

Syllabus

FIN 377.1 “Portfolio Analysis and Management”

Spring 2012

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Course Information:

location: UTC 1.132
time: TuTh 2:00pm - 3:30pm (03195), TuTh 3:30pm - 5:00pm (03200)

Assistants:

Ben: miao.zhang@phd.mcombs.utexas.edu
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office hours: M 5:10pm-6:10pm, Tu 12:40pm-1:40pm

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1 Course Overview

1.1 Objective

This course builds upon FIN367, Investment Theory. FIN377.1, *Portfolio Management and Portfolio Management*, focuses on the investment decision making from the perspective of

the portfolio manager. Topics covered include the process of creating, maintaining, and evaluating the performance of professional investment portfolios. The course is designed for upper-level finance majors to provide them with advanced skills in equity and fixed-income portfolio construction and management, asset allocation, as well as cover advanced topic such as professional asset management, and alternative investments.

The course is taught as a combination of lecture and hands-on-learning. Students take an active role in the class via presentations, discussions, and group projects that simulate the real world decision making of professional portfolio managers and individual investors.

1.2 What I expect from you

- I expect you to be very familiar with the material covered in Investment Theory. FIN377.1. I will review some of the concepts in Investment Theory, in class, but I will assume that you are comfortable with the material.
- I expect you to do the required readings before each class in order to be able to follow the lecture. I include a number of optional readings for those interested in going beyond what is covered in class. I will assign them to specific lectures as we go.
- I will distribute hard copies of lecture notes before class. I will also make available lecture notes after lecture on Blackboard.
- I expect students to abide by the [UT Honor Code](#). Academic dishonesty will not be tolerated and will be immediately referred to the Student Judicial Services (In other words, any academic dishonesty case will be dealt with “[Option A](#)”). For details about UT’s standard of conduct, please follow this [link](#).
- Consistent with the policy of the Department of Finance, the use of computers and other electronic devices in class is generally prohibited.

1.3 What you need

- Blackboard access
- Textbook: Reilly & Brown, “Investment Analysis & Portfolio Management”, Cengage Learning. Editors tends to ‘update’ their textbooks every year. In my view, this is somewhat unnecessary. Any one of the last few editions should be sufficient. If you use an older version, you will be responsible to compare it to the latest edition and make sure that all material covered is included.

1.4 Students with disabilities

The Provost Office offers the following statement to help inform students of available resources and to fulfill due diligence for Americans With Disabilities Act (ADA):

The University of Texas at Austin provides upon request appropriate academic accommodations for qualified students with disabilities. For more information, contact the [Office of the Dean of Students](#).

1.5 Religious holidays

By UT Austin policy, you must notify me of your pending absence at least fourteen days prior to the date of observance of a religious day. If you must miss an examination or a project presentation in order to observe a religious holiday, you will be given the opportunity to complete the missed work within a reasonable time after absence.

1.6 Grading

You can collect up to 100 points in this course as follows:

- First Exam (20 points).
- Second Exam (20 points).
- Third Exam (20 points).
- Group Project (20 points).
- Individual Project (10 points).
- Assignments (10 points).

1.6.1 Exams

- The three exams given during the semester will carry equal weight toward your final grade. The tests will involve a combination of questions designed to assess your problem-solving, analytical and interpretative (i.e., essay) skills.
- All exams will be closed-book, closed-note, electronic-free (except for calculator). You will need to bring to each exam the following items: writing instruments and financial calculator.
- It is expected that you will be present at the time and date for each of the examinations. No makeup examinations will be given without the prior consent of the instructor. Such consent will only be given for demonstrable conflicts and with the proper documentation.

1.6.2 Projects

- Students should form groups of four and submit these to me by the end of Jan 19th.
- The group project consists in the construction, marketing, and management of a institutional portfolio.
- The individual project consists in the design and implementation of an optimal investment strategy from an individual's point of view.
- Details about the two projects will be discussed in lecture on Jan 24th. As will become clear later, these two projects are interrelated.

1.6.3 Assignments

- There are two types of assignments: case-based and questions and problems from the textbook.
- Case-based assignments will be graded and should be handed in on the days they are assigned (see schedule). Deadline is until lectures starts. You may hand them to me at the beginning of lecture or leave them in Sophia's mailbox (CBA 3.222). You may work in groups of up to four students, and submit a single group report for each case. There are a total of four cases, and each will count equally towards your "Assignments" 10 points. I will make these four cases available in the Copy Room and announce it in the first couple of weeks.
- I strongly encourage you to work on the assigned problems and questions from the textbook, although they will not graded (**no need to turn them in**).

Suggested Readings

- [1] Elements of an investment policy statement for individual investors. *CFA Institute*.
- [2] Elements of an investment policy statement for institutional investors. *CFA Institute*.
- [3] Barras, L., O. Scaillet, and R. Wermers (2010, February). False discoveries in mutual fund performance: Measuring luck in estimated alphas. *The Journal of Finance* 55(4), 179–216.
- [4] Byrnes, N. (2010, dec). Are you a stock or a bond? *Reuters Money*.
- [5] Cassidy, J. (2007, July). Hedge clipping. *The New Yorker*.
- [6] Dybvig, P. H. (1988). Inefficient dynamic portfolio strategies or how to throw away a million dollars in the stock market. *The Review of Financial Studies* 1(1), 67–88.
- [7] Estrada, J. (2008). Black swans and market timing: how not to generate alpha. *Journal of Investing* 17(3).
- [8] Fuller, R. J. (1998). Behavioral finance and the sources of alpha. *Journal of Pension Plan Investing* 2(3), 291–293.
- [9] Ibbotson, R. G. (2010). The importance of asset allocation. *Journal of Financial Analysts* 66(2), 18–20.
- [10] Ibbotson, R. G. and P. D. Kaplan (2000). Does asset allocation policy explain 40, 90, or 100 percent of performance? *Financial Analysts Journal* 56(1), 26–33.
- [11] Jorion, P. (2003). The Long-Term risks of global stock markets. *Financial Management* 32(4), 5–26.
- [12] Khandani, A. and A. W. Lo (2007, November). What happened to the quants in august 2007? *SSRN eLibrary*.
- [13] Lee, C. M. C. and B. Swaminathan (1999, October). Valuing the dow: A Bottom-Up approach. *Financial Analysts Journal*, 4–23.
- [14] Leinwebber, D. (2007, February). Algo vs. algo. *Institutional Investor's Alpha*, 45–51.
- [15] Leland, H. E. (1996, December). Options and expectations. *Journal of Portfolio Management*.
- [16] Litterman, R. (1996, December). Hot spots and hedges. *Journal of Portfolio Management*, 52–75.
- [17] Lo, A. W. and P. N. Patel (2008). 130/30: The new Long-Only. *The Journal of Portfolio Management* (Winter), 186–211.

- [18] Maginn, J. L., D. L. Tuttle, D. W. McLeavey, and J. E. Pinto (Eds.) (2007, March). *Managing Investment Portfolios: A Dynamic Process* (3 ed.). Wiley.
- [19] Malkiel, B. G. (2011, January). *A Random Walk Down Wall Street: The Time-Tested Strategy for Successful Investing*. W. W. Norton & Company.
- [20] Sharpe, W. (1994). The sharpe ratio. *Journal of Portfolio Management*, 49–58.
- [21] Sharpe, W. F. (1992). Asset allocation. *The Journal of Portfolio Management* 18(2).
- [22] Siegel, J. J. (2007, November). *Stocks for the Long Run: The Definitive Guide to Financial Market Returns & Long Term Investment Strategies, 4th Edition* (4 ed.). McGraw-Hill.
- [23] Stewart, S., C. Piros, and J. Heisler (2010, January). *Running Money: Professional Portfolio Management* (1 ed.). McGraw-Hill/Irwin.
- [24] Wermers, R. (2000). Mutual fund performance: An empirical decomposition into stock-picking talent, style, transactions costs, and expenses. *The Journal of Finance* 55(4).

Semester Schedule for FIN 377.1, Spring 2012
(subject to adjustments)

Meeting Date	Topic	Readings*	Assignments*	
Part 1: Portfolio Construction				
1	Jan 17	Asset Allocation and Investment Policy	Ch.2 (pp.33-55), [10], [9], [4]	Q2.1, Q2.6, Q2.9, P2.5
2	Jan 19	Review of Risk and Return Risk and Diversification	Ch.1 (pp.3-26), App.1A Ch.7 (pp.181-197)	Q1.11, P1.5 Q7.3, Q7.6, P7.5 P7.6, P7.7
3	Jan 24	Mean Variance Optimization	Ch.7 (pp.198-201) [16]	Q7.11, Q7.12, Q7.13, Q7.14 P7.6, P7.7
4	Jan 31	Security Valuation part A	Ch.11 (pp.327-347)	Q11.4, Q11.5, P11.1
5	Feb 2	Security Valuation part B	Ch.11 (pp.347-360)	Q11.13, P11.9, P11.14, P11.15
6	Feb 7	Review of Asset Pricing Models	Ch.8 (pp. 207-225, 232-234) Ch.9 (pp. 241-245, 250-261)	Q8.2, P8.5, P8.7, P8.8, Q9.5, P9.2, P9.6, P9.7, Harbor Capital Case**
7	Feb 7 (5:00PM)	Lecture at the FTTC Center (rescheduled due to UTC power outage)		
8	Feb 9	Review of Fixed-Income Theory part A	Ch.18 (pp.623-632, 633-650)	Q18.1, Q18.5, Q18.6, P18.2, P18.10
9	Feb 14	Review of Fixed-Income Theory part B	Ch.18 (pp.623-632, 633-650)	Q18.1, Q18.5, Q18.6, P18.2, P18.10
10	Feb 16	Group Presentations		
11	Feb 21	Group Presentations		
12	Feb 23	First Exam		

*Chapters are from Reilly & Brown, 10th edition, unless otherwise stated. Numerical reference indicates article in "Suggested Readings" list.

**Hand-in assignment

Semester Schedule for FIN 377.1, Spring 2012 (cont'd.)
(subject to adjustments)

Meeting Date	Topic	Readings*	Assignments*	
Part 2: Portfolio Management				
13	Feb 28	Alphas or Betas?	Ch.6 (pp.147-177)	Q6.20, Q6.24, P6.1, P6.2, P6.3
14	Mar 1	Traditional Asset Management	Ch.24 (pp.911-929, 946-950)	Q24.1, Q24.2, Q24.3
15	Mar 6	Equity Portfolio Mgmt Strategies part A	Ch.16 (pp.549-572)	Q16.1, Q16.2, Q16.5, Q16.8, P16.4
16	Mar 8	Equity Portfolio Mgmt Strategies part B	Ch.16 (pp.573-583)	Q16.9, Q16.10, Q16.11, P16.7, P16.8 Maverick Capital Case**
17	Mar 20	Fixed-Income Portfolio Mgmt Strategies part A	Ch.19 (pp. 691-697, 713-724), App.19	Q19.1, Q19.8, P19.7
18	Mar 22	Fixed-Income Portfolio Mgmt Strategies part B	Ch.19 (pp. 697-729)	P19.1, P19.2, P19.3, P19.4, P19.5 Greydanus Case**
19	Mar 27	Guest Speaker (tentative date)		
20	Mar 29	Second Exam		

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**Hand-in assignment

Semester Schedule for FIN 377.1, Spring 2012 (cont'd.)
(subject to adjustments)

Meeting Date	Topic	Readings*	Assignments*	
Part 3: Advanced Topics				
21	Apr 3	Use of Derivatives in Portfolio Mgmt part A	Ch.20 (pp.767-773), Ch.22 (pp.850-861)	P20.1, P20.2, P20.3, P20.7a, P22.10, P22.11
22	Apr 5	Use of Derivatives in Portfolio Mgmt part B	Ch.23 (pp. 868-875, 885-890, 892-894)	Q23.7, Q23.9, P23.6, P23.9
23	Apr 10	Performance Measurement part A	Ch.25 (pp.959-978)	Q25.3, P25.1, P25.2, P25.3
24	Apr 12	Performance Measurement part B	Ch.25 (pp.980-993)	Q25.4, Q25.5, Q25.7, Q25.8, P25.4, P25.6, P25.7, P25.8
25	Apr 17	Guest Speaker (tentative date)		
26	Apr 19	Group Presentations		
27	Apr 24	Group Presentations		
28	Apr 26	Alternative Investments	Ch.24 (pp. 929-945)	Q24.8, P24.4, P24.6 Yale Case**
29	May 1	Use of swaps and Review for Exam	Ch.23 (pp.879-883)	P23.5
31	May 3	Third Exam		

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**Hand-in assignment