

Finance
Course Number: 22:390:681
Course Title: Hedge Funds

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.

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.

Canvas Account: (* IMPORTANT *) Sample projects, lecture material, and other information will be placed on the Canvas Account for the course (canvas.rutgers.edu).

HEDGE FUND PORTFOLIO SIMULATION

Students will build and manage a simulated hedge fund portfolio throughout the course, starting on (). 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 () 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.” If you create 2 accounts with similar names (Pat Smith and Pat H Smith) I will only count the one with the worse performance unless there is a valid, approved reason for creating a second account.

To ensure proper diversification, you cannot invest more than \$100,000 (at the inception of the trade(s)) in any individual stock, bond, mutual fund, or ETF. I will provide you with further instructions that will be necessary in order to join the competition.

PREREQUISITES

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

ACADEMIC INTEGRITY

I do NOT tolerate cheating. Students are responsible for understanding the RU Academic Integrity Policy (<http://academicintegrity.rutgers.edu/>)

I will strongly enforce this Policy and pursue *all* violations. On all examinations and assignments, students must sign the RU Honor Pledge, which states, “On my honor, I have neither received nor given any unauthorized assistance on this examination or assignment.” I will screen all written assignments through *SafeAssign* or *Turnitin*, plagiarism detection services that compare the work against a large database of past work. Don’t let cheating destroy your hard-earned opportunity to learn. See business.rutgers.edu/ai for more details.

ATTENDANCE AND PREPARATION POLICY

Attendance is expected at all sessions. If you miss more than 3 classes, 5 points will be subtracted from your overall grade. There is no penalty for missing 3 or fewer classes. To be counted present you must be in the classroom for at least 75% of the class. If I am to be absent, my department chair or I will send you notice via email and Canvas 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.

GROUP PROJECT (Group of 4 or 5 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 () 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)

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.

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 Canvas 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.

EXAM DATES AND POLICIES

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

Midterm Exam: Date, ()¹ at our regular class time.

Cumulative Final Exam: Date, () 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%)

Attendance will be taken. If you miss more than 3 classes, 5 points will be deducted from your overall score. If someone else signs an attendance sheet for you, it is a violation of Rutgers' Academic Integrity Policy and both students will be reported.

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.

COURSE SCHEDULE

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 Canvas Account).

() Chapter 1: Introduction to Hedge Funds; Behavioral Finance (Canvas material)

() Chapter 3: Short Selling; Chapter 4: Long / Short Equity Strategies

() Fundamentals of Technical Analysis (Canvas Material); Chapter 14: Global Macro Strategies ():

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

() Review of Derivatives (Canvas Material); Chapter 13: Managed Futures Funds

() Chapter 5: Merger Arbitrage Hedge Fund Strategies; Chapter 10: Distressed Securities

() MIDTERM

() Chapter 11: Event-Driven or Special Situations Hedge Fund Strategies: Review of Midterm

() Chapter 6: Convertible Bond Arbitrage Strategies Chapter 12: Multi-strategy Funds; Funds of Hedge Funds (Canvas Material);

() Hedge Fund Due Diligence (Canvas Material); Chapter 16: Hedge Fund Performance Analysis (Canvas Material);

() Hedge Fund Risk Management (Canvas Material).

() (* Projects Due *) Activist Hedge Fund Strategies; Strategies of Great Hedge Fund Managers

() Student Presentations / Group Projects

() : Student Presentations / Group Projects; Course Review

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

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. More information can be found at ods.rutgers.edu.

[Rutgers University-New Brunswick ODS phone (848)445-6800 or email dsoffice@echo.rutgers.edu]

[Rutgers University-Newark ODS phone (973)353-5375 or email ods@newark.rutgers.edu]

If you are *pregnant*, the Office of Title IX and ADA Compliance is available to assist with any concerns or potential accommodations related to pregnancy.

[Rutgers University-New Brunswick Title IX Coordinator phone (848)932-8200 or email jackie.moran@rutgers.edu]

[Rutgers University-Newark Office of Title IX and ADA Compliance phone (973)353-1906 or email TitleIX@newark.rutgers.edu]

If you seek *religious accommodations*, the Office of the Dean of Students is available to verify absences for religious observance, as needed.

[Rutgers University-New Brunswick Dean of Students phone (848)932-2300 or email deanofstudents@echo.rutgers.edu]

[Rutgers University-Newark Dean of Students phone (973)353-5063 or email DeanofStudents@newark.rutgers.edu]

If you have experienced any form of *gender or sex-based discrimination or harassment*, including sexual assault, sexual harassment, relationship violence, or stalking, the Office for Violence Prevention and Victim Assistance provides help and support. More information can be found at <http://vpva.rutgers.edu/>.

[Rutgers University-New Brunswick incident report link: <http://studentconduct.rutgers.edu/concern/>. You may contact the Office for Violence Prevention and Victim Assistance at (848)932-1181]

[Rutgers University-Newark incident report link: https://cm.maxient.com/reportingform.php?RutgersUniv&layout_id=7 . You may also contact the Office of Title IX and ADA Compliance at (973)353-1906 or email at TitleIX@newark.rutgers.edu. If you wish to speak with a staff member who is confidential and does **not** have a reporting responsibility, you may contact the Office for Violence Prevention and Victim Assistance at (973)353-1918 or email run.vpva@rutgers.edu]

If students who have experienced a temporary condition or injury that is adversely affecting their ability to fully participate, you should submit a request via <https://temporaryconditions.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/>

Students experiencing difficulty in courses due to *English as a second language (ESL)* should contact the Program in American Language Studies for supports.

[Rutgers–Newark: PALS@newark.rutgers.edu]

[Rutgers–New Brunswick: eslpals@english.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/>]

[Optional items that many faculty include:

- Students must sign, date, and return a statement declaring that they understand the RU Academic Integrity Policy.

- Students must sign, date, and return a statement declaring that they understand this syllabus.]