

# Bus 465/565– Investments

Spring 2011

Classroom: Buckman 108

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

Instructor: Brian L. Jones

Instructor email: [jonesb@rhodes.edu](mailto:jonesb@rhodes.edu)

Instructor Office: Buckman 329c

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 utilized 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, 10<sup>th</sup> edition Wiley (ISBN 0-470-04781-X).
- The Wall Street Journal
- Yahoo finance and other internet information sources

Optional Readings (will not be used in the course):

- 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 the content of the links.

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**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 completely. 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

Undergraduate students are required to attend all classes, read the entire text book, participate fully in the investment competition, complete the investment log and diary, and complete all tests. Should a student miss class they are required to proof of absence to preserve their grade.

Graduate students are requires to do the same as undergraduates, but also present original investment ideas to the class twice during the semester and keep a more detailed log and diary than the undergraduates.

## IV. Grading

### **Undergraduate:**

Attendance	10%
Participation	5%
Exam 1-3	45% each is 15%
Final Exam (cumulative)	20%
Investments diary	10%
Competition rank	10%

### **Graduate:**

Participation and attendance	10%
Exam 1-3	30% (each is 10%)
Final Exam Cumulative	20%
Investment Ideas	10% (each is 5%)
Investments diary	20%
Competition rank	10%

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Grade Scale: 98-100 A+, 93-97 A, 90-92 A-  
89-87 B+, 86-83 B, 82-80 B-  
79-77 C+, 76-73 C, 72-70 C-  
69-68 D+, 60-67 D  
60 or less F

**Attendance:** At the end of the semester your grade will equal the percentage of classes attended, among those in which I took attendance, modified by some participation adjustment. Note: If you do the math, perfect attendance raises your final score by an entire letter grade.

**Exams:** Each covers 5 or 6 chapters. I will curve every exam that the median score in the class is less than 75%. Your lowest score between exams 1, 2, and 3 will be replaced with the score on your final if your final exam score is higher.

**Final Exam:** Cumulative exam. In order to be able to take the final you are required to complete all previous exams. If your final exam score is higher than your lowest previous exam, then it will replace that exam. One exam can be replaced in this way. You must have a medical excuse in order to replace a zero.

**Investment competition:** Students will compete in an investment competition. Among students who made a serious effort, whichever student does the best will get a 100% . Grades will then be based on ranking among the class.

**Investments Diary:** See section VIII.

## V. Taking Exams 1-3

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.

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## VI. Taking the Final Exam

The final exam is comprehensive, but a one page handwritten cheat sheet will be allowed. It will cover everything in the text book. So it is likely your cheat sheet will not be enough to pass by itself. Several days prior to the final exam I will create, post in my public folder, and email a very detailed review sheet for the final. Every topic used for a question on the exam will be on the review. In addition, I will expand my office hours to accommodate everyone looking for extra help (just email me or ask me after class).

## VII. Opting out of the Final

The Final exam is mandatory.

## VIII. 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; and (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-465and565-Investments-Sp2011>

It will cost \$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.

## IX. Investment Ideas (Grads only)

Beginning with the second class meeting, one or two graduate students will present an investment idea(s) to the class. The graduate 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. One presentation must be prior to the second exam, and the second must be after spring break and prior to the third exam. A sign up sheet will be passed around the course for this purpose.

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I want you to sell me and the undergrads on the investment idea. Your grade will be based on how well you sell it, your logic, and a bit on the professionalism of the presentation. Power points are not expected.

## X. 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.

## XI. Student accommodation

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 needs.

## XII. 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 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.

My office is 329C on the third floor which I share with several other part time professors. As a result, it will 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. I will do my best to accommodate students.

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## XIII. Course schedule

This schedule is subject to change at my discretion at anytime, 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.

Rhodes calendar

<u>Date</u>	<u>Chapters</u>	<u>Chapter Topics and exams</u>	<u>Other</u>
17-Jan	<b>MLK birthday</b>		
24-Jan	1, 2	background, perspectives, and direct investments	Syllabus
31-Jan	3,4	indirect investing, securities markets	Invest idea
7-Feb	5,6	securities trading, returns and risks from investing	<u>diary update due, Invest idea</u>
14-Feb	chapter 7, Exam 1	portfolio theory, <b>Exam 1 (ch1-5)</b>	
21-Feb	8, 9	portfolio select, asset allocation, asset pricing models	Invest idea
28-Feb	21, 22	portfolio management, evaluating performance	<u>diary update due, Invest idea</u>
7-Mar	Exam 2	<b>Exam 2 (6-9,21,22)</b>	
14-Mar	<b>Spring break</b>		
21-Mar	10,11	common stock valuation, analysis and strategy	Invest idea
28-Mar	12, 13	market efficiency, economy/market analysis	Invest idea
4-Apr	14-15	sector/industry analysis, company analysis	Invest idea
11-Apr	chapter 16, Exam 3	technical analysis, <b>Exam 3 (10-15)</b>	
18-Apr	17, 18	bond yields, prices, analysis, and strategy	
April 20-24	<b>Easter recess</b>		
25-Apr	19, 20	options and futures	<u>Investments contest over and diary due</u>
7-May	<b>Final exam</b>	cumulative (entire book) at 1 PM	

### 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

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## Appendix for Investments Diary and Log

### Undergraduates

Section 1: In roughly 1/2 page tell me about yourself and your stomach for risk. Are you prudent or a gambler? Do you like to jump out of helicopters with a surf board, or something else? A person's portfolio should reflect their personality or they will be more likely to suffer losses. For example, a really conservative person should avoid high risk investments because they are usually slow to buy and quick to sell. In other words, much more likely to buy high and sell low. Whereas gamblers can stomach buying their own generated ideas that might take awhile to pay off, if ever, and then squeeze every dollar of profit from them before selling. They would rather sell a day late than a day early. Tell me about yourself in section 1.

Section 2: Log in excel

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	Why you made this investment in a sentence
2/1/2011	buy	MSFT	MSFT common stock	100	\$28	\$10	(\$2,810)	Microsoft is expected to release a new operating system and enter the server market in more strength
2/1/2011	buy	MSFT110114P00028000	Put on MSFT strike 28 Expires April 15th	1	\$16	\$10	(\$26)	Covers my Microsoft position from losses
Etc.....								

Section 3: One or two pages of how your ideas worked out and what you learned.

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## Graduate students investment diary and log

The primary difference between the graduate and undergraduate logs is in the details (section 2 and 3). 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). 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 an idea.

**Section 1** is essentially the same as for undergraduates.

**Section 2** example (note difference from above)

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** same as undergraduate 3 but in more detail.