



FINANCE 367

INVESTMENTS

UNIVERSITY OF TEXAS STUDY ABROAD PROGRAM AT

THE LONDON SCHOOL OF ECONOMICS

SUMMER 2017

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| <b>Course Web Page</b> | via Canvas   |

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### Course Objectives

This course provides a survey in the field of Investments.

The course focuses on the application of financial theory to the issues and problems of investment management. Topics will include the basics of portfolio optimization and asset allocation and consider the theory of equity, bond and derivative pricing, and its implications for security valuation and financial risk management.

The objective of this course is to provide a framework for financial decisions related to investments. These decisions are relevant for, institutional investors (pension, mutual, and hedge funds), corporate treasurers, and individuals 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 about whether they satisfy these requirements should notify the instructor.

## Text and Materials

### Required

**Textbook:** Bodie, Kane & Marcus, Investments, 2014, 10/e, McGraw-Hill, ISBN 9781259162329; I would expect you to get an electronic version to avoid lugging around a big hard-copy textbook

### Materials

- **Lecture Notes and Class Handouts.** Available on Canvas as the class develops.
- Financial calculator, the HP12C (or equivalent app) is highly recommended. The professors are old crocodiles who only know how to work the HP 12C.

**Strongly Recommended reading:** Bloomberg.com, WSJ, Financial Times, The Economist, or some other Financial News source

## Course Requirements and Grading

The grade in the course will be determined as follows:

|   |     |
|---|-----|
| 2 Problem Sets: Portfolio Theory and Fixed Income | 20% |
| Exams (4 at 20% each)                             | 80% |

## Description of Requirements:

### Homework

End of chapter problems will be assigned and the solutions will be available on the canvas site. Do not, under any circumstances, distribute or post the electronic solution files we are providing you. They are for your use only for this course.

The assigned problems will provide practice and test prep. Homework will not be collected or monitored or graded. It is assigned to help you master the material and prepare for the exams.

## Exams

Four exams worth 20% each will be given during the course. They may be a combination of free response (problems, short answer, discussion) and multiple choice. Mainly multiple choice.

## Grading policies

Grading policies in this course are governed by the guidelines suggested by the UPO. Please see below.

Recommended average GPA in undergraduate courses is:

3.0-3.2 in core courses taken by McCombs students and in Business Foundations

Program courses

**3.2-3.4 in courses taken by all students in a particular major**

3.4-3.6 in elective courses and capstone courses

In addition, the historical cut off for +/- letter grades has been as follows.

|                    |                  |                  |
|--------------------|------------------|------------------|
| A : 92.0 and above | A- : 90.0 - 91.9 | B+ : 87.0 - 89.9 |
| B : 82.0 - 86.9    |                  |                  |
| B- : 80.0 - 81.9   | C+ : 77.0 - 79.9 | C : 72.0 - 76.9  |
| C- : 70.0 - 71.9   |                  |                  |
| D+ : 67.0 - 69.9   | D : 62.0 - 66.9  | D- : 60.0 – 61.9 |
| F : below 60.0     |                  |                  |

## University, McCombs and Classroom Policies

### Academic Dishonesty

**Please read:** [http://deanofstudents.utexas.edu/sjs/scholdis\\_plagiarism.php](http://deanofstudents.utexas.edu/sjs/scholdis_plagiarism.php)

and <http://www.yale.edu/bass/writing/sources/plagiarism/what.html>.

The responsibilities for both students and faculty with regard to the Honor System are described at <http://mba.mcombs.utexas.edu/students/academics/honor/index.asp> and [http://deanofstudents.utexas.edu/sjs/acint\\_student.php](http://deanofstudents.utexas.edu/sjs/acint_student.php). As the instructors for this course, we agree to observe all the faculty responsibilities described therein. If the application of the Honor System to this class and its assignments is unclear in any way, it is your responsibility to ask for clarification.

Any individual assignment should be completed individually without help from others.

Group *preparation* for examinations is acceptable and encouraged.

## 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.

## 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 BBA 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. Please be on time, be prepared to actively contribute and avoid class disruptions.

## Classroom Policies

- **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 are fully prepared for each class.** Much of the learning 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.
- **Laptops may be used for note taking or for in class activities as needed.**
- **Phones and wireless devices are either off or on silent mode.**
- **If caught surfing the web, responding to e-mail, text messaging, or otherwise not devoting your full attention to the topic at hand you will be sent to the TOWER (not the UT tower).**

**Class Schedule & Assigned Readings**

The course consists of 12 class days, meeting continuously for 4 hours, 9am – 1pm. Short breaks will be provided during class-time. Company visits are scheduled for two of the afternoon sessions and are subject to change depending on host availability.

**June 2015****Prof. Hallman (Monday June 19 – Tuesday June 28)**

- Mon. 19      overview of course, scheduling and logistics, deliverables and tests  
**Chapters 1 – 3:** *The Investment Environment (1); Asset Classes and Financial Instruments (2); How Securities are Traded (3)*
- Tues. 20      **Chapters 3 – 5:** *How Securities are Traded (3); Mutual Funds and Other Investment Companies (4); Risk, Return, and the Historical Record (5)*
- Wed. 21      **Exam 1 : chapters 1-5**  
  
timing – the test will start at 10:00. I'll be in at 9:00 and you can come in to ask questions between 9 and 10 or just come at 10 to take the test.
- Thur. 22      **Chapters 6, 7, 9, 8:** *Capital Allocation to Risky Assets (6); Optimal Risky Portfolios (7), The Capital Asset Pricing Model (CAPM) (9); The Single-Index Model, aka the empirical CAPM (8)*  
  
In this class we'll work with a spreadsheet model and Solver to build optimal portfolios of risky assets using actual stock return data. You will have a homework assignment on building an efficient portfolio that you will work on the Friday study-day. I encourage you to bring your laptop to class so you can see how I operate the spreadsheet, which you will need to do your assignment.  
  
Assign Efficient Frontier Homework to be turned in electronically on Canvas.
- Fri. 23      **NO CLASS MEETING - Homework/Study day: work on efficient frontier problem set.**

Mon. 26      **Chapter 18:** *(basic) Equity Valuation Models*

**Chapters 11 – 13** - Market Efficiency: *The Efficient Market Hypothesis (11); Behavioral Finance and Technical Analysis (12); Empirical Evidence on Security Returns (13)*

Tues. 27      **Exam II (chapters 6, 7, 9 & 18** *(note: no 8 or 11-13 on test)*

timing – roughly the same as test 1. The test will start at 10:00 and you can have until 1:00 to work on it.

**Prof. Wiles (Wednesday June 24 – Thursday July 6)**

Wed. 28      **Chapters 14 & 15:** Bond Prices and Yields (14); The Term Structure of Interest Rates (15)

Thur. 29      **Chapters 16 & 17:** Managing Bond Portfolios with Duration and Convexity measures (16); Macroeconomic and Industry Analysis (17)

Fri. 30      **NO CLASS MEETING - Homework/Study day: work on fixed income problem set.**

**July**

Mon. 3      **Chapters 20 & 21:** Option Markets: Introduction (20); Option Valuation (21)

We will spend a little time at the end of class talking about the fixed income exam on Tuesday.

Tues. 4      **Exam III (Chapters 14-17; Fixed Income and Macro Analysis)**

The test will start at 10:0. I'll be in at 9:00 and you can come in to ask questions between 9 and 10 or just come at 10 to take the test. I will not have a formal review, just informal Q&A.

- Wed. 5      **Chapters 22 & 23:** Futures Markets (22); Futures, Swaps, and Risk Management (23)
- Thur. 6      Morning: Wrap-up and Review and **Exam IV (Chapters 20-23; Options and Futures)**