

Finance 367: Investment Management
SPRING 2011

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Course Web Page	via Blackboard
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Classroom and Schedule	UTC 1.132 T-Th 12.30-2pm

1. Introduction.

Investment management is an important, but complex area of expertise in which professional organizations such as mutual funds, pension funds and consultancies have increasingly been given more responsibilities for advising and deciding how large pools of funds are allocated across markets.

The objective of the course is to familiarize the student with the practice of investment management.

The topics covered in the course include the theory of asset pricing, valuation techniques and applications in the investment management industry. In particular, we will consider how investors manage and evaluate portfolios of assets such as equity, bonds and derivative securities. The course is appropriate for anyone contemplating a career in the investment management industry.

The study of investments requires quantitative skills. Students are expected to be familiar with Excel, and the fundamentals of calculus and statistics.

2. Reading materials.

Required - *Investments*, 9th Edition by Z.Bodie, E.Kane and A. Marcus (McGraw-Hill, 2011).

Highly recommended - *Financial Modeling*. 3rd Edition by Simon Benninga. (MIT Press, 2008).

3. Blackboard.

Course material will be posted to Blackboard, UT's electronic classroom system (<http://courses.utexas.edu/>). Please check Blackboard on a regular basis for announcements.

4. Course Teaching Assistant (TA).

TBA

5. Exams.

There are five exams. The exams will cover the class material, the material covered in the problem sets, as well as the readings, whether or not they were covered in class. Exams are cumulative, this means that any part of the material covered up to the date of the exam can be the subject of a question. Exams will be held during class hours. **I will not give make-up exams.** The exam dates can be found in the Schedule section, below.

Your exam grade, which counts for a total of 90% of your final grade, will be determined as follows:

- If you score at least 50% of the available points on each of the 5 exams I will take average score of the 4 exams with the highest score (i.e. the exam with the lowest score will be left out of the exam grade calculation);
- If not, your exam grade will be determined as the average of all 5 exams.

6. Grading.

Your final grade will be determined as follows:

Exam grade	90%
Case study	<u>10%</u>
Total	100%

7. Schedule.

This schedule describes the preparation for each class: the required readings and the optional problem sets. The problems are not for credit. The solutions to the problem sets can be found in the Course Material section of Blackboard.

The schedule is preliminary. Changes if any, will be announced on Blackboard.

- 01/18. Introduction
- 01/20. Overview and measuring returns.
readings: Chs 1, 2, 3, and 4; Ch 24, Par 24.1, pp. 819-20.
problems:
 - Ch 2: 13 and CFA problem 1
 - Ch3: 8, 10 and 11
 - Ch4: 11, 13 and 22
 - Ch 24: 4
- 01/25. The statistics of returns.
readings: Ch 5.
problems: 10, 12, CFA problem 7
- 01/27. Security analysis and equity valuation models (part I).
- 02/01. Security analysis and equity valuation models (part II).

readings: Chs 17 (skim), 18 and 19.

problems:

- Ch 18: CFA problems 2, 3 and 8
- Ch 19: CFA problem 8

02/03. Risk aversion and capital allocation (I).

02/08. Risk aversion and capital allocation (II).

reading: Ch 6, including appendices A and B.

problems: 5 through 12, App B, problem 2, p195.

02/10. **Exam 1.**

02/15. Optimal risky portfolios.

reading: Ch 7, including Apps A and B.

problems: 4 through 10, CFA problems 1 through 3).

02/17. Index models.

reading: Chapter 8.

problems: 1 through 8

02/22. The Capital Asset Pricing Model (part I).

02/24. The Capital Asset Pricing Model (part II).

reading: Ch 9.

problems: 20 and 21, CFA problems 11 and 12.

03/01. Other risk models: APT and multifactor models.

readings: Ch 10.

-Handout: *Understanding risk and return, the CAPM and the Fama-French three-factor model.*

problems: 11 and 12.

03/03. **Exam 2.**

03/08. Market efficiency, behavioural finance and empirical evidence on security returns.

readings: Ch 11, 12 and 13

03/10. Performance measurement.

reading: review Ch 4; Ch 24.

problems: 8, CFA problems 4 through 6.

03/15. SPRING BREAK

03/17. SPRING BREAK

03/22. Active portfolio management.

reading: Ch 27.

03/24. Case study writeup due.

Class discussion of GMO case

- 03/29. **Exam 3.**
- 03/31. Fixed Income: Bond prices and yields.
reading: Ch 14.
problems: 10 and 13.
- 04/05. Fixed Income: The term structure of interest rates .
reading: Ch15.
problems: 11, 15 and 17.
- 04/07. Managing Bond Portfolios (Part I).
reading: Ch 16.
problems: 12 and 23, CFA problem 10.
- 04/12. Managing Bond Portfolios (Part II).
- 04/14. **Exam 4**
- 04/19. Options markets and options valuation.
reading: Chs 20 and 21.
problems:
-Ch 20: 15, 24 and 25.
- 04/21. Futures markets.
reading: Ch 22.
problems: 15, CFA problems 1 and 2.
- 04/26. Futures, swaps and risk management.
reading: Ch 23.
problems: 6, CFA problem 5.
- 04/28. Reserve date
- 05/03 Review
- 05/05. **Exam 5.**

8. 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 Policy Statement on Scholastic Dishonesty for the McCombs School of Business:

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 and/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 <http://deanofstudents.utexas.edu/sjs/> 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.

9. Students with Disabilities

Students with disabilities may request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, 471-6259.