

FINANCE 367 – INVESTMENT MANAGEMENT (UNIQUE # 03475 AND 03485)

FALL 2011

Professor	Sanford J Leeds
Office	GSB 5.164
Office Hours	Tues 11:15 – 12:15; 1:15 – 2:15; Thurs 12:15 – 2:15
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Course Web Page	via Blackboard
Teaching Assistant	I prefer that you see me with questions

Course Objectives

This course is designed to teach you the investment process. In particular, you should leave this class understanding the components used to put together a portfolio. This requires you to understand different types of investable assets (bonds, stocks, mutual funds, derivatives) and how they are combined to form a portfolio. In addition, there is background information which is necessary to understand. This information includes topics such as types of markets, how to place orders, behavioral finance and what stock indexes represent.

In this course, we will start with an introduction to the study of Investments (Unit 1). This introductory unit includes some “personal finance” issues such as planning for retirement. After that, we will discuss (Unit 2) the cost of capital (cost of debt, cost of preferred stock and cost of equity). We will focus on the relationship between risk and return. After Unit 2 is done, we will focus on Investment instruments.

Units 3 and 4 will cover bonds. Unit 3 will examine the basics of bonds (terminology, pricing relationships, etc.) and Unit 4 will examine concepts and strategies used in managing bond portfolios. In Unit 4, we will focus on the concept of duration and how that translates into certain strategies (such as immunization).

Units 5 – 10 cover stocks. We will examine stock market indexes (Unit 5), the relationship between the economy and the stock market (Unit 6), valuation (Unit 7), technical analysis (Unit 8), market efficiency vs. behavioral finance (Unit 9) and placing orders (as well as using margin and selling short) in Unit 10.

Unit 11 will cover derivatives. Our focus will be on options from both an academic perspective (terminology, pricing, etc.) and a strategic perspective (how to use options to supplement your equity portfolio).

Unit 12 will allow us to study mutual funds. You can think of these as portfolios of stocks and bonds. Finally, Unit 13 will ask how we evaluate performance.

Materials

Text

Investment Analysis and Portfolio Management, 9th Edition by F. Reilly and K. Brown (Dryden Press, 2008) – available at the Co-Op

Packet

Investments, by Sanford J Leeds (2011) – available at the copy center (3rd floor of GSB)

Book for Project (Described Below)

You must buy this on your own – it is sold by Amazon (and others)

Calculator

You will need a business calculator for this class. The calculator should have the following keys: IRR, n, i, PV, PMT, FV, and CF. As long as those keys are present, the calculator is fine. If you may consider taking the CFA exam in the future, I recommend the HP 12c (this calculator is the finance industry standard and one of only two calculators that may be used on the CFA exam). The other calculator which is permissible for the CFA exam is the Texas Instruments BA II Plus. **You should bring a financial calculator to every one of our class meetings.**

Prerequisite

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 and its prerequisites are among these requirements.

Attendance Policy and Late Policy

I expect you to attend class and I expect you to be on time. I understand that things happen – you oversleep, a bus runs late, you're sick, etc. I excuse two absences or late appearances. After that, you are ineligible to have your grade curved. You need to understand that I've taught for a long time and I'm trying to help you learn. When students don't come to class, they tend to receive grades of D or F on the exams. When students arrive late, they are confused and they disrupt other students and me. **I take attendance at the start of class. You are only allowed to sign the attendance sheet if you are on time.**

Here's the positive side of my policies: as long as your absences and late arrivals do not add up to more than two (note: that is a total of two, not two of each) and that you do not disrupt our class in any other way (packing up early, leaving early, talking to your neighbors, etc.), you will be eligible to have your grade curved. If you are not eligible to have your grade curved, you will be graded solely on the following scale:

92 or higher – A

90 – 91.99 – A-

87 – 89.99 – B+

82 – 86.99 – B

80 – 81.99 – B-

77 – 79.99 – C+

72 – 76.99 – C

70 – 71.99 – C-

67 – 69.99 – D+

62 – 66.99 – D

60 – 61.99 – D-

0 – 59.99 -- F

The curve in this class is normally significant and something that you want to be eligible to participate in.

Course Requirements and Grading

Your grade in the course will be determined as follows:

Exam 1 (Units 1 and 2)	15%
Exam 2 (Units 3 and 4)	25%
Exam 3 (Unit 7 only)	25%
Final Exam (Units 5 - 6, 8 - 13):	25%
Project:	10%

As you read above, I follow a relatively standard grading policy of 90% is an A- or better, 80% is a B- or better, etc. With that said, I will frequently curve grades up at the end of the semester. Curves are done for the class as a whole, not for individuals. In other words, someone with a final course grade of 88 will not get a higher grade than someone with a course grade of 89 **as long as that person is eligible for the curve**. It is particularly important to me that you arrive on time, stay for the entire class, keep your laptops and cell phones closed (no texting please) and respect your peers. In addition, I will sometimes ask you to work some problems before class. Failure to do this work can also result in a lower grade. As the semester progresses, you will realize that I will hold you to a very high standard, but I will hold myself (and how this class is presented) to an even higher one.

Description of Requirements

Exams

Exams 1, 2 and 3 will be held in class. My exams tend to include most of the material that I have taught (rather than just a few big questions). The tests will include both qualitative and quantitative material. The qualitative questions are usually short answer or multiple-choice. The difficulty level of the multiple-choice questions is intended to parallel the level of question that you could face on the CFA® exam.

You should realize that I test on what I teach. In order to prepare, you should review your packet notes (including slides), the questions we covered in class, the uncollected homework problems that I have written and the uncollected problems from the back of the chapters. In addition, I will give you a slide deck to help you review for each exam. There is also a taped review lecture on Blackboard. All dates are listed later in this syllabus.

I do not release old exams. I have found that releasing old exams is problematic because (1) it results in people studying “to the exam” rather than studying to learn; and (2) students inevitably feel that old exams are easier than the current exam. In addition, I do not allow students to keep their exams. This maintains the fairness of exams, since you know that no one has seen old exams. You will have ample opportunity to review your exam.

How to Prepare for Class and the Exams

Before most classes, I will not require you to do anything other than read the pages in the packet (which we will cover). That way, you will have thought about the material already. I will teach you the material in class and then you will need to spend time working AFTER class. You will need to review what we did in class and work problems. Working problems is crucial. You should read the textbook when you are having difficulty understanding my notes and problems. (Please understand: I will **not** hold you responsible for topics covered in the text that are not in the packet or the homework. The packet contains everything that you need to know.) Also realize that while I want you to read the entire packet, I will tell you what you are specifically responsible for when we are in class.

Prior to a few classes (Units 2, 5 and 12), I will ask you to listen to a taped lecture. This will be discussed in class so that you will understand what you are doing.

If you miss class, there are some taped lectures on Blackboard which will help you to learn what you missed. But, please realize that your grade will be lowered if you miss class. In addition, test questions frequently involve topics discussed in class (that may not be on the taped lecture).

Please NOTE: it is always possible that we will finish a lecture quicker than planned. As a result, you should always bring your packet notes for that day, as well as one lecture ahead.

I will not collect homework. Homework should be done because you want to learn the material, rather than because you want to receive a check mark. Furthermore, I expect you to have discipline, rather than needing me to “force” you to do your homework.

I am a firm believer that you learn finance by working problems. If you attend class and work the problems in a timely fashion, you will do well. If you don't work the problems in a timely fashion, this will be a very difficult class. Study the course packet consistently.

Since you won't have time to do the homework problems again and again, let me suggest a good way to study. After you work the problems, every few days you should go back and re-read the questions. By doing this, you will trigger the thought process that you had to go through in order to answer the question. And always remember, it's not a matter of whether you are able to answer the question the first time you see it...the issue is whether you can recognize it and answer the question in the future (and whether you can apply these concepts to the real world).

Project

This project is intended to further your Investments education and to help you to realize that you can continue to educate yourself when you graduate. For your project, I want you to write a paper about “The Essays of Warren Buffett: Lessons for Corporate America” by Warren Buffett and edited by Lawrence Cunningham (**2nd Edition**). Your paper should be a well-written, coherent summary that addresses the following topic: “Key Takeaways From ‘The Essays of Warren Buffett’”.

There are two reasons that I have you do this project: (1) people love this book; and (2) there is probably no better way to learn about the market than by reading Buffett’s letters to his shareholders. This book consolidates key points from letters. If you have further interest, all of his letters are available online at www.berkshirehathaway.com.

Your paper cannot be longer than five pages plus a cover page. Five pages is the total (other than the cover) regardless of whether you call something an appendix or anything else. The goal of your paper should be to allow someone who has not read this book to fully understand what it is about. A good paper clearly distinguishes thoughts. Your paper should evidence that fact that you have read the entire book.

The project is usually not a grade differentiator. The reality is that the exams will result in grade differentiation. The project is a learning exercise and the grading scale is normally pretty tight (usually 88 - 94). With that said, every so often someone turns in something that results in a significantly lower grade. The fact that the grade range is normally tight is not intended to diminish the importance of this assignment. Normally, I grade your exams (because they have the largest impact on your final grade) and I have my TA grade your project. This assignment is to be done alone.

Examples of times that people receive low grades include when someone clearly has not read all of the book or turns in a paper that is full of grammatical errors. If you have not read the entire book, the highest grade you can receive is 50 (and that score isn’t likely). But, if you read the book and you feel like you have made a good-faith effort, you should not worry. You will know if you fall into one of the “troubled” categories.

The project is due at the start of class (in class) on Thursday, December 1st. I do not accept late papers.

Homework

There are two types of homework problems. First, there are “end-of-the-chapter” problems that are listed below. Second, there are problems that I have written for almost all of the 13 units that we cover (there is one unit that does not lend itself to quantitative problems). Those problems are posted on Blackboard. In addition, solutions to all of the chapter problems are also on Blackboard. While I do not collect homework, you will find the exams impossible to do if you have not worked these problems. In addition, if you try to work these problems right before the exam, you will be overwhelmed.

Schedule

Packet UNIT		Approximate # of Classes	Textbook Chapters	Uncollected Textbook Problems (End of Chapter)
1	Intro to Investments	3	1 - 3	Chap 2: 4 - 5
2	Cost of Capital	4	1; 7 - 9	Chap 1: 1-12; Chap 1 Appendix: 1 - 3; Chap 3: 4-5; Chap 3 Appendix: 1 - 2; Chap 6: 1- 3; Chap 7: 1-6, 8; Chap 8: 1-3, 5-9; Chap 11: 3; Chap 25: 10a, 10b
3	Bond Basics	3	17 - 18	Chap 11: 1 - 2; Chap 17: 1 - 5; Chap 18: 1b, 1c, 2, 4, 10, 11, 12, 16
4	Managing Fixed Income	2	18 - 19	Chap 18: 3, 5, 7, 9; Chap 19: 1- 4, 8
5	Indexes	1.5	5	Chap 5: 1-2, 4-6
6	Economy	1	12 - 13	Chap 12: 2, 4 (there are two #4 questions; do the one that is NOT the CFA problem)
7	Security Analysis	4	11 - 14	Chap 11: 4 - 10, 14, 15; Chap 12: 5-9; Chap 14: 3, 8-11; 14-16
8	Technical Analysis	.5	15	Chap 15: 5-6
9	EMH vs Behavioral Finance	.5	6	No HW
10	Trades and Orders	1	4	Chap 4: 1 - 7
11	Derivatives	3	20, 22 - 23	Chap 22: 2, 10, 11, 13
12	Mutual Funds	1	24	Chap 24: 1- 8, 10 (NOTE: there are two problems numbered "8" – do BOTH of them)
13	Evaluating Performance	.5	25	Chap 25: 1-4; 6-8

NOTE: We will do Unit 7 out of order. We will do this AFTER Unit 4.

KEY DATES

PLEASE NOTE: I DO NOT GIVE MAKE-UP EXAMS (EXCEPT FOR DOCUMENTED ILLNESS OR UNIVERSITY APPROVED ABSENCES). IF YOU CAN'T MAKE THE EXAMS, PLEASE DO NOT TAKE THIS CLASS.

I AM FREQUENTLY ASKED ABOUT TAKING THE FINAL EXAM EARLY IN ORDER TO ACCOMMODATE PLANE TRIPS HOME. I AM SIMPLY UNABLE TO ACCOMMODATE THESE REQUESTS. I ABIDE BY THE UNIVERSITY EXAM SCHEDULE.

Thursday, September 22: Exam 1 (covers Units 1 – 2) – IN CLASS

Tuesday, October 18: Exam 2 (covers Units 3 – 4) – IN CLASS

Tuesday, November 8 (covers Unit 7) – IN CLASS

Thursday, December 1 – Project Due at 8 AM (prior to start of class – in class)

Final Exam – Per University Schedule (Units 5 – 6; 8 - 13)

For the 8 AM Class – Final Exam will be Saturday, December 10th at 2 PM

For the 9:30 AM Class – Final Exam will be Friday, December 9th at 2 PM

ONE MORE IMPORTANT DATE!

We will have class on Tuesday, November 22nd. Obviously, that is Thanksgiving week. I will also give the exact same lecture on Thursday, November 17th at 5 PM. In other words, you can either attend class on Thursday, November 17th at 5 PM or your regularly scheduled class on Tuesday, November 22nd. **PLEASE NOTE:** regardless of what you select, we will still have class in the morning of November 17th. The evening class is simply a way to allow you to skip the following Tuesday (Nov. 22nd) class in case you are leaving for Thanksgiving.

Short Bio



Sanford J. Leeds, Esq., CFA

Senior Lecturer
Department of Finance

- MBA, University of Texas Graduate School of Business, 1995
- JD, University of Virginia School of Law, 1989
- BS, University of Alabama, 1986 (*summa cum laude*)

Sandy Leeds is a member of the Finance Department faculty at The University of Texas and President of The MBA Investment Fund, L.L.C. He teaches both graduate and undergraduate level courses, including Corporate Finance, Advanced Corporate Finance, Investments, and Portfolio Management / Security Analysis. He has a J.D. from The University of Virginia School of Law and an MBA from The University of Texas at Austin. He is a member of the Texas State Bar and holds the Chartered Financial Analyst designation.

Prior to joining the faculty, Sandy managed money for a private money management firm. He was one of four portfolio managers responsible for approximately \$1.6 billion of assets. He spent the majority of his time analyzing publicly traded companies. He also has extensive experience implementing option strategies.

In addition to money management experience, Sandy also has significant legal experience. He has conducted approximately 100 jury trials and 100 bench trials. He has participated in the regulation of the securities industry, conducting the hearing against most of the principals involved in the Sterling Foster case (a \$75 million fraud). He has also advised attorneys on financial related litigation involving options, hedge funds, and other matters.

Sandy Leeds is an experienced executive education teacher. At the McCombs School of Business, he also teaches in the Executive MBA program, as well as in international general management programs. He has received numerous teaching awards, including the Joe D. Beasley Teaching Award (a school-wide award for teaching in the graduate program) and the “Outstanding MBA Professor Award” (selected by the students in multiple years). He normally gives 20 – 25 presentations and speeches each year to various groups. He also shares his thoughts each week at www.leedsonfinance.com.

Academic Dishonesty

Academic dishonesty will not be tolerated. Any individual suspected of cheating, including stealing or using stolen examinations, will be disciplined to the maximum extent possible. Review UT Honor Code at <http://registrar.utexas.edu/catalogs/gi09-10/ch01/index.html>

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.

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, 471-6441 TTY or via e-mail if you have any questions.

Religious Holidays

By UT Austin policy, you must notify me of your pending absence at least fourteen days prior to the date of observance of a religious holiday. If you miss a class, an examination, a work assignment or a project in order to observe a religious holiday, you will be given an opportunity to complete the missed work within a reasonable time after the absence.
