

**FIN 4504**  
**Principles of Investments**  
Section 920 Summer 2009

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Course web site can be accessed through <http://my.usf.edu>

Office Hours:

***By Appointment and***

Monday: 3:30pm to 5:30pm

**Class Meetings:** Mondays 6:00pm to 8:00pm in CIS 2084

**Course Description**

This course introduces you to security analysis and portfolio management techniques. As a professional, you will decide in which markets to invest and at what prices. For optimal decision-making, you need to know the mechanisms and forums whereby supply and demand interact, and you must understand the range of available investment opportunities. You also must grasp the nature of risk, randomness and reward, and the ways in which modern finance measures them. The specifics of asset pricing, firm valuation, and market mechanisms can and will change in the future. This course is focused on providing you a general background in the principals of investments – knowledge that can be useful a lifetime even if the details of how to trade or how to value a firm change. By the end, you will have a framework to use as is or to continue to study finance at advanced levels.

**What We Will Cover: Is this Course Right for You?**

Much of the material that we will cover is at the center of the work underlying three Nobel prizes that financial economists have received: Markowitz's portfolio selection theory, Sharpe and Lintner's Capital Asset Pricing Model and Black and Scholes' and Merton's Option Pricing Model. You need the ability to concentrate on intellectually demanding concepts for an extended period of time to succeed in this class. The course is designed to build on your base from FIN 3403, as well as your accounting and macro- and micro-economics classes, and to advance you toward the goal of beginning a career or winning a place in an excellent graduate school. This is *not* the right course to start learning finance.

**Course Resources**

**Required**

Subscription to Stock Track ([www.stocktrack.com](http://www.stocktrack.com)) – Details and account numbers provided in class

**Strongly Recommended**

Textbook: *Essentials of Investments* by Bodie, Kane and Marcus, 7<sup>th</sup> Ed., Irwin-McGraw Hill Publishers (note: there is a cheaper custom version available through the USF bookstore)

***A business calculator***

## Recommended

Newspapers: *Wall Street Journal*. Many articles relevant to this course will appear in the WSJ on a regular basis and it is at the instructor's discretion as to when we will discuss, so please keep up. [Disclosure: (1) WSJ gives me a free subscription if enough of you sign up and (2) my wife is employed by Dow Jones, the parent company of the Wall Street Journal.]

Handouts: Any handouts that are given in class are considered important and testable material.

## Blackboard

A course website is available through Blackboard (<http://my.usf.edu>). Please check the course website regularly for updates. Reading, assignments and other announcements will be posted to the course website.

## Grades

Final grades for the course will be determined out of 1000 points:

Test 1, June 8	375 points
Test 2, July 6	375 points
<u>&lt;Optional Final Exam July 13th (replaces lowest of 1 &amp; 2) 375 points&gt;</u>	
Total	750 points

### **Excel Homework (to be posted on Blackboard):**

*Due June 1st, June 29 (50, 100 points)* 150 points

Stock Trak (10 each) 100 points

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Total 1000 points

## Reasonable Curve Policy

There MAY be a curve for this class, BUT the curve will never work against you. The curve will not be any more stringent than: A+  $\geq$  95%, A  $\geq$  90%, A-  $\geq$  87.5%, B+  $\geq$  85%, B  $\geq$  80%, B-  $\geq$  77.5%, C+  $\geq$  75%, C  $\geq$  70%, C-  $\geq$  67.5%, D  $\geq$  57.5%, F < 57.5. These are guaranteed maximum cut-offs for each grade - except in order to earn an A+, you must earn 950 points in the class without counting any extra credit that might be offered.

Students who enter USF under the 2001-2002, or later, catalog are required to earn a grade of C-, or better, in every core class and an overall GPA of 2.0 for all undergraduate core classes.

## Examinations

There will be two tests (375 points each) plus a comprehensive final exam. All exams are closed book, closed notes. You are **strongly encouraged** to bring a pocket calculator (financial or scientific) and a one-page SINGLE SIDED formula sheet to each exam. The formula sheet may ONLY contain formulas – it may not include notes or sample problems. **You are required to turn in your formula sheet with each exam.** If you include anything other than formulas (for instance, example problems) 50 points will be deducted from your grade plus you will lose all the points from any problems on the test that the additional material or example problem might have assisted you in answering.

*Make up exams:* There are no make up exams. If you miss an exam or do poorly on an exam you may take the comprehensive final exam. There is one exception to this rule: **If you have a major religious holiday please notify me of conflicts by May 13, 2009 by e-mail.\*** Make up exams for these preplanned absences (of which the professor is notified by May 13, 2009) are always scheduled **before** the regular exam date and time.

### **Excel Projects**

Details for these assignments will be discussed in class and available through the my.usf.edu website. Please turn in 2 paper copies of your assignment: (1) One, attractively formatted with the numbers displayed and the (2) second with formulas displayed (CTRL + ` (grave accent)). Excel assignments are due at the start of class on the due date above. 10 (1st assign.) or 20 (2nd assign.) points are deducted from assignments which are late but turned in within 24 hours of the due time. Assignments more than 24 hours late receive a zero. Each assignment is worth 50 or 100 points and is graded on a scale of: perfect pass (50/100 points), strong pass (45/90 points), pass (40/85 points), weak pass (35/80 points), attempted (25/50 points) and fail (0 points).

### **Stock Track**

Throughout the semester you will be given assignments (most worth 10 points, some more) to trade stocks, bonds, mutual funds, exchange trade funds, options, etc., create portfolios of these assets, and to track their performance. Sometimes these assignments will require you to turn in work justifying your choices. Late assignments have the grade reduced by 5 points.

### **Back of Chapter Problems (see Topics – below)**

These back of chapter problems are not turned in, but at least 25 percent of exams will be taken either directly or very slightly modified from these back of chapter questions (listed under “Topics” below). You may find these back of chapter questions too long to handle alone; the best way to proceed is to work in groups and consult the solutions manual.

### **Class Participation and Attendance**

Class participation may factor into grading positively in the event that a student is on the border between grades. In similar fashion, breaches of classroom etiquette could negatively impact a student on a border; repeated tardiness or other disruptive behavior is not acceptable. While attendance at class meetings is not mandatory, it is highly recommended. Material covered in those meetings is testable. You are also responsible for all announcements made in class; **check with a colleague if you should be absent**. Class will involve working through problems. Thus, you will find it helpful to have a calculator in class.

### **Appeal Policy**

Grading errors should be corrected. Appeals must be made in writing within one week of the date the graded material is first made generally available. The appeal must describe what needs to be reexamined and why the original grade was incorrect. In general, however, the entire document will be checked for grading errors, and correcting these could either raise or lower the overall score.

### **Academic Integrity**

Academic misconduct will result in a failing grade for the exam or assignment in question and will trigger university-mandated procedures in accordance with the student Academic Dishonesty Policy (<http://www.ugs.usf.edu/pdf/cat0809/08acapol.pdf> starting pg. 46). Academic misconduct includes, but is not limited to, giving or receiving information during an exam, submitting plagiarized work for academic requirements, or submitting altered work for appeals.

## **In class lectures/meetings and on-line lectures**

Class meetings and the on-line lecture slides are solely for the use of students who are registered in the class. Copies and notes from the class and on-line lectures may not be sold to anyone, whether registered in the class or not, or redistributed to individuals not registered for the class without the express written consent of the instructor.

## **Topics**

### A. Course overview, market basics, and portfolio theory – Test 1

- Course overview (Why, what, who, where, and how?)
  - ✓ Read Chapter 1 – *Pr: 1, 2, 7, 11, 13, 14, 16*
- What? (A Survey of Financial Instruments)
  - ✓ Read Chapter 2 – *Pr: 1-4, 6-11, 13*
- Firm Valuation Lite: Bonds
  - ✓ Read Chapter 10 – *Pr: 1-5, 8-10, 12, 14-17, 24, 26, 35, 37*
- Where and How? (Trading Securities; plus Margin and Short Sales)
  - ✓ Read Chapter 3 – *Pr: 1-4, 6-10, 13, 16, 17, 20-22*
- Why? (Measuring Risk and Return)
  - ✓ Read Chapter 5 – *Pr: 1-5, 9-13, 16, 18, 19-23, 25-27*

### B. Portfolio Theory - Test 1

- How to reduce risk? Diversification and its Implications
  - ✓ Read Chapter 6 – *Pr: 1, 2, 4, 6-10, 12, 14, 15, 17, 18, 19, 26*
- Diversification and Asset Pricing: CAPM and APT
  - ✓ Read Chapter 7 – *Pr: 1-6, 8-14, 16-20, 23, 24, 32-41*

### C. Applied Portfolio Theory and Efficient Markets - Test 2

- How to diversify? Mutual Funds
  - ✓ Read Chapter 4 – *Pr: 2-9, 13, 14, 17, 19, 20*
- Can We Beat the Market? The Efficient Market Hypothesis and Behavior Finance
  - ✓ Read Chapter 8 – *Pr: 1-7, 11, 14, 16, 17, 20*
  - ✓ Read Chapter 9 – *Pr: 1 and 4*

### D. Managing Bond Portfolios – Test 2

- ✓ Read Chapter 11 – *Pr: 1, 2, 7, 9, 11, 24*

### E. Valuing the Firm – Test 2

- Macroeconomic and Industry Analysis
  - ✓ Read Chapter 12 – *Pr: 2, 3, 8*
- Methods of Firm Valuation
  - ✓ Read Chapter 13 – *Pr: 1-6, 8, 9*

### F. Options and Efficient Markets - Test 2

- Option Markets
  - ✓ Read Chapter 15 – *Pr: 1, 3, 5, 8, 13*
- Option Valuation
  - ✓ Read Chapter 16 – *Pr: 2*
- Note on Futures (slides only – no assigned reading)