

Syllabus for FINA 522

Equity Investment Management

Fall 2009
Version: **02-Sep-2009**



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Homepage: This course uses my personal homepage: www.seasholes.com
Hit the "FINA 522" button on the left-hand side.
If you are looking for handouts (materials), please check this website

Classrooms: L1: Cliftons Limited, 33/F, 9 Queens Road Central, MTR "Central" Exit K
L2: HKUST, Room 3007 (near Lifts 3 & 4)

Class Times: L1: Thursdays 7:00pm - 10:20pm
L2: Saturdays 9:00am - 12:20pm

Please note special class times on Thursday 01-Oct-2009 and Sunday 20-Sep-2009

Overview: This course covers major theoretical and empirical topics in the field of equity investment management. Each week, we cover one of seven different topics:

1. CAPM, Fama-French factors, momentum factor
2. Currencies, cross-border investments
3. Performance evaluation and style analysis
4. Liquidity
5. Value investing
6. Alternative asset classes and portable alpha
7. Pension funds

The final class meeting consists of an exam that is MANDATORY for all students. Course work is based on recently written cases and current research. Topics like liquidity are motivated by events such as the liquidity melt-down during the Fall of 2007. This is a "hands-on" course that requires students to analyze data and participate in class discussions.

OBE: When reading this syllabus, please note that “OBE” refers to outcome based education. By focusing on six topics, we hope this course ensures students have an in-depth grasp of six (key) areas in finance. We hope all assignments help students develop critical thinking and creative decision making skills.

Text:

- Readings in this course consist of case studies and relevant articles. This material has been compiled for you in a course packet that contains:

- 6 HBS cases
- 1 INSEAD case (weblink provided)
- 1 Kellogg case
- 2 Journal articles
- 1 Magazine article

Materials will be handed out to registered students (only) during the first class meeting. Students who miss the first class may pick up the materials from the MSc Program Office, Room 2331, during normal office hours.

Also Needed:

- A financial calculator—please bring it to every class. You will also need the calculator for the weekly assignments and the final exam. If you are purchasing a new financial calculator, the instructor plans to use the HP 12C.
- Access to a computer with Microsoft Excel (or comparable spreadsheet program) to complete many of the weekly assignments.

Optional Texts: For students who like to see the same material presented in other forms:

- Investments, 8th Edition—International Edition, by Bodie, Kane, and Marcus
Published by McGraw-Hill Irwin, © 2009.

or

- Investment Analysis and Portfolio Management, 8th Edition—International Student Edition, by Reilly and Brown, Published by Thomson South-Western, 2006.

We assume most of the material in Reilly and Brown and in Bodie, Kane, and Marcus has been covered in previous courses. From time to time, students may want to review one of these books and do some background reading. Therefore, we have provided pages numbers for background reading. Bodie, Kane, and Marcus is a popular book that is helpful when studying for the CFA exam. We hear that Reilly and Brown has been used in an earlier MSc course.

Other reference books include:

- Principals of Corporate Finance, 8th Edition, by Brealey, Myers, and Allen
Published by McGraw-Hill Irwin, 2006.
- Corporate Finance, 7th Edition, by Ross, Westerfield, and Jaffe, McGraw-Hill Irwin, 2005.
Sold as Modern Financial Management, 8th Edition, Ross, Westerfield, Jaffee, Jordan, 2008.

For students who like bedtime reading:

- A Random Walk Down Wall Street, 8th Edition, by Burton Gordon Malkiel, W.W. Norton & Company; Paperback - June 2004 (paperback).
- Capital Ideas, The Improbable Origins of Modern Wall Street, by Peter L. Bernstein, Wiley, 2005.

Grades: Class grades are based on three items: class participation, weekly assignments, and a final exam. The weight of the final exam is normal for HKUST and our program. All items are required to pass the course.

i. Class participation	10.0 %
ii. Weekly assignments	35.0
iii. Final exam	55.0
Total	100.0 %

Assignments: Each week, starting in Week #1, each student should turn in an answer sheet. The assignments will be marked on a zero-to-ten scale. Missing, blank, or incomplete assignments will receive a grade of zero. A hard copy of each answer sheet should be turned-in at the start of each class. No late assignments please. Also, email versions cannot be accepted for logistical reasons. Ask your buddy to turn in your assignment for you if you cannot attend class. There are seven assignments in total. Students who miss two or more assignments will not pass the class (i.e., a student may miss one assignment and still pass the class.)

Readings: **You are responsible for all material covered in class**, including assigned readings and exercises. Each class is associated with a case study that will serve as the basis of some discussion. For students needing background material, the syllabus provides suggested readings from two textbooks: 1) Investments by Bodie, Kane, and Marcus and 2) Investment Analysis and Portfolio Management by Reilly and Brown.

Final exam: {Please excuse me, but this policy is not negotiable} As a strict rule, there are no “make-up” final exams. It is your responsibility to schedule the rest of your activities such that you are able to attend the final exam. The final exam in this class is scheduled to take place on Sunday 25-Oct-2009 from **2:00pm to 5:00pm** in Room 3211. All students should plan to take the exam at this time. The weight of the final exam (55%) is normal for courses at HKUST.

Cases: {The following policy adopted at most top business schools} In the past, students have asked for handouts of the “correct” case analysis after the class has discussed a case. I will not provide such answers for two reasons. First, the best cases are deliberately written to be ambiguous. While there are no right answers, there are good and bad arguments. Handing out my analysis would reduce the ambiguity in the cases and partially defeat the purpose of doing cases. Second, when case analyses are handed out, these answers will eventually reach future students taking the class with probability one. This seriously impedes an open and rewarding case discussion and imposes huge negative externalities both on myself as well as on other people teaching these cases.

Name Cards: Students are asked to pick up name cards at the beginning of each class, display them, and return them at the end of the class. The TA uses the name card to help mark class participation. Students should plan to attend the lecture they are officially registered for. If seats are limited, they will be allocated to those students who are official registered for the section.

Honor Code: This course strictly follows the HKUST Academic Honor Code. For students who are not familiar with the honor code, please see the following websites:

- <http://www.ust.hk/vpao/integrity/honor.html>
- <http://www.ust.hk/vpao/integrity/student-3.html>

Class Topics and Assignments

All Assignments are Due by the Start of Class on the Day Indicated

Thurs	03-Sep-2009	1 st Half:	Introduction to Equity Investment Management Review the role of financial markets CAPM, Fama-French three factor model	(Class #01)
Sat	05-Sep-2009	Readings:	We will review the following case in class The case will be handed out at the start of class Investment Policy at Hewlett Foundations (2005) HBS Case 205-126	
		Background:	Bodie, Kane, and Marcus Chapters 10 and 13 Understand APT example on p. 335 or Reilly and Brown Chapter 9 Understand example on p. 287	
		Prepare:	Pre-class questions and stock return data	
		Turn-In:	Turn in the pre-class answer sheet by the <u>start of class</u> The answer sheet should be three, <u>stapled</u> pages	

		2 nd Half:	Class expectations, syllabus, grading Introduction to foreign exchange markets Overseas investing	
Thurs	10-Sep-2009	1 st Half:	Currencies and cross-border investments Hedged returns Expected returns vs. promised returns	(Class #02)
Sat	12-Sep-2009	Readings:	Foreign Exchange Markets and Transactions HBS Case 205-016	
		Background:	Bodie, Kane, and Marcus Chapter 25 or Reilly and Brown Chapter 3	
		Prepare:	Answer questions in the “Foreign Exchange Markets” case Download international return data and associated questions	
		Turn-In:	Class #02 answer sheet	

		2 nd Half:	Performance evaluation Jensen’s alpha, three-factor alpha, Sharpe ratio, M2 Alternative performance measures	

Thurs 17-Sep-2009
Sat 19-Sep-2009

1st Half: Mutual funds and performance evaluation (Class #03)

Readings: Morningstar Inc.
HBS Case 298-140

Measuring Mutual Fund Performance
HBS Case 298-139

Starstruck, Forbes Article 12-Dec-2005

Background: Bodie, Kane, and Marcus Ch. 24
or
Reilly and Brown Chapter 25

Prepare: Questions about mutual fund performance
Download mutual fund data

Turn-In: Class #03 answer sheet

2nd Half: Introduction to liquidity
Liquidity measures
The 2008 financial crisis and liquidity risk

Sun 20-Sep-2009
JOINT CLASS *

* This class time and location have changed
Held in Lecture Theatre E (LTE) from 10:00am to 1:30pm
LTE is near Lift 22

1st Half: Liquidity (Class #04)
The liquidity crunch of 2008

Readings: The Nikkei 225 Reconstitution
HBS Case 207-109

Market Maker Inventories and Stock Prices
Hendershott and Seasholes (2007)

Background: Bodie, Kane, and Marcus pp. 305-310

Prepare: Download Class #04 questions

Turn-In: Class #04 answer sheet

2nd Half: Introduction to value investing

Readings: T.B.A. please see the website

Thurs 01-Oct-2009**
Sat 03-Oct-2009

** Thursday's class time has been moved to the morning due to the public holiday. The class still meets at Cliftons but the time is now 9:30am to 1:00pm.

1st Half: Value investing (Class #05)
What do value funds do?

Readings: Extraordinary Value Partners, LLC
Kellogg Case KEL325

Background: T.B.A. please see the class website

Prepare: Download data and questions related to case
and
Choose one stock listed on the Hong Kong Stock Exchanges that you believe will outperform the market over the next three weeks

Turn-In: Class #05 answer sheet

2nd Half: Introduction to hedge funds

Readings: 20 Myths about Enhanced Active 120-20 Strategies
Jacobs and Levy (2007)

Thurs 08-Oct-2009
Sat 10-Oct-2009

1st Half: Active management (Class #06)
What do hedge funds do?

Readings: Aronson + Johnson + Ortiz (AJO)
INSEAD Case 04/2005 – 5258
Case available at link below, please print yourself
<http://www.hec.unil.ch/bdumas/courses/financialinvestments/Aronson-Johnson-Ortiz1.pdf>

20 Myths about Enhanced Active 120-20 Strategies
Jacobs and Levy (2007)

Background: Bodie, Kane, and Marcus Chapter 26
See pp. 907-909 for “portable alpha”
or

Reilly and Brown pp. 1016-1026

Prepare: Download Class #06 questions

OBE: Use information technology effectively

Turn-In: Class #05 answer sheet

2nd Half: Introductions to pension funds

Readings: T.B.A. please see the website

Thurs 15-Oct-2009
Sat * 17-Oct-2009

Saturday's class has a location change to Room 3211
Room 3211 is near Lift 19

1st Half: Pension funds and the total investment portfolio (Class #07)
What do pension funds do?

Readings: Pension Policy at The Boots Company PLC
HBS Case 903-105

Background: Bodie, Kane, and Marcus Chapter 28
or
Reilly and Brown p. 66

Prepare: Download questions

Turn-In: Class #07 answer sheet

2nd Half: Prepare for final exam
Please bring questions to class

Evaluations: Do online evaluations in class

Readings: None

Sun 25-Oct-2009
JOINT CLASS ***

Final Exam (Class #08)

*** The final exam is scheduled from 2:00 to 5:00pm in Room 3211
Room 3211 is near Lift 19