

**22:390:681 Hedge Funds**

Term: Fall 2017

Location: 100 Rock, Room 5073

Class Meeting Time: Mon. 6:40pm – 9:40pm

Office Hours: Monday 5:30pm-6:30pm, Wednesday 2-3pm and by appointment

**Instructor: Dr. John M. Longo, CFA**

Office: 100 Rock, Room 5129

Office Phone Number: 848-445-2306

Email Address: JLongo@business.rutgers.edu

**INSTRUCTOR BIOGRAPHICAL SKETCH**

Dr. Longo is Professor of Professional Practice in the Finance & Economics Department at Rutgers Business School, and Chief Investment Officer and Portfolio Manager for Beacon Trust, a registered investment advisor with \$2.3 billion under management. Beacon is a subsidiary of Provident Financial Services (NYSE: PFS), founded in 1839. Dr. Longo is also a Visiting Professor of Finance at Global EMBA – the joint international Executive MBA Program of Columbia University, London Business School and The University of Hong Kong. He is the bestselling author of *The Art of Investing: Lessons from History's Greatest Traders*, published by TheGreatCourses.com. (The book peaked as the 26th bestselling book out of roughly 200,000 titles on Audible.com).

Dr. Longo has appeared on CNBC, Bloomberg TV, Bloomberg Radio, Fox Business, BBC World, [wsj.com](http://wsj.com) (video), GreatInvetors.tv, The (Ron) Insana Quotient and several other programs. He has been quoted in *The Wall Street Journal*, *Barron's*, *Thomson Reuters*, *Dow Jones MarketWatch*, *U.S. News & World Report*, *CNBC.com*, *The Chicago Tribune*, *The Star Ledger*, *Hedge Fund Alert*, *FundFire*, and dozens of other periodicals. He is also author/editor of *Hedge Fund Alpha: A Framework for Generating and Understanding Investment Performance*. He led Rutgers students to a personal visit with Warren Buffett in Omaha, Nebraska on four separate occasions. Previously, he was a Vice President at Merrill Lynch & Co., Inc. and served on the Advisory Board of Bloomberg's educational subsidiary, The Bloomberg Institute.

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**COURSE DESCRIPTION**

This course will provide students with a solid and working understanding of hedge funds. The course will not only cover an overview of the hedge fund industry, but also provide students with a strong understanding of more than a dozen hedge fund strategies, including equity long / short, global macro, statistical arbitrage, merger arbitrage, convertible arbitrage, and fixed income arbitrage. The course will make extensive use of Excel spreadsheets to model specific hedge funds strategies and will also include live instruction on using cutting-edge Internet resources. In my view, often the best way to learn is by doing, so students will also manage a simulated \$1 million hedge fund portfolio and design and present a hedge fund investment strategy group project.

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**COURSE MATERIALS**

Reference Text: For those students that would like a reference that may be useful for the course and for their career, I recommend the following:

*Investment Strategies of Hedge Funds* by Filippo Stefanini. Publisher: Wiley, 2006.

Blackboard Account: (\* IMPORTANT \*) Sample projects, lecture material, and other information will be placed on the Blackboard Account for the course ([blackboard.rutgers.edu](http://blackboard.rutgers.edu)).

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## **PREQUISITES**

Financial Management (i.e., “Intro to Finance”) is required and a course in Investments is recommended.

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## **ACADEMIC INTEGRITY**

Students are responsible for understanding the RU Academic Integrity Policy.

([https://slwordpress.rutgers.edu/academicintegrity/wp-content/uploads/sites/41/2014/11/AI\\_Policy\\_2013.pdf](https://slwordpress.rutgers.edu/academicintegrity/wp-content/uploads/sites/41/2014/11/AI_Policy_2013.pdf))

I will strongly enforce this Policy and pursue *all* violations. On all examinations and assignments, students must follow the RU Honor Pledge, which states, “On my honor, I have neither received nor given any unauthorized assistance on this examination or assignment.” Don’t let cheating destroy your hard-earned opportunity to learn. See [business.rutgers.edu/ai](http://business.rutgers.edu/ai) for more details.

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## **ATTENDANCE AND PREPARATION POLICY**

Attendance is expected at all sessions. If I am to be absent, my department chair or I will send you notice via email and Blackboard as far in advance as possible. If your absence is due to religious observance, a Rutgers-approved activity, illness, or family emergency/death and you seek makeup work, also send me an email with full details and supporting documentation within 3 days of your first absence.

For weather emergencies, consult the campus home page. If the campus is open, class will be held, but please do not travel if it jeopardizes your health or well-being.

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## **CLASSROOM CONDUCT**

Faculty, students, and guests deserve to be treated with dignity and respect. Please refrain from behavior that will negatively impact the learning environment for anyone present in the classroom.

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## **EXAM DATES AND POLICIES**

There are 2 exams in this course, which will be held in our regular classroom:

Midterm Exam: Date, October 24<sup>th</sup> at our regular class time.

Cumulative Final Exam: Date, December 12<sup>th</sup> at our regular class time.

During exams, the following rules apply:

- You may use a calculator (not a cell phone) and one 8.5x11 sheet of paper (front and back) with anything you want on it (e.g. formulas, definitions, sample problems, etc.) for the midterm and final.
- There are no makeup exams for the midterm. If you miss the midterm for a valid reason, your final exam weight will be increased to account for both the midterm and final grade. If the final exam is missed, a doctor's note (or other reason of weight in accordance with Rutgers' Academic Integrity Policy) is required to take a makeup final exam.
- If you have a disability that influences testing procedures, provide me an official letter from the Office of Disability Services at the start of the semester.
- Please try to use the bathroom prior to the exam start; bathroom breaks, if essential, will be permitted.
- The RBS Honor Code applies for all exams and course assignments.

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## GRADING POLICY

Course grades are determined as follows:

Midterm (35%); Group Project & Presentation (20%); Cumulative Final (45%)

Class participation is strongly encouraged and will help in borderline cases. Maximum benefit will be obtained from the instructor and students discussing their experiences, when relevant, in the context of the course material.

I will not change your grade unless I have made an error. Changing a final grade requires the approval of not only of the instructor, but also the Department Chairperson, and Dean.

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## GROUP PROJECT (Group of 2 or 3 students)

Create and back-test an original hedge fund strategy, produce a corresponding "pitch book" and present your findings to the class. The project should include a discussion of historical and projected risk adjusted returns, as well as a risk management plan. We will discuss many hedge fund strategies and strategies of successful hedge fund investors in class. This material may help spur ideas that will ultimately lead to your proposed hedge fund strategy. The bulk of the grade will be based on content, but your pitch book should also be well written and look professional. You should supplement your report with charts and tables to support your case.

The project is due **NOVEMBER 27<sup>th</sup>** and there will be a penalty for lateness. All students in the group will receive the same grade regardless of the amount of work done; therefore, choose your partners wisely.

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

20-minute oral presentation. Everyone in the group must speak. The project is worth 20% of your grade (about 15% for the written report and 5% for the oral presentation)

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## **HEDGE FUND PORTFOLIO SIMULATION**

Students will build and manage a simulated hedge fund portfolio throughout the course, starting on **September 25th**. We will use Investopedia.com to run the simulation (details to follow). To encourage you to put effort into the simulation, we will do the following. The student with the maximum portfolio value on **DECEMBER 1st (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. **IMPORTANT:** You must use your real name or else you will not be eligible for one of the “prizes.”

To ensure proper diversification, you cannot invest more than \$100,000 in any individual stock, bond, mutual fund, or ETF. In addition, you cannot trade in any stock with a price < \$5 per share. Most hedge fund strategies utilize a significant hedge, perhaps with the exception of Global Macro. Therefore, your portfolio must include at least \$250,000 in short sale or inverse ETF positions by the end of September. I will provide you with further instructions that will be necessary in order to join the competition.

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## **HOMEWORK**

I will assign some homework problems that will help prepare you for the exams, but I will not collect / grade them. The incentive to do the homework is that there will be some similar problems on the exam. 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.

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## **COURSE SCHEDULE (TENTATIVE)**

To get the maximum benefit from the course, it is strongly recommended that you read the appropriate PowerPoint presentations and / or Excel spreadsheets for each topic (these may be found on the Blackboard Account).

Sep 11: Chapter 1: Introduction to Hedge Funds; Behavioral Finance (Blackboard material)

Sep 18: Chapter 3: Short Selling; Chapter 4: Long / Short Equity Strategies

Sep 25: Fundamentals of Technical Analysis (Blackboard Material); Chapter 14: Global Macro Strategies

Oct 2: Chapter 2: Arbitrage; Chapter 7: Fixed-Income Hedge Fund Strategies.

Oct 9: Review of Derivatives (Blackboard Material); Chapter 13: Managed Futures Funds

Oct 16: Chapter 5: Merger Arbitrage Hedge Fund Strategies; Chapter 10: Distressed Securities

Oct 23: MIDTERM

Oct 30: Chapter 11: Event-Driven or Special Situations Hedge Fund Strategies; Chapter 6: Convertible Bond Arbitrage Strategies; Review of Midterm

Nov 6: Chapter 12: Multi-strategy Funds; Funds of Hedge Funds (Blackboard Material); Hedge Fund Due Diligence (Blackboard Material)

Nov 13: (\* Projects Due \*) Chapter 16: Hedge Fund Performance Analysis (Blackboard Material); Hedge Fund Risk Management (Blackboard Material).

Nov 20: Activist Hedge Fund Strategies

Nov 27: Strategies of Great Hedge Fund Managers

Dec 4: Student Presentations / Group Projects; Course Review

Dec 11: Cumulative Final Exam (In our regular classroom, regular time)

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## SUPPORT SERVICES

If you need accommodation for a *disability*, obtain a Letter of Accommodation from the Office of Disability Services. The Office of Disability Services at Rutgers, The State University of New Jersey, provides student-centered and student-inclusive programming in compliance with the Americans with Disabilities Act of 1990, the Americans with Disabilities Act Amendments of 2008, Section 504 of the Rehabilitation Act of 1973, Section 508 of the Rehabilitation Act of 1998, and the New Jersey Law Against Discrimination. <https://ods.rutgers.edu>

If you are a military *veteran* or are on active military duty, you can obtain support through the Office of Veteran and Military Programs and Services. <http://veterans.rutgers.edu/>

If you are in need of *mental health* services, please use our readily available services.

[Rutgers University-Newark Counseling Center: <http://counseling.newark.rutgers.edu/>]

[Rutgers Counseling and Psychological Services – New Brunswick: <http://rhscaps.rutgers.edu/>]

If you are in need of *physical health* services, please use our readily available services.

[Rutgers Health Services – Newark: <http://health.newark.rutgers.edu/>]

[Rutgers Health Services – New Brunswick: <http://health.rutgers.edu/>]

If you are in need of *legal* services, please use our readily available services: <http://rusls.rutgers.edu/>

If you are in need of additional *academic assistance*, please use our readily available services.

[Rutgers University-Newark Learning Center: <http://www.ncas.rutgers.edu/rlc>

Rutgers University-Newark Writing Center: <http://www.ncas.rutgers.edu/writingcenter>]

[Rutgers University-New Brunswick Learning Center: <https://rlc.rutgers.edu/>]