

Finance 5100 - Investments

Spring Quarter 2021

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Office Hours: By Appointment/Zoom

This course will introduce the theory of investment valuation, including expected rates of return and risk in the financial markets; review of empirical research on the risk/return relationship, and the behavior of securities prices (e.g., stocks, bonds, futures and options).

FINC5100 should be relevant to students who want to pursue careers in investment management or investment banking and who want to invest their savings.

All students must have completed the required prerequisites (see course catalog) before taking this class and are expected to be proficient with basic math techniques covered in business calculus, time value of money, financial statements and financial ratio computations, and basic statistics including linear regression.

We will discuss the following blocks of material:

1. A general overview of capital markets and traditional financial instruments (e.g., stocks, bonds, and options) and transactions in securities
2. Bond and stock valuation
3. Choice under risk and the basics for risk--return tradeoff
4. Mean-variance (Markowitz) Portfolio Theory
5. Capital Asset Pricing Model and Efficient Markets Hypothesis
6. Fund management and performance evaluation.

This class is technical in nature and students are expected to have a background in statistics and probability as well as the finance topics covered in the prerequisites.

- The course best suits the following students (but not limited to):
- Those who want to know how to invest for their own benefit.
- Those who aspire to pursue a career in investment banking.
- Those who want to be a skilled security analyst.
- Those who want to become a professional money manager.

On successful completion of this course, you will be able to reach all three learning outcomes of Seattle University Master of Science in Finance (MSF).

- Quantify the relation between risk and return and apply it in value- maximizing financial activities of individuals and corporations (in global, ethical context).
- Choose and be proficient in applying financial tools and analytical methods to improve financial decision-making.
- Effectively communicate and justify, in both written and oral form, results and recommendations of financial analysis to audiences having varying degrees of financial sophistication.

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. You will learn the current philosophy, theories, models, practice and techniques about investment management and the empirical evidence relating to them.

Finance 5100 is a prerequisite to FINC 5105 (Derivatives), FINC 5120 (Portfolio Management), FINC 5330 (Fixed Income Securities), and FINC 5335 (Hedge Funds). It also provides the necessary theoretical foundation 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.

Textbook

The text for this class is: Investments, Zvi Bodie, Alex Kane & Alan J. Marcus (McGraw- Hill/Irwin, 12th edition). Rental, eBook or paperback are acceptable, but if you can afford it I would order a hard copy for your Finance library.

Calculator.

Students must be proficient in using a financial calculator and the problem sets will require it. I recommend using a financial calculator approved by the CFA Institute for use in the CFA exams: Texas Instruments BA Plus II or Hewlett Packard 12C.

Canvas.

This class will use Canvas for communication and assignment submittal. Slides will be posted after each lecture and assignments will be given and accepted online in Canvas. Your work can be submitted in Word, Excel or scanned pencil and paper for file upload. Grades will be registered in Canvas.

Grading

Grades are based on cumulative points scored and the standard SU grading scheme.

Your grade will be based on the following:

Assignments	18%
Equity Analyst Presentation	14%
Midterm Exam	30%
Final Exam	30%
Highest Exam Grade	3%
Class Participation	5%

Assignments & Academic Calendar.

This schedule posted below is subject to change. The exact timing and content of the lectures will depend on the flow of the course. We may choose to spend more time in some sections than indicated or less, as suits the interests of the class and instructor.

<u>Date</u>	<u>Topic</u>	<u>Readings</u>	<u>Due Dates</u>	<u>Points</u>
31-Mar	Investment Environment Financial Instruments	Chapter 1 Chapter 2		
7-Apr	Security Markets Margin and Short Sales Introduction to Equity Valuation	Chapter 3 Ch. 18.1, 18.2		
14-Apr	Equity Valuation	Chapter 18	Problems 1	3
21-Apr	Bond Valuation Term Structure of Interest Rates	Chapter 14 Chapter 15	Chapter 14 Problems 2	3
28-Apr	Options Mutual Funds <i>Equity Analyst Presentation Review</i>	Chapter 20 Chapter 4	Chapter 20 Problems 3	3
5-May	Midterm			30
12-May	Measuring Risk and Return Capital Allocation	Chapter 5 Chapter 6	Chapter 5 Problems 4	3
19-May	Portfolio Theory Single Index Model CAPM (Capital Asset Pricing Model)	Chapter 7 Ch. 8.1,8.2 Chapter 9	Chapter 7 Problems 5	3
26-May	Efficient Markets Portfolio Performance Evaluation	Chapter 11 Ch. 24.1, 24.4, 24.5	Chapter 11 Problems 6	3
2-Jun	<i>Equity Analyst Presentations (Class)</i>			14
9-Jun	Final Exam			30
9-Jun	Highest Exam Grade			3
Overall	Class Participation			5
Overall	TOTAL			<hr/> 100

Class Readings.

There are assigned readings for each class, which are very important. You will find the materials much easier to grasp if you have read the assigned materials in advance.

Doing the concept questions and reviewing the end of chapter answers to these questions will be helpful.

Assignments

Consist of six problem sets due almost every week that is not an exam week or presentation week. The problems will in general be from the end of chapter problems in the textbook. The problem sets are designed exclusively to prepare you for the midterm and final exams and contain both the kind of numerical calculation problems and concept questions that you will find on the exams.

Equity Analyst Presentation.

This will be a team assignment, where each group is comprised of two or three students, depending on class roster. The focus of the Equity Analyst Presentation is on applying best practices in equity research and corporate analysis, as well as formulating a convincing argument to defend conclusions.

Students are expected to conduct in-depth analysis on a given public company and produce an equity research presentation on that company. Presentations will be given in class. The evaluation of each group will be based on the thoroughness of its analysis, knowledge about the company and its business, and the justification of valuation model inputs.

Companies will be selected from a group list proposed by the instructor. My preference is to use the “Dogs of the Dow”, a list of the bottom ten performing stocks from the previous year’s Dow Jones list. These stocks tend to have higher dividend yields (because of their performance) and provide a good opportunity to use academic valuation techniques.

Exams.

There will be two exams: mid-term and final. Both exams will last for the entire allotted time period and be written, using paper and pencil or MS word or excel. Since the class is online and remote, the exams will be of an open book type, allowing you to use any class resource, including the textbook, as appropriate.

The exams will be in the form of concept questions and numerical problems. The typical mix is 50/50 and should vary by no more than 10%. The level of difficulty of the computational problems and word problems will mirror the problem sets.

An additional 10% (possible 3 points) will be added to the highest exam score, midterm or final.

Class Participation

will be based on your attendance and your contributions in class, as well as adherence to the rules of etiquette described below. The course will be virtual, using Zoom for video conferencing. I will send a link to the course before the first class.

CLASS POLICIES:

Make-up Policies

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.

Late assignments without a reasonable excuse will be penalized a grade.

Classroom Etiquette

Following are guidelines for your behavior in class:

1. Students are expected to arrive in class on time. There will be occasional unforeseen events, which may be beyond your control.
2. Since the class will be in Zoom, standard on-line etiquette should be followed, e.g. mute your microphone except when talking. Video can be on or off as is appropriate.
3. There will be a 10 minute break in the middle of the class period.

Lecture Recording

For protection of proprietary material as well as privacy restrictions, audio and videotaping of any class session is prohibited without prior approval of the instructor.

UNIVERSITY POLICIES

Academic Resources

- Library and Learning Commons (<http://www.seattleu.edu/learningcommons/>)
- (This includes: Learning Assistance Programs, Research [Library] Services, Writing Center, Math Lab)
- Academic Integrity Tutorial (found on Canvas and SU Online)

Academic Policies on Registrar website

(<https://www.seattleu.edu/redhawk-axis/academic-policies/>)

- Academic Integrity Policy
- Academic Grading Grievance Policy
- Professional Conduct Policy (only for those professional programs to which it applies)

Notice for students concerning Disabilities

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 located in **Loyola 100, (206) 296-5740**. Disability-based adjustments to course expectations can be arranged only through this process.

Notice Regarding Religious Accommodations

It is the policy of Seattle University to reasonably accommodate students who, due to the observance of religious holidays, expect to be absent or endure a significant hardship during certain days of their academic course or program. Please see, [Policy on Religious Accommodations for Students](#)

Office of Institutional Equity

Title IX of the Education Amendments of 1972 (Title IX) prohibits discrimination based on sex in educational programs or activities that receive Federal financial assistance. This prohibition includes sexual misconduct, which encompasses sexual harassment and sexual violence. Seattle U remains committed to providing a safe and equitable learning, living, and working environment. Seattle U offers emergency, medical, and other support resources, as well as assistance with safety and support measures, to community members who have experienced or been impacted by sexual misconduct. Seattle U requires all faculty and staff to notify the University's Title IX Coordinator if they become aware of any incident of sexual misconduct experienced by a student. For more information, please visit <https://www.seattleu.edu/equity/>. If you have any questions or concerns, you may also directly contact the Title IX Coordinator in the Office of Institutional Equity (email: oiie@seattleu.edu; phone: 206.296.2824) University Resources and Policies.