Fall 2004
FINA 521: Investment Analysis

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Meeting Time: Saturday, Sept 4 – Oct 23, 2:30-5:50 pm

Venue: Rm 3006

Course webpage: WebCT (http://webct.ust.hk)

1. COURSE DESCRIPTION

This is an investment course where we will build an analytic framework for asset allocation. We will discuss investment theories such as portfolio optimization, capital asset pricing model (CAPM) and arbitrage pricing theory (APT). We will also show how to use Excel optimization software to build the optimal investment portfolios. The materials are borrowed from statistics, regression, and optimization, and students with knowledge in these areas will have an advantage. The course will also include some other issues in portfolio analysis, such as equity risk premium, performance evaluation and asset allocation.

2. READING MATERIALS

A. Textbook:
Frank Reilly and Keith Brown, Investment Analysis and Portfolio Management (Sixth Edition), Dryden

B. Supplementary readings
See the readings under each topic

3. GRADING

A. Exams

- The final exam is scheduled on October 23. Since some questions in the exam require you to do the analysis using EXCEL, it will be held in the PC Lab (Rm 3211/3212, Elevator 19).

- Absence from the quiz or exam will not be excused except for the serious medical reason (with doctor's letter provided).

B. Problem Sets and Case Analysis

Both the problem sets and case analysis are done on a group basis. Each group comprises no more than 4 students. At the end of the course, each student will evaluate the contribution of each group members to the problem sets and case analysis.

Problem Sets

- There are two problem sets. .All answers have to be **typed.** Each group has to turn in a copy of the write-ups **at the beginning of the class of the due date**. Late submission will receive a heavy penalty.

Case analysis

- A couple of cases will be assigned for analysis. The 2nd case, ***Ontario Teachers' Pension Plan Board: The Allocation Decision,*** requires a written report of no more than 4 pages long. Each group has to come up with a brief presentation of their answers to some assigned questions.

C. Attendance Requirement and Class Participation

You have to attend at least 70% of the classes (cannot miss more than 2 classes). To minimize the disruption to the rest of the class, you are expected to come on time. Your final grade could be adjusted downward for frequent late arrival (more than 15 minutes). Furthermore, you are expected to participate and contribute to the discussion in the class.

At the beginning of each class, please collect the card with your name and put it in front of you. At the end of the class, please return it to me so that I can keep track of your attendance. There will be no seat assignment. However, I hope that you will try to occupy the same seat every time.

D. Score Distribution

Problem Sets (15 points @)	30 points
Case Analysis	10 points
Class Participation	5 points
Peer Evaluation	10 points
Exam	45 points
Total	100 points

Course Outlines

Date	Topics	Readings	Due Date for Assignments
Sept 4	Return/Risk Measurement	Reilly & Brown (Ch. 1- 3) "The long-run perspective" "Global Stock Markets in the Twentieth Century."	
Sept 11	Portfolio Optimization	Reilly & Brown (Ch. 8-9) "Portfolio optimization in practice" "Twenty years of international equity investing" "Investing in Global Hard Assets: A Diversification Tool for Portfolios."	
Sept 18	Capital Asset Pricing Model (CAPM)	Reilly & Brown (Ch.8-9) "The benchmark error problem with global capital market" Case Study: "Beta Management Company" (No report required; discussion on Sept 25)	***1st problem set due***
Sept 25	CAPM Extension and Equity Risk Premium	Reilly & Brown (Ch. 10) "Shrinking Equity Premium." " Equity Risk Premium Forum" Case Study: "Beta Management Company" (No report required)	
Oct 2	Asset Allocation	Bodie and Crane, "Personal investing: Advice, theory, and evidence." "Why do Pension and Portfolios hold so few international assets?" "College and University Endowment Funds: Why not 100% equities?"	***Case Study: Ontario Teachers' Pension Plan Board (Report Due)***
Oct 9	Arbitrage Pricing Theory (APT)	Reilly & Brown (Ch. 9-10) "A practitioner guide to arbitrage pricing theory" "U.S. Equity Risk Attribute Model (RAM)." "The Three Types of Factor Models: A Comparison of Their Explanatory Power."	
Oct 16	Performance Evaluation	Reilly & Brown (Ch. 27) "Asset Allocation: Management Style and Performance Measurement" "Managing market exposure"	***2nd problem set due***
Oct 23	Exam		

Peer Review Form for Group Assignments

Name of peer reviewer					
Name of group member being evaluated					
Disagree				Agree	
1	2	3	4	5	Works well with group and treats all group members as colleagues
1	2	3	4	5	Completes individual task requirements to achieve group goals
1	2	3	4	5	Attends all group meetings or provides advance notice when absent
1	2	3	4	5	Is open to feedback, listens to considers other's point of view
1	2	3	4	5	Offers ideas and alternative approaches on how to achieve group goals. Encourages innovative thinking

1. Would you like to work with this person again? _____

2. Evaluate this group member overall on a scale of 1 to 10 (10 being the highest): ______

3. Evaluate yourself overall on a scale of 1 to 10 (10 being the highest): _____