

INVESTMENTS – BUS 390
Spring, 2010
John Zietlow, D. B. A., CTP
Mitchell Hall #209 ▪ MWF 2:00-2:50 p.m.

TEXT:

Reilly, Frank, and Norton, Edgar. (2006). **Investments**. Thomson/South-Western (now called Cengage), Mason, OH. Approximate Price: \$110. It is an advantage to have the web access that you can buy with the book, but this is not strictly required.

OTHER REQUIRED MATERIALS:

Financial calculator: *Hewlett Packard 10-BII* or similar. Approximate price: \$35.

CATALOG DESCRIPTION:

This course examines how portfolio investments and speculative decisions can be made. It includes a discussion of institutions in the investment community, an analysis of investment theory, and presentations of the practical implications of investment theory. This course is strongly recommended for students intending to go to graduate school. Prerequisite: BUS 332.

I. PURPOSE

This course is designed to assist the student in building a conceptual framework with which to make prudent investment decisions in their jobs, personal financial planning, and in an advisory capacity to assist in church/nonprofit financial planning.

II. OBJECTIVES

A. General Behavioral Objectives

This course seeks to:

1. Introduce the student to the area of investments while integrating global and ethical perspectives.
2. Assist the student in developing a conceptual framework upon which to base decisions relating to investment management.
3. Assist the student to achieve a working knowledge of techniques for analyzing financial data, for purposes of investment decision-making.
4. Provide an integration of one's faith with investments decision-making.

B. Specific Behavioral Objectives

As a result of the activities and study in this course, the student should be able to do the following:

1. Understand the goals and functions of an investments analyst.
2. Understand the time value of money and the implications thereof to risk, rates of return, and value.
3. Analyze and control risk in investment decision-making and portfolio management.
4. Utilize the basic tools of finance (e.g. horizontal analysis, vertical analysis, ratio analysis, and sources and uses of funds analysis) in analyzing a company to provide investment security analysis.
5. Implement modern portfolio management techniques in making asset allocation and portfolio rebalancing decisions.

6. Utilize the concept of an Investment Policy Statement (IPS) in making investment decisions.
7. Analyze sources of investment information.
8. Utilize investment-oriented software.
9. Understand how a Christian investment manager's approach to his/her responsibilities will be influenced by biblical principles.

III. TOPICS TO BE COVERED

- A. The Investment Setting
 1. Why Invest?
 2. Key Issues in Investing
 3. The Financial Environment
 4. Investment Strategies
 5. Ethics and Job Opportunities in Investments
- B. Return and Risk Basics
 1. An Example of Return and Risk
 2. Types of Return
 3. Measures of Historical Rates of Return
 4. Defining Risk
 5. Measuring Risk
 6. Determinants of Required Rates of Return
- C. An Introduction to Valuation
 1. What Determines the Value of an Asset?
 2. The Valuation Process
 3. Why a Three-Step Valuation Process?
 4. Review of the Components of Valuation
 5. Discounted Cash Flow Valuation Techniques
 6. Relative Valuation Techniques
 7. Estimating the Inputs: The Required Rate of Return and the Expected Growth Rate of Valuation Variables
- D. Economic and Industry Analysis
 1. Relating Economic Analysis to Efficient Markets
 2. Generic Approaches to Security Analysis
 3. A Quick Review of Economic Concepts
 4. Influences on the Economy and Security Markets
 5. Some Forecasting Tools
 6. Risks in Economic Forecasting
 7. Expectational Analysis
 8. Industry Analysis
 9. Links between the Economy and Industry Sectors
 10. Structural Influences on the Economy and Industries
 11. Competitive Structure of an Industry
 12. Industry Life-Cycle Analysis
 13. Sources of Industry Information
- E. Analysis of Financial Statements
 1. Major Financial Statements
 2. Computation of Financial Ratios
 3. Evaluating Internal Liquidity
 4. Evaluating Operating Performance
 5. Risk Analysis

6. Analysis of Growth Potential
7. Comparative Analysis of Ratios
8. Analysis of Non-U.S. Financial Statements
9. The Quality of Financial Statements
10. The Value of Financial Statement Analysis
11. Specific Uses of Financial Ratios
- F. Company Analysis and Stock Valuation
 1. Company Analysis versus the Valuation and Selection of Stock
 2. The Search for True Growth Stocks
 3. Economic, Industry, and Structural Links to Company Analysis
 4. Company Analysis
 5. Estimating Intrinsic Value for Walgreens
 6. Specific Valuating with the P/E Ratio
 7. Making the Investment Decision
 8. Influences on Analysts
- G. Technical Analysis
 1. Underlying Assumptions of Technical Analysis
 2. Advantages of Technical Analysis
 3. Challenges to Technical Analysis
 4. Technical Trading Rules and Indicators
 5. Technical Analysis of Foreign Markets
 6. Technical Analysis of Bond Markets
- H. Evaluation of Portfolio Management
 1. Composite Measures of Portfolio Performance
 2. Benchmark Portfolios
 3. Determining Reasons for Superior (or Inferior) Performance
 4. Evaluating Bond Portfolio Performance
- I. Mutual Funds and Other Managed Investments
 1. What is a Mutual Fund?
 2. The Prospectus
 3. Other Sources of Information about Mutual Funds
 4. Performance of Investment Companies
 5. A Review of Other Managed Investments
- J. Investment Policy Statements and Asset Allocation Issues
 1. Managing Risk
 2. Individual Investor Life Cycle
 3. The Portfolio Management Process
 4. The Need for a Policy Statement
 5. Input to the Policy Statement
 6. Constructing the Policy Statement
 7. The Importance of Asset Allocation
 8. Asset Allocation and Cultural Differences
- K. Organization and Functioning of Securities Markets
 1. What is a Market?
 2. Primary Capital Markets
 3. Secondary Financial Markets
 4. Classification of U.S. Secondary Equity Markets
 5. Detailed Analysis of Exchange Markets
- L. Security-Market Indexes
 1. Use of Security-Market Indexes
 2. Differentiating Factors in Constructing Market Indexes

3. Stock-Market Indexes
4. Bond-Market Indexes
5. Composite Stock-Bond Indexes
6. Comparison of Indexes over Time
- M. An Introduction to Portfolio Management
 1. Some Background Assumptions
 2. Markowitz Portfolio Theory
- N. An Introduction to Asset Pricing Models
 1. Capital Market Theory: An Overview
 2. The Capital Asset Pricing Model (CAPM): Expected Return and Risk
 3. Multifactor Models of Risk and Return
- K. Efficient Capital Markets
 1. Why Should Capital Markets be Efficient?
 2. Efficient Market Subhypotheses
 3. Tests and Results of Efficient Market Hypotheses
 4. Behavioral Finance
 5. Implications of Efficient Capital Markets
- L. Analysis of Fixed-Income Securities
 1. The Fundamentals of Bond Valuation
 2. Computing Bond Yields
 3. Calculating Future Bond Prices
 4. What Determines Interest Rates?
 5. What Determines the Price Volatility of Bonds?
- M. An Introduction to Derivative Securities
 1. Why Do Derivatives Exist?
 2. Forward Contracts
 3. Futures Contracts
 4. Options
 5. Put/Call Parity

IV. INSTRUCTIONAL PROCEDURES

- A. Lectures
- B. Quizzes
- C. Class Discussion
- D. Case Examples (Excel-based)
- E. Homework Assignments
- F. In-class Practice Exercises

V. RESPONSIBILITIES OF THE STUDENT:

- A. Read assigned materials and prepare for quizzes
- B. Solve assigned problems from chapters and Spreadsheet Exercises
- C. Complete course projects (portfolio monitoring and assessment, industry analysis, ethics)

VI. EVALUATION

A. Grading components and scale

The various course assignments will count in the following percentages toward the final course grade:

Examinations (3)	50.0%	300 points
Portfolio & Course projects	25.0%	150 points
Excel	16.7%	100 points
Quizzes	8.3%	50 points
→ 600 total points		

Grades will be based on the following scale:

<u>Percentages:</u>	<u>Grade:</u>	<u>Minimum Points Required:</u>
92-100	A	552
90-91	A-	540
87-89	B+	522
83-86	B	498
80-82	B-	480
77-79	C+	462
73-76	C	438
70-72	C-	420
67-69	D+	402
63-66	D	378
60-62	D-	360
Less than 60	F	-----

B. Grade release policy

Grades will not be released to any person other than the student, nor will grades be released over any communication device. Furthermore, grades will not be shared with students except when assignments and exams are returned to the class.

A. **Examinations 50.0%:** Three examinations, including the final exam, will be given during the semester, and these must be taken at the announced times. Examinations not taken at designated times will receive a score of 0 unless the student pre-notifies the instructor of the reason for absence and gets instructor approval for that miss. If student gets instructor pre-approval, the following policy is implemented: No make-up exam will be given; rather, the other exams will count extra to compensate. Any student missing two exams will be asked to drop the course or receive a 0 for one of those exams, regardless of the reasons for the misses. Again, if the student is unable to take the scheduled exam s/he must notify the instructor **prior** to the test date and get the instructor's approval.

B. **Portfolio & Course Projects 25.0%:** Application of tools, techniques, and concepts learned in the classroom is crucial. Therefore, the student must select and analyze stocks for assembling a portfolio and conduct a portfolio analysis as part of a group. Each student will receive an individual grade which will not necessarily be the same as the group grade (adjustments are made based on peer evaluations). All group papers must be mathematically

and grammatically correct, correctly documented according to APA or another standard format, properly typed and formatted and professional in appearance (neatness counts!). You may follow the APA, Chicago, or MLA style writing manual.

IT IS ASSUMED THAT STUDENTS WILL MAINTAIN AN ELECTRONIC COPY OF ALL PROJECTS AND PORTFOLIO EVALUATION PRESENTATION SLIDES.

- C. **Excel 16.7%:** Items included in consideration are values and formulas correctly done in Excel for the assigned problems.
- D. **Quizzes 8.3%:** May be over material assigned but not yet covered, or over material already covered.

VII. ATTENDANCE POLICY

Class attendance will be extremely important. A student coming to class more than 10 minutes late or leaving more than 10 minutes early will be considered absent. Coming in after roll is called and before 10 minutes late counts as ½ absence, but since roll will already have been called, *you must check with me at the end of that class* to ensure you are not counted absent. More than five absences may result in a one-letter grade reduction in the course grade; any student missing more than eight classes will not receive credit for this course.

VIII. OFFICE INFORMATION

- A. Office Hours: Mon/Wed/Fri: 1 p.m. – 2 p.m.; MF 11 a.m.-12 pm;
MW 3:00-4:00 pm
TT by appointment.
- B. Location: Mitchell Hall, 200A (second floor).
- C. Telephone: Office: 330-471-8190 (leave voice mail if no answer)
- Email: jzietlow@malone.edu and jzietlow@aol.com
- Web pages: Online Syllabus, Course Schedule, Handouts, and Homework Check Figures:
<http://www.johnzietlow.com> (then scroll down to Spring 2010 and click on Investments)
Homework Complete Solutions: Course Share R drive (if off campus, use Remote Access).

IX. READING/MATERIALS LIST

- A. Required –Textbook and Financial Calculator
- B. Supplemental Bibliography
TBA.

X. 504 STATEMENT:

Malone University is committed to the provision of reasonable accommodations for students with disabilities, as defined in Section 504 of the Rehabilitation Act of 1973. If you believe you may qualify for these accommodations, notify your instructor immediately.

XI. ACADEMIC INTEGRITY:

As a Christian community of scholarship, we at Malone University are committed to the principles of truth and honesty in the academic endeavor. As faculty and students in this Christian community, we are called to present our academic work as an honest reflection of our abilities; we do not need to defraud members of the community by presenting others' work as our own. Therefore, academic dishonesty is handled with serious consequences for two fundamental reasons: it is stealing – taking something that is not ours; it is also lying – pretending to be something it is not. In a Christian community, such pretense is not only unnecessary, but it is also harmful to the individual and community as a whole. Cheating should have no place at a campus where Christ is king because God desires us to be truthful with each other concerning our academic abilities. Only with a truthful presentation of our knowledge can there be an honest evaluation of our abilities. To such integrity, we as a Christian academic community are called. Any papers or projects may be turned into www.turnitin.com for plagiarism checking. *(Source: modified from the Lee University Academic Integrity Policy)*

“Inasmuch as electronic devices pose a serious risk to academic integrity, and because mobile phones are disruptive to the learning environment, the instructor reserves the right to control the use of all electronic devices in class (phones, pda’s, calculators, etc.). Students are not permitted to use mobile phones, pda’s or other devices for sending/receiving calls and/or text messages during class. Students are asked to switch all such devices to “off” at the beginning of each exam period. Under no circumstances will students turn on electronic devices or keep them on during tests or quizzes. Students who send/receive text messages during an exam, engage in any kind of communications activity which threaten the integrity of the test environment, or photograph on electronic devices test materials or other materials the instructor deems inappropriate for copy are subject to failure in the course at the discretion of the instructor.” *(Source: modified from the Southwestern Assemblies of God University Policy)*

Note: Unless otherwise specified, all assignments are to be done individually. All exams and quizzes are closed book, closed notes.