BUS 365- Investments  
Fall 2010

Professor: Adam Schwartz, Ph.D.  
Office: 309 Holekamp Hall  
Office Hours: MW 9:30-11:15 and by appointment  
Telephone: 458-8254 (office)  
Class: TTH 11:50-1:15 Huntley 301  
Optional Computer Lab: Times TBA Huntley 322  
Email: schwartza@wlu.edu

Textbook and Supplies

1) The required text is *Investments* (8th edition) by Bodie, Kane and Marcus (BKM). *A Random Walk Down Wall Street* (RW) by Burton Malkiel (9th edition, W.W. Norton) is also required.  
2) Financial calculator – The TI-BAlI or HP 10B are recommended. The least expensive calculator will usually work. (Important keys: $e^x$, ln(x), $y^x$ and 1/X).  
3) A bound copy of my course slides is available. The print shop bills you directly for the cost of the paper and binding. Homework solutions will be made available. You should bring the notes to class, but there is no need to bring the textbook. A subscription to the Wall Street Journal is recommended (but not required).

Overview

BUS 365 presents a study of investments and investment management from a practical and theoretical point of view, including the institutional and economic environment relevant to common stocks, preferred stocks, bonds, puts, calls, and commodity future contracts. These assets are studied in terms of the markets in which they are traded, governing regulations, taxes, valuation, risk, characteristic line, and construction of a portfolio. Capital market theory and the Markowitz portfolio model are explored. A list of topics to be covered is provided on the last page.

Although the textbook is filled with complex equations and historical data, there is no substitute for common sense: *returns above the risk-free rate involve risk*!

Like so much of finance, mastery of this subject may require a willingness to improve your present math/spreadsheet skills. We will spend some of our class time working problems and covering spreadsheet skills. The homework will not be collected, and an answer key is available. If you need assistance with the homework, please visit during office hours.

Participation:

Part of your grade is based on participation. I may call you to help me work problems or to ask you questions. My experience has been that absent students find the projects almost impossible and struggle with the exams. If you have a question or need me to slow down, please feel free to stop me.

Course Prerequisites: INTR 202, BUS 221 or permission of the instructor
Projects

There are 4 planned projects. Some of the problems are difficult. If time permits, we will work variations of the project problems in class before the due date. The best way to keep up is to try the project immediately after my review. Please don’t ask me to go over the projects during hours if you are absent (unexcused variety) from the review. Most of our projects are done in Excel, and may be copied into MS Word. Do not buy fancy book report covers for your project (please just staple the pages together). The cover page should have: your name, the project number and the class time.

Late projects of the unexcused variety will accrue a 2 point penalty per 24 hours or part thereof. If you have a late project, just email me and slide the project under my office door along with the self-calculated penalty. If you have a printer problem or some other technical issue, turn in what you have at class time (tell me about the problem and we will arrange a solution without penalty). Please do not consult students with old projects from my class or provide your old projects to rising students preparing to take my class. I would like everyone to have the opportunity to think about the solutions, and I ask for your help.

I do not consider it a violation of my trust if you work with a classmate on the projects. I hope you do not use this as an opportunity to do some good ole fashion “splitting up and copying”. This is very easy for me to spot and always disappointing. Acceptable cooperation can range from asking a student sitting next to you in the lab a simple question such as “how did you get that to graph?” or “can you see what I’ve done wrong here?” to working alongside a friend in the lab. You should disclose it on the cover page: “I acknowledge Mortimer Duke for help graphing problem 3”, or “I worked with Randolph Duke”. Questions about the projects will appear on the exams.

It is NOT acceptable to copy, print or adapt a file from another student (current or former) and attempt to pass it off as your own work. If you have any questions, about what is or is not acceptable cooperation please ask me. If you are stuck, need Excel help, or have a question, I am happy to help you.

OPTIONAL COMPUTER LAB: I will also be available in the Huntley 322 computer lab dates and times TBA. I usually try to find lab availability a day or two before the project due date. I circulate around in the lab, but do not hold a formal class.

<table>
<thead>
<tr>
<th>Project</th>
<th>TOPIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Risk and Return</td>
</tr>
<tr>
<td>2</td>
<td>Optimal Portfolios</td>
</tr>
<tr>
<td>3</td>
<td>CAPM &amp; Bonds</td>
</tr>
<tr>
<td>4</td>
<td>DCF &amp; Hedging</td>
</tr>
</tbody>
</table>

Come Visit Me:

If you need any help or want to just want to say hello, please come visit. If you need to see me outside of office hours, please call or email to be sure I’m there. I attend WIS meetings. These meetings may be scheduled around lunch MWF. If my regular office hours don’t work, we can try to arrange a time (just ask or email). Suggestions to improve any part of the course are always welcome.
Grades:

Grades are based on two exams, a final, four projects, and in-class participation. Course grades are weighted as follows:

Exams: 45%
Comprehensive Final: 30%
Projects: 20%
Participation: 5%

Your exam will receive a letter grade: A, B, C, D or F worth 4, 3, 2, 1 and 0 points respectively. Plus will add 0.33 and a minus will subtract 0.33. The value for the projects will be 4.0*(total points/100), so a student with a 90 total will receive 3.60 points. The final grade will be the grade closest to weighted average of your course elements. For example, a student with an average of 3.83 and above will receive an A. An A- will be the range (0.33 wide) around 3.67 (3.5-3.83). A B+ will be centered on 3.33 (3.16 to 3.49), and so on.

Exam/Final Info: Each exam will have a time limit and the rules of the honor code apply. The exams may include problems, short-answer questions, definitions, and multiple-choice questions. The exams are closed-book and closed class notes, but you may bring one 4” x 6” notecard with any formulas you like to the exam.

- You may use a financial calculator on the exam, but must show the underlying calculations on each problem. While you may use any resident function available on the calculator, you may not use the programmable part of your calculator to store text or automate solutions on any test. NO COMPUTERS OR LAPTOPS
- Your notecard must contain only formulas w/symbol definitions. Your notecard may not contain: worked examples, concept definitions, graphs or data. An allowable formula is: $E(r_t) = r_f + \beta_i(r_m - r_f)$ where $r_f$ is risk-free rate. If you have a question about the notecard, just show it to me before the exam
- Cell phone and texting devices must be turned off and stored away during tests.
- I will try to return the exams to you at the next class meeting. At the end of that class, I will collect them back from you.
- If you have specific questions about your exam (or did not get your grade), please come by my office or ask after class.

Exam Day (Class will NOT meet on Exam Day)
We have two 2-hr exams during the semester. These are given on the honor system. I will place a box of tests outside my office on exam day. The hours are usually from 9am-6pm (return before 8pm). I may have to alter the hours at bit for my NY trip. It works like the final. You will have 2 hours + transportation time to work the exam. Please don’t pick up the exam until you are ready to take it. Just sign it out, go to a quiet location, open it, note the time, take it and sign it back in. Please don’t check out the test and: go to Arby’s, work out, take it home, study more, or have a friend to drop it off. You must take the test in a Library carrel, or you may reserve a study room in Holekamp.
Learning Objectives

This course was designed to provide students with an introduction to the tools used in both security analysis and portfolio theory. We will pursue our study around the following learning objectives:

1. Students will understand the risk and expected return relationship
2. Students will understand the risk management tools of diversification and hedging.
3. Students will understand bond valuation, duration and immunization.
4. Students will understand techniques used to value a common stock.

Planned topics and suggested reading. Chapters in RW don’t map into chapters in BKM. I have listed a few chapters in RW that will complement your study of BKM.

<table>
<thead>
<tr>
<th>Dates</th>
<th>Planned Topics</th>
</tr>
</thead>
</table>
| 9/14-9/16   | Introduction (BKM: Chapter 1)  
               Time Value of Money Review  
               Financial Instruments(BKM: Chapter 2)  Chap 2 problems 1-11, CFA 1-5 |
               Mutual Funds (BKM: Chapter 4, RW 15)  Chap 4 problems: 1-10 |
| 9/28-9/30   | HPR and compounding (BKM: Chap 5.1-5.8)  Chap 5 probs: 1-11  
               CFA 1-7 Excel Project 1 |
| 10/5-10/7   | Capital Allocation (BKM: Chap 6 and notes)  
               Chap 6 problems: 1-5, 10-14, 16-19, CFA problems 1-6 |
| 10/12       | Exam 1  Covers Chapters 1-6 + Notes and assigned readings in RW  
               10/14 is reading day |
| 10/19-10/21 | Optimal Portfolio  (BKM: Chap 7.1-7.4, RW 8)  
               Chap 7 problems: 1-5,  
               CFA problems 4-12  
               Matrix Algebra  Markowitz method in Excel |
               Chapter 8 problems: 1-14, CFA 1-5  
               Chapter 9 problems 1–15, CFA 2-10 |
| 11/2-11/4   | Market Efficiency (BKM: Chap 11)  Chapter 11 problems 1-11, CFA 1-9  
               Behavioral Finance Read BKM Chap 12 Chap 12 CFA probs: 1-5 |
| 11/9-11/11  | Bonds (BKM Chap 14)  Chap 14 problems: 1-12, CFA problems 1-6  
               Exam 2  Covers assigned readings in BKM Chapters 7-9, 11, 12 + notes |
| 11/16-11/18 | Bond Pricing inExcel  
               Yield Curve (BKM Sections 15.1-15.4)  Chapter 15 problems: 4-11, CFA 1-4  
               Duration (BKM Sections 16.1,2)  Chapter 16 problems: 1-9, CFA 1.2,4,5 |
| 11/22-11/26 | Happy Thanksgiving |
| 11/30-12/2  | Equity Valuation Models (BKM: 18) problems: 1-10, CFA 1-8 |
| 12/7-12/9   | Risk Management: Options (BKM: Chapter 20, RW Supplement 387-426)  
               BKM problems Chap 20: 1-8, 10-12, 14-23, CFA 1-5 |
| 12/11-12/17 | Comprehensive Final Exam (about 50% from material before Chapter 15) |

The exams will probably be on 10/12 and 11/11, but are subject to change. I’ll announce the exact date in class. I may be in NY 11/10-11/13 on the annual junior investments trip.