The Hong Kong University of Science and Technology
Department of Finance

INVESTMENT ANALYSIS
Code course FINA 521: Spring 2010

Lectures: Room 4115A

Instructor: Dr. Entela Benz
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Teaching hours: Tue 09:00-12:20pm
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Course Objective:
This course aims at providing in-depth knowledge about the investment environment. We will touch upon major issues that concern an investor such as where to best allocate the money given the investor's risk profile. We will look whether an efficient diversification can change the portfolio risk level. We will learn how to analyse each security in isolation and in a portfolio context. The course gives a great emphasis on how the theory relates to practice. The course starts with a broad coverage of financial markets and its instruments. Portfolio theory and its applications are discussed in session two and three. Large part of the course will cover security analysis, more specifically fixed income securities, stocks and derivatives. Performance evaluation is the logical end of the course. The wide range of articles, investment banking products and case studies will help foster the link between practice and theory.

Prerequisites:
As the material can be sometimes quite technical, it is best for you to be comfortable in advance with the following statistical measures; mean, variance, covariance and simple regression analysis. Please familiarize yourself with the rate of return, risk and risk aversion concept as we will make use of them extensively. Some knowledge of Excel will be of great help for your assignments.

Textbook and useful websites:
This course attempts to combine theory and practice, with a strong emphasis on the applicability of the investment theory. The required textbook is the backbone of the course, containing all the theoretical explanation. Nonetheless additional material will be provided to make the case on the practicability of the theory. In doing so I have to cut short/skip many sections or chapters that I deemed not relevant for the course. You are encouraged to read them yourself for your own knowledge. As this is an MBA class, I believe we should not be learning only by the book.

Required Textbook: Z. Bodie, A. Kane and A. J. Marcus, (BKM) ***Investment*** (8^{th} or 9^{th} edition), by published by McGraw Hill Irwin International Edition.

Additional materials, such as case studies as well as investment products from asset management industry will be discussed during the course. Occasionally, articles from FT and Economist might be distributed as to better relate theory to practice.

As the book unilaterally focuses only at US domestic investment environment, the additional material will shift this focus to a more global context, Asia as a region or HK in particular. All the materials distributed in the class are deemed to be relevant for the final examination.

Websites:

The book itself contains additional materials at: http://www.mhhe.com/bkm

Financial information on HK market, rates and policy: www.info.gov.hk/hkma

Academic papers on Social Science Research Network: http://www.ssrn.com/

Very useful papers and research on Bank for International Settlements: www.bis.org

For bond data and market overview on Asia: http://asianbondsonline.adb.org/

Course grading:

The student grade for this course will be based on one comprehensive exam and on three home assignments with respective weights:

1. Class participation 5%
2. Home assignments: 45% (3@ 15 points each)
3. Final Exam: 50%

The final letter grade you earn depends on the relative performance to the other students in the class. The distribution of grades follows the school policy.

The homework assignment. You will be asked to form a team of 4 people. If you cannot find a group you, the TA or I will assign you to a group. Each group hands out only one assignment with names and student ID of the participants clearly printed on the front page. Only the students with names in the front page will receive a grade. In order to make your assignment readable, I would also encourage you to write clearly, or type if possible. For charts and formulas please make use of pen and not pencil. In terms of the content, the home assignments will be a mixture of exercises and reports. More information will be provided later on the due course.

The final exam will cover ONLY the material discussed and presented in the class. While you have been suggested to read several chapters, please focus only on the sections touched in the class. The rest is background information. The exam is a combination of exercises similar to the one you will be having in the home assignments. The calculator and one “cheat sheet” of your discretion (limited to two side A4 paper), will be allowed during the final exam. Cheating and other forms of academic dishonesty will not be tolerated in this course.

Teaching philosophy

We will be having office hours to help you understand the material covered in the class. If the schedule does not fit to you and the matter is urgent, we will fix an appointment. Nevertheless before you drop in the office or ask for appointment, please make the effort to read and re-read the material carefully, talk to you study group peers, think of an alternative approach for the same issue. That said you can also send me an email. If the e-mail are lengthy and topic relevant I will raise the issue in class for the benefit of all the class.

In addition I plan to schedule the last 10-15minutes of each class for a recap of the lecture, last minute questions and remarks. Would very much appreciate your feedback at the end of the lecture or via e-mail. Is the presentation clear? Can you follow? What was useful and what of less importance? Etc. This will help for the future lectures as well as the coming courses. Please bring a financial calculator for all the classes.

Tentative Course Outline:

No	Date	Topic	Suggested readings	Assignment
1	02-02-2010	Financial market, instruments and trading Rate of return, real rate of return, risk Risk Aversion and capital allocation Real interest rate in HK	Chap 1,2,3,5,6 Additional material	
2	09-02-2010	Diversification and optimal portfolios Industry case: Risk Management Industry case: Efficient investment strategies	Chap 7,8,9 Additional material	Assignment 1
3	23-02-2010	Application of portfolio theory: Index Models and CAPM Industry case: Generating alpha returns	Chap 9,10,11 Additional material	
4	02-03-2010	Behavioural Finance Efficient market hypothesis Industry case: UBS AG “Booms, Busts and the Credit Crisis” Industry applications on tactical and fundamental trades	Chap 12,13 Additional material	Assignment 2
5	09-03-2010	Fixed Income securities, bonds yield, duration, convexity Industry case: The Asia carry trade “Uridashis bond”	Chap 14,15 Additional material	
6	16-03-2010	Stock valuation and financial statements Industry case: UBS AG “4-stage Discounted Cash Flow Model” Reuters applications, FT and The Economist Articles on P/E ratio	Chap 18,19	Assignment 3
7	23-03-2010	Performance evaluation Recap	Chap 24	
8	06-04-2010	Final Exam		