

BADM4060 – Investment Finance

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Class Schedule: Tuesday 1:35pm to 4:15pm (Section 1) @ GH 125
Friday 9:55am to 12:35pm (Section 2) @ GH 117

Office Hours: Tuesday, 11:30am to 1:30pm

Office Room #: GH 208J

Course Website: <http://dept.econ.yorku.ca/~basher/badm4060.htm>

COURSE OUTLINE

Textbook:

Investments, Fifth Canadian Edition, by Bodie, Kane, Marcus, Perrakis, and Ryna. (McGraw-Hill Ryerson, 2005).

Course Description:

This course studies the literature on the determination of security prices and the operation of the stock market. We will (i) review recent developments in portfolio theory which explain investors' portfolio choices, (ii) outline the principles needed for analyzing common stock prices and (iii) study derivative assets. In a nutshell, this course deals specifically and exclusively with common stocks.

Evaluation:

Grades will be determined as follows:

Midterm Exam	20%
Group assignment 1 (Portfolio strategy report)	15%
Group assignment 2 (Final WLU portfolio report)	25%
Final Exam	40%

Note: Please be advised that there will be no make-up for a missed midterm. If you miss the midterm the 20% weight will be added to the final exam which would then be worth 60%. The final exam will be comprehensive however more attention will be given to materials covered after the midterm.

Course Contents

Note: Please be advised that Ch. 1-4 have been assigned as “self-reading”, meaning that you’re responsible for the contents of these chapters. Although you will not be tested on any exercises from these chapters, it is very important that you familiarize yourself with the contents of these chapters as they will become relevant for future topics.

I. PORTFOLIO THEORY

Week 1-3: Topics include risk-return, risk aversion and portfolio selection
Ch. 5-6 (Bodie et al.)

II. EQUILIBRIUM IN CAPITAL MARKETS

Week 3-7: Topics include the capital asset pricing model (CAPM), arbitrage pricing theory (APT), market efficiency, and empirical evidence on security returns.
Ch. 7-10

MIDTERM EXAM IS ABOUT HERE

III. FIXED-INCOME SECURITIES

Week 8-9 Topics include bond prices and yield, term structure of interest rates.
Ch. 11-12

IV. EQUITIES

Week 10-11 Topics include security analysis
Ch. 14

V. DERIVATE ASSETS

Week 12 Introduction to options and other derivatives, futures and forward markets
Ch. 17 & 19

FINAL EXAM IS ABOUT HERE (COMPREHENSIVE)

The Game:

In order to illustrate more vividly the material covered in this course, you will all participate in a stock market game run by Wilfred Laurier University (WLU). In order to play this game, you will form investment strategy groups of four students. It will cost each group \$25.00 per email registrant to participate in this game. The game starts on the first Monday in October 2006 and lasts about 8 weeks. Documentation for playing the game will be sent to each group when the fees are paid.

Information on the WLU game, called National University/College Stock Market Competition, is available at the following site:

<http://invest.wlu.ca>

You may email Lisa Fanjoy at:

Ucinfo@invest.wlu.ca

for more information.

I would like to make a few points about this game:

Although earning a superior return over the 8 weeks that the game lasts is rewarding, this is not what I am looking for. You are playing this game to learn how to be long-term investors, which means that you have to develop such qualities as independent thinking, patience, organization, courage of your convictions, and above all discipline. Professionals do not buy stocks on a whim; they analyze thoroughly and then buy. Thus, you will not be graded on results, but on the quality of your analysis and on the consistency, and effectiveness of the strategy that you have chosen to construct your portfolio. Read this sentence again and think about it!

You will invest in four stocks only, but do a thorough analysis on each (see p. 4).

Depending on your views regarding the efficiency of the Toronto Stock Exchange (TSX) you will pick stocks and supplement which must be supported by rigorous and convincing analysis. I will not look favourably on stock picks based on superficial analysis.

You will submit your first portfolio strategy to me in a report due on October 22, 2005 (during the office hour). This report will give your group a chance to explain to me as if you were professional portfolio managers and I were an institutional client, which stocks (and possibly indexes) you have picked and why you combined them in a portfolio. **At the end of the game, each group will submit a final portfolio report explaining what happened to its portfolio and the reasons for your group's successes or failures** (the deadline will be announced later). Here I am looking for some wisdom from you on what you have learned from this experience (additional details will be provided later).

I expect that each member of your group will participate EQUALLY in the work done in this course: picking stocks, constructing portfolios, presenting your work to the class, and writing reports. Each member of your group will receive the same grade for all group work unless I am advised in the peer rating form that each group will file with me at the end of the semester, that some member(s) did not pull their weight. In that case these students' grade will be adjusted downward. Please come and discuss with me any group problems as soon as they occur. See p. 6 for more information on "How to fill the Peer Rating form."

The group paper on the investment project must be at most 5 pages plus exhibits, double-spaced and written in the manner of a professional investment strategy report.

FORMAT FOR INVESTMENT STRATEGY REPORTS

1. Philosophy (e.g. Market efficiency [which form of EMH?] ‘Swiss Cheese’ theory, etc)
2. Investment Strategy
3. Stock Picks (See p. 7 on the steps you must follow to pick stocks. Your report must include a discussion of each of these 6 steps).

At the end of the semester

4. Portfolio Performance compared to Appropriate Benchmark
5. Conclusions / Pearls of Wisdom / Lessons Learnt

STEPS FOR PICKING STOCKS FOR THE PORTFOLIO MANAGEMENT GAME

1. Quality of management?
2. Business model? Value Proposition?
3. Profit margins (gross and net)?
4. Barriers to entry?
5. Levels of free cash flows?
6. How cheap is the stock (P/sales, P/cashflows, P/book value, dividend yield)?

PEER RATINGS

(Due with your final portfolio report)

GROUP NUMBER: _____

RATINGS:

If your grade for group work is a 100%, how would you allocate this mark to reflect the amount of work done by each group member? For example, in a group of 5, each member participating equally would receive a mark of 20%, for a total of 100%. Please file one form per group. Each member must sign this form to show agreement. Read p. 6 “How to fill the Peer Rating Form”.

	Names	Mark	Signature
1.	_____	_____	
	(yourself)		
2.	_____	_____	
3.	_____	_____	
4.	_____	_____	
5.	_____	_____	

COMMENTS:

How to fill the Peer Rating Form
(due with your final portfolio report)

1. Ideally, your group functioned well and you shared the work load (assignments and one term project) equally, i.e. in a group of 5, you assigned each other 20%.
2. In cases where the work load is not shared equally, the student (s) who has(ve) the highest percentage will receive the unaltered total mark for the weekly assignments and the term paper. The other student(s) who have not shared equally the work load will receive discounts from the assigned grade. The discounts are calculated as follows.

For example, assume the following effort distribution:

Student 1	40%
Student 2	30%
Student 3	20%
Student 4	10%
Student 5	0%

Student 1 will receive his/her full unaltered grade for the 8 weekly assignments and the term paper. While students 2, 3, 4 and 5 will receive 30%/40%, 20%/40%, 10%/40% and 0%/40%, respectively, of the full unaltered grade.

3. Each student in the group must sign the group sheet and return it to me with your final portfolio report.

ACADEMIC POLICIES

Important University of Guelph-Humber Policies:

It is your responsibility as a student to be aware of and to abide by the University's policies regarding academic misconduct, e-mail communication, maintaining copies of out-of class assignments, what to do when you cannot meet a course requirement and the drop date for this semester.

Academic Integrity / Academic Honesty:

At the University of Guelph-Humber, students, faculty and staff are establishing the foundations of a new tradition in education. As individuals within this community, we all benefit when we strive for the highest achievable standards of excellence in our academic and applied work. In reflection, all members of the University have the obligation to maintain the highest standards of academic honesty. It is the responsibility of members of faculty and staff to follow acceptable standards of academic conduct and to foster it in others, and of students to be mindful of and abide by such standards.

The University takes a serious view of academic misconduct and will penalize students, faculty and staff who are found guilty of offences associated with academic dishonesty, misrepresentation of personal performance, restrictions of equal opportunities for access to scholarly resources, and damage to the integrity of scholarly exchanges.

University of Guelph-Humber students are responsible for familiarizing themselves with and abiding by the University's policy on student academic misconduct regardless of their location of study. Faculty, staff and students have the responsibility to create an environment that discourages misconduct. Students are encouraged to review the policy at:
http://www.guelphhumber.ca/downloads/GH_Academic_Regulations_2002-2003.pdf

Grading Procedures:

Feedback to students on work completed or in progress is an integral part of teaching and learning in that it allows students to measure their understanding of material and their progress toward achieving learning objectives. Feedback often goes beyond grading and should be an indication of the standard a student has achieved and should to include comments on the particular strengths and weaknesses of a student's performance. While the nature and frequency of such feedback will vary with the course, the University of Guelph-Humber is committed to providing students with appropriate and timely feedback on their work. Faculty members are urged to provide meaningful feedback (approximately 20% of the total course evaluation is the standard), prior to the 40th class day. This is the last day that students are permitted to drop classes without incurring any academic penalties.

Missed Final Exams / Deferred Privileges

When students do not write a required final examination, complete a final assignment, or complete a work term report prior to the last class date, they must request Academic Consideration to be considered for a deferred privilege. When granted, a deferred privilege allows a student the opportunity to complete the final course requirements after the end of the semester, but during established timelines.

Please note that faculty members do not grant deferred privileges. Faculty can only grant academic consideration for work that is due during the semester and cannot grant extensions beyond their deadline for submission of final grades.

The nature of the deferred privilege may take the form of either a deferred condition or a deferred examination. The Admissions and Academic Review Sub-Committee grants deferred privileges on the basis of medical, psychological or compassionate consideration. Please see your Admission and Program advisor for details.

Accommodation Procedures:

Students will identify themselves to Services for Students with Disabilities and, where required, provide appropriate documentation of their need. Where appropriate, students will inform individual instructors of their disabilities and academic accommodations required, by distributing the "SSD Memo to Faculty".

When students require test accommodations, they will:

- Remind instructors at least one week in advance of each test or as soon as possible, that they require test accommodations.
- Book the test date and time in the SSD office or make the appropriate arrangements to write in the Test Centre at least one week in advance of each test, or as soon as possible.

Students with special needs are accommodated through Humber ITAL Services for Students with Disabilities. Students should make themselves familiar with the policies relating to special accommodations by visiting the website at:

http://studentservices.humberc.on.ca/ssd/npn/fac_resp.htm.