

## COURSE SYLLABUS

COURSE DETAILS	
<b>Course</b>	Finance 367Q – Investment Management
<b>Semester</b>	Spring 2012
<b>Instructor</b>	William T. Charlton, Jr., Ph.D., CFA
<b>Office</b>	CBA 6.304D
<b>Phone</b>	232-6834
<b>Email</b>	wcharlton@mail.utexas.edu (**Best way to reach me**)
<b>Office Hours</b>	Tue., Thur.: 5:00-6:00. Others by appointment
<b>Class Meetings</b>	Tue., Thur. 11:00-12:30, UTC 4.132
<b>Teaching Assistant</b>	TBA

## COURSE OBJECTIVES

Finance 367 introduces the student to the basic terminology and concepts of modern investments. As in many fields, a good understanding of the basics can be instrumental to later success. This is particularly true in investments. Even the most complicated financial security can be decomposed into its constituent parts and analyzed. A strong foundation in the basics of investments gives the student the tools necessary to complete just such an analysis.

The material in this course will help students begin to develop an understanding of the functioning of financial markets and instruments. This understanding can be useful in both your professional and personal lives. Also, the material covered in this class is an appropriate starting point for anyone interested in a career as an investment professional, portfolio manager, or security analyst.

This section is designated as a quantitative version of the course. We will be covering the same material as in the standard course but we will be using quantitative techniques to explore several topics at a greater depth. Students in this section are expected to have a solid working knowledge of Excel including the use of macros and pivot tables. You will be assigned an individual project that requires the use of Excel and quantitative methods.

<b>COURSE MATERIALS</b>	
<b>Course Material</b>	<p><i>Essentials of Investments</i>, 8<sup>th</sup> ed., Z. Bodie, A. Kane, and A. Marcus (BKM).</p> <p><i>Wall Street Journal</i> (Should be read on a daily basis) To subscribe: <a href="http://subscribe.wsj.com/semester">http://subscribe.wsj.com/semester</a></p> <p>Optional: <i>Solutions Manual for Use with Essentials of Investments</i></p>
<b>Prerequisites</b>	<p>Finance 367 is a Restricted Course for students who are currently enrolled in a major program in the College of Business 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 (with a grade of at least a C) and its prerequisites are among these requirements.</p>

<b>COURSE POLICIES</b>	
<b>Students With Disabilities</b>	<p>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 <a href="#">Student Services Building</a>. <a href="#">Information on how to register</a>, <a href="#">downloadable forms</a>, including <a href="#">guidelines for documentation</a>, accommodation request letters, and releases of information are available <a href="#">online</a>. Please do not hesitate to contact SSD at (512) 471-6259 or via <a href="#">e-mail</a> if you have any questions.</p> <p>Please review the SSD Policies and Procedures document posted on BlackBoard.</p>
<b>Attendance</b>	<p>Roll will not be taken on a regular basis. However, this course covers a great deal of material over a short period of time and missing class may put the student at a significant disadvantage. Lectures <u>will</u> contain information that is not in the textbook including discussions of current events and additional subject material. Students are responsible for <u>all</u> material covered in class, no matter the source.</p>
<b>Participation</b>	<p>Participation is one of the best ways for a student to insure that they understand the material. I intend to create an environment that encourages open discussion and allows you to feel comfortable in asking any question. An unasked question, particularly about a basic point, may impede the student's learning.</p>

<b>COURSE POLICIES</b>	
<b>Feedback</b>	<p>I am open to and encourage students to offer suggestions on how to improve the course both for the existing semester and future ones. My goal is to optimize my approach to helping students understand the important topics that we will be covering this semester. Any improvements will be much appreciated.</p>
<b>Honor Code</b>	<p>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:</p> <p>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 an/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 at <a href="http://deanofstudents.utexas.edu/sjs/">http://deanofstudents.utexas.edu/sjs/</a> or the General Information Catalog to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.</p> <p>You are expected to abide by the University Honor Code at all times. All violations will be handled according to University procedures and referred to proper authorities. I will pursue any violations to the fullest extent of the code. If you are ever in doubt about a particular issue, please ask!</p> <p>The course is intentionally structured to give students multiple opportunities to achieve an appropriate grade. No single test will determine a student's grade (see discussion of the optional final below). It is my hope that this structure will minimize the incentives to violate the Honor Code.</p>
<b>Calculators</b>	<p>A financial calculator is recommended for this course. Students are responsible for selecting and learning the operation of their calculators. Students are expected to be proficient with Time Value of Money calculations. I will post a review of TVM problems based on the TI BA 11 plus calculator on the course website. Calculators will be</p>

<b>COURSE POLICIES</b>	
	cleared prior to taking the exams and cannot be shared.
<b>Laptops/Devices</b>	The use of laptops and other electronic devices including cell phones is prohibited during class lectures and exams. This is to minimize the distraction for all participants in the classroom.

<b>MCCOMBS CLASSROOM PROFESSIONALISM POLICY</b>	
<p>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.</p> <p>The Texas BBA classroom experience is enhanced when:</p>	
<b>Students arrive on time</b>	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.
<b>Students are fully prepared for each class</b>	Much of the learning in the Texas BBA program 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.
<b>Students attend the class section to which they are registered</b>	Learning is enhanced when class sizes are optimized. Limits are set to ensure a quality experience. When section hopping takes place some classes become too large and it becomes difficult to contribute. When they are too small, the breadth of experience and opinion suffers.
<b>Students respect the views and opinions of their colleagues</b>	Disagreement and debate are encouraged. Intolerance for the views of others is unacceptable.
<b>Laptops are closed and put away</b>	When students are surfing the web, responding to e-mail, instant messaging each other, and otherwise not devoting their full attention to the topic at hand they are doing themselves and their peers a major disservice. Those around them face additional distraction. Fellow students cannot benefit from the insights of the students who are not engaged. Faculty office hours are spent going over class material with students who chose not to pay attention, rather than truly adding value by helping students who want a better understanding of the material or want to explore the issues in more depth. Students with real needs may

<b>MCCOMBS CLASSROOM PROFESSIONALISM POLICY</b>	
	not be able to obtain adequate help if faculty time is spent repeating what was said in class. There are often cases where learning is enhanced by the use of laptops in class. Faculty will let you know when it is appropriate to use them. In such cases, professional behavior is exhibited when misuse does not take place.
<b>Phones and wireless devices are turned off</b>	We've all heard the annoying ringing in the middle of a meeting. Not only is it not professional, it cuts off the flow of discussion when the search for the offender begins. When a true need to communicate with someone outside of class exists (e.g., for some medical need) please inform the professor prior to class.

<b>EVALUATION</b>											
<b>Point Distribution</b>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Exam I</td> <td style="text-align: right;">100 pts.</td> </tr> <tr> <td>Exam II</td> <td style="text-align: right;">100 pts.</td> </tr> <tr> <td>Exam III</td> <td style="text-align: right;">100 pts.</td> </tr> <tr> <td>Assignments</td> <td style="text-align: right;"><u>50 pts.</u></td> </tr> <tr> <td><b>Total (see below)</b></td> <td style="text-align: right;"><b>350 pts.</b></td> </tr> </table> <p>Your grade for the course will depend solely on your performance on the exams, the project, and the final; there is no opportunity for extra work. Pass/fail students must take all exams to receive a passing grade.</p>	Exam I	100 pts.	Exam II	100 pts.	Exam III	100 pts.	Assignments	<u>50 pts.</u>	<b>Total (see below)</b>	<b>350 pts.</b>
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<b>Scale</b>	The standard 90%, 80%, etc. scoring system is used with +/-'s assigned for grades within 2 points of the respective grade break points. Due to the optional final structure (discussed below) individual exams will not be curved. If necessary, the final grades (including the scores on the final exams) may be curved at my discretion. For borderline cases, class attendance and participation as well as improvement throughout the semester will be considered.										
<b>Text Problems</b>	Students are expected to work the specified problems in the textbook. Although the problems will not be collected, students may be called on in class to explain their answers. Solutions can be found in the optional solutions manual. Note that the solutions manual has several mistakes.										
<b>Exams</b>	<p>All exams will be held during regularly scheduled class times. The exam dates are specified in the Tentative Course outline. Unless you have prior approval, you are required to take the exam with the section that you are registered for.</p> <p>Exams will be closed book, however a formula sheet will be provided for the exams. A sample formula sheet will be issued early in the</p>										

<b>EVALUATION</b>	
	<p>semester so that students can familiarize themselves with it. The format of the exams will include multiple choice, problems, and short-answer.</p> <p>The results of the exams will be reviewed in class. Students with questions about the exam can address them either during the review or office hours.</p>
<b>Make-ups</b>	<p><b>No make-up exams will be given.</b> Students unable to take the exam at the scheduled time, for any reason, may use the final to replace the exam that they missed.</p>
<b>Assignments</b>	<p>Several assignments will be made during the semester that will require the use of Excel. Students are expected to be comfortable using Excel to solve problems.</p>
<b>Final</b>	<p>The final is optional and will be comprehensive. Your score on the final may substitute for the lowest score on one of the semester exams, but may not substitute for an unexcused absence. If your score on the final is lower than your lowest exam, the final will not be used to calculate your grade. Thus, the final can only help your course grade. At the end of the semester, I will ask you to inform me as to whether you wish to take the final or not.</p> <p>I have structured the optional final for several reasons. First, to give students an opportunity to replace an exam score they think is not representative of their knowledge. Second, to provide a mechanism for students to replace an exam missed due to an excused absence. Finally, I believe this structure rewards students that have preformed well on the semester exams by allowing them to opt out of the final if they like their grade.</p> <p>Per University policy, a <b>make-up for the final will only be given if appropriate documentation</b> (doctor's note, letter from the dean) is produced. Without documentation, a student's grade will calculated from their performance on the semester exams including a grade of 0 for any missed exams.</p> <p><b>Note:</b> I caution you not to take the semester exams lightly. While the final provides the opportunity to replace an exam grade we are covering a great deal of material during the semester and the final is <u>comprehensive</u>.</p>

<b>TENTATIVE COURSE OUTLINE</b>		
<b>Date</b>	<b>Topic</b>	<b>Chapter</b>
1/17	<b>Introduction &amp; Investment Environment</b>	1
1/19	<b>Financial Markets &amp; Instruments</b> – Asset classes, money market instruments, fixed income instruments, types of stock, stock indices	2
<b>Security Valuation</b>		
1/24 1/26	<b>Fixed Income</b> – Bonds, indentures, ratings, zeros, coupons, YTM, callable	10
1/31 2/2	<b>Managing Fixed-Income</b> – Interest rate risk, duration, modified duration, convexity, portfolio immunization, forward rates, theories of term structure of interest rates	11
2/7 2/9	<b>Equities</b> – Valuation methodologies: balance sheet, dividend discount models, price/earnings ratios, comparative, free cash flow models	13
2/14	<b>Review</b>	
2/16	<b>*** EXAM I (THUR) ***</b>	
2/21	<b>Options</b> – Terminology, payoffs, profits, strategies	15
2/23	<b>Option Valuation</b> – Put-call parity, Black-Scholes option pricing model, implied volatility, hedge ratios, portfolio insurance	16
2/28 3/1	<b>Futures</b> – Forwards vs. futures, futures mechanics, spot-futures parity theorem, futures pricing, swaps	17
<b>Risk &amp; Return</b>		
3/6 3/8	<b>Risk &amp; Return</b> – Measuring risk, risk aversion, utility functions, indifference curves, covariance & correlation, efficient frontier, capital asset line	5
<b>SPRING BREAK</b>		

<b>TENTATIVE COURSE OUTLINE</b>		
<b>Date</b>	<b>Topic</b>	<b>Chapter</b>
3/20 3/22	<b>Risk &amp; Diversification</b> – Diversification & correlation, portfolio theory	6
3/27	<b>*** EXAM II (TUE) ***</b>	
3/29	<b>Risk &amp; Expected Return: CAPM &amp; APT</b> - One risky & one risk-free asset, CAPM, security market line, estimating beta, criticisms & tests of the CAPM, Fama-French three factor model, APT	7
4/3	<b>Risk &amp; Expected Return: CAPM &amp; APT</b>	7
4/5	<b>Efficient Markets</b> – Efficient market hypothesis, forms of EMH, fundamental & technical analysis, active vs. passive portfolio management, event studies, tests of predictability	8
<b>Company &amp; Economic Analysis, Performance, &amp; Investors</b>		
4/10 4/12	<b>Financial Statement Analysis</b> – Financial leverage & ROE, Dupont system, turnover & asset utilization ratios, liquidity and coverage ratios, market price ratios, EVA, steps in financial analysis, earnings quality	14
4/17 4/19	<b>Macroeconomic &amp; Industry Analysis</b> – Domestic macroeconomic variables, economic indicators, business cycles, sector rotation, cyclical & secular forecasts, real GNP forecasts, inflation forecasts	12
4/24	<b>Portfolio Performance Evaluation</b> – Passive vs. active portfolio management, measuring performance, peer group comparisons, benchmark portfolios, risk adjusted measures, style analysis, performance measurement issues	18
4/26	<b>Investors &amp; the Investment Process</b> – Individuals vs. institutions, personality & demographic considerations, types of institutional investors, institutional objectives and constraints, asset allocation decision process	22
5/1	<b>*** EXAM III (TUE) ***</b>	
5/3	<b>Course Review</b>	

<b>TENTATIVE COURSE OUTLINE</b>		
<b>Date</b>	<b>Topic</b>	<b>Chapter</b>
<b>Final</b>	<b>Monday 5/14 9 am-12 noon</b>	

*Note:* This is a tentative course outline. Chapters may be re-sequenced, dropped or added depending on our progress throughout the semester. I will inform you of any changes as they are made.