Course Details

Classroom: Paccar 395
Class time: Monday and Wednesday
             Section A/B 1:30 pm to 3:20 pm
Course website: Canvas

Instructor Contact Information

Instructor: Christopher Hrdlicka
Email: hrdlicka@uw.edu
Office: Paccar 424
Phone: 206.616.0332
Office hours: Tuesday 3:30 pm to 5:30 pm
             I want to see you in my office hours when you first feel confused.
Website: http://faculty.washington.edu/hrdlicka/

TA Contact Information

Instructor: Lucas Rooney
Email: ljrooney@uw.edu
Office: Paccar 446
Office hours: Thursday 4:30 to 5:30 pm
Review session: Thursday 6 pm to 8 pm.
             For location and topics see schedule at end of syllabus

Outside of office hours feel free to contact either the TA or myself via email about general questions about the course or material. Please direct all grading or grade related questions to me.
Goals and Course Overview

This course will build on your core finance class and teach you how to think about and answer the fundamental questions: Where do security prices come from? What should security prices be? How do we measure security mispricing and the skill of managers who take advantage of it?

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.

Along the way we will cover the following topics: market efficiency, term structure of interest rates, bond investing, portfolio theory, portfolio choice with outside income, mean variance analysis, return predictability, CAPM, multifactor models, hedge funds, measuring portfolio manager performance, and luck versus skill in money manager performance.

The only way to learn finance is by practicing the skills you will use on the job. Assignments will focus on building your quantitative, communication and critical thinking skills necessary to succeed in the investments profession.

Course Policies

Necessary Materials

- Course Pack: The required course pack contains the cases we will cover. It is required and available for purchase at the campus book store.

- Textbook: The optional textbook for this course is “Investments” 10th ed. by Bodie Kane and Marcus, ISBN: 978-0077861674. Earlier editions (e.g., 7th, 8th and 9th) make acceptable substitutes, but you are responsible for mapping optional reading and problems from the current edition to the earlier ones (though usually this is very easy).

- Calculator and Spreadsheet: To perform portions of the homework you will need access to Excel. No cell phones or laptops will be allowed on the exam so you will need to have access to a financial calculator at minimum. I recommend that if you have a graphing calculator (one you still have from your previous math classes) that you learn to use it for the matrix and vector calculations, but one is not strictly necessary.

- Optional Excel Reference: Excel is a critical tool in finance. If you are not comfortable using Excel or would like to become more proficient at using it, I recommend “Next Generation Excel: Modeling in Excel for Analysts and MBAs Second Edition” by Issac Gottlieb. This is available to read online through the library. Just search the library catalog and follow the links.

1There are several similarly titled books. For example do not get “Essentials of Investments” by Bodie Kane and Marcus.
Assignments

Homework & Cases

There will be 4 numerical homework assignments and 2 case reports. Homework may be done in groups of up to four students. I will drop the lowest assignment score from your grade. This drop means you only really have 5 total assignments. Turn in one copy of your homework or case per group with the name of all members of the group. You may work with students in other sections. All material turned in must begin with TWO COPIES of a cover-sheet indicating the assignment and members of the group. The two copies are to provide you with privacy about your grade when assignments are returned.

Form and Substance

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.

Exams

There will be a closed-book midterm and final exam at the times, dates, and locations listed in the course schedule. A formula sheet will be provided for each exam. The midterm is optional. If your final exam grade is better than your grade on the midterm I will drop your midterm grade, per the grading formulas in the following section. The final exam will be cumulative but focus more heavily on material covered after the midterm.

No cellphones, laptops or other electronic devices, beyond a scientific, graphing or financial calculator are allowed for either exam.

Copies of all old exams for this course will be available on the course website. I will hold review sessions prior to each exam.
Course Grade

Course grades will follow the Foster School’s policy of a median grade of 3.5 for electives.

Grade Weights

Your course grade will be determined from the maximum of the two methods.

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<thead>
<tr>
<th>Method A</th>
<th>Method B</th>
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<tr>
<td>Problem Sets &amp; Cases 30%</td>
<td>Problem Sets &amp; Cases 30%</td>
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<tr>
<td>Participation 10%</td>
<td>Participation 10%</td>
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<tr>
<td>Midterm 25%</td>
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<tr>
<td>Final 35%</td>
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Regrading

The TA and I work hard to assure partial credit is assigned equitably across all students. Occasionally, we will make mistakes in our grading, and we are eager to correct mistakes subject to the following limits. If you believe that there was a mistake in the grading of your exam, within one week following the return of the exam, submit the original exam and a separate written explanation of the points of contention to me. If the re-grade request is made after one week or without an accompanying written explanation, no re-grade will be given. There are no exceptions to the preceding rule. YOUR ENTIRE EXAM WILL BE REGRADED. This policy means that in the unlikely event that we find more scoring errors that were in your favor than against you, your regrade score could actually be lower. All re-grade decisions are final.

Late Homework

Because solutions will be posted online shortly after assignments are due and since the lowest assignment grade will be dropped, no late homework will be accepted, without extraordinary reason. Make sure the member of your group assigned to turn in the assignment is trustworthy and responsible.

Make Up Exams

As the midterm is optional there will be no make up option for it.

Make up final exams will be given only under very unusual and unavoidable circumstances. Treat the test date as you would an important meeting in the business world. Documented evidence that you were seriously ill at the scheduled time of an exam is the only valid excuse for missing an exam. In order to be excused from an exam, you must contact me prior to the exam and be ready to provide me with documentation after the exam.

A student who misses the final exam (with a valid excuse) will receive a grade of incomplete for the quarter. After the student takes the make-up exam on the scheduled date, I
will change the incomplete to the earned course grade. If a student fails to show up for the make-up exam, he/she will receive a zero for the exam.

**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**

Personal integrity is the key to your success and happiness in business and life. Throughout your life, you will be expected to abide by the ethics of the culture in which you find yourself, and failure to do so can destroy your career or worse.

The TA and I will not tolerate any cheating or other dishonesty. In order to ensure fairness on behalf of the overwhelming majority of honest students, we will refer anyone suspected of academic dishonesty to the appropriate administrative authority. There are no exceptions to this policy under any circumstances. If a student is found guilty of academic dishonesty by such authority, the student will receive a 0.0 for the course in addition to any punishment determined by that office.

**Feedback**

I’m always working to improve your learning experience. It is important to me to know any concerns or questions you might have. Let me know what lectures or assignments that you find the most interesting and helpful. Please stop by my office or send me an email to share any of you comments or concerns.
Schedule

With each lecture topic there is an associated lecture note available on the course website.

Meeting 1: Monday - March 26, 2018  
Topic: Course overview; market efficiency

Meeting 2: Wednesday - March 28, 2018  
Topic: Risk and portfolio allocation

Meeting 3: Monday - April 2, 2018  
Topics: Outside income and portfolio allocation

Meeting 4: Wednesday - April 4, 2018  
Topics: Bond arbitrage

Meeting 5: Monday - April 9, 2018  
Topics: Yield curve; interest rate risk

Meeting 6: Wednesday - April 11, 2018  
Topics: Interest rate risk ctd.; active bond investing  
Items Due: Homework #1: Portfolio allocation

Meeting 7: Monday - April 16, 2018  
Topics: Optimal portfolios of risky assets: mean variance analysis

Meeting 8: Wednesday - April 18, 2018  
Topics: Mean variance analysis (continued)  
Items Due: Homework #2: Bonds

Midterm Review Session:  
Saturday - April 21, 2018: 12:00 to 1:00 pm, Paccar 292.

Meeting 9: Monday - April 23, 2018  
Topics: Harvard Management Company case: come prepared to discuss the case  
Readings: The case  
Items Due: Case Report 1

Meeting 10: Wednesday - April 25, 2018  
MIDTERM: Closed book
Meeting 11: Monday - April 30, 2018  
Topics: Long horizon investing  
Readings: Excerpts from selected papers: papers and instructions posted on course website

Meeting 12: Wednesday - May 2, 2018  
Topic: Guest Speaker Gary Furukawa  
Founder and Senior Partner of Freestone Capital

Meeting 13: Monday - May 7, 2018  
Topics: Models of equity prices and returns: CAPM and multi-factor models

Meeting 14: Wednesday - May 9, 2018  
Topics: Models of equity prices and returns: multi-factor models  
Items Due: Homework #3: Mean Variance Analysis

Meeting 15: Monday - May 14, 2018  
Topics: Active managers: portfolio manager evaluation

Meeting 16: Wednesday - May 16, 2018  
Topics: Passive managers: Dimensional Fund Advisers case discussion  
Readings: The case  
Items Due: Case Report 2

Meeting 17: Monday - May 21, 2018  
Topics: Optimal Passive Investing

Meeting 18: Wednesday - May 23, 2018  
Topics: Hedge Funds  
Readings: Excerpts from selected papers: papers and instructions posted on course website  
Items Due: Homework #4: Using the CAPM and multifactor models

Meeting 19: Monday - May 28, 2018 - Memorial Day No Class
Meeting 20: Wednesday - May 30, 2018
Topics: Dynamis fund case discussion
        Performance of the active management industry
        Course wrap up
Readings: The case
        Excerpts from selected papers: papers and instructions posted on course website
Items Due: See the case questions and come with a one page handout with your preferred
        performance evaluation results. These will be put up on the document camera
        to aid in the discussion.

Final Review Session:
Saturday - June 2, 2018:
12:30 to 2:00 pm, Paccar 292

Final Exam: Monday June 4, 2018
Closed-book final exam from 2:30 pm to 4:20 pm in Paccar 395
TA Review Sessions

To help you with reviewing prerequisite material, the use of Excel and keeping up with course topics the TA will lead a review session each week. Each week will include the following specific topic. Beyond the main topic, these session will also be a chance to work practice problems and ask general questions about the class material.

Thursday - March 29, 2018: Basic statistics and Excel  
Time & Place: 6 to 8 pm in Paccar 394

Thursday - April 5, 2018: Bond pricing review  
Time & Place: 6 to 8 pm in Paccar 394

Thursday - April 12, 2018: Vectors, matrices and using them in Excel  
Time & Place: 6 to 8 pm in Paccar 394

Thursday - April 19, 2018: Excel accompaniments on optimal risk in portfolios  
Time & Place: 6 to 8 pm in Paccar 394

Thursday - April 26, 2018: Statistics review: hypothesis testing, regressions and running them in Excel  
Time & Place: 6 to 8 pm in Paccar 394

Thursday - May 3, 2018: Excel accompaniments on MVA  
Time & Place: 6 to 8 pm in Paccar 394

Thursday - May 10, 2018: Excel accompaniments on CAPM and factor models  
Time & Place: 6 to 8 pm in TBD

Thursday - May 17, 2018: Excel accompaniments on portfolio manager evaluation  
Time & Place: 6 to 8 pm in Paccar 394

Thursday - May 24, 2018: Excel accompaniments on advanced portfolio manager evaluation and optimal passive investing  
Time & Place: 6 to 8 pm in TBD

Thursday - May 31, 2018: Practice problems and general course questions  
Time & Place: 6 to 8 pm in Paccar 394