

**Investment Theory 265
Financial Management
Fall Semester 1998**

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REQUIRED: *Fundamentals of Investment Management*
Fifth edition, Hirt and Block
REQUIRED: Daily reading of *Wall Street Journal*

COURSE OBJECTIVES:

By the end of the course, my objectives are that you will:

1. Have an expanded knowledge of the U.S. Security market -
2. Have an awareness of sources of investment information, including available websites
3. Understand modern portfolio theory, efficient market theory, and valuation theory.
4. Have an exposure to current research on various aspects of stock and mutual fund selection.
5. Know how to utilize screens in order to select potential stock investments, and perform an investment analysis, making a buy recommendation and defending same.
6. Know how to perform a financial plan for an individual using the Quicken financial planning model, make asset allocation recommendations and make recommendations on mutual funds to put in the individual's portfolio.

COURSE STRUCTURE:

This is a small class and we will take advantage of that fact to have much informal discussion and be computer interactive. Many classes will use a workshop format. Many class meetings will be in the computer lab. Two large projects will be the focus of many of the class meetings. The syllabus is organized to provide you the background, the skills, and the theory to perform two rather involved projects. Several classes will be devoted to working with you individually. During other class meetings, I will provide summaries of current research that impacts on your projects. Finally, we will have guest speakers to talk about industry practice in certain areas related to investments.

The course will involve the student reading the text, which provides a good introduction to terminology and securities markets. I will give short chapter quizzes when the chapter is first assigned. There will also be several chapters where quizzes will be given at the end of the discussion. I will review the theory that we have had in BA351 and use a Power Point presentation in class to emphasize the important material in the text, and then you may access the PowerPoint presentation on the academic volume for further review. We will work on some of the U.S Equities OnFloppy exercises in the computer lab together. The short chapter quizzes and the discussion of the assigned text material will not take more than one half of the class.

The second half of the class will be spent in discussion of material that relates to the two projects - a security analysis and a financial planning recommendation. Some of the outside material to be presented will be published by the Association of Investment Managers and used by Chartered Financial Analysts. Some of the information will be relevant to the Certified Financial Planning designation. This will tell you about current practices in the industry. We will also go over current academic research regarding tests of market efficiency. Again, some sessions of the class will be informal and used to familiarize you with many computer programs used in this discipline.

GRADING:

The grading scale is as follows:

97-100	A+	80-82	B-
93-96	A	77-79	C+
90-92	A-	73-76	C
87-89	B+	70-72	C-
83-86	B	67-69	D+
		63-66	D
		60-62	D-

Grades will be based on the following:

Average of chapter quizzes	50%
(Three lowest grades will be dropped. If you are absent, you may not make up a quiz. This is why I have permitted you to drop the three lowest in the event you must miss class.)	
Security Analysis	25%
Financial Plan (final exam)	<u>25%</u>
	100%

Homework:

Your homework will be to read the text assignments before class. I will give you all the possible questions that will be on your chapter quizzes at the beginning of the course and you may use this as a study guide when reading.

Chapter Quizzes:

There will be one when the chapter is first assigned. There will also be several chapters where quizzes will be given at the end of the discussion. All quizzes will be multiple choice and if you know all the answers to the questions given to you at the beginning of the course, you will make a 100 on each.

Security Analysis:

Your assignment is to identify an undervalued stock and make a buy recommendation.

These are the steps that are involved:

1. Define an investment style and explain the screens you wish to use in narrowing your list of stocks to evaluate. We will learn how to use the Zachs system on the internet.
2. From your narrowed list, you will gather additional information on the companies, and narrow further, explaining your decisions.
3. You will then prepare an intrinsic valuation of this stock based on a pro forma analysis. What do you think the stock should be selling for?
4. Prepare a written buy recommendation on this stock and present it to a group of prospective investors using PowerPoint visual aid.

Financial Plan:

Your assignment is to produce a detailed financial plan for an individual or family.

These are the steps that are involved:

1. Identify an actual person or family in need of a financial plan. Do not use a person who is still a student with few assets and no permanent job. You will need the person's full cooperation and much information from them, such as a list of assets (with details on when acquired, market value) and their latest tax return. The names of your case study should be disguised. If you cannot find someone willing to provide the information in order to obtain a financial plan, I will provide you one.
2. You will need to obtain sufficient information to load the Quicken Financial Planning Model. You will also need to discuss with the client all of his or her financial needs in the future and willingness to assume risk.
3. You will not only run the model, but you must be able to explain to the class how the model is projecting the asset balances. You will want to run the model under different assumptions to show the sensitivity of the plan to the various key inputs.
4. Ignoring the Quicken asset allocation, you will make a recommendation on how the individual needs to begin reallocating their existing assets, allocating new savings to various asset categories, and whether they need to alter their current level of savings, borrowing, etc. You will take into consideration the client's age and risk profile. You will present your plan to the

class and include specific mutual funds. You will have access to Morningstar for mutual fund information.

Honor Council Offenses: It will be considered an Honor Council offense to use any other person's work in this course.

Attendance Policy: If you are absent from class due to illness or other excusable reason, you must provide me an explanation of the absence. Whenever possible, this explanation should be given prior to the absence so your work may be continued with minimal interruption. Absences for which an excuse is not given or not accepted is an unexcused absence. It is the responsibility of the student to determine what make-up work is to be submitted whether the absence is excused or unexcused. When excessive absences from class jeopardize your work in the course, the Asst. Dean of Academic Affairs Notice will be sent as a warning that further absences will result in at least a lowering of the final grade, and may lead to failure in or a suspension from the course. If you receive such a notice, I ask that you meet with me immediately so that there is a complete understanding of the implications of continued absences.

You will also be asked to meet with me outside of class periodically so that you and I can go over your progress on your two projects. It is essential that you begin work on your projects early in the semester and that you continue to make progress over the duration of the course. It is impossible to do these projects in a one or two week time span. In other words, you will not be able to wait until late in the semester to begin work on the projects. Attendance at these meetings outside of class is mandatory. The failure to do so will impact your grade on the projects. However, I will be flexible regarding the times.

Course Schedule

DATES	TOPICS
ASSIGNMENT	
Aug 26	Course Introduction/Overview of Course Computer lab/ U.S. Equities Your Current Investment Philosophy and CFA and CFP designations
Aug 28	Chapter 1:Introduction to Investments
Aug 31	Updated Ibbotson and Sinquefield "The Risks in Cash" "The Risks in Stocks" "Whither the stock market?"

"The Baby Boom, The Baby Bust, and Asset Markets"

Sep 2
and

**Chapter 2: Security Markets: Present
Future**

Sep 4
Clients, CFA

Investment Counsel for Private
Investment Policy, CFA

Sep 9
You Pay For?"

"On Line Brokers: Do You Get What
"Remaking Schwab"
"Last one out, shut the lights"
"The 21st Century Stock Market"
Introduction to **Quicken**

Sep 11
Sep 14
Investing, CFA
in

Chapter 3: Participating in the Market
Value and Growth Styles in Equity
Behavioral Finance and Decision Theory
Investment Management, CFA

Sep 16
Techniques, CFA

Equity Research and Valuation
Investing in Small-Cap and
Microcap Securities, CFA

Sep 18

Chapter 4: Sources of Investment
Introduction to **Zachs** site

Sep 21
Equity
Evaluation

"Sites for investors' eyes"
Blending Quantitative and Traditional
Analysis
Equity Securities Analysis and

Sep 23
Process -

Improving the Investment Decision
Better Use of Economic Inputs in
Introduction to **Morningstar**

Sep 25

Chapter 7: Valuation of the Individual

Sep 28

"Go Ahead: Buy the Dream"
"Why the bulls are winning"
"It's tulip time on Wall Street"
"How the really smart money invests"
Berkshire Annual Report

Sep 30

The CAPM Controversy:

Policy and Strategy Implications
for Investment Management, CFA
Quantifying the Market Risk Premium
Phenomenon for Investment Decision
Making, CFA

Oct 2
Analysis

Chapter 8: Financial Statement

Review of DuPont Analysis
How to use footnotes

Oct 5

Example of a Stock Screen

Oct 7

Example of a Stock Valuation

Oct 9

**Chapter 9: A Basic View of
Technical Analysis and Market Efficiency**

Oct 12

Current research on market anomalies*

Oct 14
Model

How to Load Quicken Financial Planning

Oct 16

Chapter 10: Investments in Special

Oct 21

"Star Spotting Among Fallen IPOs"
Merger Mania Trends

Oct 23

"Bedlam" in Financial Planning
"The New Math of Retirement"
"Retire Rich: New Game, New Strategies"

Oct 26

Chapter 11: Bond and Fixed-Income

Oct 28

"Bonds: These Waters Only Look Calm"

Oct 30

**Chapter 12: Principles of Bond Valuation
and Investment**

Nov 2

Guest speaker: Pension fund manager

Nov 4

Chapter 15: Derivative Products

Nov 6
Portfolio Manager

Guest speaker: Value Style

Nov 9

Create a Power Point Presentation

Nov 11	Chapter 17: Stock Index Future and
Nov 13	"Stock Options Are Not a Free Lunch"
Nov 16	Chapter 19: Mutual Funds How to Use Morningstar
Nov 18	"Mutual Funds: The Big Picture" "The Fund Industry's Dirty Secret" "Think Small" "Mutual Fund Supermarkets"
Nov 20	Chapter 22: Measuring Risks and Returns
Nov 23	Performance Evaluation, Benchmarks, and Attribution Analysis, CFA
Nov 30	Guest speaker, Sector style manager
Dec 2	Stock Valuation Presentations
Dec 4	continued
Dec 7	Financial Plans Presented
Dec 9	continued

How to Find:

Quicken:	You will need to borrow CD from me and install.
Morningstar:	You will need to borrow CD from me and install.
U.S. Equities:	On Buckman 214 Computers
Stock Pro:	On Buckman 214 Computers
Zachs:	On Internet under Rhodes Econ.Bus.
Dept./Pittman	
Study Guides for Quizzes:	To be handed out on first day of class
Power Point Presentations:	In Pittman Folder on Academic Volume
Investment Websites:	On Internet under Rhodes Econ. Bus.

Additional Articles:

Market Efficiency

Following the Pied Piper: Do Individual Returns Herd around the Market?

Size and Book-to-Market Factors in Earnings and Returns

Gone Fishing: Some Hard Facts on Enhanced Indexing

Good News for Value Stocks: Further Evidence on Market Efficiency

Investor Expectations and the Performance of Value Stocks vs.

Growth Stocks

Implications of Herding Behavior for Earnings Estimation, Risk Assessment, and Stock Returns

The P/E Multiple and Market Volatility

Measuring Performance

Where Investment Performance Comes From

What Long-Run Returns Can Investors Expect from the Stock Market?