Policy**

Grade dispute requests for exams or homeworks must be made in writing (email is fine) within one week after the grade for the assignment is posted. Disputes must clearly and specifically state your reasons for objecting to your assigned score on a particular question. Please keep in mind that the whole exam or homework, instead of a specific question, is subject to re-grading.

**Course Structure:** The material covered in the course can be divided into the following sections that will be taught over 18 class sessions (excluding periods devoted to examinations):

- I - Overview of the Investment Process
- II - Portfolio Theory & Asset Pricing Models
- III - Investment Instruments: Fixed-Income & Equity Securities
- IV - Investment Performance Measurement
- V - Investment Instruments: Derivative Securities
- VI - Professional Investment Management

*(1) Location of Daily Class Sessions:*

The class will meet every Monday, Tuesday, Wednesday, and Thursday of the second summer session in our assigned classroom (UTC 1.132). Each class session will run between 110-115 minutes in length.

*(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 readings 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 Blackboard 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 5:00 pm on the day before a class session.

Electronic files containing the class lecture notes will also be posted no later than 5:00 pm on the day before a class session.

Class sessions will be conducted primarily in a lecture-oriented format, with class discussion always encouraged and occasionally solicited. 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) consider the homework problems and any additional provided case studies.

**At the start of each class, I will reserve 10-15 minutes for discussion of current market events and/or other practical topics that may fall outside of the traditional topics of this class.** These may include such things as recent IPO's, changes in regulations, earnings announcements, analyst reports, or events in past financial history. If there are specific topics that students are interested in or have questions about, they are encouraged to email the professor beforehand so that a more thorough discussion can be prepared. The goal of this portion of class is to provide students with a current and practical background for topics that may in the financial press. **Topics that lie outside of the formal course structure will not be tested.** Instead, this portion of the class will serve to stimulate and satisfy student's intellectual curiosity and potentially provide a practical background for other more formal topics covered in lecture.

*(3) Examination Schedule and Coverage:*

The first two examinations will be given during regularly scheduled class periods; the third examination will be given during the assigned slot during Final Examination week. The specific dates and topic coverage for the three examinations are as follows:

- Examination #1: **Monday, July 28** (covering Class Sessions 1-8)
- Examination #2: **Thursday, August 7** (covering Class Sessions 10-14)
- Examination #3: **Final Exam Week-TBA** (covering Class Sessions 15, 17-20)

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.

**Other Class Policies:**

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

*(1) Academic Dishonesty:*

Academic dishonesty (as defined by the Policy Statement on Scholastic Dishonesty for the McCombs School of Business) will not be tolerated and will be dealt with in the most severe manner possible. I assume that all students in this course will act as if bound by this policy 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.

*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.*

*(2) 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 purposes of note-taking and discussion of the homework problems *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.

*(3) Students With Disabilities:*

The Provost's Office offers the following statement to help inform students of available resources and to fulfill due diligence for Americans With Disabilities Act (ADA):

*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/>.*

*(4) 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](http://www.utexas.edu/emergency)."*

## COURSE OUTLINE

The following outline lists the topic coverage, reading requirements and problem sets for the semester. The "Assignment" listings refer to the end-of-chapter problems that can be found in the 10<sup>th</sup> edition of Reilly and Brown's (RB) *Investment Analysis and Portfolio Management* textbook. All of the supplemental materials marked by an asterisk (\*) can be downloaded from the "Assigned Readings" folder in the course website on Blackboard.

### I. Overview of the Investment Process

*Class #1: Monday, July 14*

Topic: The Global Investment Setting: Background and Review

Reading: RB Chapter 1, Appendix 1

Assignment: Homework #1

*Class #2: Tuesday, July 15*

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 - \*

Assignment: None

*Class #3: Wednesday, July 16*

Topic: Security Types, Market Indicators, & Indexed Investing

Reading: RB Chapter 3, Appendix 3  
Chapter 16 (pp. 569-577)  
Chapter 5 (pp. 123-133), Appendix 5

C. Asness, R. Israelov and J. Liew, "International Diversification Works (Eventually)," *Financial Analysts Journal*, May-Jun 2011 - \*

Assignment: Homework #2, **Homework #1 DUE**

*Class #4: Thursday, July 17*

Topic: Security Markets & Trading

Reading: RB Chapter 4  
Chapter 16 (pp. 549-558)

A. Madhavan, "Exchange-Traded Funds, Market Structure, and the Flash Crash," *Financial Analysts Journal*, Jul-Aug 2012 - \*

Assignment: None

## II. Portfolio Theory & Asset Pricing Models

*Class #5: Monday, July 21*

Topic: Risk & Diversification: Fundamentals & Efficient Frontier

Reading: RB Chapter 7, Appendix 7

Assignment: Homework #3, **Homework #2 DUE**

*Class #6: Tuesday, July 22*

Topic: Risk & Expected Return: Capital Market Line & Capital Asset Pricing Model

Reading: RB Chapter 8 (pp. 207-220)

Assignment: None

*Class #7: Wednesday, July 23*

Topic: Risk & Expected Return: Estimating Beta, Arbitrage Pricing Theory, & Multi-Factor Models

Reading: RB Chapter 8 (pp. 221-229, 232-235)  
Chapter 9 (pp. 241-247, 250-262)

Assignment: Homework #4, **Homework #3 DUE**

*Class #8: Thursday, July 24*

Topic: Review

Reading: Past Lectures/Homeworks and Any Questions

Assignment: None

*Class #9: Monday, July 28*

Topic: **Examination #1**

Assignment: **Homework #4 DUE**

### III. Investment Instruments: Fixed-Income & Equity Securities

*Class #10: Tuesday, July 29*

Topic: Equity Investing: Market Efficiency & Behavioral Finance

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

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

Assignment: None

*Class #11: Wednesday, July 30*

Topic: Fixed-Income Investing: Instruments & Valuation

Reading: RB Chapter 17 (pp. 591-598, 615-621)  
Chapter 18 (pp. 623-632, 640-647, 654-678)

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

Assignment: Homework #5

*Class #12: Thursday, July 31*

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

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

Assignment: None

*Class #13: Monday, August 4*

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

Reading: RB Chapter 11 (pp. 327-347), Appendix 11  
Chapter 14 (pp. 467-479), Company Valuation Analysis Case Study - \*

Assignment: Homework #6, **Homework #5 DUE**

*Class #14: Tuesday, August 5*

Topic: Equity Investing: Relative Valuation & Strategy

Reading: RB Chapter 11 (pp. 347-352)  
Chapter 14 (pp. 494-499)  
Chapter 16 (pp. 558-572)

Assignment: None

#### **IV. Investment Performance Measurement**

*Class #15: Wednesday, August 6*

Topic: Traditional Evaluation Measures: Peer Comparisons, Basic & Advanced Risk-Adjusted Measures

Reading: RB Chapter 25

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: Homework #7, **Homework #6 DUE**

*Class #16: Thursday, August 7*

Topic: **Examination #2 (Note will not contain material on Class #15)**

#### **V. Investment Instruments: Derivative Securities**

*Class #17: Monday, August 11*

Topic: Forward & Futures Contracts: Fundamentals, Valuation & Strategy

Reading: RB Chapter 20 (pp. 741-747, 754-755, 767-768)  
Chapter 21 (pp. 781-796, 800-806)

Assignment: Homework #8, **Homework #7 DUE**

*Class #18: Tuesday, August 12*

Topic: Option Contracts: Fundamentals & Basic Valuation

Reading: RB Chapter 20 (pp. 747-765)

Assignment: None

*Class #19: Wednesday, August 13*

Topic: Option Contracts (Cont.): Basic Valuation & Strategy

Reading: RB Chapter 20 (pp. 767-772)  
Chapter 22 (pp. 821-844)

Assignment: None

#### **VI. Professional Investment Management**

*Class #20: Thursday, August 14*

Topic: Alternative Asset Management: Private Firms, Hedge Funds, and Private Equity

Reading: RB Chapter 24 (pp. 911-945)

C. Ellis, "The Winner's Game," *Financial Analysts Journal*, Jul-Aug 2011 - \*

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 - \*

Assignment: **Homework #8 DUE**

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