

DEPARTMENT OF FINANCE
MCCOMBS SCHOOL OF BUSINESS
UNIVERSITY OF TEXAS AT AUSTIN

Finance 367 : Investment Management

Fall 2008

Monday & Wednesday 12:30-2:00, UTC 1.132, unique #03265
Monday & Wednesday 2:00-3:30, CBA 4.330, unique #03275

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Office Hours: Monday & Wednesday 4:00-5:00 and by appointment

Teaching Assistants:

Name	e-mail	Office Hour	Room
Margaret R. Zhu	Margaret.Zhu@phd.mcombs.utexas.edu	Thursday, 1:00 – 2:00	CBA 5.334AA
TBA	TBA	TBA	TBA

If you have questions you want to ask via e-mail, please send your e-mail to Margaret, TBA *and* me. This allows minimum response time.

Finance 367 is a Restricted Course for students who are enrolled in a major program in the College of Business Administration. Please note that several prerequisites apply for the course and are published in the Course Schedule.

Course Description

Finance 367 is a course in investment analysis. It is intended for students who want to become investment professionals, knowledgeable individual investors, or both. The course covers the primary financial securities—bonds, stocks, and derivatives—, their valuation and methods for combining these underlying assets into a portfolio. Each student will have an opportunity to apply the concepts learned in class through a portfolio project.

Course Outline

First, we will cover the overall layout of U.S. financial markets and the financial instruments available in these markets (including bonds, money market instruments, stocks, derivatives and mutual funds). After this brief overview, we will learn more about the concepts of risk and return. We will study portfolio theory in some detail, which tells us how to measure investment risk and how risk can be mitigated by combining financial assets into a portfolio. Next, we will take a look at the equilibrium implications of portfolio theory, before turning to the efficient market hypothesis and its behavioral critique. Then, we will study the valuation of equity securities (stocks). The course will cover various valuation methods for stocks, focusing on dividend growth models but also discussing other valuation techniques. After working on stocks, we will study fixed income securities (bonds). Because bonds pay a fixed amount of interest on a set schedule to investors, the pricing of bonds is primarily an application of the time value of money concept. Being familiar with this concept should be the central prerequisite to this course (FIN 357). We will learn how to value coupon bonds and how to measure and manage the risk of bonds and bond portfolios. We will then discuss derivative securities (options and futures). We will analyze the uses of options to construct various payoff schemes and the valuation of options. Finally – if time allows - the course will conclude with the topic of investment mechanics. We will learn how the financial securities studied in this course are traded in real markets and how to judge investment performance. Course content might be changed at the discretion of the instructor.

Exams and Quizzes

- There will be four exams and four short quizzes (about 15-20 minutes each) during the semester. No make-up exams or quizzes will be given but I will consider your three best exam scores and three best quiz scores for grading. All exams and quizzes will be held during regular class hours.
- There will be no final examination.
- The difficulty level of the tests and quizzes will vary during the semester, depending on the difficulty of the material covered. The topics I will cover in the beginning of the semester are relatively easier and hence, you are likely to find the first exam and quiz relatively less challenging. However, please do not form your expectations about other exams and quizzes on the first quiz/exam.
- If some material has been covered in an exam or quiz, this does not necessarily mean that you will not have to know the material for following exams. The relevant material for each test will be announced in class!

Student Presentations and Presentation Reports

Each student has to present once during the semester. The presentation will be a *group presentation*. Please self-organize into groups of 2-4 students. A tentative list of topics for student presentations will be posted on Blackboard. I will add topics to this list as the semester progresses. Topics will be announced on an ongoing basis (but not for every class). After your group has presented, each participant has to hand in an individual paper on the presentation topic. You can not hand in an individual paper without having presented before! Your group can apply for a topic by sending an e-mail with information about the group participants (including full name of all participants) using the form

provided on blackboard to Margaret (margaret.zhu@phd.mcombs.utexas.edu). You can either send a complete preference list with the topics announced or just name one or two topics from the list. You can also suggest an own topic if you want to.

Topics will be assigned at the discretion of the instructor. Typically, the allocation will be based on a first-come first-serve principle. Preference will be given to students who applied for a topic before but were not assigned for a presentation. Make sure to apply for a topic early in the semester, as topics tend to get more difficult towards the end and demand can exceed supply. Furthermore, if you apply early but did not get a topic assigned you will be preferred if you apply again later.

The *individual paper* on the presentation topic has to be handed in one week after the presentation at the latest. Each day you are late in handing in the paper reduces your grade by 2 points (on a scale from 0 to 100). The paper has to be short (about 3-4 pages), ***academic in nature*** and only elaborating on the most important aspects of your topic. Papers must be double spaced, use a font size of 12, and exhibits will not count against the page requirement.

Individual Portfolio Project

Each student will invest a fictitious \$500,000 in various financial instruments using a StockTrak account (will be provided for free to class participants). The only deliverable for the portfolio project is a ***portfolio analysis paper due on December 5th***. ***No late submissions are accepted!*** Performing this analysis will require each student to research and select securities for his or her portfolio that meet certain guidelines (described in detail later). The trading period will probably be September 22 – November 17 (details follow). Without an appropriate portfolio to reference, completing this paper will be impossible. Details on the project will be announced in class. The portfolio analysis paper has to be 5 pages long (no shorter than that, no longer than 6 pages). Papers must be double spaced, use a font size of 12, and exhibits (which you should use) will not count against the page requirement.

Homework

At the end of each lecture, I will suggest *optional* problems from the text that may be useful as study guides for the examinations. A solutions manual accompanying the text, containing solutions to the problems in the text, is available for purchase at the Co-op bookstore. Solutions to the homework problems are not handed in by students. However, you are encouraged to solve all of them on your own or in your learning group, because similar questions tend to appear in quizzes and exams sometimes.

Grading Policy

Your overall score in the course will be determined mechanically as the weighted average of the following four component scores. The weights on each component of the overall course grade are as follows:

- Four examinations: 60% of your grade. I will drop your lowest exam score as long as you participate in all exams. If you miss one exam, the other three exams will count fully. Thus, each exam will be worth 20% of your grade.

- Four short quizzes: 21% of your grade. I will drop your lowest quiz score. Same rules as for exams apply. Thus, each quiz would be worth 7% of your grade.
- Portfolio analysis paper: 10% of your grade.
- Individual paper on presentation: 9% of your grade. You will also get a grade on your group presentation. The presentation grade can not decrease your grade but it might increase your grade on the paper according to the following rule: If the grade on your group presentation is better than your grade on the individual paper, your overall grade for the paper will be determined by the following rule: 50% weight on the paper grade and 50% weight on the presentation grade.

All components – with the exception of the presentation – have to be individual contributions. You are not allowed to work together on them. Please make sure that you adhere to the principles in the academic integrity section.

Do not miss more than one exam or quiz! Extra work to improve your grade is not possible. In addition, your general academic situation cannot be considered (e.g. “I need a ‘C’ in this course to graduate”). The final grade in the course, once assigned, will not be changed except in the event of a recording error.

Your overall grade will be determined by where your overall score lies in the distribution of all students’ overall scores. The cut-offs in the distribution will be such that *roughly* 35% of students receive “A”s, 35% receive “B”s, and approximately 30% receive grades below a “B.” The exact curve cut-offs will depend on the *final* level and shape of the overall score distribution. If you are exactly at a cut-off point, I will consider your class participation in deciding about your final grade.

Course Materials

The course textbook is available at the Co-op. The required text for the course is:

Essentials of Investments, Bodie, Kane, and Marcus, 7th ed., 2008, McGraw-Hill.

or

Investments, Bodie, Kane, and Marcus, 8th ed., 2009, McGraw-Hill.

Homework problems will be based on the end of chapter problems given in the first of those two books.

Alternative text books will be presented in the first lecture. A recommended, but not required, book for the course is the solutions manual to the respective Bodie/Kane/Marcus (BKM) book.

Reading assignments will include textbook chapters and possibly a few short, online articles or academic papers (will be announced in the course). In addition, students are strongly encouraged to read investment articles in *The Wall Street Journal*. From time to time, I will assign reading assignments from various sources (like text chapters, *Wall Street Journal* and online articles). Students are expected to complete the reading prior to

the class meetings. Also, you are encouraged to bring me articles that you find interesting and relevant to class topics.

The course web site, available through the UT Blackboard system, will serve as the official mechanism for distributing course materials, including the online articles:

<https://courses.utexas.edu/webapps/login>

You are required to check the blackboard site daily for course-updates.

Finally, students will need a calculator. A financial calculator capable of calculating present values, solving for yields, and performing other basic time value calculations is suggested. Time value tables will not be distributed with the tests in this class. Students bear the responsibility for learning to operate their calculators proficiently. Programmable calculators are not allowed for tests; and there is no sharing of calculators during the test. The recommended financial calculators are: *Texas Instruments BA II Plus* (easier to use; suggested) and *Hewlett Packard 12C* (harder to use). In addition, these calculators are the only ones permitted on the CFA Exam.

Academic Integrity

Each student of this course is expected to abide by the University Code of Academic Integrity. Any work submitted by a student in this course for academic credit will be the student's own work.

You are allowed and encouraged to study together and to discuss information and concepts covered in the lectures with other students. You can give "consulting" help to or receive "consulting" help from such students. However, this permissible cooperation should never involve one student having possession of a copy of all or part of work done by someone else, in the form of an e-mail, an e-mail attachment file, a diskette, a hard copy, or in any other form.

Should copying occur, both the student who copied work from another student and the student who gave material to be copied automatically receive a zero for the assignment. Penalty for violation of this Code can also be extended to include failure of the course and University disciplinary action.

During examinations, you must do your own work. Talking or discussing is not permitted during the examinations, nor may you compare papers, copy from others, or collaborate in any way. Any collaborative behavior during the examinations will result in failure of the exam, and may lead to failure of the course and University disciplinary action.

All exams and quizzes are closed-book. You are only allowed to use a (financial) calculator. Neither are you allowed to use formula sheets or other additional material nor will there be any formula sheets distributed during exams or quizzes. Thus, make sure you understand the concepts underlying the derivation of formulas in order to be able to understand, derive and apply them yourself!

The University of Texas Honor Code

“The core values of The University of Texas at Austin are *learning, discovery, freedom, leadership, individual opportunity, and responsibility*. Each member of the university is expected to uphold these values through *integrity, honesty, trust, fairness, and respect toward peers and community*.”

Accommodations for Students with Disabilities

The University of Texas at Austin provides upon request appropriate academic accommodations for qualified students with disabilities. Students who require special accommodations need to get a letter that documents the disability from the Services for Students with Disabilities or the Office of the Dean of Students (471-6259-voice or 471-4641 – TTY for users who are deaf or hard of hearing). This letter has to be presented to the instructor at the beginning of the semester and accommodations needed will be discussed at that time. The student has to remind the instructor of any testing accommodations that will be needed five to ten business days before an exam.

Feedback

Feedback is an important part of any learning. Without feedback on how well you understand the material it is more difficult to make significant progress. During this course I will be asking you to give me feedback on your learning in informal as well as formal ways such as quizzes and exams. Please let me know when something we discuss is not clear. It will enable me to provide additional information when needed or to explain a concept in different terms.

In addition, I will be asking for feedback about my teaching strategies and whether they are helping or hindering your learning. This kind of feedback is very important to me. I encourage you to give me feedback so that together we can create an effective teaching and learning environment.

General and Miscellaneous Policies

- Alternate exam/quiz dates cannot be given. You are expected to be present at the indicated time, place and date for all examinations.
- Examinations will not be returned. The method of review will be announced in class but will occur only during the week after the grade is posted. If you feel your posted examination grade is incorrect, you must notify me in writing during this same one-week period, explaining in detail where you think an incorrect evaluation occurred. I will then re-grade the exam, which might result in a change of your grade (up or down).
- If you miss a class, it is entirely your responsibility to determine what you have missed including any administrative announcement I may have made. Much of the material covered on exams is not in the text. Hence, you are urged to attend class regularly.

- **DON'T BE LATE TO CLASS.** If a student is late to class, the instructor reserves the right to ask that student to leave the classroom. Should you need to come late or must leave class early, please have the courtesy of letting the instructor know by e-mail or before the beginning of the period and enter/leave quietly so as not to disturb the other members of the class.
- You cannot assume that all information needed for the examination will be presented in class. It is imperative that the textbook, assigned problems and other assigned material be read and studied.
- Please send all course-related e-mails—*i.e.*, questions, clarifications, *etc.*—to me, Margaret *and* TBA. This policy minimizes our response time.
- During lectures, you should always be prepared to answer questions. I will address questions to individuals and to the class as a whole at my discretion. These questions will assume that you have completed the assigned readings *prior* to the class session.
- Although attendance will not be taken, you are responsible for everything covered or assigned in class. The lectures will sometimes depart significantly from the reading material assigned.
- **The use of laptop computers is not permitted during lectures. Mobile phones, Blackberries, and other electronic devices have to be switched off during class at all times.**

NOTE

I reserve the right to make modification to this syllabus. The modifications (if any) will be announced in class. You are responsible for all announcements made in class.