



**Survey of Investments**  
**FINA 4310**

**Course Syllabus**  
Fall 2008

*Professor Paul Irvine*  
*Finance Department, Room 444*  
*706.542.3661*  
*pirvine@uga.edu*

**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 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 students' 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**

This section moves beyond basic bond valuation to more advanced topics in fixed income. The term structure of interest rates, duration and convexity 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. Industry analysis will be covered. 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 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.

### **Section 9 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.

4310 is currently scheduled at 2 separate class times this semester  
65-014 on Tuesday and Thursday from 11:00 – 12:15 in Caldwell 107  
45-013 on Tuesday and Thursday from 2:00 – 3:15 in Caldwell 107

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

### Course Materials

#### *Required Materials*

1. Essentials of Investments, by Bodie, Kane and Marcus, 7<sup>th</sup> 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 (2)	20%
Final Project (1)	10%
Class participation	5%
Stocktrak participation	5%
Midterm I	20%
Midterm II	20%
Midterm III	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- Aug. 19 Class 1 – Introduction

**Stocktrak**  
**Study.Net**

Thu- Aug. 21 Class 2 – Personal Investing  
Professor Irvine's Guide to Personal Investing

Tue-Aug. 26 Class 3 – Chapter 2

Thu-Aug. 28 Class 4- Chapter 3

Tue- Sep. 2 Class 5- Chapter 4

Thu-Sep. 4 Class 6 – Vinik Case

**SSRN (Irvine): Jeff Vinik and Fidelity Magellan**

[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=458080](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=458080)

----- **Stocktrak starts September 5** -----

Tue-Sep. 9 Class 7– Chapter 10.5, 10.6, 11.1, 11.3

Thu-Sep. 11 Class 8– Chapter 10.5, 10.6, 11.1, 11.3

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

Tue- Sep. 16 Class 9 – Midterm I Review

Thu-Sep.18 Class 10 – **\*\*\*MIDTERM I\*\*\***

Tue-Sep. 23 Class 11– Project day

Thu-Sep. 25 Class 12 – Chapter 13.2, 13.3, 5.3

**Study.Net: Valuing IBM**

**Womack:** [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=481881](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](http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html)

Tue-Sep. 30 Class 13 – Chapter 6

Thu-Oct. 2 Class 14 – Chapter 6.5

Tue-Oct. 7 Class 15 – Chapter 7

Thu-Oct. 9 Class 16 – Chapter 7 – **Womack: Understanding Risk and Returns, the Capm and the Fama-French three factor model**

Tue-Oct. 14 Class 17 – Chapter 8, 9 (**Haugen: Finance from a New Perspective**)

Thu-Oct. 16 Class 18 – Chapter 8, 9 (**Haugen: Finance from a New Perspective**)  
**Project II assigned (15%)**

*Fall Break – such as it is*

Tue-Oct. 21 Class 19 – Chapter 15.1, 15.2

Thu- Oct 23 Class 20 –Chapter 15.1, 15.2, 15.4

Tue-Oct. 28 Class 21 – **\*\*\*MIDTERM II\*\*\***

Thu-Oct. 30 Class 22 – Project day

Tue-Nov. 4 Class 23 – Chapter 17 - Futures

Thu-Nov. 6 Class 24 – Chapter 17 - Futures  
**PROJECT II DUE: Stock returns**

Tue-Nov. 11 Class 25 – Chapter 12.7 Industry Analysis  
Chapter 14 Financial Statement Analysis

Thu-Nov. 13 Class 26 – Chapter 13.4, 13.5 Other Valuation models  
**Esty**

Tue-Nov. 18 Class 27 – Other Valuation models  
Free Cash Flow to Equity

Thu- Nov.20 Class 28 – Chapter 18 - Performance Measurement  
**Project III assigned (10%)**  
**----- Stocktrak ends November 21 -----**

Tue-Nov. 25 Class 29 – Chapter 18 - Performance Measurement

Thu-Nov 27 Class 30 – **\*\*\*MIDTERM III\*\*\***

**A Final Exam - PROJECT III – Company Valuation will be due on the exam week date specified by the Registrar.**

4310 Spring 2008 Additional Course Material

**Extra Class – Behavioral Finance**

**Barberis and Thaler** [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=327880](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=327880)

Chapter 19.1-19.3

**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](http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library.html)
3. [finance.yahoo.com](http://finance.yahoo.com)
4. [www.stocktrak.com](http://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](http://www.mhhe.com/edumarketinsight)