FNAN 311, Principles of Investment,
Syllabus, Fall 2013

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Online address of this syllabus: http://somfin.gmu.edu/courses/fnan311/
Register at Connect: Section 002: http://connect.mcgraw-hill.com/class/a_philipov_fnan_311_002_fall_2013
Section 003: http://connect.mcgraw-hill.com/class/a_philipov_fnan_311_003_fall_2013

Outline

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2. Course Description
3. Reading materials
4. Exams and Grading
5. Make-up exams
6. Honor Code
7. Class schedule

Meeting Schedule

<table>
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<tr>
<th>CRN</th>
<th>Subj Crse Sec</th>
<th>Title</th>
<th>Days &amp; Time</th>
<th>Date (MM/DD)</th>
<th>Location</th>
<th>Office Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>72466FNAN311 003 Principles of Investments</td>
<td>TR 12:00pm - 1:15pm</td>
<td>08/26-12/16</td>
<td>Nguyen Engineering Building 1109</td>
<td>TR 2-3pm</td>
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<td></td>
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<tr>
<td>72463FNAN311 002 Principles of Investments</td>
<td>TR 3:00pm - 4:15pm</td>
<td>08/26-12/16</td>
<td>Exploratory Hall L111</td>
<td>TR 2-3pm</td>
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Course Description and Objectives

This course is an introduction to portfolio management and asset valuation. The material focuses on institutional investing, although the course is also relevant for individuals. The class aims to provide an understanding of strategies and risk management tools necessary for the management of fixed income and equity portfolios. In particular, the class material covers asset allocation, risk and return trade-off, diversification, bond pricing, portfolio performance evaluation, and the theory of market efficiency. Upon successful completion of this course students will be able to (1) evaluate and explain the risk and return trade-offs in finance, (2) understand how to address behavioral and ethical issues in finance, and (3) conduct research necessary to construct and manage equity/fixed income portfolios and present their analysis.

Prerequisites

Degree Status and a grade of B minus or higher in FNAN 301. Prerequisite enforced by registration system. Students are expected to be familiar with basic economics and statistics.
Textbook

The textbook for the class is:


The course will use McGraw-Hill Connect extensively. Registration is required to access Connect. Lecture notes, practice problems, and extra materials will be posted on Blackboard and my web site.

Exams and Grading

The final grade will be based on a set of homeworks, a set of quizzes, one midterm exam, a final exam, and class participation. There will be 4 quizzes of 7 multiple choice questions. Students will be able to choose 4 out of 5 quizzes toward their final grade. The midterm exam will be 20%, the final exam 25%, and class participation will carry 10 points.

<table>
<thead>
<tr>
<th>Grade Allocation</th>
<th>Weight</th>
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<tbody>
<tr>
<td>Quizzes</td>
<td>24%</td>
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<tr>
<td>Homeworks</td>
<td>20%</td>
</tr>
<tr>
<td>Midterm</td>
<td>18%</td>
</tr>
<tr>
<td>Final exam</td>
<td>20%</td>
</tr>
<tr>
<td>Portfolio project</td>
<td>8%</td>
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<tr>
<td>Class participation</td>
<td>10%</td>
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</table>

The final grade will be based on all the points earned for the course. There will be a total of 1000 points. All exam questions will be 10 points each. A total of 70 exam(20+25)/quiz(25) questions will carry 700 points. That is, 70% of the grade will come from exam/quiz questions. Homework questions will be 1 point each. Ten homeworks with 10 questions each will total a 200 points, or 20% of the total. Students should avoid trying to assign a letter grade to each exam/quiz because the exams are not the same weight. In addition, all quizzes will be administered through Blackboard, during the last 35 min. of class.

Make-up exam policy

There will be no make-up midterm exams or quizzes.

Honor Code

By registering for this class, students agree to abide by the honor code, which describes the standards of conduct, academic violations, and the treatment of academic offenses. The Honor Code states that all students "pledge not to cheat, plagiarize, steal, or lie in matters related to academic work." Visit [http://academicintegrity.gmu.edu/honorcode/](http://academicintegrity.gmu.edu/honorcode/) to read more about the GMU academic integrity code.
<table>
<thead>
<tr>
<th>Week</th>
<th>Date</th>
<th>Topic</th>
<th>CH.</th>
<th>Learning Objectives</th>
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</table>
| 1    | Tue 08/27 | **Asset Classes and Financial Instruments**<br>In-class problems | 2   | LO2-1 Distinguish among the major assets that trade in money markets and in capital markets.  

LO2-2 Describe the construction of stock market indexes.  

LO2-3 Calculate the profit or loss on investments in options and futures contracts. |
| 1    | Thu 08/29 | Asset Classes and Financial Instruments (cont'd) | 2   |                                                                                     |
| 2    | Tue 09/03 | Asset Classes and Financial Instruments (cont'd) | 2   |                                                                                     |
| 2    | Thu 09/05 | Asset Classes and Financial Instruments (cont'd) | 2   |                                                                                     |
| 3    | Tue 09/10 | **HW1(ch.2&3) DUE**<br>Securities Markets | 3   | LO3-1 Describe how firms issue securities to the public.  

LO3-2 Identify various types of orders investors can submit to their brokers.  

LO3-3 Describe trading practices in dealer markets, specialist-directed stock exchanges, and electronic communication networks.  

LO3-4 Compare the mechanics and investment implications of buying on margin and short-selling. |
| 3    | Thu 09/12 | Securities Markets (cont'd) | 3   |                                                                                     |
| 4    | Tue 09/17 | QUIZ I (6 questions, ch. 2,3) | 5   |                                                                                     |
| 4    | Thu 09/19 | Risk and Return | 5   |                                                                                     |
| 5    | Tue 09/24 | Risk and Return | 5   | LO5-1 Compute various measures of return on multi-year investments.  

LO5-2 Use data on the past performance of stocks and bonds or scenario analysis to characterize the risk and return features of these investments.  

LO5-3 Determine the expected return and risk of portfolios that are constructed by combining risky assets with risk-free investments in Treasury bills.  

LO5-4 Use the Sharpe ratio to evaluate the investment performance of a portfolio and provide a guide for capital allocation. |
| 5    | Thu 09/26 | Risk and Return (cont'd) | 6   |                                                                                     |
| 6    | Tue 10/01 | **HW2(ch.5) DUE** | 6   |                                                                                     |
| 6    | Thu 10/03 | Efficient Diversification | 6   | LO6-1 Show how covariance and correlation affect the power of diversification to reduce portfolio risk.  

LO6-2 Calculate mean, variance, and covariance using either historical data or scenario analysis.  

LO6-3 Construct efficient portfolios and use the Sharpe ratio to evaluate portfolio efficiency. |
LO6-4 Calculate the composition of the optimal risky portfolio.

LO6-5 Use index models to analyze the risk and return characteristics of securities and portfolios.

7 Tue 10/08 Efficient diversification (cont'd)

7 Thu 10/10 Efficient diversification (cont'd)

QUIZ II (6 questions, ch. 5,6)

8 Tue 10/15 NO CLASS (Monday classes meet)

8 Thu 10/17 HW3(ch.6) DUE

Review FOR MIDTERM EXAM

Review the practice problems in Connect, (the quiz at each chapter end)

9 Tue 10/22 MIDTERM EXAM (18 questions, ch.2,3,5,6)

9 Thu 10/24 CAPM and APT

7 LO7-1 Use the implications of capital market theory to estimate security risk premiums.

LO7-2 Construct and use the security market line.

LO7-3 Specify and use a multifactor security market line.

LO7-4 Take advantage of an arbitrage opportunity with a portfolio that includes mispriced securities.

LO7-5 Use arbitrage pricing theory with more than one factor to identify mispriced securities.

10 Tue 10/29 CAPM (cont'd)

10 Thu 10/31 HW4(ch.7) DUE

CAPM and APT (continued)

11 Tue 11/05 Macroeconomic and Industry Analysis

12 LO12-1 Predict the effect of exchange rates as well as monetary, fiscal, and supply-side policies on business conditions.

LO12-2 Use leading, coincident, and lagging economic indicators to describe and predict the economy's path through the business cycle.

LO12-3 Predict which industries will be more or less sensitive to business-cycle fluctuations.

LO12-4 Analyze the effect of industry life cycles and competitive structure on earnings prospects.

11 Thu 11/07 HW5(ch.7) DUE

Macroeconomic and Industry Analysis(cont'd)

12 Tue 11/12 HW6(ch.12) DUE

QUIZ III (6 questions, ch. 7, 12)

Portfolio Performance Evaluation
Bloomberg webinar on using PORT
Two-minute videos
Slides

18 LO18-1 Compute risk-adjusted rates of return, and use them to evaluate investment performance.

LO18-2 Determine which risk-adjusted performance measure is appropriate in a variety of investment contexts.

LO18-3 Apply style analysis to assess portfolio strategy.

LO18-4 Decompose portfolio returns into components attributable to asset allocation choices versus security selection choices.

LO18-5 Assess the presence and value of market-timing
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<thead>
<tr>
<th>Date</th>
<th>Day</th>
<th>Notes</th>
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<tbody>
<tr>
<td>12 Thu 11/14</td>
<td></td>
<td>Portfolio Performance Evaluation (cont'd)</td>
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<tr>
<td>13 Tue 11/19</td>
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<td>HW7(ch.18) DUE Globalization and International Investing</td>
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<tr>
<td>13 Thu 11/21</td>
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<td>HW8(ch.18) DUE Globalization and International Investing (cont'd)</td>
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<tr>
<td>13 Thu 11/21</td>
<td></td>
<td>HW9(ch.19) DUE</td>
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<tr>
<td>14 Tue 11/26</td>
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<td>HW9(ch.19) DUE</td>
</tr>
<tr>
<td>14 Thu 11/28</td>
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<td>Thanksgiving Day, no class</td>
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<tr>
<td>15 Tue 12/03</td>
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<td>QUIZ IV (6 questions, ch.18,19) Hedge Funds</td>
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<tr>
<td>15 Thu 12/05</td>
<td></td>
<td>HW10(ch.04) DUE Hedge funds (cont’d) Project DUE</td>
</tr>
<tr>
<td>12-noon section: Thu 12/12, 10:30–1:15</td>
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<td>FINAL EXAM (20 questions, ch. 7, 12, 18, 19, 20)</td>
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<td>3pm-section: Thu 12/12 1:30–4:15</td>
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LO19-1 Understand the special issues that affect the efficacy of international diversification.
LO19-2 Formulate hedge strategies to offset the currency risk involved in international investments.
LO19-3 Implement international investment strategies.
LO19-4 Decompose investment returns into contributing factors such as country, currency, and stock selection.

LO20-1 Identify directional versus nondirectional or market-neutral investment strategies.
LO20-2 Formulate "pure plays" on seemingly misaligned security prices, and identify the risks that are hedged in these strategies as well as the risks that remain.
LO20-3 Cite the various difficulties entailed in evaluating hedge fund investment performance.
LO20-4 Interpret incentive fees charged by hedge funds as implicit options and value them using option-pricing methods.

* This syllabus is subject to change to best fit the needs of the class.