

Rutgers School of Business
Investment Analysis & Management
22:390:603:31
Fall 2010

Course Overview: Students will develop a strong understanding of common stocks, traditional bonds, convertible bonds, options, futures, swaps, and other financial instruments. In addition, students will manage a simulated \$1 million portfolio using web based Virtual Stock Exchange software. The course will make extensive use of practical material created by Wall Street firms and also utilize popular periodical read by professional investors including *The Wall Street Journal*, *Business Week*, *Fortune*, and *Forbes*. As a capstone to the course, students will write a present a detailed stock report.

Instructor: Dr. John M. Longo, CFA

Biographical Sketch: Dr. Longo is Clinical Associate Professor of Finance at Rutgers Business School, a Principal in a \$100 million hedge fund, and Senior Vice President of Investment Strategy and Chairman of the Investment Committee for The MDE Group, (www.mdegroupp.com) a registered investment advisor with \$1.4 billion under management. The MDE Group has been ranked as the 4th best independent investment advisor in the USA by *Barron's* in 2007 and 2008.

He is a member of the Editorial Boards of *The Journal of Performance Measurement* and *Advances in Financial Planning & Forecasting*. He is author / editor of *Hedge Fund Alpha: A Framework for Generating and Understanding Investment Performance*. He has served as consultant to many financial service firms and has been widely quoted in the financial media, including appearances on CNBC and BBC World and quotations in *The Wall Street Journal*. Previously, he was a Vice President at Merrill Lynch & Co., Inc.

Office: 1 Washington Park, TBA

Office Hours: Monday: 12:00pm - 1:00pm and by appointment. I will have additional office hours in New Brunswick. Please contact me for further details.

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Text: *Investments*, 8th Ed., by Bodie, Kane, and Marcus. Publisher: McGraw-Hill Irwin, 2008.

*The text does not cover everything so it will be supplemented with additional material in my lectures or on the **Blackboard Account**. You are responsible for this material, so please get the notes from a fellow student in the event that you miss a class.*

Blackboard Account: (* **IMPORTANT** *) Homework solutions, sample projects, lecture material, and other information will be placed on the **Blackboard Account** for the course.

Homework: I will assign some homework problems that will help prepare you for the exams, but I will not collect/grade them. The solutions will be placed on the **Blackboard Account**. If you do not understand the solutions then please see me during the office hours or contact me via email. Time permitting, we will review selected homework problems during class.

Grading: Midterm (35%); Group Project (20%); Cumulative Final (45%)

Exams will be a combination of multiple choice and quantitative or qualitative problems. The material on the exams will be similar to things discussed in class, the text, or in the homework problems.

Class Participation: Strongly encouraged and will help in borderline cases. As discussed above, I believe maximum benefit will be obtained from the instructor and students discussing their experiences, when relevant, in the context of the course material.

Virtual Stock Exchange (VSE): Students will build and manage a simulated portfolio throughout the course (**starting September 20th**). VSE was created by CBS Marketwatch and can be utilized via a web browser. To encourage you to put effort into the simulation, we will do the following. The student with the maximum portfolio value on **December 3rd** (close of trading day) will get the equivalent of a 95 on the Final Exam (thereby likely exempting the student from the Final Exam with an A Grade). Any student who underperforms the S&P 500 by more than 10% (e.g. S&P is up 5% and you are down more than 5%) will have 5 points subtracted from their Final Exam Score (e.g. 75 score on Final Exam is adjusted downward to 70). Conversely, any student who outperforms the S&P 500 by 10% will get 5 points added to their Final Exam score.

You must use your REAL NAME to register for the competition – all other names will be ignored. To ensure proper diversification, you cannot invest more than \$50,000 in any individual stock, bond, mutual fund, or ETF. In addition, you cannot trade in any security with a price < \$5 per share. In order to level the playing field among students of different financial experience, you may not trade futures, options, or any derivative securities, even if the system allows you to do so.

Group Project: (Group of 4 or 5 students) Write a stock report valuing the publicly traded firm of your choice. Your analysis should be based on fundamental analysis, current events, industry trends and your own opinions. The bulk of the grade will be based on content, but your paper should also be well written and look professional. You should supplement your report with charts and tables to support your case. **No two groups may select the same company and companies will be approved on a first come first serve basis.** *Approximate length of paper: 20 pages.*

The **PROJECT IS DUE NOVEMBER 29th**. All students in the group will receive the same grade regardless of the amount of work done; therefore choose your partners wisely. I will place sample reports on the **Blackboard Account** for the course.

The ability to contribute to and impress others at meetings is an essential business skill. Therefore, the last two weeks of regular class will be devoted to a discussion of the projects. Each group will present their findings in a crisp 15-minute oral presentation. Everyone in the group must speak.

The project is worth 20% of your grade, with the bulk accounted for by the written report.

OUTLINE FOR INVESTMENT ANALYSIS (TENTATIVE)

To get the maximum benefit from the course, it is strongly recommended that you read the appropriate chapters before class and print out the PowerPoint presentations for each chapter (these may be found on the **Blackboard Account**).

I will post a lecture *Strategies of Great Investors* on Blackboard. It will be discussed a little bit at a time, throughout the course.

Sep 8: Introduction to the Course; Investor Psychology (This lecture may be downloaded via the **Blackboard Account**. **It is the only lecture that will be posted after the lecture occurs.**)

Sep 13: Ch 2 Asset Classes and Financial Investments; Ch 3 How Securities are Traded

Sep 20: Ch 6 Risk Aversion and Capital Allocation to Risky Assets; Ch 7 Optimal Risky Portfolios

Sep 27: Ch 9 The Capital Asset Pricing Model; Ch 10 Arbitrage Pricing Theory and Multifactor Models of Risk and Return

Oct 4: Ch 17 Macroeconomic and Industry Analysis; Ch 18 Equity Valuation Models

Oct 11: Ch 19 Financial Statement Analysis; Ch 4 Mutual Funds and Other Investment companies

Oct 18: Ch 5 Learning About Return and Risk from the Historical Record; Ch 11 The Efficient Market Hypothesis

Oct 25: MIDTERM

Nov 1: Ch 12 Behavioral Finance and Technical Analysis; Ch 14: Bond Prices and Yields; Review of Midterm

Nov 8: Ch 15 The Term Structure of Interest Rates; Ch 16 Managing Bond Portfolios

Nov 15: Options (Blackboard Material)

Nov 22: (* No class, go to Wednesday classes on Monday due to Thanksgiving holiday *)

Nov 29: Futures and Alternative Investments (Blackboard Material); **PROJECTS DUE**

Dec 6: Group Projects / Presentations

Dec 13: Group Projects / Presentations; Course Review

Dec 20: FINAL EXAM