



Survey of Investments
FINA 4310

Course Syllabus
Spring 2007

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Introduction

The objective of this course is to increase the students' understanding of the way in which financial markets function. There is an emphasis on developing skills that are useful for active equity portfolio management. The course assumes that this is the student's first in-depth course on asset pricing. As such, we will spend a considerable amount of time on portfolio theory and the Capital Asset Pricing Model.

Goals for the course

- 1) Develop an understanding of the current state of asset pricing focusing on the strengths and weaknesses of the common theories.
- 2) Understand the concept of market efficiency.
- 3) Review and expand the student's knowledge of security analysis, concentrating on models of the intrinsic value of securities.
- 4) Understand the futures and options contracts, the markets in which they trade and their applications to portfolio management.
- 5) Increase the student's understanding of practical issues in portfolio management.

The semester will consist of 9 sections. Each section will be approximately 1-2 weeks long.

Section 1 Financial Markets and Financial Assets

The course will begin with an overview of the different financial instruments that are often classified into asset classes. What are the rates of return on these asset classes? How do financial securities trade? This section concludes with an examination of the structure of the mutual fund industry.

Section 2 Fixed Income Securities

Different types of fixed income securities and how to value them. The term structure of interest rates and duration will be covered.

Midterm # 1

Section 3 Valuation I

This section begins with a refresher in the fundamental stock valuation techniques from your preliminary courses. How to use the Capital Asset Model and the Dividend Discount Model is key, but more importantly, we begin to evaluate the inputs to the standard models. During this process, I evaluate of the students' current set of tools. Applying the dividend discount model will be the focus of this section. Of particular concern will be the practice of estimating the components of the model.

Section 4 Portfolio Theory

The concept of mean-variance efficiency and the efficient frontier is discussed. Forming the efficient portfolio from a list of assets. What are the benefits of diversification?

Section 5 Asset Pricing Models

Already familiar with the basic structure of the Capital Asset Pricing Model, students will examine some of the empirical tests that speak for and against the CAPM as a model of expected returns.

Section 6 Market Efficiency

How efficient is the market? Is there any evidence that the market is not efficient? Does this evidence represent a profit opportunity for investment managers? Behavioral Finance and Limits to Arbitrage.

Section 7 Futures and Options

This section is intended to introduce the students to the futures and options. I cover the basic contracts and how to apply them, but more complicated derivative pricing is left for the derivatives course.

Midterm # 2

Section 8 Performance Measurement

What is the difference between active management and passive investing? How do we use benchmark portfolios to evaluate portfolio manager performance and compensation? Other topics include using asset classes to minimize the standard deviation of a portfolio and international investing.

Section 9 Valuation II – Other Equity Valuation Techniques

This section discusses how to get estimates of the discount rate, the growth rate and security pricing by comparable ratios. How do we build a Free Cash Flow to Equity model? We apply some of the knowledge gained in Section 5 to popular investment strategies and explore some alternative valuation techniques.

4310 is scheduled at 3 separate class times this semester

40-149 on Tuesday and Thursday from 9:30 – 10:45 in SLC 350.

40-152 on Tuesday and Thursday from 11:00 – 12:15 in SLC 350.

10-156 on Tuesday and Thursday from 2:00 – 3:15 in SLC 348.

Office Hours: 3:30- 5:00 on Thursday, and by appointment.

Course Materials

Required Materials

1. Essentials of Investments, by Bodie, Kane and Marcus, 6th edition
2. Study.net case packet
3. Stocktrak Portfolio Simulation Exercise
4. Web CT page

Recommended

-The Wall Street Journal (Available thru Stocktrak)

Graded Assignments:

The grading criteria are as follows:

Projects (3)	30%
Class participation	5%
Stocktrak participation	5%
Midterm I	20%
Midterm II	20%
Final	20%

Please note that the exams count for a large percentage of your grade, allocate your time accordingly.

Other Assignments

Students will have an opportunity to improve their grade based on their performance in the Stocktrak Portfolio Simulation Exercise

5% of your grade can be earned by completing the required Stocktrak trades. Beating the professor's bogey portfolio earns a bonus.

Topic outline

Please note that the pace of the course is somewhat flexible and could speed up or slow down depending on student interest and comprehension. However, wherever reasonable we will keep to this outline.

Tue- Jan. 9 Class 1 – Introduction
Stocktrak
Study.Net

Thu- Jan. 11 Class 2 – Personal Investing
Professor Irvine’s Guide to Personal Investing

Tue-Jan. 16 Class 3 – Chapter 2

Thu-Jan. 18 Class 4- Chapter 3

----- **Stocktrak starts January 22** -----

Tue- Jan. 23 Class 5- Chapter 4

Thu-Jan. 25 Class 6 – Vinik Case
SSRN (Irvine): Jeff Vinik and Fidelity Magellan
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=458080

Tue-Jan. 30 Class 7– Chapter 9, 10.1

Thu-Feb. 1 Class 8– Chapter 9, 10.1

Project I assigned: Study.Net: Pricing Strips & Term Structure (5%).

Tue- Feb. 6 Class 9 – Midterm I Review

Thu-Feb. 8 Class 10 – *****MIDTERM I*****

Tue-Feb. 13 Class 11– Project day

Thu-Feb. 15 Class 12 – Chapter 12.3, 5.1, 5.3, 5.5
Study.Net: Valuing IBM
Womack: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=481881
Returns on **Ken French’s data page**
http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html

Tue-Feb. 20 Class 13 – Chapter 6

Thu-Feb. 22 Class 14 – Chapter 6.5

Tue-Feb. 27 Class 15 – Chapter 7

Thu-Mar. 1 Class 16 – Chapter 7 – **Womack: Understanding Risk and Returns, the Capm and the Fama-French three factor model**

Tue-Mar. 6 Class 17 – Chapter 8 (**Haugen: Finance from a New Perspective**)

Thu-Mar. 8 Class 18 – Chapter 8 (**Haugen: Finance from a New Perspective**)
Project II assigned (15%)

Spring Break

Tue-Mar.20 Class 19 –

Thu- Mar 22 Class 20 – Chapter 14.1-14.2

Tue-Mar. 27 Class 21 – Chapter 14.1-14.2

Thu-Mar. 29 Class 22 – *****MIDTERM II*****

Tue-April 3 Class 23 – Project day

Thu-Apr. 5 Class 24 – Chapter 16
PROJECT II DUE: Stock returns

Tue-Apr. 10 Class 25 – Chapter 16

Thu- Apr.12 Class 26 – Chapter 17 - Performance Measurement
Project III assigned (10%)

Tue-Apr. 17 Class 27 – Chapter 17 - Performance Measurement

Thu-Apr. 19 Class 28 – Behavioral Finance
Barberis and Thaler http://papers.ssrn.com/sol3/papers.cfm?abstract_id=327880
Chapter 19.1-19.3

----- **Stocktrak end April 20** -----

Tue-Apr. 24 Class 29 – Other Valuation models
Esty

Thu-Apr. 26 Class 30 – Other Valuation models
Free Cash Flow to Equity

Friday April 27. **PROJECT III DUE: Company Valuation**

A Final Exam will be held in Exam Week. On May 3 or May 8 depending on your section.

4310 Spring 2006 Additional Course Material

Study.Net Cases

1. "Valuing Equities IBM" Case UVA-F-0926
2. "Pricing Strips and the Term Structure" Case UVA-F-0925

Social Science Research Network (SSRN) – has some resources for free.

Look for *Vinik Case* and *Womack's Understanding Risk and Return Case* thru the links in the outline.

Barberis and Thaler 'A survey of behavioral finance' is also linked above

Web CT

1. Haugen "Finance from a New Perspective" *Financial Management*, Vol. 25. No. 1, Spring, 1995.
2. Esty, B. C. "What Determines Comparability When Valuing Firms with Multiples." *Journal of Financial Education* 26 (fall 2000): 24-33.

Useful Web sites

1. <http://wrds.wharton.upenn.edu/>

2. Ken French's data page

http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html

3. finance.yahoo.com

4. www.stocktrak.com

read the rules at: <http://www.stocktrak.com/2005Version/home/tradingRules.php>

5. Text publisher's data site

www.mhhe.com/edumarketinsight