

FINA 221: INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT

SPRING 2004

Professor Yeung Lewis Chan

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Lecture	Mon, Wed, L1: 2:00—3:20pm, L2: 3:30—4:50pm
Office Hours	Mon, Wed, 5:00—6:00pm, or By Appointment

Course Description

- This course is a formal introduction to modern finance. It equips you with the analytical tools and economic reasoning necessary (i) for understanding how capital markets function, (ii) for making optimal investment decisions, and (iii) for understanding the pricing of various financial securities.
- The course is divided into 2 parts. The first part focuses on the functioning of financial markets and gives you an overview of various participants and their inter-relationships. We will then address a fundamental question in finance: How do you allocate your money among various financial instruments? In other words, we study optimal investment decisions. The issue of risk-return tradeoff will be examined in depth.
- The second part of the course looks at fixed income securities (bonds), options and futures, and other issues such as performance evaluation if time permits.
- This course is based on the materials from an undergraduate course in finance for which I served as a teaching fellow at Harvard University. The core material has also been taught to an introductory MBA class at the Graduate School of Business at the University of Chicago.
- Course website: ihome.ust.hk/~ylchan/courses/FINA221.htm. Login is required.

Course Prerequisites

- The basic requirement is FINA 111. Basic knowledge in statistics such as variance and covariance will be very helpful. For those who have not taken a course in statistics but are willing to work hard, do not worry! I will cover in class the technical concepts necessary for understanding the class material.

Course Requirement

- There will be 3—4 homework assignments, midterm exam and the final examination. Your grade will be based on:
 - 3—4 Homework assignments, 30%
 - Midterm exam, 30%
 - Final exam, 40%
- As you can see from the grade distribution, you have to work hard THROUGHOUT the course in order to receive a good grade.

Homework Assignment

- A total of 3—4 homework assignments will be distributed to you. You are allowed to discuss and work in groups, but you have to turn in your OWN homework solution. Any one found to be copying someone else's solution will be subject to academic disciplinary actions!

Teaching Assistant

- Ms. Winnie Peng, pengq@ust.hk. Office hours: to be determined.
- If you have questions regarding the course materials or homework assignments, you can email Ms. Peng or visit her during her office hours.

Textbooks

- Required textbook: *Essentials of Investments*, by Zvi Bodie, Alex Kane, and Alan Marcus, McGraw-Hill Book Company.
- Other optional readings:
 - *A Random Walk Down Wall Street*, by Burton Malkiel, W.W. Norton & Co.
 - *Stocks for the Long Run*, Jeremy Siegel, Irwin.
 - *Capital Ideas*, Peter Bernstein, Free Press.
 - *Asian Wall Street Journal* and *Financial Times*.

Tentative Course Outline

- Feb 2, 4
 - Introduction
 - The Financial System
 - Reading: Chapter 1—4
- Feb 9, 11
 - Overview of Financial Markets
 - Risk and Return: A Historical Perspective
 - Reading: Chapter 5—6.
- Feb 16, 18
 - Asset Pricing and the Present Value Formula
 - **Reuters Database Demonstration in Library Computer Lab**
 - Reading: Chapter 6 (Ch. 12-13 also have some discussion on macroeconomic variables and the present value formula.)
- Feb 23, 25
 - Asset Allocation I: One Risky Asset
 - Reading: Chapter 7
- March 1, 3
 - Asset Allocation II: Many Risky Assets
 - Reading: Chapter 7
- March 8, 10
 - Practical Asset Allocation
 - International Investments and Investment Horizons
 - Reading: Chapter 20
- March 15, 17
 - Capital Asset Pricing Model (CAPM)
 - Applications of CAPM
 - Reading: Chapter 8
- March 22, 24
 - **Midterm**
 - Trading Game in PC LAB
- March 29, 31
 - Factor Models of Risk and Return
 - Efficient Markets
 - Reading: Chapter 8, 9
- April 14, 19
 - Efficient Markets (cont'd)
 - The Money Management Industry
 - Reading: Chapter 9
- April 21, 26
 - Fixed Income Securities
 - Bond Portfolio Management

- Reading: Chapter 10—11
- April 28
 - Bond Portfolio Management (cont'd)
- May 3, 5
 - Swaps
 - Forwards and Futures
 - Reading: Chapter 18
- May 10, 12
 - Forwards and Futures (cont'd)
 - Options
 - Reading: Chapter 17, 18