

Course Syllabus—Spring 2006
BUFN 700: Investment Management

Course Instructor: Russ Wermers

Background: MBA and PhD Finance, University of California, Los Angeles
 Specialize in Research on the Performance and Behavior of Mutual Funds, Pension Funds,
 and Hedge Funds
 Director, Netcentric Financial Markets Labs

Classroom: **Section 0101 (College Park):** VMH 3505 (the “Netcentric Financial Markets Teaching Theater”—in the
 New Wing, Next to Elevators)
Section DC06 (DC-Weekend): Reagan Building, Room DC 330D

Class Times: MW 9:30-10:45 (Section 0101) or Saturday 2:00-6:45 (Section DC06)

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Office Hours: Mondays, 3-5 p.m. and Wednesdays, 3-5 p.m. (in VMH 4419). Every other Saturday, 1:00-2:00 (in
 Reagan Building, Office near Room C1—before DC Saturday class session). Also, by appointment

Overall Course Objective:

To provide training that is important in understanding the investment process—the “buy side” of the financial world. Specifically, my objective is to provide graduate-level instruction in the following topics, both in theory and in using financial markets data to test some of these theories:

1. **The Basic Theory and Practice of Portfolio Choice:** A general coverage of how investors view risk and return of securities and portfolios, both in theory and in practice. Also, empirical evidence on the efficiency of stock markets, as well as some discussion of the new field of behavioral finance
2. **Equilibrium Pricing Models and their Implications for Efficient Portfolios:** The CAPM and factor models
3. **Derivative Pricing Models:** The Black-Scholes model, binomial pricing models, swaps, etc.
4. **Fixed-Income Pricing Models:** Bootstrapping the term structure, pricing using the term structure, portfolio choice in fixed-income markets, etc.

Grade Weighting:

Exam #1	25%
Exam #2	25%
Quizzes, Labs, and Cases	30%
Portfolio Projects (PEVA & OTIS)	20%

Textbooks: *Required:* Bodie, Kane, and Marcus, *Investments* (6th Edition, packaged with Solutions Manual)

Required: Course book containing cases. Follow these instructions to obtain the course book:

1. Open the XanEdu “Login/Register” page at: <http://www.xanedu.com/login.shtml?PackId=245325>
 2. If you have previously registered at XanEdu, log in. If you are new to XanEdu, click the “Student Registration” button under “New Users Register Here.” Complete and submit the registration form
 3. Confirm your CoursePack Selection, and complete the purchase form (the cost is \$16.25)
 4. After completing the purchase, you will be taken directly to “My XanEdu” where you can access your digital CoursePack
- Optional:* Fabozzi (F), *Bond Markets, Analysis and Strategies* (best introductory book on bond markets)
 Jeremy Siegel, *Stocks for the Long Run*—both of these books are available via www.amazon.com

Code of Academic Integrity:

The University's *Code of Academic Integrity* is designed to ensure that the principles of academic honesty and integrity are upheld. All students are expected to adhere to this Code. The Smith School does not tolerate academic dishonesty. All acts of academic dishonesty will be dealt with in accordance with the provisions of this code. Please visit the following website for more information on the University's Code of Academic Integrity:

http://www.inform.umd.edu/CampusInfo/Departments/JPO/AcInteg/code_acinteg2a.html

Important Note:

Any student with special needs should bring this to the attention of the instructor as soon as possible, but not later than the second week of class.

Blackboard site for this course:

Many course materials can be accessed through the course's Blackboard page. **Please check this site frequently, as new announcements and course documents are added constantly.** Access to Blackboard is available via:

<http://bb.rhsmith.umd.edu>

Once you go to this page, choose "Blackboard Login Address," then login to your personal Blackboard page **using your university username and password** (not your Smith School username and password!).

Cases:

We will cover a five Harvard cases during the semester. For each case, I will hand out some questions that will guide your reading and understanding of the case. For some cases, I will supply some data to further your understanding of the case. **You should form a group of three students to assist in learning and in presenting your case (or submitting a report, if required).**

Labs:

To gain experience with testing portfolio theories, you will be assigned to complete several real portfolio problems that involve downloading and working with financial information. I will hand out questions for you to address with the data. **You should form a group of three students to assist in learning and in presenting your case (or submitting a report, if required).**

Class Participation:

In borderline grade cases, your grade may depend on your contribution in class. Please do not miss class, and please make sure to prepare for each class by completing the readings and assignments beforehand.

Homework:

Homework assignments will not be turned in. However, I urge you to read each textbook chapter before it is covered in class, and that you do the homework to solidify your understanding. I recommend some self-discipline in trying the homework before appealing to the solutions manual. *Your performance on exams will depend on you faithfully keeping abreast of the reading and homework assignments.*

Attendance:

Attendance is not always mandatory, but is crucial for understanding the material. Everything covered in the lectures is fair game for exams or quizzes. Bill Higgins of the Biology Department at UMD found that students who attended class regularly scored 15% higher on exams than students who missed class more frequently. I recommend attending every session, with the exception, of course, of important appointments (such as a job interview in NY or an illness or a family problem). I reserve the right to take attendance and assign a small point value to attendance if necessary.

Exams:

These two non-cumulative exams will cover all material covered in class or lab sessions. The best preparation is to attend all classes, to do all the reading assignments with care, and to fully prepare and participate in the lab sessions.

Please note: If you have an official university conflict during an exam day, then please notify me the week before the exam. An early exam will be arranged for you. If you encounter an unforeseen event (that can be documented) that prevents you from taking the exam (such as becoming ill, or experiencing a death in the family), then let's talk about your options as soon as it becomes practical for you to do so. Makeup exams are very difficult to administer in a fair manner, so my general policy is "no makeup exam." However, let's talk about other options only if an emergency happens.

Please also note: **Be on time for the exam, as it is not possible to extend an exam beyond normal class hours.**

<u>Week:Date</u>	<u>Topic</u>	<u>Reading Assignment</u>	<u>Homework</u>
<u>Part I: Classical Portfolio Theory</u>			
1:Jan 25	Risk and Risk Aversion	Chapter 6	<i>Ch6: 1,3,5,7,9,11</i> Statistics Review & Return Calculations Review [Download from Blackboard]
2:Jan30/Feb1	Capital Allocation between Risky and Riskfree Assets <i>Introduction to Reuters (Wednesday)</i> <i>(Instructed by Chuck LaHaie)</i> <u>Assignment: Reuters Lab #1 (Due on Monday, Feb. 6)</u>	Chapter 7 Reuters Documentation [Download from Blackboard]	<i>Ch7: 1,2,5,7,14</i>
3:Feb 6/8	Optimal Risky Portfolios (Markowitz Theory) <u>Introduction to PEVA.xls (Wednesday) and Beginning of PEVA.xls Trading Game (PEVA.xls Ends on Week 5—February 20)</u> <u>Harvard Case #1: Introduction to Portfolio Theory (Discussed on Wednesday)</u>	Chapter 8	<i>Ch8: 1,2,3,9,10,11,18,19,20</i>
4:Feb 13/15	<u>Quiz #1--on Monday—covers Classical Portfolio Theory & Harvard Case #1</u> International Diversification The Capital Asset Pricing Model <u>Guest Speaker: Bruce Kamich,</u> <u>Chartered Market Technician</u> <u>Vice President</u> <u>Private Clients Group</u> <u>Citigroup (New York)</u> <u>(Wednesday: Attendance Required)</u>	Chapter 25 Goetzmann, Li, and Rouwenhorst (2001) paper Chapter 9	<i>Ch25: (no problems assigned)</i> <i>Ch9: 1,3,4,5,6,7,8,13,16</i> "Introduction to Technical Analysis"
<u>Part II: "Newer" Portfolio Theory: Index Models, Factor Models, and Fama and French's Evidence on Empirical Factors</u>			
5:Feb 20/22	Style Investing	"The Dimensions of Stock Returns," Addendum, Dimensional Fund Advisors (Harvard Case) Siegel, Chapter 6 (Optional)	
<u>Presentation of PEVA.xls Results and OTIS Portfolio Management Project Strategy Proposals and Beginning of OTIS Trading (Wednesday)</u>			
6:Feb27/Mar1	Single-Index Models and Multifactor Models <u>Harvard Case #2: Dimensional Fund Advisors (Discussed on Wednesday)</u>	Chapter 10	<i>Ch10: 2,12</i>
7:Mar 6/8	<u>Reuters Lab Assignment #2 (in-class on Monday)</u> Exam #1 Review		

<u>Week:Date</u>	<u>Topic</u>	<u>Reading Assignment</u>	<u>Homework</u>
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**Part III: The “Real World”: Behavioral Finance,
Empirical Evidence on the Pricing of Assets and Portfolios**

8:Mar 13/15	Exam #1 [Monday: coverage from Week 1 through the week ending (and including) March 8] <i>Guest Speaker: Ken Fuller from T Rowe Price (Attendance Required--Wednesday)</i>		
Mar 20/22	Spring Break--No Classes		
9:Mar 27/29	Market Efficiency: The Empirical Evidence on Stocks vs. Bonds (from “ <i>Stocks for the Long Run</i> ” by Jeremy Siegel) Overview of Behavioral Finance Research	Chapter 12 Siegel, Chapters 1 and 2 (Optional) Shiller (2002) paper	<i>Ch12: 1-15,32,33</i>

**Part IV: Derivatives Markets and Fixed-Income Markets
Theory and Practice**

10:Apr 3/5	Fixed Income Markets: Treasury Securities, the Term Structure of Interest Rates, and the Pricing of Municipals and Corporates from the Treasury Yield Curve <i>Harvard Case #3: Numeric Investors, L.P. (Discussed on Wednesday)</i>	Fabozzi, Ch. 5, 6, 7, and 8	<i>To be announced</i>
11:Apr 10/12	Fixed Income Markets (continued) <i>Quiz #2--on Wednesday--covers everything since Exam #1</i> <i>Reuters Lab Assignment #3 (discussed on Wednesday)</i> Options	Chapters 20 and 21	<i>Ch20:1,2,5,6,7,9,10,13</i>
12:Apr 17/19	<i>Reuters Lab Assignment #4 (in-class on Wednesday)</i> Futures and Swaps	Chapters 22 and 23	<i>Ch22: (to be announced)</i> <i>Ch21:1,2,3,7,8</i> <i>Ch23: (to be announced)</i>
13:Apr 24/26	<i>Harvard Case #4: Walt Disney Company’s Yen Financing (due Wednesday)</i>		
14:May 3	No class on Monday (Case Competition ELM) Exam #2 Review (Wednesday)		
15:May 8/10	Presentation of Portfolio Projects		

Friday, May 19 (8:00-10:00 a.m.): Exam #2 [Covers everything not covered for Exam #1]
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