

Investments MGMT 411

Syllabus Fall 2005

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Course Description

This course is designed to improve your understanding of the fundamental concepts of security investments. The emphasis of the course is on developing skills for portfolio management. After completion of this course, you will hopefully acquire the tools needed to make solid investment decisions and understand the concepts of valuation of financial securities.

I assume that this is your first in-depth course in asset pricing. However, the course is fairly quantitative and you should be familiar with the basic concepts of probability and statistics and be comfortable using spreadsheet packages like Excel.

Course Requirements and Grading

Exam 1	20%
Exam 2	20%
Final Exam	20%
Homework	20%
Class Participation	20%

Exam Policy: You must take the exams at the scheduled times. There will be NO make-ups on midterm exams. If you miss an exam for *any* reason, I will shift the weight from that exam to the final. The final exam is cumulative. I expect that you arrive on time, exit quietly, and conduct yourself properly during the exams. For details, please see Purdue's policy regarding academic integrity: <http://www.purdue.edu/ODOS/administration/integrity.htm>.

Grading: If there is a concern about the grading of a problem on the exam, I will look over and re-grade the problem in question, along with the *entire* exam.

Homework and Class Participation

There will be three computer assignments dealing with real world applications (6% of final grade). These computer assignments will require use of Microsoft Excel. You may turn in these assignments in groups, however it is in each student's best interest to understand how to do the assignment on his/her own. Homework is due at the beginning of class. If you cannot turn it in on time, have a classmate turn it in for you. Late assignments will *not* be accepted, except under the most extraordinary circumstances.

Students are also required to turn in a written case study on the company of their choice. (You may do this assignment in groups of 3.) The company should be selected based on an article read in the *Wall Street Journal*. For example, you might read that two companies have plans to merge. You would then analyze the impact of the merger. Case studies will be presented during the last week of class. Each student in the group is expected to be prepared to present the group's analysis of the company, as I may select any student from the group, at random, to present. In following and analyzing your company, I require that you analyze current news about the company which may be found in the *Wall Street Journal*. Particularly important is that you analyze your company using the tools we have learned in class. This assignment counts for 9% of your final grade.

Finally, you will have a stock picking assignment to be done individually, for which details are provided on the last page of this syllabus (5% of final grade).

The stock-picking and excel assignments are to give you an understanding of how what we learn in class can be applied to the "real" world. These will be the best preparation for those who go on to work in the finance industry. Moreover, the case study, paired with the articles you read in the *Wall Street Journal*, should help you develop an understanding of how to use the tools we have learned in class to analyze and understand actual events.

Additional assignments from the book will be given in class, so it is imperative that you bring your book to class. The in-class problems will be representative of (and your best preparation for) problems you will see on the exams. Therefore, you should put in a strong effort when trying these problems. After asking you to attempt these problems (in small groups), I will go over the result or have you demonstrate to the class how to do the problems. I expect that you will contribute to your group in solving these problems and be prepared to present your work to the class. Your efforts on these assignments will be relevant for your class participation grade (20%).

Readings

The required textbook for the course is:

Bodie, Zvi; Alex Kane; and Alan Marcus, *Essentials of Investments*, Irwin, 5th edition, 2004.

The Wall Street Journal

Additional readings may be suggested. For your convenience, I will also provide a set of lecture slides on the course website. These slides are *not* a substitute for attending classes since the class discussion will add value to the notes.

Hours

The class is scheduled to meet on Tuesdays and Thursdays from 12:00pm to 1.15pm, 3:00 pm to 4:15pm, and 4:30pm to 5:45pm for the three respective sections. I will have office hours on Tuesday and Thursday from 1:45pm to 2:45pm and by appointment.

Course Outline

This is a tentative outline of the topics that will be covered. I reserve the right to make modifications to this schedule. I suggest that you read the material in the text (all chapters refer to the required textbook, unless otherwise noted) before the lecture.

Aug 23: Course outline and introduction
Overview of financial markets/assets

Readings: Chapters 1, 2

Stock trading

Readings: Chapters 2.4, 3.2-3.7

Aug 30: Risk and return

Readings: Chapter 5.1-5.5

Statistics review

Readings: TBA

Sep 6: Optimal asset allocation (a)

Readings: Chapter 6.1-6.3

Optimal asset allocation (b)

Readings: Chapter 6.4

Sep 13: CAPM

Readings: Chapter 7.1-7.2, 7.4

APT

Readings: Chapter 7.3, 7.5

Sep 20: Review

Readings: Review

Exam 1

Readings: Study

Sep 27: Market efficiency

Readings: Chapter 8.1-8.2

Market anomalies

Readings: Chapter 8.3

Oct 4: Performance measurement

Readings: Chapter 20.1-20.6

Security valuation

Readings: Chapter 12

Oct 11: No class: October break

Readings: None

No class: October break

Readings: None

Oct 18: Financial ratios

Readings: Chapter 13

Discounted cashflow

Readings: Selected sections from Chapter 13

Oct 25: Technical analysis

Readings: Chapter 19.5-19.9

Review

Readings: Chapter 19.5-19.9

Nov 1: Exam 2

Readings: Review

Derivatives security valuation (a)

Readings: Chapter 14

Nov 8: Derivatives security valuation (b)

Readings: Chapter 15.1-15.2

Derivatives security valuation (c)

Readings: Chapter 15.3-15.4

Nov 15: Fixed income security valuation (a)

Readings: Chapter 9.1-9.4

Fixed income security valuation (b)

Readings: Chapter 9.5

Nov 22: Fixed income security valuation (c)

Readings: Chapter 10.1-10.2

No class: Thanksgiving Break

Readings: Please begin your review

Nov 29: Fixed income security valuation (d)

Readings: Chapter 10.4

Review

Readings: Chapters 9 & 10

Dec 6: Stock-picking assignment and Class presentations

Readings: None

Class presentations

Readings: None

Finals Week: Final Exam

Stock-Picking

In choosing your portfolios, please adhere to the following guidelines:

- You have 1 million dollars to invest.
- Your portfolio will be comprised of 5 stocks.
- You may choose stocks using any method (stories in the newspaper, stock tips from your uncle, etc.).
- Your portfolio is equally-weighted (i.e., \$200,000 in each of the five stocks).
- You buy the stocks using closing prices from Friday, Aug 26.

Turn in a spreadsheet with the company names, ticker symbols, stock price and number of shares purchased as of Friday close. Include also the reasons you selected each of the stocks. The assignment will be due on **Tuesday, Aug. 30**.

You will be responsible for tracking the values of your portfolio. Periodically, you will be asked to turn in or report on the current performance of your portfolio. Be prepared to discuss why you picked the stocks as well as any news surrounding your stocks at any point during the semester.

You should turn in the original spreadsheet again on Dec. 6, but also include the overall performance of your portfolio over the semester (assuming you sold your stocks on Friday, Dec. 2). The best and worst performing portfolios (as of the close of markets on Friday, Dec. 2) will be announced in class.

www.yahoo.com and the newspaper (e.g., WSJ) are possible sources of stock prices and ticker symbols.

Your grade on this assignment will be based on how actively you follow the stocks you chose during the semester, along with the accuracy of evaluating your performance over the semester. Your grade will *not* be based on the performance of your portfolio.

Computer Assignment Schedule

Number	Due date
1.	Sep 13
2.	Oct 4
3.	Nov 15