

FINA 521: Investment Analysis, MBA Spring 2005

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Class time: Saturdays, 9.00 a.m. – 12.20 p.m.
Location: Room 4334

Course website: webct@ust.hk

Course description: This course is designed to introduce students to the theory and practice of portfolio management and financial asset pricing, with an emphasis on equities. We will discuss how to construct efficient portfolios, the Capital Asset Pricing Model (“CAPM”) and its critics, multifactor asset pricing models, stock valuation with the CAPM and derivatives such as options and futures. The course will consist of lectures as well as interactive class discussions of applications of the theory.

Prerequisites: elementary economics and statistics. We will review some of the most important concepts very briefly in the first session, but you will need to be comfortable with the statistical concepts of mean, variance, covariance and those underlying univariate regression, together with the economic notions of risk, return and risk aversion.

Reading material: The principal textbook is *Investments*, 6th edition, by Bodie, Kane and Marcus, (“BKM”), published by McGraw-Hill. Supplemental readings will be available on the course website and handed out in class.

Assessment: You will be assessed on your performance in a mix of written reports and problems, participation in class discussions and a final exam. For the purposes of preparing written work and for class discussions, I recommend that you form into groups of 5-6 (or fewer) and collaborate. Such groups are quite good at punishing free riders, but if you have serious problems with an individual not contributing, let me know and I will deal with your complaints in confidence. I will give guidance on how to succeed in the written exercises and class discussion.

- Written exercises and reports: 25%
- Class participation and discussions: 25%
- Final exam: 50%

Preliminary course outline

Date	Topics	Reading	Discussions and exercises
11 th February	<ul style="list-style-type: none"> • Course outline • Financial assets and capital markets • Concepts review • Rates of return 	<ul style="list-style-type: none"> • BKM chapters 1-3 and 6 	
18 th February	<ul style="list-style-type: none"> • Diversification • Efficient portfolios 	<ul style="list-style-type: none"> • BKM chapters 7-8 and 25 	<ul style="list-style-type: none"> • Problem set handed out • Guidance on problem set
25 th February	<ul style="list-style-type: none"> • CAPM • Multifactor asset pricing models 	<ul style="list-style-type: none"> • BKM chapters 9-11 • Fama and French • Buffett versus beta 	
4 th March	<ul style="list-style-type: none"> • Stock valuation and the dividend discount model 	<ul style="list-style-type: none"> • BKM chapters 18-19 	
11 th March	<ul style="list-style-type: none"> • Efficient markets hypothesis 	<ul style="list-style-type: none"> • BKM chapters 12-13 	<ul style="list-style-type: none"> • Problem set due
18 th March	<ul style="list-style-type: none"> • Derivatives • Hedging with forwards and futures and basis risk • Options, option strategies and volatility 	<ul style="list-style-type: none"> • BKM chapters 20-23 	
25 th March	<ul style="list-style-type: none"> • Financial product and performance evaluation • Present reports 	<ul style="list-style-type: none"> • BKM chapter 24 	<ul style="list-style-type: none"> • Class groups present reports
1 st April	Exam		

Cases, discussions, exercises and exams

Problem set

The problem set asks you to think about portfolio diversification and constructing efficient portfolios. The main task will be to use Excel software and real data on national stock market returns across countries to construct mean-variance efficient portfolios, with and without constraints on leverage and short selling. You will also be asked to estimate risk-adjusted abnormal returns on certain portfolios. I provide you with the data. Answers will be due at the end of class on 11th March.

Class reports

The second assignment asks you to find a stock trading on the main board of the Hong Kong Stock Exchange which is likely to be undervalued: the expected excess return implied by its price and your conservative forecast of future earnings is large, given the stock's risk. Each group will present, on 25th March, a short (10 minutes, maximum) report to the class on their stock pick, with slides. The class will vote on the best presentation. I will take your reports (i.e. your slides) and grade them my way, as well.

Exam

There will be an exam on 1st April. Calculators are allowed, as well as a "cheat sheet" which you can compose yourself, limited to two sides of A4 paper. I will also give some formulas in the exam itself to the extent I consider desirable.

Feedback and professor-student interaction

Please give me feedback at the end of classes or via email, or come to my office hour. Can you understand me? What can we do better? What was useful or interesting? This and future courses will benefit greatly from your comments.

I will always be happy to answer questions on the topics covered in class. However, some questions require quite lengthy answers, and it may not be a suitable use of everybody's time for me to compose answers via email. Therefore, if you have a question, if possible please ask it in class, discuss it with your colleagues or come to my office hour. If you ask me via email, I may not reply but instead bring up the issue in class.

Name plates

In the first class I will give you a plate with your name on it. Please keep it and bring it to future classes. If you don't bring it, I can't ask you a question and that means you can't impress me and your fellow students, and we can't start a discussion. Classes without discussions are dull and you learn less.