

TERRY COLLEGE OF BUSINESS  
UNIVERSITY OF GEORGIA

**FINA 7310**  
**Investments**  
**Course Syllabus – Fall 2008**

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### **I. Official Course Description**

Financial assets and markets including the efficient markets hypothesis. The role of risk in asset pricing, the implications of asset pricing models, the capital asset pricing model, the arbitrage pricing model, and theories of valuation for both stocks and fixed income securities.

### **II. Course Topics and Objectives**

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:

1. Derivative Securities
2. Fixed Income Securities
3. Modern Portfolio Theory
4. Asset Pricing Models
5. Market Efficiency
6. Limits to Arbitrage
7. Portfolio Performance Evaluation

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.

*Formal Prerequisites:* Financial Management (FINA 7010) and Applied Business Statistics (MSIT 7100). A basic understanding of valuation, probability and statistics is assumed.

### **III. Course Materials**

#### **Required**

- *Investments*, 7<sup>th</sup> ed., by Zvi Bodie, Alex Kane & Alan J. Marcus, McGraw-Hill, 2008.
- *When Genius Failed: The Rise and Fall of Long-Term Capital Management*, by Roger Lowenstein, Random House, 2001.
- Case packet from Bel-Jean copy center.

- Lecture notes and other supplemental materials will be posted on <http://terry.blackboard.com>

### **Recommended**

- *Wall Street Journal*

### **IV. Course Requirements and Grading:**

Course grades will be based on 2 exams, group case write-ups, problem sets, and a portfolio trading exercise and presentation. Grades will be assigned on a plus/minus scale.

Case Analysis (Group)	10%
Problem Sets (Individual)	15%
Stock-Trak Portfolio Management Project	15%
Midterm Exam	30%
Final Exam	30%

Exams are closed-book, but students are permitted one letter-size sheet of notes (both sides) for the midterm exam and two letter-size sheets for the final exam. Calculators are permitted; laptop computers are not permitted.

Problem sets and case study write-ups will be graded S+, S, S- or U. A grade of S (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 (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.

Class participation will be considered for students at the margin. Consequently, class participation can have a material effect on final course grades.

Late assignments will generally not be accepted unless I have consented *in advance*. Exams will be rescheduled for individual students only under severe circumstances, such as medical or family emergencies, and only if I have consented *in advance*. All assignments are due at the beginning of class.

### **V. Expectations and Class Environment**

The course is composed of a mix of content lectures, case study applications, and exercises. The lectures will provide the background content for the case studies. The goal is to map the theory and fundamentals to the practice of modern investment management.

The course material can be quite challenging, from both a quantitative and an intuitive perspective. Mastery of the course material is best achieved through working problems. I will provide suggested practice problems from the text. Students should complete the reading

assignments and work the practice problems prior to the class in which the material will be covered. Keeping up with the readings and assignments is strongly advised.

For case studies, students should read the assigned case and attempt to answer the discussion questions provided 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 many cases.

Active class discussion will play a vital role in this course. I encourage a lively class environment, both during case discussions and content lectures. Do not hesitate to speak up during class, whether you just want to add something to the discussion, or if you do not understand something.

## **VI. Additional Course Policies**

### **Academic Honesty**

All academic work must meet the standards contained in “A Culture of Honesty.” All students are responsible to inform themselves about those standards before performing any academic work. Any violations will be referred to the Office of the Vice President for Instruction. This is pretty simple; don’t violate these policies.

Students are required to submit their own original work for individual assignments.

### **Announcements**

I will post announcements, changes to the schedule, and supplemental course materials such as lecture notes on <http://terry.blackboard.com>. I recommend you check the site frequently.

## Course Schedule (Subject to Change)

### Introduction / Overview

8/19, 8/21

Topics: Course overview, the investment management process.

Text: BKM 1, 2, 4, 26.1-26.3

Case: Harvard Management Company (2001) (HBS 9-201-129)

### Mini-Module: Introduction to Derivative Securities

8/26

Topics: Forward contracts, futures contracts, options, swaps, use of derivatives by portfolio managers.

Text: BKM 20.1, 20.2, 22.1, 22.2, 23.5

Practice Problems: BKM 20.1, 20.2, 22.1, 22.3, 22.4

### Module: Fixed Income Securities

8/28, 9/2, 9/4, 9/9, 9/11, 9/16

Topics: Bond prices and yields, default risk, term structure of interest rates, interest rate risk, duration and convexity, inflation-indexed bonds, fixed-income arbitrage strategies.

Text: BKM 14, 15, 16, 23.5

Practice Problems: BKM 14.3, 14.4, 14.9, 14.12, 14.14, 15.2, 15.4, 15.9, 15.10, 16.1, 16.3, 16.5, 16.6, 16.7

Cases:

- Orange County Case: Using Value-at-Risk to Control Financial Risk
- Treasury Inflation-Protection Securities (HBS 9-298-017)
- Arbitrage in the Government Bond Market? (HBS 9-293-093)

### Module: Modern Portfolio Theory

9/18, 9/23, 9/25, 9/30

Topics: Investor preferences, asset returns, return distributions, describing risk and expected return with sample statistics, naive diversification, portfolio mathematics, Markowitz portfolio optimization.

Text: BKM 5, 6, 7

Practice Problems: BKM 6.13-19, 6.34-35, 7.1-9

### Mid-Term Examination

10/2

## **Module: Asset Pricing Models**

10/7, 10/9, 10/14

Topics: Capital asset pricing model (CAPM), single-index models, multi-factor models, arbitrage pricing theory (APT).

Text: BKM 9, 8, 10

Practice Problems: BKM 9.1, 9.4, 9.6-12, 8.1, 8.3, 8.5-8, 10.2, 10.3, 10.5, 10.7, 10.8

## **Module: Market Efficiency and Asset Pricing “Anomalies”**

10/16, 10/21, 10/23, 10/28, 10/30

Topics: Efficient market hypothesis (EMH), empirical tests of the EMH, asset pricing “anomalies,” active vs. passive portfolio management strategies, behavioral finance.

Text: BKM 11, 12.1, 13

Practice Problems: BKM 11.1-10, 11.17-22, 11.28, 11.31-32

Supplemental Reading:

- G. William Schwert, “Anomalies and Market Efficiency”
- John H. Cochrane, “New Facts in Finance”

Cases:

- Dimensional Fund Advisors, 2002 (HBS 9-203-026)
- Grantham, Mayo, Van Otterloo & Co., 2001 (HBS 9-202-049)

## **Module: Advanced Topics in Portfolio Management**

11/4, 11/6, 11/11, 11/13, 11/18

Topics: Portfolio performance evaluation, equity arbitrage strategies, value-at-risk, hedge funds.

Text: BKM 24, *When Genius Failed*

Practice Problems: BKM 24.15-17

Cases:

- Global Equity Markets: The Case of Royal Dutch and Shell (HBS 9-296-077)
- Strategic Capital Management, LLC (HBS 9-202-024)
- Long-Term Capital Management, L.P. (A) (HBS 9-200-007)
- Long-Term Capital Management, L.P. (C) (HBS 9-200-009)

## **Wrap Up**

11/20, 12/2, 12/4

Activities: Stock-Trak project presentations, exam review, course evaluations.

## **Final Exam**

12/11 (12:00pm – 3:00pm)

### Tentative Course Schedule\*

Week	Day	Date	Module	Scheduled Topic
1	T	8/19	Overview	Syllabus / Introductions
	R	8/21		Case: Harvard Management Company
2	T	8/26	Intro to Derivatives	Lecture: Intro to Derivatives
	R	8/28		Lecture: Bond Prices and Yields
3	T	9/2	Fixed Income Securities	Lecture: Bond Volatility
	R	9/4		Lecture: Term Structure of Interest Rates
4	T	9/9		Case: TIPS
	R	9/11		Case: Orange County
5	T	9/16		Case: Arbitrage in the Govt Bond Market
	R	9/18		Lecture: Intro to Risk
6	T	9/23	Modern Portfolio Theory	Lecture: Portfolios and Diversification
	R	9/25		Lecture: Portfolio Opportunities
7	T	9/30		Review / Flex Day
	R	10/2		<b>Mid-Term Examination</b>
8	T	10/7	Asset Pricing Models	Lecture: Capital Asset Pricing Model
	R	10/9		Lecture: Single-Index Model
9	T	10/14		Lecture: Factor Models and APT
	R	10/16		Lecture: Weak-form Efficiency and Evidence
10	T	10/21	Market Efficiency and Anomalies	Lecture: Semistrong-form Efficiency and Evidence
	R	10/23		Lecture: Semistrong-form Efficiency and Evidence
11	T	10/28		Case: DFA
	R	10/30		Case: Grantham, Mayo, Van Otterloo & Co.
12	T	11/4	Advanced Topics in Portfolio Management	Lecture: Performance Evaluation
	R	11/6		Case: Global Equity Markets: RD and Shell
13	T	11/11		Case: Strategic Capital Management
	R	11/13		Case: LTCM (A)
14	T	11/18		Case: LTCM (C)
	R	11/20	Wrap Up	Exam Review
15	T	11/25		Thanksgiving Break
	R	11/27		Thanksgiving Break
16	T	12/2		Stock-Trak Presentations
	R	12/4		Stock-Trak Presentations

\*This is a tentative schedule. Topics covered in class, are subject to change. Students are responsible for any changes that are announced during class.