Schulich School of Business
York University

Course Outline

FINE 6200 3.0 A: Investments
Class day: Tuesdays, 11:30-14:30
Room: SSB W136
Term: Fall 2012

Instructor

Professor Pauline Shum
(416) 736-5072
N222 Seymour Schulich Building
pshum@schulich.yorku.ca
Office hours: Tuesdays, 14:30-15:30 or by appointment

Brief Description

This course surveys major investment problems. Factors affecting the term structure and risk structure of yields on financial claims are identified and analyzed. The course focuses on: the development of principles of personal and institutional portfolio management; modern capital asset pricing theory; valuation discussions on Canadian models for common stock prices. The institutional structure of the investment markets in Canada is viewed, with special emphasis on the role of security exchanges and the impact of institutional investors. Emphasis is placed on the efficiency of financial asset markets in adjusting to information entering the marketplace.

Prerequisites

SB FINE5200
Course credit exclusion: SB/FNEN 6210.030 (i.e., either SB/FINE 6200.030 or SB/FNEN 6210.030, but not both, may be taken for credit)

Course objectives

By the end of the course, students can expect to have a good understanding of the North American investment environment, modern portfolio theory and its criticisms, equity portfolio management and performance evaluation, different risk factors in equity markets, the relationship between long and short term interest rates, the basics of fixed income portfolio management, and the influence of human judgement on investment decisions.
Please note: this course does not cover financial derivatives. Students are encouraged to complete the investments sequence by taking FINE6800 Options, Futures, and Other Derivatives, in the following term.

Organization of the Course

To do well in the course, students should, at a minimum, i) prepare for and attend every class, ii) keep up with the assigned readings, and iii) be up-to-date on financial market developments.

Students are expected to know basic statistical concepts, such as mean, variance, covariance, and correlation coefficient. Students must make sure that they have a clear understanding of these concepts prior to the start of the term. Students may wish to refer to "Appendix A: Quantitative Review" in the Student Edition of the textbook's website (http://highered.mcgraw-hill.com/sites/0070071705/student_view0/index.html).

There is NO make-up test for the midterm. Anyone who misses the midterm test must provide written explanation with supporting document(s) and write a "comprehensive" (to be explained in the first class) final examination that is worth 65% of the grade.

I rely heavily on the course webpage - not the CMD - for communication with the class (URL: http://www.yorku.ca/pshum); you will be given the password in the first class. Please check the course webpage on a regular basis.

End-of-chapter appendices in the textbook can be excluded, unless otherwise stated. Additional material will be posted on the course website.

Please note that laptop computers are allowed in class for the purpose of notes-taking only. I reserve the right to disallow the use of laptops in class for all students if this condition is violated.

Assigned Readings

Required reading for this course includes the following books. They are available for purchase from the York University bookstore.

Bodie, Kane, Markus, Perrakis and Ryan, Investments, 7th Canadian edition, McGraw-Hill Ryerson, 2011. (Referred to as B in the reading list.)

Fabozzi, Frank J., Fixed Income Analysis, 2th edition, Wiley, 2007, or similar books by Frank Fabozzi from the CFA Institute Investment Series. NO NEED TO PURCHASE: available on 2-hour loan in the Bronfman Business Library. (Referred to as F in the reading list.)

Individual articles and other short readings will be posted on the course webpage.

Evaluation of Student Performance

The course grading scheme for Master's level courses at Schulich uses a 9-value grade-point system. The possible course letter grades for a course (and the corresponding grade points awarded for each grade are:

        A+   9 grade points
        A   8

A-	7
B+	6
B	5
B-	4
C+	3
C	2
C-	1
F	0

(Students are reminded that they must maintain a cumulative GPA of at least 4.2 to remain in good standing and continue in the program, and a minimum of 4.4 to qualify for their degree. Schulich grading guidelines mandate a section grade point average ['GPA'] of between 5.2 and 6.2 for electives.)

Schulich grading policy does <u>not</u> require a preset translation of percentages into specific letter grades. In particular, a cumulative percentage mark of 50% does not necessarily mean that a student will pass a course.

The final grade for the course will be based on the following items, weighted as indicated:

Individual assignment #1:	5%
Individual assignment #2:	5%
Individual assignment #3:	5%
Participation:	5%
Midterm examination:	30%
Group project:	20%
Final examination:	30%

Only hard copies of assignments and projects will be accepted.

Assignment #1 *Getting started: Correlations and Portfolio Risk and Returns*

Collect monthly historical returns of two market indices for the period January 2006 to December 2011. In Excel, estimate the mean return and the standard deviation of each, as well as the correlation between the two indices. Generate at least 11 portfolios of the two indices based on your estimates, and plot the portfolios in a diagram. In the same diagram, plot another set of portfolios assuming that the correlation is half the original value. The assignment should be formatted as a report, with all the necessary labels and references. (Limit: one page including graphs and tables; cover page not required).
<u>Due date</u>: beginning of class, October 9, 2012 (late assignments will not be accepted).

Assignment #2 *Portfolio performance attribution*

Portfolio performance data to be used for this assignment will be posted on the course webpage. Based on the information provided for a Canadian equity portfolio, analyze the portfolio manager's i) sector allocation contribution and ii) stock selection contribution to his/her portfolio return. The assignment should be formatted as a report. (Limit: one page – cover page

not required).
Due date: beginning of class, November 13, 2012 (late assignments will not be accepted).

Assignment #3 *Value Investing*

Pick a "value" company using the criteria discussed in class. Explain, with reference to the criteria, how and why it fits the definition of "value", and why it is not a "value trap". The assignment should be formatted as a report. (Limit: one page – cover page not required).
Due date: beginning of class, November 27, 2012 (late assignment will not be accepted).

Participation
Your grade will be based on your attendance, contributions to in-class discussions, and awareness of issues in required readings. Your participation grade will be assigned by the instructor based on these factors.

Midterm examination
There is NO make-up examination for the midterm. Anyone who misses the midterm must provide written explanation with supporting document(s), and write a "comprehensive" (to be explained in the first class) final examination that is worth 60% of the grade.

Group project
Stock-Trak is a stock market simulation game that gives students the opportunity to gain hands-on experience in trading and portfolio management. See http://www.stocktrak.com/ for more information. The game starts on Monday, September 24, 2012, and ends on Friday, November 30, 2012 (10 weeks). Students should make sure that they are in a group (four to five students per group) by Tuesday, September 18, 2012. Each group should elect a leader, and sign up on the course webpage. Once you have done so, I will send a Stocktrak class code and instructions for registration to your group leader. Please note that you are NOT allowed to trade options and futures in this course.

In the group report, you are expected to:

1. Provide a detailed description of your investment strategy, based upon the goal of maximizing your portfolio value at the end of the game.

2. Explain how you executed your investment strategy. In your discussion, provide a few examples for each aspect of your strategy. (Do NOT include the full list of your trades – I already have access to that.)

3. Evaluate your track record using standard portfolio performance measures. End with a paragraph of after-thoughts and lessons learned.

Each of the above should be in a separate section in your report. Each section and your group's final ranking in the class (based on the performance of your portfolio at the end of the game) carry equal weight (5% each). The page limit of your report is 12 (minimum 12-point font, double-spaced), including all graphs, tables, references, and executive summary. Marks will be deducted (three marks per additional page out of a 20-mark total) if this page limit is not

adhered to.

Your group report is due by 2pm on the Monday, December 10, 2012. (Late reports will not be accepted.)

Academic Honesty

Academic honesty is fundamental to the integrity of university education and degree programs. The Schulich School will investigate and will act to enforce academic honesty policies where apparent violations occur. Students should familiarize themselves with York University's policy on academic honesty. It is printed in full in your student handbook and can also viewed on-line on the Schulich website, clicking through as indicated:

Schulich website → 'Programs' → 'Master's Degree → 'Learn More' → 'Academic Policy'

While academic dishonesty can take many forms, there are several forms of which students should be highly aware because they are the ones that are most likely to occur in the context of a specific course.

[1] Plagiarism. Plagiarism is the presentation of information, ideas, or analysis generated by other people as being your own. It includes direct quotations as well a substantive paraphrases where the course of that information or idea is not clearly identified to the reader. Students should be careful to present their written work in a way that makes it completely clear in each and every cases where a quotation, a paraphrase, or an analysis is based on the work of other people. (This includes information from all sources, including websites.)

[2] Cheating. Cheating is an attempt to gain an unfair advantage in an evaluation. Examples of such violations include (but are not limited to) consulting prohibited materials during an examination or copying from another student.

[3] Failure to follow limitations on collaborative work with other students in preparing academic assignments. Each class differs in the mix of assignments and group-versus-individual preparation that is allowed. The instructor will make clear the extent of collaboration among students that is acceptable among students on various pieces of assigned work. Students should abide by those limitations and, if they are unsure about whether a certain level or form of collaboration would be acceptable, to clarify that question with the instructor in advance.

[4] Aiding and abetting. A student is guilty of violating academic honesty expectations if he/she acts in a way that enables another student to engage in academic dishonesty. If a student knows (or should reasonably expect) that an action would enable another student to cheat or plagiarize, that student's action constitutes an academic honesty violation. Illustrative examples include making your exam paper easily visible to others in the same exam or providing your own working or finished documents for an 'individual assignment' to another student (even if that other student said that he/she just wanted to 'get an idea of how to approach the assignment' or 'to check whether they had done theirs correctly').

[5] Use of academic work in more than one course. Generally, academic work done for every course is 'new' work, done for that course only. If a student wishes to use some or all of the academic work done for an assigned task in one course in another course,

the student must get **explicit, prior** permission from both instructors so that they agree that the scope and nature of the overlapping use of that work is such that it can fairly be counted toward both courses.

Tentative Schedule of Topics and Readings

The following list of lecture topics and readings indicate the material to be read, reviewed and/or prepared for the various class sessions. Additional readings will be posted on the course webpage.

Date	Topic	Assigned Readings
Before first class	Background readings	B: chapters 1 & 2
Sept 11	Course overview; The investment environment	"When it comes to your RRSP, do it with style" by Dale Jackson, Globe and Mail, Feb 17, 2007 http://www.theglobeandmail.com/servlet/story/RTGAM.20070217.wstmain17/BNStory/Business/home B: chapter 3 "What is an ETF?" http://ca.ishares.com/understand_etf/fundamental/what_is_etf.htm
Sept 18	Risk and returns concepts	B: chapter 4
Sept 25	Portfolio concepts	B: chapter 5
Oct 2	The Markowitz model	B: chapter 6 Rubinstein, Mark, 2002, "Markowitz's Portfolio Selection: A Fifty-Year Retrospective", *Journal of Finance*, vol.57, no.3, pp.1041-1045. Fill out the following questionnaire: http://www.tdcanadatrust.com/mutualfunds/pdf/mut_app.pdf
Oct 09	The CAPM	B: chapter 7.1-7.3
Oct 16	The Fama and French model	B: chapter 8, excluding sections 8.6 to 8.9 and 8.11; chapter 11.3
Oct 23	Reading week	
Oct 30	Midterm + class	B: chapter 20
Nov 6	Equity portfolio management	Low volatility equity portfolios (CFA video – URL will be posted on course webpage); additional material to be posted on course webpage
Nov 13	Bond valuation	B: chapter 12; F: chapters 1-3, chapter 5.I-III
Nov 20	Term structure of interest rates	B: chapter 13
Nov 27	Bond portfolio management	B: chapter 14; F: chapter 7.VI – 7.V

Dec 4	Behavioural finance	B: chapter 10.1