

**Finance**  
**COURSE NUMBER: 33:390:380**  
**COURSE TITLE: Investment Analysis**

## **COURSE DESCRIPTION**

Overview of security analysis and financial management. Theory of investment, nature of financial markets, valuation of fixed income securities, term and risk structure of interest rates, strategies of bond management, evaluation of common stock, and efficient market hypotheses. Written and oral presentations required.

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## **COURSE MATERIALS**

**The textbook we shall use is the 10th edition of *Investments* by Bodie, Kane, and Marcus with *Connect Plus*, from MHHE**

**The *Required Readings* material will be posted on BB.**

**You will also need to set up an account with *Online Trading and Investment Software (OTIS)* of the Wharton School. It is provided to you free of charge (you are welcome!) Instructions on how to set up an account will be emailed to you the 2<sup>nd</sup> week of class.**

**A *non-programmable financial calculator* is required.** Be sure it is a *financial* calculator. Any financial calculator admissible on the CFA exams is acceptable. I recommend the BA II Plus or Professional (for \$28-\$40). Please have your calculator with you at all lectures, starting our next lecture

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## **PREREQUISITE**

Financial Management (33:390:300, or 310)

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## **COURSE OVERVIEW & OBJECTIVES**

This course addresses the fundamental question of the SAVINGS decision: given that we have decided what portion of our income we want to save, how do we allocate our SAVINGS across available vehicles and sectors and, perhaps, strategies? The course introduces you to the analysis of SAVINGS vehicles (stocks and bonds in particular) and to portfolio strategies used in financial markets today. It emphasizes an intuitive yet rigorous understanding of the theory and practice of financial intermediation. This is, necessarily, an applied course. Its objective is to help you develop a practical and theoretical basis upon which you can expand your knowledge of finance, investments and the economy. To achieve this objective, we shall adopt the 'learning-by-doing' approach: you will be working on problems and cases, and researching and trading securities as you manage two risky portfolios, one imposed and the other constrained.

Weekly problem sets and articles will be assigned to reinforce the concepts presented in class.

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## OUTLINE OF TOPICS

### **Topic 0      Foreword: ‘INVESTING’: an abuse of language!      Week 1-2**

On consumption, savings, investments, and the rate of time preference

#### **Exploring the PLAYGROUND:**

Of financial intermediation and intermediaries

BKM Chapters 1, 2, 3, & 4

#### Topic 0 Required Readings

- \_ *The New Capitalism, How Unfettered finance is fast reshaping the global economy*, FT
  - \_ *Greed – and fear*, E
  - \_ *Fixing finance*, E
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### **Topic 1      CORE tools and techniques      Week 3, 4, 5**

TVM and risk-return trade-offs in pricing stocks and fixed income securities

Understanding Derivatives

BKM Chapter 5, 14, 15, 16, 17, 18, 19, 20

#### Topic 1 Required Readings

- \_ *Uses, Abuses, and Alternatives to the Net Present Value Rule*, S. Ross
  - \_ *Market Myths*, G. Bennett Stewart
  - \_ *Fact and Fantasy in the Use of Options*, Fischer Black
  - \_ *How We Came up with the Option Formula*, Fisher Black
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### **Topic 2      on PORTFOLIO selection      Week 6, 7**

diversification, risk, and return measures

BKM Chapter 5, 6, 7, 8

#### Topic 2 Required Readings

- \_ *Portfolio Selection*, Markowitz
  - \_ *Estimating Expected Return*, Fisher Black
  - \_ *Risk, Market Sensitivity, and Diversification*, William Sharpe
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### **Topic 3      Theories of Asset PRICING      Week 8, 9, 10**

The CAPM

Pricing by ARBITRAGE

BKM Chapter 9, 10, 13

#### Topic 3 Required Readings

- \_ *Beta and Return*, Fisher Black.
- \_ *CAPM Theory and Evidence*, Fama and French

**Topic 4**                      **the EFFICIENCY**    **Week 11**  
   *of information-driven markets*

BKM Chapter 11 & 12

Topic 4 Required Readings

- \_ *Implications of the Random Walk Hypothesis for Portfolio Management*, Fisher Black \_
  - Random Walks in Stock Market Prices*, Fama
  - \_ *The Efficient Market Hypothesis and its Critics*, Malkiel
  - \_ *Efficiency and beyond*, E
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**Topic 5**                      **PERFORMANCE evaluation**    **Week 12, 13**

BKM Chapters 24, 27

Topic 5 Required Readings

- \_ *Asset Allocation: Management style and performance measurement*, W Sharpe
  - \_ *The Magellan Fund and Market Efficiency*, Marcus
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**Topic 6**                      **Intro to Portfolio Risk Management**    **Week 14**  
*(if we have time) HEDGING with derivatives*

BKM Chapters 21, 22, 23

Topic 6 Required Readings

- \_ *The Rise of the Risk Manager*, Risk
- \_ *Deutsche Bank Risk*, Annual Report
- \_ *Risk Mis-management*, NYT

E = the Economist  
FT = the Financial Times  
NYT= the New York Times

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## GRADING

Your course grade will likely be determined as follows:

Portfolio Mgt    20 pts    *Timely, articulate and defensible bi-weekly portfolio reports earn points.*

QZ 1                      20 pts    *QZs consist of 20-25 multiple choice questions designed*

QZ 2                      20 pts    *to test your understanding of assigned readings/chapters/homework*

Exam 1            20 pts **OCTOBER 16**  
Exam 2            20 pts **DECEMBER 8**

**Project-X**        **7 pts** discretionary, more on project-X in class. Project-X points will not count if either Exam grade is less than 50. Project-X will be assigned after your 1<sup>st</sup> exam.

Exams will take place in-class, closed books and closed notes.

**Your course letter grade will likely be determined as follows:**

**A (outstanding) > 92**

**B (good)            > 80        B+ > 86**

**C (satisfactory) > 70        C+ > 76**

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## EXAM PROTOCOL

The only two items allowed on your exam table are: an authorized calculator and a pen/pencil. Please note that **you cannot exit the room once the exam has started**; I need to know about any *documented* medical conditions that necessitate frequent use of bathroom during the first two weeks of classes.

## MAKE-UP EXAM POLICY

**I do NOT give make-up exams/quizzes.** If you miss an exam/quiz and I do not accept your excuse, your grade for that exam/quiz will be zero. In the **VERY RARE** case in which I accept your excuse, your missed exam/quiz points will be added to your comprehensive exam points.

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## EMAIL PROTOCOL ALWAYS start the SUBJECT LINE with 380 section no. ...

**STUDENTS WITH DISABILITIES** Please communicate directly with the Dean's office by the end of the second week of classes to determine the necessary accommodations.

**STUDENT ATHLETES** If you expect to miss class and/or examinations due to events which conflict with class time, please inform me of the dates on which those events will occur in writing by the end of the second week of classes.

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## NOTES

**CHANGE IN DESIGNATION:**    **We meet on Tues Nov 25 - Thursday Classes**

Wed Nov 26 - Friday Classes

**THANKSGIVING:**                    Thurs Nov 27 - Sun Nov 30

**REGULAR CLASSES END:**        Wed Dec 10

**FINALS' WEEK:**                    Mon Dec 15- Mon Dec 22

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