

SEATTLE UNIVERSITY
Albers School of Business and Economics

FINC 5100: Investments

Fall 2016
Wednesday 5:30 p.m.–8:10 p.m.
Bellevue 200F

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Office Hours: Wednesday 4:00 p.m.– 5:15 p.m. (Bellevue);
 and other times by appointment (main campus)

OFFICE HOURS AND COMMUNICATING WITH ME

I am very flexible in scheduling appointments outside of scheduled office hours. Don't hesitate to request an appointment, and I will set it up. I request that you forewarn me since it allows me to give you full attention to your needs that you deserve and not be distracted by my other engagements. To avoid disappointment when you stop by, please let me know when you are coming in during the scheduled office hours.

I regularly check my e-mails in the SU account (jyau@seattleu.edu) during a workday. Please send email to this account if you want a quicker response. I am happy to provide you with assistance and quick feedback by e-mail. Should your question require a long answer (i.e., more than two sentences) or should it be beneficial to other members of the class to listen, I will bring the answer to class.

For announcements and information sent to this class as well as requests that involve personal information (e.g., grades), I will disseminate them to your e-mail account at Seattle University ONLY. Please make sure your SU e-mail account is able to accept incoming e-mails at all times and check it regularly.

COURSE WEBSITE

<http://seattleu.instructure.com/>

Please visit the course website frequently during the term for announcements, important changes regarding deadlines, schedules and policies, class notes and additional assignments, if any.

OBJECTIVES

- (1) To introduce a general overview of capital markets and traditional financial instruments (e.g., stocks, bonds, options, mutual funds, hedge funds, and exchange traded funds);
- (2) To develop students' understanding of modern investment theories by providing exposure to both theory and empirical evidence with emphasis in their economic rationales (i.e., risk and return relationship) and behavioral aspects of investment decision-making;
- (3) To introduce valuation techniques for major traditional asset classes: stocks and bonds; and
- (4) To introduce options and basic option strategies.

Although this is a required course for MSF & MPAC majors, the course should be relevant to all students alike since everyone must decide, at one point or another, how to invest their savings. The consequences of our investment decisions are serious, since they can have a significant impact on our future standards of living. However, you should be aware of the following caveat to see whether this is the right course you are looking for.

CAVEAT

This course is not designed to teach you how to make a quick killing in the stock market. Neither does it specifically discuss ad hoc approaches to equity investing. Instead, the course aims at providing you with a systematic introduction to the professionally acceptable investment principles and techniques that will enable you to analyze major asset classes (stocks, bonds, and derivatives) and hopefully help you make sound investment decisions in the current economic environment. Pedagogically, it takes the *perspective of institutional investors and the asset allocation approach they use*. You will be learning the current philosophy, theories, models, practice and techniques about investment management and the empirical evidence relating to them. As such, it is a prerequisite to FINC 5105 (Derivatives), FINC 5120 (Portfolio Management), FINC 5320 (Advanced Topics in Investments), FINC 5330 (Fixed Income Securities), and FINC 5335 (Hedge Funds). It also provides the necessary theoretical foundations for those who would like to prepare for the Chartered Financial Analyst (CFA®), Chartered Alternative Investment Analyst (CAIA), and Financial Risk Manager (FRM) professional exams.

*** Important ***

For those who would like to learn how to pick stocks for your retirement savings accounts (401K, IRA, Roth etc.), to learn something about personal investing, or to give financial planning advice to other individuals, you may want to take FINC 5345 (Personal Financial Planning) instead. This course is **not** about personal investing/financial planning.

PREREQUISITES

ACCT 5030, ECON 5000, ECON 5107, and FINC 5000

All students must have completed the above courses and their prerequisites (e.g. Business Calculus) before taking this class and are expected to be proficient with the basic math techniques covered in Business Calculus class, time value of money (including different cost of capital computations), financial statements and financial ratio computations, and basic statistics including linear regression (for estimation of beta).

Use of Calculator: Students must be proficient in using a financial calculator; only calculators with no user-programmable capabilities are allowed during all exams. If you have doubts about your calculator, check with me now. I recommend students to learn how to use the financial calculators approved by the CFA Institute for use in the CFA exams: Texas Instruments BA Plus II or Hewlett Packard 12C.

REQUIRED COURSE MATERIALS

1. eBook (ISBN 9781308186191; custom-made for this class; \$82.39) obtainable ONLINE only at <https://create.mheducation.com/shop/>

Follow the instructions on the first page (Type “Yau” in the search box and then follow the instructions). The title of the eBook is “Investments BKM10ed”.

Important *** This eBook is composed of 13 chapters (Ch. 1-5, 7, 9, 11, 12, 14, 16, 18 and 20) from *Investments* by Bodie, Kane and Marcus, 10th edition, McGraw-Hill Education, 2014 (ISBN978-0-07-786167-4). If you have this book (10th edition), you don’t need to purchase the eBook.

Textbook website

The textbook has a website which provides some online learning tools. Please log on to the website: <http://www.mhhe.com/bkm/>. Click on the **cover** of your textbook and then click on the **online learning center**.

2. Class materials including power point notes posted on CANVAS.
3. Handouts distributed in class.

RECOMMENDED READINGS

Regular outside readings will enhance the understanding of the subject, and it is highly recommended. Students are encouraged to read the following regularly:

| | |
|-------------|---|
| Newspapers: | <i>The Wall Street Journal</i> <i>The Financial Times</i> |
| Journals: | Financial Analysts Journal Journal of Alternative Investments Journal of Investing Journal of Wealth Management Journal of Portfolio Management |
| Magazines: | <i>Fortune</i> <i>Forbes</i> <i>Institutional Investors</i> <i>The Economists</i> <i>Euromoney or Asia Money</i> |

REQUIREMENTS

- (a) **EXAMS.** There will be two in-class, closed-book exams: a mid-term and a final. The exams will be in

the form of concept questions and numerical problems. The typical mix is 50%/50% and may vary by no more than 10%. The level of difficulty of the computational problems is similar to those of the end-of-chapter problems and problem sets. The final exam is not comprehensive.

(b) **ASSIGNMENTS.** There are two types of assignments: assigned end-of-chapter problems and problem sets. Assigned **end-of chapter problems** are those that students prepare before class and be ready to present and discuss the solutions in class when asked. Satisfactory response will count towards your course participation. They will NOT be collected. Solutions to end-of-chapter problems will be posted on CANVAS after discussion in class.

Two problem sets will be collected and graded; one is due before the mid-term, and one before the final exam. They will be posted on CANVAS in due course. Problem Set #1 is due for submission online to CANVAS (under Assignment) by mid-night on October 21, 2016. Problem Set #2 is due in class (in hard copies) at 5:30 pm on November 30, 2016. Late submission, defined as turning in 30 minutes after the deadline will not be accepted. There is no make-up of any kind for missed assignments. All computations must be shown clearly for full credit; typed submissions are preferred but legible, handwritten submissions are acceptable. (For Problem set #1, if you submit an EXCEL file, please ensure that the file is formatted for ready printing (i.e., formatted to fit the letter size paper), otherwise points will be deducted).

Grading Criteria for Problem Sets

Problem set grade depends on effort and accuracy/correctness of the answers. I may grade all/part/none of the problems. For the problems that are not graded, you will receive full credit if you have attempted them completely. For the graded problems, the grade is based on accuracy. For example, if question 1 was selected for grading and if you missed doing that question, you would receive a zero score. If you attempted the question but you were not all correct in your answer, say only 80% of your answer was correct for that question, you will receive a score of 80% of the assigned points for the question.

COURSE PARTICIPATION. The distinctive advantage of being taught in person in a classroom environment (vis-à-vis online distance learning) is the opportunity to interact, both inside and outside classroom, with the professors who would hopefully enlighten you and your classmates who would share their experiences with you. Thus, I strongly encourage classroom participation, often pausing to ask for questions and always calling for questions at the beginning of class. Asking sensible questions in class will stimulate your thinking (as well as mine). I cannot promise you that I know all the answers but I will do my best. Sometimes, you may be lucky to hit some potential exam questions. Offering your opinion voluntarily in class may enrich the discussion by giving a different perspective to the class to consider.

Attendance Policy *Important!**

Regular class attendance is expected during the term. Regular class attendance is defined as attending at least 8 of the scheduled 9 lectures (Mid-term exam week is not counted as a lecture). Leaving early from any class or coming in 30 minutes late will count as absence for half a class. Irregular class attendance will automatically reduce your course participation score by up to 5 points towards the final grade.

Grading Criteria for Course Participation

| | |
|-------------|--|
| 90% or more | Extremely well-prepared for almost all assignments, as indicated by in- class discussions. Extremely involved in almost all class discussions. Significantly helped create an exciting class discussion on a regular basis without detracting the class from the topics being discussed. |
|-------------|--|

Regularly provided insights regarding relevant outside reading material.
 Often talked with professor outside of class regarding course material.
 Regular class attendance.

80% or more

Well-prepared for almost all assignments, as indicated by in-class discussions.
 Involved in almost all class discussions.
 Helped create an exciting class discussion on a regular basis without detracting the class from the topics being discussed.
 Occasionally provided relevant outside reading material with some comments.
 Occasionally talked with professor outside of class regarding course material.
 Regular class attendance.

65% or more

Occasionally well-prepared for assignments, as indicated by in-class discussions.
 Occasionally got involved in class discussions.
 Did not detract from creating an exciting class discussion.
 Did not distract the class and the instructor by any means including the use of any electronic gadgets.
 Provided some relevant outside reading material.
 Once talked with professor outside of class regarding course material.
 Regular class attendance.

GRADE DETERMINATION

| | |
|----------------------|------------|
| Mid-term Exam | 30% |
| Final Exam | 30% |
| Two Problem Sets | 30% |
| Course Participation | <u>10%</u> |
| Total | 100% |

Your course grade depends on the distribution of the weighted average scores. Normally, a weighted average score of 95 or above is an A, 90 or above is A-, between 80-89 is (B+, B, B-), 65-79 is (C+, C, C-). The actual demarcation line for each letter grade depends on the actual distribution of all weighted average scores. If the distribution warrants, plus or minus grades may not be given.

For fair disclosure, here are the statistics for previous classes:

| Quarter | # Students | Highest (#) | Lowest (#) | Mean |
|-------------|------------|-------------|------------|------|
| Winter 2004 | 33 | A (4) | C+ (1) | 3.17 |
| Spring 2004 | 30 | A (6) | B- (1) | 3.32 |
| Winter 2006 | 21 | A (4) | B (9) | 3.38 |
| Fall 2006 | 33 | A (8) | B- (4) | 3.35 |
| Spring 2007 | 36 | A (4) | B- (5) | 3.23 |
| Spring 2009 | 27 | A (5) | C (1) | 3.27 |
| Fall 2009 | 29 | A (3) | F (1) | 3.19 |
| Winter 2010 | 26 | A (2) | B-(1) | 3.26 |
| Spring 2010 | 34 | A (3) | F (1) | 3.19 |
| Fall 2010 | 34 | A (5) | F (1) | 3.19 |

| | | | | |
|-------------|----|-------|--------|------|
| Winter 2011 | 29 | A (5) | B- (1) | 3.32 |
| Spring 2011 | 27 | A (7) | B- (5) | 3.31 |
| Fall 2012 | 25 | A (3) | B (11) | 3.35 |
| Spring 2013 | 21 | A (4) | B (11) | 3.33 |
| Fall 2014 | 24 | A (5) | F(1) | 3.24 |
| Spring 2015 | 30 | A (8) | B (11) | 3.40 |

Students often claim they did not show how much they knew on the test. Alternatively, they may indicate that they studied "real hard" but just could not grasp the material before exams. Having been a student for over 20 years myself, I am sure that such sentiments have a certain amount of validity. But, under the present system, I must say that the points are really irrelevant. I have no better measure of performance by effort rather by result. Therefore, *to be fair to everybody, grades are based on performance -- not "knowledge" or effort.* Accordingly, one's efforts should be directed toward achieving the maximum performance relative to potential and input. The advice that I can offer you now is:

"QUANTUM POTES, TANTUM AUDE"

ACADEMIC HONESTY POLICY

*****Important*** Read this carefully!**

Seattle University is committed to the principle that academic honesty and integrity are important values in the educational process. Academic dishonesty in any form is a serious offense against the academic community. Acts of academic dishonesty will be addressed according to the Seattle University Academic Honesty Policy. The policy can be found at the address below:

http://www.seattleu.edu/regis/Policies/Policy_2004-01.htm

If you are not sure whether a particular action is acceptable according to the Academic Honesty Policy, you should check with me before engaging in it.

MAKE-UP EXAM POLICY

No make-up exams will be given without legitimate excuses and proof. If the legitimate excuses are foreseeable, they must be submitted prior to the scheduled exam. If they are unanticipated such as medical emergencies or death of family member, you should be able to produce documentation if asked. Make-up exams are usually given before the scheduled exam time, more difficult, and graded on an absolute scale. If scheduling a make-up exam is not feasible, the instructor has the discretion to redistribute the weights to the unfinished assignments but no retroactive redistribution to the completed assignments.

DISABILITIES POLICY

If you have, or think you may have, a disability (including an 'invisible disability' such as a learning disability, a chronic health problem, or a mental health condition) that interferes with your performance

as a student in this class, you are encouraged to arrange support services and/or accommodations through Disabilities Services staff in the Learning Center, Loyola 100, (206) 296-5740. Disability-based adjustments to course expectations can be arranged only through this process.

ELECTRONIC GADGETS POLICY

The use of laptops, iPads, netbooks, PDAs, blackberrys, cellphones of any kind, or any other handheld electronic gadgets such as blackberry and cell phones are not allowed in class. Violations will be penalized by the deduction of course participation score toward the course grade.

LECTURE RECORDING POLICY

For protection of proprietary knowledge and for a variety of other reasons, audio and videotaping of any class session is strictly prohibited without prior approval of the instructor. Under extreme circumstances or for a pre-approved class absence, audio taping a class session will be allowed on a case-by-case basis and with the express permission of the instructor. The student will be responsible for making all necessary arrangements. Students will need to adhere to the appropriate agreed upon use of the content material of these audio/video tapes.

Class Calendar – as of September 21, 2016

Note: This calendar provides a planned schedule of classes, exams and assignments. Deviations from schedule may be necessary. If so, announcements will be made in class and/or posted on CANVAS. It is your responsibility to keep abreast of these changes.

- Assignments listed below require you to do the following satisfactorily in order to satisfy the requirements for course participation: **Read** the assigned chapters **before class** (Appendices not included except specified otherwise); **do** the end-of-chapter problems (indicated by *) and e-Investment exercises and be ready to **present** and **discuss** your answers in class when asked. Notes are posted on CANVAS before class.
- Solutions to end-of-chapter problems will be posted on CANVAS after discussion in class. Solutions to problem sets will be posted on the course website after the due date.

| CLASS/DATE | TOPICS | ASSIGNMENTS* | |
|------------|---|----------------------|--|
| 1/ Sep 21 | -Introduction -Investment Environment | Notes 1A | Ch. 1 & 2 *Ch1 e-Investment exercise (EIE) |
| 2/ Sep 28 | -Financial Instruments -Securities Markets | Notes 1B Notes 2A | *Ch. 2 problem#7, 11-13; EIE Ch. 3 *Ch 3 problem# 6, 7, 14; EIE |
| 3/ Oct 5 | - Securities Markets (cont'd) - Investment Companies (including Hedge Funds) | Notes 2B | Ch. 4 *Ch. 4 problem# 13, 21. |
| 4/ Oct 12 | -Risk & Return -Introduction to Portfolio Theory (I) | Notes 3 Notes 4 | Ch. 5 (\$5.1-5.8); *Ch. 5 problem #7, 8 & CFA# 1 & 2; EIE |
| 5/ Oct 19 | -Introduction to Portfolio Theory (II) | Notes 4 | Ch. 7 (pp.205-229) & Appendix 7B *Ch.7 CFA#4-7, 9 Problem Set #1 due mid-night, Friday, Oct 21 (Submit to Assignment on CANVAS) |
| 6/ Oct 26 | Mid-term Exam (5:30pm-7:00pm) | | |
| 7/ Nov 2 | - The Capital Asset Pricing Model -The Efficient Market Hypothesis | Notes 5 Notes 6 | Ch. 9 (pp. 291-305) & Ch. 11 *Ch. 9 problem#1, 2, 10-12; CFA#4; EIE *Ch. 11 problem #18 |
| 8/ Nov 9 | -Behavioral Finance -Equity Valuation | Notes 7 | Ch. 12 *Ch. 12 problem#9 & CFA#1 Ch. 18 *Ch. 18 problem#10, 17; CFA#8; EIE |
| 9/Nov 16 | -Bond Valuation | Notes 8 | Ch. 14 (read on your own) & Ch. 16 (pp. 515-533); *Ch. 14 problem#5, 10, 21; EIE |
| 10/ Nov 30 | -Bond Valuation (cont'd) -Options | Notes 9 | *Ch 16 problems#3, 16; CFA#11 Ch. 20 (pp. 678-694); ***Option Worksheet Problem Set#2 due in class in hard copies today. |
| Dec 7 | Final Exam (5:30pm – 7:00 pm) | | |