



INVESTMENT MANAGEMENT  
FINE - 441  
*COURSE OUTLINE - SUMMER 2010*

**INSTRUCTOR**

**CLASS SCHEDULE & TIMING**

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**CLASS ROOM:** BRONF 002

**TIME:** TUESDAY - 6:05 - 8:55 PM

THURSDAY - 6:05 - 8:55 PM

**OFFICE HOURS:** TUESDAY-10:00 - 12:00 PM

**COURSE DESCRIPTION**

This three-credit undergraduate course focuses on introductory financial theories and their real-world financial applications that are useful in investment decision-making process. Students will understand and examine, in depth, different financial instruments such as equity, fixed income and derivatives and their market pricing mechanisms. These pricing mechanisms include asset pricing models such as CAPM, arbitrage pricing theory and derivative pricing models. In addition, students will be introduced to modern portfolio theory and its practical applications. The overall objective of the course is to equip future financial investors with highly demanded theoretical as well as practical skills to manage financial portfolios effectively. The course focuses on hands-on implementation of modern asset pricing and portfolio management methodologies in order to optimize their financial portfolios. Emphasis will be on implementation of the acquired investment principles in Excel via home work assignments. Familiarity with Microsoft Excel is required.

This course is divided into five parts:

Part I - *Introduction to Financial Securities, Modern Portfolio theory and Practice*

Part II - *General Asset Pricing Models*

Part III - *Fixed-Income Pricing Models*

Part IV - *Derivative Pricing Models*

Part V - *Applied Portfolio Management*

**PREREQUISITE:** FINANCE I (MGCR- 341)

## REQUIRED READINGS

### Recommended Text

Investments, 6<sup>th</sup> Canadian Edition, by Bodie, Kane, Marcus, Perrakis and Ryan (henceforth "BKMPR")

OR

Investments, 8<sup>th</sup> Edition (U.S.), by Bodie, Kane and Marcus (henceforth "BKM")

**WebCT access:** WebCT is used in this course for lecture notes, assignments and other course resources. The lecture notes will be posted prior to each class. Students need computer / Internet access and must frequently visit the course site in WebCT.

### OTHER RESOURCES

You may want to use other resources to give you additional insights in the subjects and issues we cover.

*The Economist* is an excellent source of news and economic and financial topics with a strong international focus. Below are some very good web sites covering finance, investments and financial markets.

<http://finance.yahoo.com> : Good source for historical financial data.

<http://chart.yahoo.com/d>: Good sources for historical financial data.

<http://www.ft.com>: Good for news and weekly surveys on investments, banking, finance, etc.

<http://www.ftmarketwatch.com>: Web site from the Financial Times; more focused on finance and investments.

[The Wall Street Journal](#): Keep abreast of daily events.

<http://www.afajof.org>: Journal of Finance home page.

<http://nber.org>: National Bureau of Economic Research. Useful links to economics websites plus historical statistics.

<http://www.econ-datalinks.org>: Contains links to many useful data sources for economics and business.

<http://www.finweb.com>: Comprehensive set of links to many useful sites in finance.

<http://www.jpmorgan.com>: This is the J. P. Morgan site.

<http://www.ml.com>: This is Merrill Lynch's site.

<http://www.barra.com>: This web site contains historical monthly equity returns for a number of market indices.

<http://www.ibbotson.com> : The Ibbotson web page contains interesting research and excellent links to financial data.

<http://www.nyse.com>: Web site of the New York Stock Exchange.

<http://www.cbot.com>: Web site of the Chicago Board of Trade.

<http://www.cme.com>: Web site of the Chicago Mercantile Exchange.

<http://www.londonstockexchange.com>: Website of the London Stock Exchange, one of the leading international markets.

## COURSE EVALUATION

The course will be evaluated based on the criteria mentioned below:

| <u>COMPONENTS</u>                  | <u>WEIGHT IN FINAL GRADE (%)</u> |
|------------------------------------|----------------------------------|
| Class Attendance and Participation | 10                               |
| Assignments (2)                    | 20                               |
| Midterm Examination                | 30                               |
| Final Examination (Cumulative)     | 40                               |
|                                    | =====                            |
| <u>Total</u>                       | 100 %                            |

*Note:* The instructor reserves the right to modify/alter the above mentioned weights to adjust for the material covered during the semester. Student will be allowed to write examinations in French.

**Class Attendance and Participation (10%):** Class Attendance and Participation is an important part of evaluation process. Active participation during the class would ensure maximum learning for the students. Students are encouraged to read investment management journal and newspaper articles and ask applied questions during the class. Students are strongly suggested to ask questions and initiate creative and insightful discussions among fellow classmates.

Your active participation will transform this class into a great learning experience for everyone, including myself.

**Assignments (20%):** Reinforcing the practical application of the different investment strategies is an important course objective. Students are required to submit two assignments based on topics covered during the semester. Assignments are to be completed in groups up to three students. Late submissions will not be accepted.

**Midterm (30%):** A one and half-hour closed book in-class examination will be given approximately in seventh or eighth scheduled class in the semester. It would cover the material presented in the class up until that point. The examination would tentatively include multiple choice questions along with short type questions.

**Final Examination (40%):** A three-hour closed book cumulative exam will be held on August 19, 2010 in the Faculty of Management. The focus would be on the entire material covered in the class during the semester. The exam might include short and essay type questions along with few multiple choice questions. Students are expected to follow the examination code of conduct during the final exam prescribed by the University administration.

## INSTRUCTIONAL APPROACH

A combination of different instructional strategies will be employed to cover the material in class such as lectures, class discussions and problem-based learning.

## MCGILL POLICIES

*McGill University values academic integrity. Therefore, all students must understand the meaning and consequences of cheating, plagiarism and other academic offences under the code of student conduct and disciplinary procedures (see [www.mcgill.ca/integrity](http://www.mcgill.ca/integrity) for more information).*

*If you have a disability please contact the instructor to arrange a time to discuss your situation. It would be helpful if you contact the Office for Students with Disabilities at (514) 398-6009 or online at (<http://www.mcgill.ca/osd>) before you do this.*

*Additional policies governing academic issues which affect students can be found in the Handbook on Student Rights and Responsibilities, Charter of Students' Rights (online at <http://www.mcgill.ca/files/secretariat/greenbookenglish.pdf>).*

## COURSE SCHEDULE<sup>1</sup>

### *Part I – Introduction to Financial Securities, Portfolio theory and Practice*

|         |   |                 |
|---------|---|-----------------|
| Class 1 | Statistical Review, Financial Instruments   | BKMMPR: Ch-2, 5 |
| Class 2 | Expected Return and Risk Tradeoff           | BKMMPR: Ch-5, 6 |
| Class 3 | Diversification and Optimal Risky Portfolio | BKMMPR: Ch-6, 7 |

### *Part II – General Asset Pricing Models*

|         |                                 |                   |
|---------|---------------------------------|-------------------|
| Class 4 | Capital Asset Pricing Model     | BKMMPR: Ch-8      |
| Class 5 | APT and Multifactor Models      | BKMMPR: Ch-9      |
| Class 6 | EHM and Equity Valuation Models | BKMMPR: Ch-10, 16 |

### *Part III- Fixed-Income Pricing Models*

|         |   |               |
|---------|---|---------------|
| Class 7 | Mid-term/Bond Prices, Characteristic and Yields | BKMMPR: Ch-13 |
| Class 8 | Term Structure of Interest Rates                | BKMMPR: Ch-14 |
| Class 9 | Bond Portfolio Management                       | BKMMPR: Ch-15 |

### *Part IV- Derivative Pricing Models*

|          |   |               |
|----------|---|---------------|
| Class 10 | Introduction to Derivatives, Payoff functions | BKMMPR: Ch-18 |
| Class 11 | Option Pricing Models                         | BKMMPR: Ch-19 |

### *Part V- Applied Portfolio Management*

|          |   |                   |
|----------|---|-------------------|
| Class 12 | Portfolio Performance Measurements<br>Portfolio Management Techniques | BKMMPR: Ch-21, 22 |
| Class 13 | Review Class`   |                   |

*Additional topics (if time permits): International Investing (BKMMPR: Ch-23)*

*Final Examination: 19<sup>th</sup> August 2010 (Place: To be announced in class)*

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<sup>1</sup> Subject to change.