

Bus 465/565– Investments

Spring 2012

Classroom: Buckman 108

Meeting Time: Mon. 4:00-6:30

Instructor: Brian L. Jones

Instructor email: jonesb@rhodes.edu

Instructor Office: None. I meet students in 3rd floor conference room

Office hours: Monday 2-4 and by appointment.

I. Course Objective:

The objective of this course is to develop the basic concepts and varied methodologies used in the evaluation, selection, and management of financial assets in the context of domestic and foreign capital markets. Specific topics are listed in Section 7.

II. Learning Resources:

Required resources:

- Charles P. Jones, Investments: Analysis and Management, 11th edition Wiley
- The Wall Street Journal
- Yahoo finance and other internet information sources

Optional Readings (not required):

- The Wealthy Barber by David Chilton.
- A Random Walk Down Wall Street by Burton G. Malkiel.
- The Richest Man in Babylon by Classen.
- Business Week
- Forbes
- The Financial Times
- The Economist

Links: In my Public folder you will notice a links folder. Check this frequently as I will post links to articles and useful information for you to read related to the course. Study each one because some test questions will be related to links.

Calculators this course requires a business financial calculator. I suggest TI BA II, or TI BA II Plus. You are responsible for knowing how your calculator works. I will spend **no** class time

assisting with calculators. If you are sketchy then try <http://www.tvmcalcs.com/> for tutorials on almost any financial calculator.

III. Responsibilities

Students are required to attend all classes, read the text book, and complete all quizzes. Should a student miss class they are required to provide proof of necessity of absence to preserve their grade. In order to take the final exam a student must complete every online quiz with at least an 80% average score.

IV. Grading

Undergraduate:

Participation and Attendance	10%
Exam 1-4	60% (each is 15%)
Investments diary	20%
Competition rank	10%

Graduate:

Participation and attendance	10%
Exam 1-4	40% each is 10%
Investment Ideas	10% each is 5%
Investments diary	30%
Competition rank	10%

Scale 100-98 A+, 97-93 A, 92-90 A-
89-87 B+, 86-83 B, 82-80 B-
79-77 C+, 76-73 C, 72-70 C-
69-67 D+, 67-61 D
60 or less F

Attendance: At the end of the semester your grade will equal the percentage of classes attended among those I took attendance modified by some participation adjustment.

Exams: Each covers 5 or 6 chapters. I will curve every exam that the median score in the class is less than 75%.

Final Exam: Not cumulative and treated the same as every other exam.

V. Taking Exams 1-4

Prior to each exam I will email the entire class a very detailed review for the exam. This review will cover everything asked on the exam. I will also post this in my public folder. Anyone needing office hours prior to the exam to ask me questions will be accommodated (just email me or ask me after class).

Each exam is closed book. You will be entitled to a one page cheat sheet with each exam and a financial calculator. My exams are intended to be very hard, so study everything well prior to the exam. The cheat sheet will not be enough. Include all math formulas from every chapter on your cheat sheet.

I strongly support the honor code, but I also know when pressed anyone can be tempted if the stakes are high enough. Expect me to wander the class watching for cheating during exams.

VI. Taking the Final Exam

The final exam is not comprehensive and is the same as any other exam

VIII. Opting out of any Exam

Every exam is mandatory. If you contact me prior to an exam and then provide proof of a doctor's visit, then I will give a medical excuse for an exam day. I will decide how the exam is to be taken afterwards.

IX. Investments Competition and Dairy

The investments competition is intended to give real practice on the theory in the course. Grades will be based on two things (1) How well your portfolio does compared to the others in the class, both graduate, undergraduate, and a dummy account I will run poorly, (2) the logic and reasoning behind your investment choices.

(1) Setting up your account for the competition. Go here:

<http://www.stocktrak.com/public/members/registrationstudents.aspx?p=Rhodes-Investments-s2012>

It will cost less than \$30 to set up your individual stock trak account and you will not be able to pay for it with Rhodes dollars. I highly recommend you read the tutorial on how to trade.

(2) Investments diary: Every time you make a transaction in your account I want you to fill out a log and diary of your investment. The expectations are different for undergraduates and graduates see appendix after schedule for specifics.

X. Investment Ideas (Grads only)

Beginning with the second class meeting, one graduate student will present an investment idea to the class. The student will pitch the idea using any resources they feel necessary for roughly

5 minutes, then they will take questions from the class. Each graduate student registered for the course will pitch two ideas during the semester. Once presentation must be prior to the second exam, and the second must be before the last lecture class time.

XI. Changes to the syllabus

If necessary, modifications to the syllabus or lecture schedule are discussed in class. The most recent syllabus is kept on the FCBE website. It is the student's responsibility to ensure they have read and understood the most recent syllabus.

XII. Disabled students

Any student who may need class or test accommodations based on the impact of a disability is encouraged to communicate with me privately to discuss your specific need. I encourage you to come for the extra help.

XIII. Communication with the professor

I often email students, so make sure your email is working correctly. It is best to email me everything you wish to communicate with me, but talking after class or during my office hours is encouraged as well. I encourage you to email me questions, but I reserve the right to reply to the entire class with the answer.

I do not have an office so it can be hard to get together with me face to face outside of a few hours prior to class, but if you email me we should be able to set something up.

XIV. Course schedule

This schedule is subject to change at my discretion at any time, but I will inform you in class and maybe by email. If you are not in class then it is your responsibility to keep track by contacting other students.

<u>Date-2012</u>	<u>Chapters</u>	<u>Chapter Topics and exams</u>	<u>Other</u>
16-Jan	MLK birthday		
23-Jan	1, 2	background, perspectives, and direct investments	Syllabus
30-Jan	3,4	indirect investing, securities markets	Invest idea
6-Feb	5,6	securities trading, returns and risks from investing	Fully invested, Invest idea
13-Feb	Exam 1	Exam 1 (ch1-5)	
20-Feb	7,8,	portfolio theory, portfolio select, asset allocation,	Invest idea
27-Feb	9, 21, 22	asset pricing models, portfolio management, evaluating performance	
5-Mar	Exam 2	Exam 2 (6-9,21,22)	Draft diary Due sections 1-3 only
12-Mar		Spring break	
19-Mar	17,18	bond yields and analysis and strategy	Invest idea
26-Mar	10,11	common stock valuation, analysis and strategy	Invest idea
2-Apr	12, 13	market efficiency, economy /market analysis	Invest idea, reassess common stocks
5-Apr	Not a class day	Easter recess	
9-Apr	Exam 3	Exam 3 (10-12,17,18)	
16-Apr	14-15	sector/industry analysis, company analysis	
23-Apr	19, 19A, 20	options and futures	
27-Apr	Not a class day	Investments contest over write sections 4 and 5	Investments contest over
30-Apr	Exam 4	Exam 4 (13-15, 19, 19a, 20)	Diary Due

Notes

Investment ideas are presented by grad students to the entire class. Each will present for 5 minutes then take questions.

Diary updates are just what you have done so far, updates are not graded until the end, but rather checked and critiqued.

Appendix for XII Investments Diary and Log

Undergraduates

I. Various project sections in detail

1. **Project Section 1: You!** It is my belief that people who invest in a style that is not consistent with their personality are much more likely to make mistakes and underperform. In this first section **I want you to describe your personality in detail, but with an emphasis on your stomach for risk.** If you're someone who likes to ride 50' waves in the middle of the ocean on a surf board or climb mountain cliffs with nothing but your hands and feet every weekend then tell me about it. If you're a very conservative person who fears losing money I also want to know that. This section should be at least half a page to a full page and include examples of your risk taking (or avoidance) in daily life.

2. **Section 2.** It can be helpful to take a risk assessment test, so I want everyone in the class to take one and report the results in section 2 of this project. I will include one with the course materials, but you can take anyone you want. This can be a sentence long.

3. **Section 3: The Log!** Every time you make a change or purchase in your portfolio I want you to record the following information in MS Excel except for the logic which can be in MSword (**this exact format is not required, but the information is**) (a copy and paste of the stock trak report is incorrect):

date	buy,sell or write	ticker	Description of Investment	number shares or contracts	price per share or contract	fee	Total Dollar amount of investment	logic
2/1/2011	buy	MSFT	Microsoft common stock	100	\$28	\$10	\$2790	See note 1
2/1/2011	buy	MSFT110114C00028000	Call on Microsoft @strike 28 Expires April 15th	10	\$26	\$10	\$2610	note 1
etc								.

- **Date:** transaction date and time of trade
- **Buy,sell,or write :** depending on the investment or transaction you could be buying (becoming an owner or investing in), selling (giving up ownership), Shortselling (selling something short), writing (options), or redeeming. Write that here.
- **Ticker** (or cusip) is the unique code given to that investment.

- **Description:** *Describe what you invested in so I can easily distinguish it from other ideas without looking up the ticker.* For example: Microsoft common stock, Vanguard Total stock market fund, GE corporate 5% bond maturing April 2010, or Gold futures. If it is an option then let me know the expiration month and the strike price. If it matures let me know when. For example: April 2013 General Electric 6% Corporate Bond. **Bad descriptions will cost you points!**
- **Number of shares or contract:** how many did you buy?
- **Price per share:** what you paid per item?
- **Transaction cost:** what did you pay in fees?
- **Dollar amount spent or earned:** what did you pay (as a minus) in total (or earned in the case of a sale)?
- **Logic :** Why did you make the investment? **This is very important part of your grade and should be done in MS word separately.** I am looking for the information and logic you used to decide to make the investment and **the more numbers you use the better.** You can cite information you saw in the Newspaper, TV news, investment site, text book, internet, magazine, etc. As long as I can find the information, it is good. Also, tell me your thinking. **The more useful details the better.** Feel free to give me anywhere from a paragraph to a full page (more is acceptable in a rare case). For example:
 - *“I saw in the news that this company was a big exporter and was moving large parts of their operations to China (link). Moreover, I am expecting a big fall in the dollar for these reasons 1..2...3...4. That should lead to a spike up in the company’s investments overseas in dollar terms. If you compare this company’s price to book to other companies in its sector it is cheap (see chart). It is also cheap on a P/E basis (see chart) This led me to buy the company’s stock as it should outperform the index.”*
 - *“The market in previous days has been very volatile, so I thought I would try an **options straddle** to capitalize on future volatility with a small percentage of my money. I picked the following strike prices based on.....etc.”*
 - *“The text talks about diversification. My portfolio lacks _____. By adding 150 shares I now expect my portfolio to have a standard deviation of _____. Here is the math_____. The correlation coefficient is _____.”*
 - *The asset allocation required of my risk profile requires the following breakdown _____. After doing an economic analysis I determined the following sectors to be buys _____. This ETFs represents these sector _____.*

I expect many strategies to involve more than one trade, so put all trades using the same logic on the same page (see above), but still include separate information on each if it is valid. Your grade will not be based on how many trades you make, but rather the intelligence of your investment choices; how well your choices do during the semester; how well it appears they could do in the long run; if the investments suit your personality; and **most importantly how well you apply the lessons from the course into your final investment choices.** But, remember, if you make few actual investments during the project you have little chance to put into practice what you have learned.

As the semester goes on, I am going to expect your logic to involve more things you learn throughout the semester. In other words, a shift away from just news to more rational reasons for the trades is expected. Initially, you will invest based on gut, feeling, and newspaper articles and that is fine and expected, but by the end of the semester I expect you to be using what you have learned through lecture and the text. Plus, I expect you to re-evaluate your original choices based on what you learn and show that work in the log. Your final portfolio will be a large part of your grade as will how your portfolio changes and develops.

Note: I should be able to print your log and have it fit one page wide. Landscaped is ok. It can be as many pages long as you need. ***This is not a copy and paste of the Stock Track export, but your own log formatted as above or some way similar.***

- 4. Section 4: What you learned.** The final section is a section where I want you to sum up what you did in your portfolio. What worked and did not work? Tell me how your portfolio and thinking changed as the semester progressed. I will look at your log and final portfolio while reading this section and it **tends to weigh very heavily in the final grade.** Recall that the primary part of this grade is to **apply what you learned, so this is where you get your last chance to show a real understanding of the material.**
- 5. Section 5 of the project is your “in conclusion” paragraph of the project.**

- II. **Project Hand-ins:** A draft of section 1 and section 2 is due **March 1st, 2012**. I will provide feedback. You can email it in parts but each part must have your name as the first part of the file name
- a. *"Your name draft investments log.xls"* and
 - b. *"Your name investments diary.doc"*.

Failure to follow that naming convention can result in the loss of the 1% handing it on time grade. I will ask for and read your investments log and diary and give you feedback on it thus far.

The final hand-in includes all sections and should be copied **and pasted entirely into MSWORD** then emailed to me by **noon on the April 25, 2012** at the latest. The file should be named *"Your name Final investments diary.doc"*.

Note: this competition is not intended to see how well you gamble and speculate, but rather how you invest. I penalize excessive speculation in the final project grade.

Appendix for XII Investments Diary and Log

Graduates

The primary differences between the graduate and undergraduate logs are in the details and expectations. I expect the graduate students to include a paragraph to several pages on each investment explaining the reasons behind the investment (or related group of investments). These should include numbers. I want supporting information such news articles (post link), references, ideas from the text, etc, that support your idea. In addition, give me the reasons you would sell the investment in the future. You are being graded more on your logic, reasoning, and understanding of the course material rather than the actual performance of the portfolio.

Section 1 is essentially the same as for undergraduates.

Section 2 is essentially the same as for undergraduates.

Section 3 is essentially the same as for undergraduates, but my expectations for the notes are higher.

date	buy,sell or write	ticker	Description of Investment	number shares or contracts	price per share or contract	transaction cost	Dollar amount spent or earned	logic
2/1/2011	buy	MSFT	MSFT common stock	100	\$28	\$10	(\$2,810)	See note 1
2/1/2011	buy	MSFT110114C00028000	Call on MSFT strike 28 Expires April 15th	1	\$26	\$10	(\$36)	note 1
etc								.

Section 3 in MS WORD, example of 3:

Note 1: I invested in 6 covered calls on 6 of the major players in the software industry using about 10% of my money in total. I expect to sell these positions at the high price of At an x% returns. But I intend to exit the positions if they fall below these prices 1....2....3..... Etc.

I was reading recently about in this paper (link). Plus, I read this (link) which argues And this..... (link) which lead me to this conclusion..... To capitalize on this I thought about doing 1..... 2..... 3....., but based on the text here (p.101), this (link), and a conversation with professor Jones on day X, I decided the better way to invest was to do these covered calls.

I chose the exercise prices of the calls based on the following.....

What ever else you want to add. Obviously you should write it as clearly and coherently as possible (unlike mine). I am grading strategy, knowledge, and most importantly logic. Make sure you tell me what would prompt you to change your mind (always includes a price).

Section 4 and 5 same as undergraduate but my expectations are much higher. I expect several pages on what you learned.

Steps to completing a top project for undergrads and grads

1. Once you have signed up, then you should think about yourself and your penchant for risk, then take the included financial risk assessment and note your score and the allocation for your score.
2. Invest at least \$480,000 in investments that you think would make good choices for you after you have read or at least listened to the first few chapters of the course (before Feb. 6). Assume you just inherited this sum and do not want to use a financial advisor for help. These investments can be common stocks, bonds of any type, ETFs, Mutual funds, ADRS, Options, Futures, Foreign stocks and bonds, etc. If it can be traded on an exchange then it is likely in stock trak. You have a margin account so in theory you control \$1 million in purchasing power. \$500,000 in fake money and \$500,00 in leverage to magnify gains and loses should you desire. **Make sure you log each investment** as above. Try to keep a long term focus (5-10 years) on the bulk of your portfolio. Feel free to speculate according to your own risk profile, but I will punish excessive gambling and day trading in the final grade. Email me if you are concerned you may be excessive and I'll let you know before it hurts you.
3. Write down why you think each investment is a good choice in the notes section of your log. Why do you think it will perform well? Why does it suit you? Why did you invest in it? This notes section tends to get long and should likely be done in MSWord.
4. Continue to think about your investments as the class goes on. As you learn things about investing then consider changing your portfolio or at least re-evaluate your positions given the new information. Write your reasons behind any changes in your Log notes section. In addition, write any reasons why you kept a position after re-evaluation.
5. Hand in this draft of your diary/project to me on 3/6/2012. It should be emailed to me at my Rhodes account jonesb@Rhodes.edu. I will read them and give you pointers on how to make sections 1-3 better. Note: not all sections will be critiqued and this draft will always fail as a final project. I am reviewing and not grading these drafts, but you must hand one in for review with all three sections or risk having your project grade permanently lowered.
6. Re-evaluate all your current investments to make sure they still fit you. By now you should understand diversification. Apply this knowledge to the portfolio.

7. Once you understand bond evaluation, common stock valuation, etc. You should again re-evaluate your positions fundamentally. Are your stocks cheap or expensive? Why are your investments going to outperform a pure market play on risk or return? It is pointless to invest in anything other than the market unless you expect more than what the market will bring long term, so explain why your investments were chosen with that in mind. Remember it is in giving me the right fundamental analysis where the better grades come.
8. **Grads:** use either CAPM or a simple top down analysis to create your final portfolio. Make either with an asset allocation. In other words, if you choose CAPM then invest using Betas (Yahoo has them) in a well diversified portfolio (more diversified than the S&P500). If you choose a top down analysis, then invest in sector ETFs, common stocks, bonds and other investments based on your results. Include this reasoning in your notes of the log. Feel free to use resources not provided by me to assist you, but you will have to include the material with your final project and possibly your draft.
9. When you write in your log about a mutual fund then tell me why you picked that fund. Included in why should be a mention of other funds you considered and rejected. This applies to almost any other investment company investment.
10. **The final sections of the project are vital.** These are where you tell what went right and wrong in your portfolio and why. This is where you tell me what you learned. The key to this entire project is to learn something you can apply the rest of your life. Tell what you learned in detail (pages) so you can score well on this project.
11. **This project is a very important part of the course.** An A on the project will make it very hard for me to not give you a very good grade in the course.