FINANCE 311
Principles of Investment
Spring 2013

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Course Website: Blackboard
Office Hours: MW 1:30 – 2:30 and by appointment

Class Meeting
Monday & Wednesday, 12:00 – 1:15, Enterprise Hall 173

Course 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 will help you understand strategies and risk management tools necessary for the management of fixed income and equity portfolios. In particular, you will learn the concepts of asset allocation, risk and return trade-off, diversification, bond pricing, portfolio performance evaluation, and the theory of market efficiency.

Learning Goals
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

Students are expected to be familiar with basic economics and statistics. Thus, you are required to have successfully completed FNAN 301, ECON 103, ACCT 201, and OM 210. No exceptions to the SOM rules of admittance. Taking any of the aforementioned classes concurrently with this course is not possible. If you do not know whether you meet the requirement, you should notify the instructor and also consult Student Services.

Course Textbook and Resources


Other Resources: A calculator is required (non programmable – e.g. HP 10b11+) and should be brought to class on a daily basis. A subscription to the Wall Street Journal is also encouraged (or another finance oriented publication like Business Week or the Financial Times).

Grades

Since this is an advanced course, it inevitably covers more difficult topics than those in FNAN 301. I expect this course to be intellectually challenging. My intention is to grade generously, but fair. I will, however, not hesitate to give low grades to those who clearly did not put in a sufficient amount of effort.

Your final grade will be based on:

- Class Participation/Attendance 5%
- Homework/Problem Sets 5%
- Project One: (February 18th) 10%
- Midterm Exam: (March 4th) 25%
- Project Two: (April 22nd) 20%
- Final Exam (See GMU’s Schedule) 35%

Note: The final exam is a comprehensive final and will cover issues from the first midterm exam. Students are not allowed to skip any exams and must take the exam at the scheduled time. Any student missing an exam will receive a grade of zero. One exception is that you present a physician’s statement attesting to illness on the day of the exam or for an extraordinary reason.
Problem Sets

I will assign problems for homework. The assignments will be collected and checked for some level of effort being made. Part of the each exam will be taken either directly or slightly modified from the homework, thus it is your responsibility to do each assigned question.

Group Projects

Details on the two projects will be handed out in class. They will be team projects (a team of 4-6 students). You will not be allowed to work alone under any circumstances, so please plan accordingly. At the end of the semester, a “peer-evaluation” form will be distributed to allow students to rate the relative contribution of each group member, which will be used in determining overall project grades.

Important Rules

The test and the final exam must be taken without notes or sheets of formulas. You will be required to bring your own financial calculator to the exams. Sharing calculators and the use of graphing calculators (and other calculators that allow for the storage of information) are not allowed.

Appeal of Grading

If you wish your answer to a question to be regarded, first submit a copy of your answer to the question and a written explanation of why you believe that the grading is incorrect. You must turn in this material within one week after the graded work is returned. In general, the entire exam will be checked for grading errors, and correcting these could either raise or lower the overall score.

University Office of Disability Services

If you are a student with a disability and you need academic accommodations, please see me and contact the Disability Resource Center at (703) 993-2474. All academic accommodations must be arranged through the DRC.

Academic Misconduct

Academic misconduct causes failing the course and triggers quite unpleasant university-mandated procedures which result in further sanctions. Faculty Rule 2.11.5 (Faculty Responsibility under the Honor Code) requires alleged misconduct to be reported to the department and the Honor Committee. So follow the GMU honor code at all times and don’t even think about cheating!
Tentative Course Outline

Each class period includes required readings from the textbook Bodie, Kane, and Marcus, 9th ed. (BKM). Except for the dates of the exams and the project deadlines, the dates in the course schedule are approximate and could be subject to change.

I. Assets and Financial Markets

Weeks 1 (Jan. 23): Course Introduction and Background
Course Syllabus and BKM 1

Week 2 (Jan. 28 and 30): Asset Classes, Financial Securities, and Market Structure
BKM 2 and 3

Week 3 (Feb. 4 and 6): Returns and Risk & Capital Allocation
BKM 5
Project One: Portfolio Optimization Starts!

II. Portfolio Theory

Week 4 (Feb. 11 and 13): Diversification and Efficient Frontier
BKM 6

Week 5 (Feb. 18 and 20): CAPM
BKM 7
Project One is due.

Week 6 (Feb. 25 and 27): Overflow and Review
Project Two: Trading Project Starts!

Week 7 (March 4): Midterm Exam

Week 8 (March 11 - 16): Spring Break

Week 9 (March 18 and 20): Mutual Fund Portfolio Evaluation
BKM 4 and 18

III. Efficient Market Hypothesis and Behavioral Finance

Week 10 (March 25 and 27): Efficient Market Hypothesis
BKM 8

Week 11 (April 1 and 3): Behavioral Finance and Investment Decisions
BKM 9 and 21
IV. Fixed Income and Options

Week 12 (April 8 and 10): Fixed Income
BKM 10
Trading Project Ends!

Week 13 (April 15 and 17): Options
BKM 15

Week 14 (April 22 and 24): Project Presentation (Reports and Slides are due.)
Group Project

Week 15 (April 29): Overflow and Review