**Course Syllabus**

**Finance 7110 - Investments**

**Fall 2019**

# **Professor** Bill Reese

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 Office Hours: Wednesdays 5-6 pm

**Course Material** *Investments* 11th Edition

 By Bodie, Kane and Marcus (recommended, but not required)

Additional readings (some required and some optional) can be found on the class website.

**Cases** (see class website for how to obtain cases)

 Note: All cases are required reading

 Martingale Asset Management (Martingale)

 Barclays Global Investors and Exchange Traded Funds (Barclays)

 Maverick Capital (Maverick)

 Behavioral Finance at J.P. Morgan (BF at JPM)

 Applying the Capital Asset Pricing Model (CAPM)

**Prerequisites** Students must have completed the core finance class.

**Grading** Final Exam 30%

 Midterm Exam 30%

 Stock-Trak 10%

Efficient Frontier 5%

Am I Diversified? 5%

Expected Returns for CAPM and FF3 5%

Duration and Bootstrapping 5%

Fixed Income Problem Set 5%

Attendance 5%

I plan to adhere to the Freeman School grading guidelines which recommend a class-GPA in the range of 3.33 – 3.67 for elective MBA courses.

**Goals and**

**Objectives** The first half of this course will be an in-depth study of portfolio theory. We will develop the foundations of Modern Portfolio Theory and show how you would use its principals to calculate mean/variance efficient portfolios. We will also look at alternatives to MPT with multifactor models, specifically the Fama/French three-factor model. The second half of the course will focus on fixed income analytics. We will discuss how to price various types of fixed income securities and how to measure their interest rate risk. We’ll learn how to hedge interest rate risk. We’ll also examine various theories about the term structure of interest rates, learn how to derive implied forward interest rates and bootstrap a yield curve.

**Readings** The text (BKM) is not required, but since almost all the material in this course comes from this text, I recommend that you read it as a key source of information. There are several required readings (and many optional ones). These can be found on the class website, except for the Harvard Cases which must be purchased (see the class website for details on how to purchase them).

**Stock-Trak** Each student will join an investment team (minimum 3 and maximum 5 students per team) and will participate in a portfolio simulation exercise managing $1,000,000 over the semester. The simulation is professionally-managed by Stock-Trak Global Portfolio Simulations ([www.stocktrak.com](http://www.stocktrak.com)). The investment period extends from Aug. 26 to November 22. The fee per registered account is $29.95 (I believe your text may have a discount coupon if you buy it new). Each investment team will prepare a Fund Prospectus at the beginning of the exercise and a performance analysis at the end of the exercise. Additional information can be found on the class website.

**Assignments** In addition to Stock-Trak, there will be six assignments over the course of the semester. These assignments are due at the start of class on the scheduled due date. If they are late, you will lose points. Assignments are to be done individually unless the assignment instructions specifically state otherwise.

**Midterm Exam** Please note that the midterm exam will be a four-hour exam that will be held on Friday Oct. 18. To compensate you for your time, there will be no class on Oct. 3 and Oct. 17.

**Attendance** I think that it is important for you to attend class and participate in class discussions. You will be responsible for anything covered in class, even if you are not in attendance that day. In addition to the 5% of your grade that is based on attendance and participation, I reserve the right to reduce a student’s grade due to excessive absences from class, a lack of attentiveness in class, or the inappropriate use of a laptop or cellphone in class.

**Syllabus** Please note that this syllabus is not a contract. It is a statement of expectations and information. I reserve the right to change anything in it at any time.

**Website** I will be maintaining a website for this course at

<https://breesefine7110.tulane.edu/>

On it, I will be posting announcements that you will want to read,

class notes, assignments, test scores, and other worthwhile information. I strongly encourage you to visit the website regularly to keep up with what’s going on in class.

**Laptops** Laptops may be used during class to take notes, work through Excel problems we are doing, etc. They are not to be used for web surfing, emailing, messaging or anything not directly related to what we are studying at that moment. If they are being used during class for any purpose other than work we are doing in this class, your grade for the course will be reduced. Cellphones may not be used during class.

**Norms and**

**Expectations** This class will be conducted in full accordance with published Norms and Expectations for Students in Freeman Classes. Please review the Norms and Expectations in your program handbook.

**Academic Integrity** This class will be conducted in full accordance with Tulane’s policies about academic integrity including, but not limited to, the Unified Code of Graduate Student Academic Conduct (<http://tulane.edu/provost/upload/Unified_Code_of_GS_Academic_Conduct_11-14-07.pdf>) and the Tulane University Code of Student conduct (<http://studentconduct.tulane.edu>).

**Disabilities** Under the Americans with Disability Act and Section 504 of the Rehabilitation Act, if you have a disability, you may have the right to an accommodation; however, the right is contingent upon your taking certain steps. You should review the steps that you need to take, as well as Tulane’s policy concerning accommodations at <http://erc.tulane.edu/disability/index.html>. Any student with a disability, in need of course or examination accommodation, should request an accommodation through the University’s Goldman Office of Disability Services (ODS) located on the first floor of the Mechanical Engineering Building. At the beginning of the semester, please provide me with a copy of your approved ODS accommodation form. I am committed to working with ODS to ensure that I provide you with all approved accommodations. If you do not deliver the approved accommodation form to me, I will not know that ODS approved your accommodation and I will have no basis to provide those accommodations.

**Finance 7110 Fall 2019**

**Tentative Schedule**

|  |  |  |  |
| --- | --- | --- | --- |
| **Class** | **Topic** | **Readings** | **Assignments Due** |
| 8/20 | IntroRisk and Risk Aversion Part 1 | BKM 6 |  |
| 8/22 | Risk and Risk Aversion Part 2 |  |  |
| 8/27 | Risk and Risk Aversion Part 2 |  |  |
| 8/29 | Optimal Risky Portfolios | BKM 7 |  |
| 9/3 | Optimal Risky PortfoliosAm I Diversified? |  | Stock Trak Prospectus |
| 9/5 | Mean/Variance Optimization in Excel |  |  |
| 9/10 | Developing the CAPM | BKM 9 | Am I Diversified?  |
| 9/12 | Applications of the CAPM | BKM 8Fama/FrenchCAPMSiegel |  |
| 9/17 | Applications of the CAPM |  |  |
| 9/19 | Multifactor Models | BKM 10CochraneURR |  |
| 9/24 | Multifactor Models |  | Efficient Frontier |
| 9/26 | Market Indexes | Martingale MaverickCampbell |  |
| 10/1 | Professional Asset Management | Barclays | Expected Returns for CAPM and FF3 |
| 10/3 | No Class |  |  |
| 10/15 | Review of Bond Basics | BKM 14 |  |
| 10/17 | No Class |  |  |
| 10/18**Friday** | Midterm Exam – 4 hours |  |  |
| 10/22 | Review Midterm Exam |  |  |
| 10/24 | Bond Quotes and PricesTreasury Issue Process | BKM 15 |  |
| 10/29 | Strips and TIPS Repos  | BKM 16 |  |
| 10/31 | Implied Forward RatesDiscuss F.I. Prob. Set |  |  |
| 11/5 | Theories of Term Structure Bootstrapping |  |  |
| 11/7 | Interest Rate RiskDuration, Modified Duration, Convexity |  | Fixed Income Problem Set |
| 11/12 | PVBP Portfolio Duration  |  |  |
| 11/14 | Hedging Interest Rate RiskInt. Rate Forwards, Futures, and Futures OptionsDiscuss Dur and Boot Assign. |  |  |
| 11/19 | Portfolio Evaluation Methods | BKM 24  |  |
| 11/21 | Swaps |  | Duration and Bootstrapping |
| 11/26 | Swaps |  |  |
| 12/3 | Behavioral Finance | BKM 11-12 MalkielDe BondtBF at JPM |  |
| 12/121-5 | Final Exam |  | Stock Trak Analysis |