**Investments**
**(FINA 7310)**
**Terry College of Business**
**University of Georgia**
**Spring 2007**

## Contact Information


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## Class Meetings

| Meeting | Days | Time | Place |
|---|---|---|---|
| 59-183 | M | 6:00 pm - 9:00 pm | GUC B2100 |
| Office Hours | M | 5:30 pm - 6:00 pm and by appointment | |

## Course Description

FINA 7310 is a survey of the theory and practice of investment management in highly competitive capital markets. The course is organized into modules covering important concepts in investment management: fixed-income securities, modern portfolio theory, asset pricing models, market efficiency, derivative securities and advanced topics in portfolio management. These ideas have revolutionized the practice of investment management. See the course schedule below for a list of specific topics to be covered. Throughout the course, we will integrate discussion of theory, empirical evidence and applications. We will pay particular attention to how each concept relates to the practice of portfolio management, including recent developments in hedge fund management.

## Prerequisites

The formal prerequisites for FINA 7310 are Financial Management (FINA 7010) and Applied Business Statistics (MSIT 7100), or equivalents. Enrolling students should have strong quantitative skills and possess a solid background in valuation, probability and statistics.

## Course Materials

- *Investments*, 6th ed., by Zvi Bodie, Alex Kane & Alan J. Marcus, McGraw-Hill, 2005. *Required.* This is the primary text for the course.
- *When Genius Failed: The Rise and Fall of Long-Term Capital Management*, by Roger Lowenstein, Random House, 2001. *Required.*
- *Wall Street Journal. Highly Recommended.*
- Case packet at `http://www.study.net`.
- Supplemental materials will be posted on `http://terry.blackboard.com`.

**Teaching Philosophy and Expectations**

I will employ a combination of lectures, case studies and exercises to cover the course material. I believe very strongly in experiential learning. With that in mind, many of our activities will provide you with opportunities to practice investment management in the most realistic environment available.

The pace of the course is fast and the material is challenging. It is vital that students keep up with assigned readings and exercises. I have found that the best way to master course material and prepare for examinations is to work on problems. I will assign practice problems from the text for students to work on in conjunction with their reading assignments. Both readings and practice problems should be attempted prior to the class session in which the material is scheduled to be covered. As time allows, these problems will be used as examples in class. If you feel that you are falling behind, see me as soon as possible.

For case studies, students should read the assigned case and attempt to answer the discussion questions prior to class. Given the complexity of many cases, students should not expect to have a complete and perfect analysis when they walk into class. Rather, they should be familiar with the case facts, should understand the analytical tools required, and should have made sufficient progress on their analysis that the class can focus on the important issues and subtle points of the case. Remember, cases are learning experiences. I will require formal group write-ups for some cases.

Good class discussion is vital to the learning process. I welcome student input and questions during class. Please don't hesitate to contribute to class discussions. I have a terrible memory for names, so please bring a name placard to every class session.

Examinations are closed-book. Students are permitted to bring one letter-size sheet of notes (front and back) to exams. You are permitted to use calculators. Laptop computers are not permitted.

Late assignments/exams impose a substantial cost on your classmates and myself. Therefore, my policy on late assignments/exams is strict. Late assignments will generally not be accepted unless I have consented *in advance*. Examinations will be rescheduled for individual students only for valid reasons such as medical or family emergencies, and only if I have consented *in advance*. All assignments are due at the beginning of class.

**Grades**

Final grades will be computed using the following weights:

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|---|---|
| Case Studies (Group) | 10% |
| Stock-Trak Portfolio Management Project (Individual or Group) | 10% |
| Problem Sets (Individual) | 20% |
| Mid-Term Exam | 30% |
| Final Exam | 30% |

I will consider class participation in borderline cases.

Problem sets and case studies will be graded S+, S, S- or U. A grade of S (for satisfactory) will be awarded for work that is complete, neat and reasonably error-free. An S+ will be awarded (rarely) for work that exhibits exceptional ability or insight. An S- will be awarded for work that is complete and neat, but which contains serious conceptual errors. A U (for unsatisfactory) will be awarded for work that is incomplete, sloppy or severely flawed. Problem sets can be hand-written as long as they are neat.

Exams will be graded on a "curve," so both absolute and relative performance are important. Don't be too alarmed by raw scores that may seem low by conventional standards. After grading exams, I compute the mean and standard deviation of the raw scores. I then assign each individual exam a $t$-statistic (i.e., (raw score - mean)/std. dev.). The mapping from $t$-stats to grades will depend on the overall performance of the class.

**Academic Integrity**

I fully subscribe to the University's policies on academic honesty. I take my responsibilities as a faculty member very seriously, and I expect every student to do likewise. I have zero tolerance for breaches of academic integrity, and I will report all suspected offenses. Collaboration is permitted for individual assignments such as problem sets. However, each student is required to submit their own original work (i.e., don't submit the same document with only the name changed).

**Communications**

This syllabus details the policies and plan for the course. I will frequently post announcements on `http://terry.blackboard.com`, so check it regularly.

**Schedule** (Subject to change)

See next page.

| Week | Date | Activity | Reading | Practice Problems |
|---|---|---|---|---|
| 1 | 1/8 | Course Introduction | BKM 1, 2, 4, 26.1-3 | |
| | | Lecture: Introduction to Derivatives | BKM 20.1-2, 22.1-2, 23.5 | 20.1-2, 22.1, 22.3-4 |
| | | Stock-Trak: Introduction | `www.stocktrak.com` | |
| | 1/15 | No Class: MLK Holiday | | |
| 2 | 1/22 | Case: Harvard Management Co. (2001) | HBS 9-201-129 | |
| | | Lecture: Bond Valuation | BKM 14 | BKM 14.3, 14.4, 14.9, 14.12, 14.14 |
| 3 | 1/29 | Lecture: Bond Volatility | BKM 16 | BKM 16.1, 16.3, 16.5-6 |
| | | Lecture: Term Structure | BKM 15 | BKM 15.2, 15.4, 15.10-11 |
| 4 | 2/5 | Case: Orange County | | |
| | | Case: TIPS | HBS 9-298-017 | |
| 5 | 2/12 | Case: Arbitrage in the Govt. Bond Market | HBS 9-293-093 | |
| | | Lecture: Intro to Risk and Return | BKM 5, 6 | |
| 6 | 2/19 | Lecture: Portfolios & Diversification | BKM 7 | BKM 7.1-7, 7.22-23 |
| | | Lecture: Portfolio Opportunities | BKM 8, A.1, A.2 | BKM 8.1-8, 8.10 |
| 7 | 2/26 | Lecture: CAPM | BKM 9 | BKM 9.1, 9.4, 9.6-12 |
| | | Exam Review | | |
| 8 | 3/5 | Mid-Term Exam | | |
| | 3/12 | No Class (Spring Break) | | |
| 9 | 3/19 | Lecture: Single-Index Model | BKM 10, A.3 | BKM 10.1, 10.3, 10.5-9 |
| | | Lecture: Factor Models and APT | BKM 11 | BKM 11.2, 11.3, 11.5, 11.7, 11.8 |
| 10 | 3/26 | Lecture: Weak-Form EMH | BKM 12, 13, A.4 | BKM 12.1-10, |
| | | Lecture: Semistrong-Form EMH | | 12.17-22, 12.28, 12.31-32 |
| 11 | 4/2 | Case: Royal Dutch/Shell | HBS 9-296-077 | |
| | | | Scruggs (2007) | |
| | | Lecture: Portfolio Performance Evaluation | BKM 24 | BKM 24.15-17 |
| 12 | 4/9 | Case: Dimensional Fund Advisors, 2002 | HBS 9-203-026 | |
| | | Case: Grantham, Mayo, Van Otterloo & Co. | HBS 9-202-049 | |
| 13 | 4/16 | Case: Strategic Capital Management, LLC | HBS 9-202-007 | |
| | | | Lamont & Thaler (JPE, 2003) | |
| 14 | 4/23 | Case: Long-Term Capital Management, L.P. (A) | HBS 9-200-007 | |
| | | Case: Long-Term Capital Management, L.P. (C) | HBS 9-200-009 | |
| | | | *When Genius Failed* | |
| | | | Jorion (EFM, 2000) | |
| 15 | 4/30 | Stock-Trak: Presentations | | |
| | | Final Exam Review | | |
| | | Course Evaluations | | |
| | 5/7 | Final Exam | | |