

University of Washington – Foster School of Business
FIN 560: Investments, Autumn 2015
Professor Andreas Stathopoulos

Course Contact Information

Professor: Andreas Stathopoulos
Office: PACCAR 425
Office Hours: Thursday 3:30-4:30 pm (and by appointment, if needed)
Phone: 206-616-6638
Email: astath@uw.edu

Classroom: PACCAR 395
Class Time: TTh 10:30 am-12:20 pm
Class Website: canvas.uw.edu

Teaching Assistant: Yue (Luna) Qin
Office: PACCAR 446
Office Hours: Wednesday 1:30-3:30 pm
Email: lunaqin@uw.edu

If you are having trouble, please come see me or the TA earlier rather than later. Please do not hesitate to email me or the TA.

Course Description and Goals

The goal of this course is to develop the theory and practice of investment from the perspective of a portfolio manager. At the end of the class, you should have a structure for thinking about potential investments and the ability to analyze opportunities in a systematic way. Thus, the class will give you the skills necessary to manage your own investments, those of your company and those necessary to be an active money manager. If you are interested in becoming a CFA, the course provides a great foundation for the material covered on the first CFA exam.

This class uses a combination of lecture and case studies. The lecture is intended to provide you with rigorous analytical tools; the cases are an opportunity to use those tools in practical settings. In combination, the lectures and cases are intended to turn you from consumers of information to producers of rigorous analysis.

The class will provide an understanding of capital markets and asset classes, advanced measures of risk and the relationship between risk and return, portfolio theory, the CAPM and multi-factor models, bond pricing and the term structure of interest rates.

Course Policies

You are responsible on exams for all the material covered in lecture and in the assignments. There is significant lecture/assignment material not in the book and significant book material not in the lectures/assignments, but exams come from the lecture and assignments. The book is used as support material.

Materials

- Textbook: “Investments” by Bodie, Kane and Marcus, 10th edition. There are copies on reserve in the Foster library. Earlier editions can be acceptable substitutes, but you are responsible for mapping the reading and/or problems from the tenth edition to a previous one (usually this is very easy to do).
- Course Pack: The course pack contains the cases we will cover. Each case (except one, see below) will involve a written, graded case report as part of the class assignments. The case pack can be purchased from Harvard Publishing at:
<https://cb.hbsp.harvard.edu/cbmp/access/41799966>.
- Financial Calculator and Spreadsheet: Excel is necessary for the homework and cases. The financial calculator is necessary for the midterm and final exams (no computers/phones); a graphing calculator with financial functions is also acceptable.

Laptops are required for case discussions (since you’ll need to be able to discuss your answers) and note taking, and forbidden for other uses. In addition, you must refrain from using technologies that distract your fellow students (e.g. texting, talking on the phone, etc.).

Grading

Your course grade is made up from the following components:

- Assignments: 35%
- Class Participation: 10%
- Exams: 55%

There are two exams: a midterm and a final. I have two weighting methods, and I will use whichever one works to your advantage. The first method counts the midterm as 25% and the final as 30%, while the second method counts the midterm as 15% and the final as 40%.

Participating in class discussion of the cases is part of the “Class Participation” component.

Assignments: Case Reports and Problem Sets

There will be 6 assignments: 3 case reports and 3 problem sets. Although not required, I **strongly** recommend that the assignments be done in groups, with a maximum of 4 students per group. Students are responsible for finding groups, and it is not required that groups repeat from assignment to assignment. Turn in at least one hard copy of each assignment per group. Each write-up should include a cover sheet with the names of all the group members. I will drop the lowest assignment grade, so your total assignment grade will be an equally-weighted average of 5 assignment grades. Note: as part of the lectures, we will also be discussing a fourth case (titled “Quadrivers and the Short Selling Market”) in class, but there will be no case report or any other assignment to be delivered for that case.

Sometimes it happens that a group delegates one member to turn in an assignment and that member forgets. The result is that everyone in the group gets a zero. To avoid this, you may want to turn in your own copy of the group assignment. As long as all copies are the same, duplicates are fine.

Even though form without substance is meaningless, please remember that form still matters. You should prepare all graded materials in a form that meets professional standards. These standards include but are not limited to dating all material, numbering the pages, labeling graphs and tables, and expressing yourself in a legible, concise and grammatically correct manner.

We will discuss cases and problems in class, so make sure that you keep a copy of your notes or write-up to refer to during the discussion.

Because we discuss cases in class and I post homework problem solutions, write-ups must be turned in at the beginning of class, and no late write-ups will be accepted. If you think you should be excused from an assignment, talk to me *before* the assignment is due.

Exams

Exams are closed book. I will provide all exam materials, including a formula sheet and scratch paper. You need only a writing instrument and a financial calculator. No other items, except something to drink, will be allowed.

I will provide practice problems (including problems from past exams) as part of the review for the midterm and final exams. I strongly recommend that your review include doing these problems.

If you think that there is a mistake in the grading of your exam, you can ask for a re-grade. Any re-grade request must be submitted within a week of the return of the exam, and your entire exam will be re-graded.

There are no make-up exams. If a student misses the midterm for medical reasons, I will push the credit forward onto the final, so that the midterm will count 0% and the final 55%. Documented evidence that you are ill is the only valid reason to be excused from the exam. If a student misses the final exam for medical reasons, I will give the student an incomplete.

Accommodations

I and the University of Washington are committed to ensuring that students with a documented disability have equal opportunity to participate in the educational opportunities of this class. To request academic accommodations due to disability, please contact the Disability Resources for Students Office (DRS), 448 Schmitz, 206-543-8924. If you have a letter from DRS please present the letter to me so that we can discuss the accommodations that you would need help you get the most from this class.

Academic Integrity

The use of unauthorized material (including internet “solutions”), attempting to benefit from the work of another student, allowing another student to benefit from ones own work, communicating with fellow students during an exam, and similar behavior that defeats the intent of an examination or other class work is unacceptable. Examples of academic dishonesty include copying off another student, allowing someone else to copy ones own work, misrepresenting work done on cases/assignments, bringing any written material besides your exam packet to your seat during an exam, and refusing to stop when exam time is called. The minimum penalty for academic dishonesty is to fail the class.

Schedule

This schedule is a list of class topics. However, the dates are approximate: very few topics fit exactly into class periods, and better case discussions often last longer. Please also remember that class material is the lectures and assignments; the textbook readings are support for the lectures/assignments and are not primary.

Part 1: Financial Assets and Financial Markets

Meeting #1: Thursday, October 1

Topics: Introduction

Textbook: BKM Chapter 1

Meeting #2: Tuesday, October 6

Topics: Financial Assets and Investment Vehicles

Textbook: BKM Chapters 2 and 4

Meeting #3: Thursday, October 8

Topics: Financial Assets and Investment Vehicles (cont.)

Textbook: BKM Chapters 2 and 4

Meeting #4: Tuesday, October 13

Topics: Financial Markets and Discussion of the Quadriserv Case

Textbook: BKM Chapter 3

Part 2: Portfolio Theory

Meeting #5: Thursday, October 15

Topics: Risk and Return

Textbook: BKM Chapter 5

Meeting #6: Tuesday, October 20

Topics: One-Risky-Asset Portfolios

Textbook: BKM Chapter 6

Meeting #7: Thursday, October 22

Topics: Multiple Risky Assets: Diversification and the Mean-Variance Frontier

Textbook: BKM Chapter 7

Meeting #8: Tuesday, October 27
Topics: Multiple Risky Assets: Diversification and the Mean-Variance Frontier (cont.)
Textbook: BKM Chapter 7

Meeting #9: Thursday, October 29
Topics: **CASE:** Partners Healthcare
Deliverable: Case Report #1

Meeting #10: Tuesday, November 3
Topics: Midterm Review Session

Midterm Exam: Thursday, November 5, in class

Part 3: Capital Market Equilibrium and Models of Returns

Meeting #11: Tuesday, November 10
Topics: The CAPM: Capital Asset Pricing Model
Textbook: BKM Chapters 8 and 9

Meeting #12: Thursday, November 12
Topics: APT and Multi-Factor Models
Textbook: BKM Chapter 10

Meeting #13: Tuesday, November 17
Topics: Efficient Markets, Behavioral Finance and Empirical Evidence
Textbook: BKM Chapters 11-13

Meeting #14: Thursday, November 19
Topics: Efficient Markets, Behavioral Finance and Empirical Evidence (cont.)
Textbook: BKM Chapters 11-13

Meeting #15: Tuesday, November 24
Topics: **CASE:** Dimensional Fund Advisors
Deliverable: Case Report #2

Thanksgiving Holiday: Thursday, November 26

Part 4: Fixed Income Securities

Meeting #16: Tuesday, December 1

Topics: Bond Pricing and The Term Structure of Interest Rates

Textbook: BKM Chapter 14-16

Meeting #17: Thursday, December 3

Topics: Bond Pricing and The Term Structure of Interest Rates (cont.)

Textbook: BKM Chapter 14-16

Meeting #18: Tuesday, December 8

Topics: **CASE:** AQR's Momentum Funds

Deliverable: Case Report #3

Meeting #19: Thursday, December 10

Topics: Review Session

Final Exam: Monday, December 14, 10:30 am-12:20 pm