

Finance 3640, Investments
Spring, 2014

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Harbert Eminent Scholar and
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Class: 8:00-8:50 MWF

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Office Hours: 10:00-11:00 TTh

Course Objectives: To introduce the student to an analytical treatment of Investments and Portfolio Theory consistent with the notion of efficient markets. Valuation models and the standard paradigm of portfolio theory will be developed and extended. The course will also address derivatives and investing in international/global markets.

In addition, I plan to introduce the students to Stock-Trak and Morningstar in the Tiger Lab.. Stock-Trak lets you practice trading with an assumed \$1,000,000. Morningstar is a data base system used by investment management firms.

Textbook: Essentials of Investments, either Custom edition for Auburn University or standard 8th edition, by Bodie, Zvi, Alex Kane and Alan J. Marcus. Recommended but not required: **A Random Walk Down Wall Street: Time Tested Strategy for Successful Investing**, by Burton Malkiel, 9th edition, **The Warren Buffet Way**, Second Edition, by Robert G. Hagstrom, Bill Miller, and Kenneth L. Fisher, and **Investment Biker**, by Jim Rogers.

Recommended Supplementary Materials:

The Wall Street Journal and The Economist Magazine
The Internet- Selected sites, e.g. CNNFN, Yahoo Finance, WSJ
Solutions Manual and Transparencies (on AU Access Canvas)

Prerequisites: 2.2 GPA and Finc 3610

Grades:

Exam 1	20%
Exam 2	20%
Final Exam	
a. Last 1/3 of material	20%
b. Comprehensive	5%
Stock-Trak (Investment simulation, instructions follow)	20%
Tiger Lab/Homework	15%

Important - Please note the dates and times of all exams. Do not schedule other activities. Absent written and verifiable medical documentation, exams must be taken when scheduled, otherwise, make up exams are not permitted.

Canvas – Information for the class will be provided on Canvas (AU Access). Log on there for information, to communicate with the class, obtain copies of materials, etc.

Examinations - Exams will be a combination of multiple choice questions, short essay questions and problem solving. The final exam will cover only material that follows the last exam. Students are responsible for all assigned readings plus materials covered in class. A formula sheet may be used while taking exams. Students should be able to finish the exam in 50 minutes. However, you may start exams at 7:30 am if you want extra time.

Academic Honesty: "Students are responsible for maintaining and adhering to the strictest standards of honesty and integrity in every aspect of their lives. Honesty in academic matters is a large part of their obligation.

Americans with Disabilities Act – Students who need special accommodations in class, as provided for by the Americans with Disabilities Act, should inform me as soon as possible.

Other: Cell phones should be turned off before entering the classroom.

* The course syllabus provides a general plan for the course: Deviations may be necessary

Class Topics

Date	Day	Topic	Text Chapter
8-Jan-14	Wed	Introduction, Syllabus, Stock-Trak	
10-Jan-14	Fri	Stock Trak	
13-Jan-14	Mon	Investments Background	1
15-Jan-14	Wed	Investment Issues	1
17-Jan-14	Fri	Asset Classes and Financial Instruments	2
20-Jan-14	Mon	Holiday	3
22-Jan-14	Wed	Buying on Margin and Short Sales	
24-Jan-14	Fri	Investments Basics	
27-Jan-14	Mon	Mutual Funds, ETFs and Hedge Funds	4
29-Jan-14	Wed	Statistics Review	
31-Jan-14	Fri	Risks and Return: The Historical Record	5
3-Feb-14	Mon	Asset Allocation and Passive Strategies	5
5-Feb-14	Wed	"Catch Up"	
7-Feb-14	Fri	Tiger Lab	
10-Feb-14	Mon	Homework #1 Due, Stock Track Report #1 Due	
12-Feb-14	Wed	Exam	
14-Feb-14	Fri	Principles of Diversification	6
17-Feb-14	Mon	The Mean Variance Criterion	6
19-Feb-14	Wed	Covariances and Correlations	6
21-Feb-14	Fri	The Single Index Model	6
24-Feb-14	Mon	The Capital Asset Pricing Model	7
26-Feb-14	Wed	Efficient Markets: The Idea and The Evidence	8
28-Feb-14	Fri	Behavioral Finance	9
3-Mar-14	Mon	Bond Characteristics and Prices	10
5-Mar-14	Wed	Bond Yields	10
7-Mar-14	Fri	Term Structure of Interest Rates	10

10-Mar-14	Mon	Spring Break	
12-Mar-14	Wed	Spring Break	
14-Mar-14	Fri	Spring Break	
17-Mar-14	Mon	Duration	11
19-Mar-14	Wed	Tiger Lab_Bond Calculations	
21-Mar-14	Fri	Homework #2 Due, StockTrak Report #2 Due	
24-Mar-14	Mon	Exam	
26-Mar-14	Wed	Macroeconomic Factors and Industry Analysis	12
28-Mar-14	Fri	Equity Valuation	13
31-Mar-14	Mon	Equity Valuation	13
2-Apr-14	Wed	Financial Statement Analysis	14
4-Apr-14	Fri	The Options Markets	15
7-Apr-14	Mon	Option Value at Expiration	15
9-Apr-14	Wed	Put-Call Parity and Applications	16
11-Apr-14	Fri	Office of Professional and Career Development	
14-Apr-14	Mon	Black-Scholes-Merton Model	16
16-Apr-14	Wed	Futures Prices	17
18-Apr-14	Fri	Investing in Global Markets	19
21-Apr-14	Mon	“Catch Up”	
23-Apr-14	Wed	Tiger Lab	
25-Apr-14	Fri	Home #3 and Final Stock-Trak Report Due	
29-Apr-14	Tues	Final Exam: 8:00-10:30	

Homework

To be Assigned

Stock Trak Assignment

Trading Period: Trading is available from Jan 6 until May 5

Simulated Funds Available: Each student has \$1,000,000 to invest.

A. The Account

To establish an account, sign-up at the Stock-Trak link:

Stocktrak.com

When you register, the class ID is

AU-Finc3640-Spring14

It is important to register promptly and begin trading. You must make at least one trade before Friday, January 17. I will have access to information about your trades.

Instructions. Read carefully the instructions for using Stock-Trak (provided) and formulate your investment objectives. After formulating objectives, select securities or portfolios and execute your strategy. You may trade up to 200 times during the trading period, but note that trading incurs expenses.

Short summaries are due from each student at selected intervals. Your Stock-Trak grade is not based on the performance of your portfolio. In a short period of time, anything can happen. Instead, grades will be based on the timeliness of your summaries, their organization, figures, and your logical explanations. I will also look at your trading activity. In general, the more trades the better since it indicates that you are thinking about your investments. Your summaries should be no longer than 2 pages. They should include the following:

1. Your holding period return (final value – initial value)/initial value
2. Your asset (stock, option, futures, etc) with the largest holding period return.
3. Your asset with the smallest holding period return.
4. An appraisal of your performance including a forensic analysis. What new information (events) caused your portfolio to gain or lose? If you were to repeat the project beginning tomorrow, what would you change? You may include tables and figures if you wish.

B. Frequency of Trades – You are **required** to trade weekly, beginning no later than January 17. Stock-Trak provides me with copies of your trades each week.

Stock-Trak & Wall Street Survivor™

3500 de Maisonneuve West (Map)

2 Place Alexis Nihon, Suite 1650

Montreal, Quebec

H3Z 3C1, Canada

Telephone: (514) 871-2222

Fax: (514) 871-8561

or

STOCK-TRAK Portfolio Simulations

3483 Satellite Blvd, Suite 201

Duluth, GA 30096

1-800-786-8725(TRAK)

www.stocktrak.com

Possible Investment Strategies – Stock Trak Assignment

1. Indexing

- a. Domestic Indexing
- b. Global Indexing

- c. Country or Area Indexes
- d. Indexing Growth, Value, or Sector Stocks
- e. Use exchange traded funds e.g., SPY (S&P500), QQQ (Nasdaq index) or iShares.

2. Core Indexing - A large proportion (say 75%) indexed combined with selective stock picks.

3. Enhance the Portfolio with Derivatives

- a. Protective Put – Add Puts to chosen portfolio to lessen downside risk.
- b. Yield Enhancement - Sell Calls on chosen portfolio to provide additional yield, while forgoing large upside gains in the portfolio.

4. Derivatives Portfolios

- a. Buy Index Futures, i.e. S&P Futures contract
- b. Buy Some Index Futures, remaining funds in “Cash”

5. High Income Portfolios

- a. High Yield - Portfolios of high yield bonds
- b. Balanced Portfolios – A mixture of bonds and high dividend stocks.

6. Portfolios with some income and low risk

- a. U.S. Government and Agency portfolios.
- b. Blue Chips with high dividends

7. Capital Gain Portfolios – For the high income investor.

- a. High Risk -Minimize taxes and choose portfolios that primarily offer capital gain. Perhaps biotech or internet stocks.
- b. Established “Growth Companies”

8. Contrarian – Buy past losers

9 . Value Portfolios - Buy stocks with low Price/Earnings Ratio or low market to book.

10. Income Averaging – Invest so much per week (month, etc) to try to lower average cost per stock. i.e., you buy more shares when prices are low, fewer when prices are high.

11. Filter Rule Portfolios - Buy stock which move up x percent in a given time interval (say 2 percent in a given day), then hold them until the fall x percent from a subsequent high.

12. Momentum strategy – Buy portfolios or funds which have performed well in the last period.

13. Go to the Web Pages of Mutual Funds such as Vanguard, Dreyfus, Fidelity, etc. (all under the URL www.name.com) They have a lot of educational material plus mutual funds strategies that you may wish to use.

14. I also encourage you to consider portfolios with **derivatives** or **international portfolios** (stocks that trade on foreign exchanges).

Obtaining and analyzing Data on Stocks, Mutual Funds or Options

In addition to Morningstar , free data for security analysis can be found on Yahoo, NASDAQ, NYSE, CBOE, CBOT, CNNFN, or Bloomberg ... there are many others. The Yahoo site is especially useful.