College of Business and Economics, WVU

FIN 310 Investments

CRN: 10821
Spring 2009
M,W, F; B&E 230

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Course Description: This course serves as your first course in investment analysis and builds on the concepts learned in previous finance courses. We will evaluate the types and ways that securities are traded, the pricing of securities, the ways in which the markets function, and provide an introduction to the theoretical constructs of risk and return and portfolio performance evaluation.

Learning Objectives:

- Understanding of financial markets and products
- Basic understanding of risk and return
- How equilibrium is achieved in financial markets and what the implications are for security returns
- The pricing of securities: fixed income, equity valuation, and derivative products
- Portfolio performance evaluation
- Hedge fund management

Prerequisites: BCOR 340 Business Finance. Knowledge of basic algebra and familiarity with Excel is assumed.

Required Materials: Investments, Bodie, Kane, and Marcus, Eighth Edition, McGraw-Hill Irwin

The Wall Street Journal

The textbook is the main source of information for the course. You are expected to come to class prepared, which means that you must have read the chapter to be covered prior to coming to class, as well as be prepared to contribute to any discussions of current events and articles from the Wall Street Journal. The Wall Street Journal should be read on a daily basis and will facilitate a greater understanding of the material covered in the lecture portion of the course. As finance majors, the ability to translate the theoretical constructs covered in class in an applied, real-world manner is critical to your education and success after leaving WVU.

WVU eCampus: WVU eCampus () will be used throughout the course to post announcements, classroom handouts and other class materials.

Course Activities:

Textbook Problems: I encourage you to work as many additional problems from the book as possible. Solutions for the end of chapter problems will be posted on eCampus.

Regularly Scheduled Exams: There will be three exams during the semester, scheduled for February 27 and April 10 and May 1. The last exam given on May 1st will be comprehensive and will cover topics from the entire course. The exam dates are firm and will not change; therefore, no make-up exams will be given except by **prior arrangement** with the instructor. This means that if you have an illness or other **university approved** excuse for not taking the exam, you must send me an email prior to class time. This policy will be strictly adhered to and there will be no exceptions.

The exams are closed book, closed notes. I will allow one side of a **3x5** notecard and a calculator for each exam. You may write anything that you want to on the notecard, but it should primarily be used as a formula sheet. The notecard will be turned in with your exam. Failure to adhere to the size restriction will cause loss of the ability to use any notes for the exam. Please make sure that your notes for the exam are only on one side of a 3x5 notecard so that you do not run into problems the day of the exam.

The content of the exams will be both qualitative and quantitative in nature. Your knowledge of the material will be tested through short answer, essay, and problem sets. The best way to study for the exams is to review your class notes and examples. Reading your textbook and working through the end of chapter problems will enhance your understanding of the material; however you will not be tested over material found in the text that we do not specifically address in the lectures. You will only be tested over material covered in class and general information and practical examples from the WSJ.

Short Projects: Several (2-3) short projects will be given over the course of the semester to further enhance your understanding of the material being presented in lecture. The purpose of these assignments is to give you practical, hands-on experience working with and collecting financial data. The assignments will be provided during the course of the semester and you will have one week from the time that they are assigned to complete them.

Attendance: Regular attendance is very important to good performance in this course. Students who attend classes regularly tend to earn higher grades. I do not take attendance; however pop quizzes will be given on a regular basis and you cannot make these up. If you do need to miss class make sure that you inform me prior to the class so that your absence can be excused. You will be allowed to drop your lowest quiz grade.

Determination of Grade: Your grade for the course will be determined as follows:

Two Midterm Exams	50% (25% each)
Comprehensive Exam	30%
Short Projects	15%
Pop Quizzes (Bonus)	5%

I will use the following scale for your final grade: 94% and above = A; 90-93% = A-, 87%-89% = B+; 84%-86% = B, 80-83% = B-, 77%-79% = C+, 74%-76% = C, 70%-73% = C-, etc.

Social Justice Statement: West Virginia University is committed to social justice. I concur with that commitment and expect to maintain a positive learning environment based on open communication, mutual respect, and nondiscrimination. Our University does not discriminate on the basis of race, sex, age, disability, veteran status, religion, sexual orientation, color or national origin. Any suggestions as to how to further such a positive and open environment in this class will be appreciated and given serious consideration. If you are a person with a disability and anticipate needing any type of accommodation in order to participate in this class, please advise me and make appropriate arrangement with Disability Services (293-6700).

Academic Dishonesty: Academic dishonesty in any form will not be tolerated. Please see the WVU Student Handbook () for possible penalties due to academic dishonesty.

Classroom Civility

Students are expected to assist in maintaining a classroom environment conducive to learning. To ensure that all students have the opportunity to gain from time spent in class,
students are prohibited from using cellular phones or beepers, making offensive remarks,

reading the newspaper (even the WSJ!), sleeping, eating, or engaging in any other form of distraction, without the permission of the instructor. Inappropriate behavior in the classroom will result in the student being requested to leave the class, at a minimum.

Tentative Course Schedule

Week of	Topics and Events
January 12	Introduction The Investment Environment, Chapter 1 • Differentiation between real and financial assets; major components of the investment process; introduction to a derivative security. Asset Classes and Financial Instruments, Chapter 2 • Introduction to the various financial instruments available to the potential investor. Interpretation, composition, and the calculation process involved in the various market indexes will be given. A basic overview of options and futures contracts will be provided.
January 19	January 19—NO CLASS Asset Classes and Financial Instruments, Chapter 2 continued How Securities are Traded, Chapter 3 • Discussion of how securities are traded on both the primary and secondary markets, with detailed coverage of both organized exchange and over the counter activities. Margin trading and short selling are discussed along with detailed examples of margin arrangements. We will also discuss the elements of regulation and ethics issues associated with security transactions.
January 26	Mutual Funds and Other Investment Companies, Chapter 4 • Description of the various types of investment companies and mutual funds. We will also discuss the services provided by mutual funds and the expenses and loads associated with investment in investment companies. Investment policies of different funds will be described and the sources of information on investment companies will be identified. Risk and Return, Chapter 5 • The first portion of this topic will describe the major factors influencing the level of interest rates and discuss the Fisher Effect. The second part will cover returns for different holding periods and present information on historical risk/return data for different types of financial assets. We will also learn how to calculate statistical risk and returns measures, both ex post and ex ante.

February 2	Risk and Return, Chapter 5 Continued Introduction to risk aversion and the various sources of investment risk, Portions of Chapters 6 and 7 • Introduction to the concepts of risk aversion and utility. Introduction to the various sources of risk investors are exposed to and how diversification alters exposure to risk.
February 9	The Capital Asset Pricing Model, Chapter 9 • Presentation of the capital asset pricing model, which is an equilibrium model for the pricing of assets based upon risk. This model rules out the possibility of arbitrage profits, that is, the exploitation of mispriced securities. We will cover a simplified two-security example that develops the concept of demand for shares and how prices of securities would change with changes in demand. The material covered includes the assumptions that underlie the CAPM, major implications of model, and development of the Security Market Line.
February 16	The Efficient Market Hypothesis, Chapter 11 • The concept of market efficiency, that is, in general, securities are fairly priced and one cannot expect to outperform the market, risk-adjusted consistently over time will be discussed. The implications of market efficiency for investors and studies of the efficient capital market hypothesis will be presented in detail. Behavioral Finance and Technical Analysis, Chapter 12 • This chapter examines the relatively new school of thought dubbed as Behavioral Finance. The school presents an argument that prices may not be efficient by questioning investor rationality. Evidence exists that individuals do not always react in a rational manner. Limits to arbitrage may lead to mispricing on securities. The chapter presents evidence uncovered by psychologists that show errors made by individuals in processing information and biases observed in human behavior. The chapter also examines technical analysis and relates such analysis to behavioral finance.
February 23	Behavioral Finance and Technical Analysis, Chapter 12 Continued Review Exam 1

March 2	Bond Pricing and Yields, Chapter 14 • Discussion of the various types of bonds, bond characteristics, determinants of bond risk, bond ratings, and the pricing and yield calculations of various types of bonds.
March 9	The Term Structure of Interest Rates, Chapter 15 • The term structure of interest rates will be introduced. The concept of one-year rates will be used to develop yields on longer-term securities. The major theories that are used to explain interest rates will be developed. Macroeconomic and Industry Analysis, Chapter 17 • The broad-based aspects of fundamental analysis will be introduced--macroeconomic and industry analysis. The discussion will focus on aspects of the U.S. economy that affect security returns. Factors such as leading, coincident, and lagging indicators will be discussed.
March 16	No Class: Spring Recess
March 23	Equity Valuation Models, Chapter 18 • The process of valuation of common stock will be presented. The material will cover the relationships between intrinsic value and market and book values, various valuation techniques, and the strengths and weaknesses of these techniques Financial Statement Analysis, Chapter 19 • We will discuss basic financial statements, the differences between accounting and economic income, return on equity (ROE), the decomposition of the ROE into component ratios for the purpose of financial analysis, other ratios relevant for financial analysis, and financial statement comparability problems.
March 30	Financial Statement Analysis, Chapter 19 Continued Options Markets Introduction, Chapter 20 • We will focus on the characteristics of options, terminology used in the options' markets, payoffs and profits to option owners and writers, and the put call parity relationship. Also discussed will be option like assets, such as callable bonds, warrants, and collateralized loans.

April 6	Option Valuation, Chapter 21 • The factors affecting the value of an option, determination of option pricing in a two-state world (binomial option pricing), hedge ratios, and the Black-Scholes option-pricing model will be presented. Portfolio insurance techniques will also be presented. Review Exam 2
April 13	Futures Markets, Chapter 22 • We will discuss futures markets, trading mechanics involved with futures trading, strategies and risks associated with futures trading and pricing of futures contracts. Our discussion will provide you with background material on stock index contracts, a description of how such contracts can be used for hedging and speculation and we will discuss the concept of index arbitrage. Futures, Swaps, and Risk Management, Chapter 23 • We will discuss the various stock index futures, empirical evidence on the pricing of these futures, index arbitrage, foreign exchange futures, interest rate futures, commodity futures pricing, interest rate swaps, and credit default swaps.
April 20	Portfolio Performance Evaluation, Chapter 24 • We will discuss and calculate the various return measures and risk-adjusted return measures that are used for evaluation of portfolio managers. The process of decomposing portfolio returns into the various components of the portfolio-building process will be presented. Hedge Funds, Chapter 26 • We will discuss the various hedge fund orientations devoting a great deal of attention to market-neutral or hedged strategies. The evidence on hedge fund performance and the difficulties in evaluating its performance will be described. The implications of hedge funds' unusual fee structure for investors and managers will be discussed.
April 27	Hedge Funds, Chapter 26 Continued Review Exam 3

NOTE: This schedule is subject to change at the discretion of the professor.