COURSE DESCRIPTION

Provides overview of the fields of security analysis and portfolio management. Introduces the analysis of individual investments with special reference to common stocks and bonds. Designed for the finance major who is interested in the security/investment area as a possible career.

COURSE MATERIALS

The textbook we shall use is the 10th edition of Investments by Bodie, Kane, and Marcus with Connect Plus, from MHHE. Other material (handouts, articles …) will be posted on BB or distributed in class during the semester.

You will also need to set up an account with Online Trading and Investment Software of the Wharton School. It is provided to you free of charge! Instructions on how to set up an account will be posted on BB.

A non-programmable financial calculator is required. Be sure it is a financial calculator. Any financial calculator admissible on the CFA exams is acceptable. I recommend the BA II Plus Professional (about $38). Please have your calculator with you at all lectures, starting our next lecture.

LEARNING GOALS AND OBJECTIVES

This course addresses the fundamental question of the SAVINGS decision: given that we have decided what portion of our income we want to save, how do we allocate our SAVINGS across available vehicles and sectors and, perhaps, strategies? The course introduces you to the analysis of SAVINGS vehicles (stocks and bonds in particular) and to portfolio strategies used in financial markets today. It emphasizes an intuitive yet rigorous understanding of the theory and practice of financial intermediation. This is, necessarily, an applied course. Its objective is to help you develop a practical and theoretical basis upon which you can expand your knowledge of finance, investments and the economy. To achieve this objective, we shall adopt the ‘learning-by-doing’ approach: you will be working on problems and cases, and researching and trading securities as you manage two risky portfolios, one imposed and the other constrained.

Weekly problem sets and articles will be assigned to reinforce the concepts presented in class.
OUTLINE OF TOPICS

Topic 0  Week 1

- Foreword: ‘INVESTING’: an abuse of language!
  On consumption, savings, investments, and the rate of time preference
- Exploring the PLAYGROUND:
  Of financial intermediation and intermediaries
- BKM Chapters 1, 2, 3, & 4

Topic 0 Required Readings

_ The New Capitalism, How Unfettered finance is fast reshaping the global economy, FT
_ Greed – and fear, E _ Fixing finance, E

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Topic 1  Week 2, 3, 4

- CORE tools and techniques
- TVM and risk-return trade-offs in pricing stocks and fixed income securities
- Understanding Derivatives
- BKM Chapter 5, 14, 15, 16, 17, 18, 19, 20

Topic 1 Required Readings

_ Uses, Abuses, and Alternatives to the Net Present Value Rule, S. Ross
_ Market Myths, G. Bennett Stewart
_ Fact and Fantasy in the Use of Options, Fischer Black
_ How We Came up with the Option Formula, Fisher Black

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Topic 2  Week 5, 6

- On PORTFOLIO selection
- diversification, risk, and return measures
- BKM Chapter 5, 6, 7, 8

Topic 2 Required Readings

_ Portfolio Selection, Markowitz
_ Estimating Expected Return, Fisher Black
_ Risk, Market Sensitivity, and Diversification, William Sharpe
• Theories of Asset PRICING
• The CAPM
• Pricing by ARBITRAGE
• BKM Chapter 9, 10, 13

Topic 3 Required Readings

_ Beta and Return, Fisher Black.
_ CAPM Theory and Evidence, Fama and French
_ What Every CFO Should Know About Scientific Progress in Financial Economics..., Richard Roll

Topic 4

• the EFFICIENCY of information-driven markets
• BKM Chapter 11 & 12

Topic 4 Required Readings

_ Implications of the Random Walk Hypothesis for Portfolio Management, Fisher Black
_ Random Walks in Stock Market Prices, Fama
_ The Efficient Market Hypothesis and its Critics, Malkiel
_ Efficiency and beyond, E

Topic 5

• PERFORMANCE evaluation
• BKM Chapters 24, 27