The Course Objectives

This course is designed to provide students with an introduction to modern portfolio management and asset valuation. The focus is on institutional investing and the material is also relevant for individuals. The class will help you to use modern investment strategies and risk management tools to manage equity and fixed income portfolios. The main topics include risk and return trade-off, asset allocation, diversification, security valuation, and market efficiency. When possible and suitable, the class will offer an opportunity to discuss certain ethical standards that financial professionals may encounter in their career.

Course Resources

Required Textbook

- Solutions Manual for use with BKM.
- A financial calculator. Class lectures may involve working through problems. Thus, you should have your calculator ready.
- A subscription to the *Financial Times* is strongly recommended. Other helpful periodicals include the Wall Street Journal, Economist, Barron's, Business Week, and other financial newspapers.
Lectures

Lecture notes and homework assignments will be distributed via course website. Lecture is an important part of the course. I will explain concepts in detail and use examples for illustration. Students are required to come to class on time and are encouraged to actively participate in class discussion.

Grading

Your final grade for the course will be based on:

<table>
<thead>
<tr>
<th>Course Components</th>
<th>% of Grade</th>
<th>Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project One: Portfolio Optimization</td>
<td>10</td>
<td>Feb. 21, 2012</td>
</tr>
<tr>
<td>Project Two: Portfolio Management</td>
<td>20</td>
<td>Apr. 24, 2012</td>
</tr>
<tr>
<td>Midterm Exam</td>
<td>30</td>
<td>March 6, 2012</td>
</tr>
<tr>
<td>Final Exam</td>
<td>40</td>
<td>May 15, 2012</td>
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Exams

The midterm exam is scheduled in-class on March 6, 2012.
Final exam is scheduled by the University at 7:30PM on May 15, 2012.

There will be no makeup exams. In case you miss the midterm, the weight for the missed exam goes to the final exam.

Group Projects

The students should form groups of 4 – 6 people to work on TWO group projects. In the first project, you are asked to optimize a portfolio using historical data. You need to select and collect data for (up to) six securities or indices, and use a tool (OptimizationSolver.xls) to construct an optimized portfolio. Your group will be ranked on the final Sharpe ratio of your portfolio. The report is due on Feb. 21, 2012.

The second project is a trading game. Students will participate in a portfolio management project over the six-week period of 2/28/2012 – 4/10/2012. Please see the Trading Project Guideline for details. A final report (hard copy) and the presentation slides (electronic copy) are due April 24, 2012. Your name must be included in the final report and the presentation slides to receive credit.

At the end of the semester, a “peer-evaluation” form will be distributed to allow students to rate the relative contribution of each member within a group. These ratings will be utilized in determining each individual’s performance for the projects.
**Other Policies**

**Appeals:** Exams will be available to review for **two weeks** after taking the exam.

Note: In general, to ensure that no other mistakes are made, I will re-grade the entire document. This may result in a higher or lower grade once the submitted material has been re-evaluated.

**Academic Misconduct:** It causes failing the course and triggers quite unpleasant university-mandated procedures which result in further sanctions. Academic misconduct includes, but is not limited to, giving or receiving information during an exam and submitting plagiarized work for academic requirements. You may find GMU Honor System and Code at [http://academicintegrity.gmu.edu/honorcode/](http://academicintegrity.gmu.edu/honorcode/).

**University Office of Disability Services:** If you need academic accommodations, please contact the Disability Resource Center (DRC) at (703) 993-2474. It is the responsibility of the student to inform the instructor and provide proper documentation *in advance*. All academic accommodations (including exams) must be arranged through the DRC.
Tentative Course Outline

Each class period includes required readings from the textbook Bodie, Kane, and Marcus, 9th ed. (BKM), 2011. 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. 24): Course Introduction and Background
Course Syllabus and BKM 1

Week 2 (Jan. 31): Asset Classes and Financial Securities
BKM 2

Week 3 (Feb. 7): Financial Market Structure
BKM 3
Project One: Portfolio Optimization Starts!

II. Portfolio Theory

Week 4 (Feb. 14): Returns and Risk & Capital Allocation
BKM 5 and 6

Week 5 (Feb. 21): Diversification and Efficient Frontier
BKM 7
Project One is due.

Week 6 (Feb. 28): Overflow and Review
Project Two: Trading Project Starts!

Week 7 (March 6): Midterm Exam

Week 8 (March 13): Spring Break

Week 9 and 10 (March 20 and 27): CAPM and APT Models
BKM 9 & 10

III. Efficient Market Hypothesis and Behavioral Finance

Week 11 (April 3): Efficient Market Hypothesis
BKM11

Week 12 (April 10): Behavioral Finance
BKM 12
Trading Project Ends!
IV. Applied Portfolio Management

Week 13 (April 17): Performance Evaluation and International Investments
BKM 24 and 25

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

Week 15 (May 1): Overflow and Review