

Hong Kong University of Science & Technology
FINA 522: Equity Investment Management

Fall 2009

Instructor: Prof. Bruno Solnik
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Office hours: By appointment.
Please try to talk to me before or after class. Contact Victor (victory@ust.hk) if you have additional questions. I will respond to emails asking questions. But please try to find answers to your questions before contacting me.

Assistant: Victor Chi Lok YIP, victory@ust.hk
Class Schedule: October 31 to December 12, Saturdays from 14:30 to 18:20, Room: 6558 (near lifts 29-30).

Final exam: {Please excuse me, but this policy is not negotiable} As a strict rule, there are no “make-up” final exams. It is your responsibility to schedule the rest of your activities such that you are able to attend the final exam. The final exam in this class is scheduled to take place on Sunday 25-Oct-2009 from **2:30pm** in Room 6558. All students should plan to take the exam at this time.

Name Cards: Students are asked to pick up name cards at the beginning of each class, display them, and return them at the end of the class. The TA uses the name card to help mark class participation. Students should plan to attend the lecture they are officially registered for.

Honor Code: This course strictly follows the HKUST Academic Honor Code. For students who are not familiar with the honor code, please see the following websites:

- <http://www.ust.hk/vpao/integrity/honor.html>
- <http://www.ust.hk/vpao/integrity/student-3.html>

Course Website: <http://lmes2.ust.hk/portal>

Note:

- Professor Solnik is Visiting Professor at HKUST. Hence a short description of his past experience is given in the document "*Background Information on Professor Bruno Solnik*" on the LMES website.

COURSE OBJECTIVE:

The course will discuss equity investment management in a global context. The objective of the course is to prepare students to manage global equity portfolios for institutional or private clients. The concepts are not easy and technical tools are sometimes required. But the objective is to present modern investment management methods as used by major global asset managers.

The course will cover the investment process spectrum from optimizing asset allocation to performance measurement and attribution. The major themes that will be covered are:

- Equity markets and instruments.
- Global allocation: diversification, risk/return optimization.
- Foreign exchange risk in investment management: analysis and hedging
- Equity analysis: Concepts and techniques.
- Investment styles and vehicles
- Using derivatives; hedge funds.
- Evaluation of performance : performance measures, market timing, information ratio, performance attribution

READINGS

1. Required readings in Textbook

Bruno Solnik and Dennis McLeavey, *Global Investments*, 6th edition, Pearson Prentice Hall, 2009 (reference book)

2. Required Cases

A couple of cases on LTCM will be assigned. They are to be prepared in groups.

3. Additional Material

Various materials will be periodically posted on the website. They are not required reading Slide presentations will be posted shortly after each class, so will answers to problem sets.

4. Prerequisite

FINA 521 is a prerequisite. This course assumes that you know the basic risk return calculations (sigma, correlation), CAPM, futures and options.

MISCELLANEOUS

- Bring a calculator or laptop for each class. This is **COMPULSORY**.
- Bring a calculator for the exam, no computers. Simple calculator will do.
- Form groups of 5. Register group with TA.
- Arrive on time for each class; I am old-fashioned and hate the disruptions of late arrival.

ASSESSMENT

You will be assessed on your performance in a mix of written problem sets and cases, participation in class discussions, and a final exam.

While the problems and reports have to be prepared and turned-in in groups, **I will call individuals** to give their answer in class. So each member of the group is expected to be able to present the group solution to the class.

The final exam will be open book (all documents allowed). You must bring a calculator (no computer allowed).

- Written problem sets and cases: 30%
- Participation: 20%
- Final exam: 50%

TENTATIVE PROGRAM (MIGHT BE UPDATED AS WE PROCEED)

Class 1, October 31st: ***The investment field.***
The case for global diversification

- Readings BEFORE class, Chapter 13, pages 581-594.

Class 2, November 7: ***Global Asset Allocation and Currency risk***

- *Problem Set Class 2* due.
- Readings BEFORE class: Chapter 9.

Class 3, November 14: ***Global Equity Valuation***

- *Problem Set Class 3* due.
- Readings BEFORE class: Chapters 2, 11.
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Class 4, November 21: ***Investment Styles and Vehicles***

- *Problem Set Class 4* due.
- Readings BEFORE class: Chapter 6.

Class 5, November 28: ***Hedge Funds***

- *Problem Set Class 5(LTCM)* due.
- Readings BEFORE class: Chapter 8 Pages 319-332, Chapter 5, pages 185-196.

Class 6, December 5: ***Performance Evaluation***

- *Problem Set Class 6* due.
- Readings BEFORE class: Chapter 8, pages 351-368.
- Readings AFTER class: Chapter 12.