



FINANCE 311
Principles of Investment
Summer 2017

Instructor: Dr. Derek Horstmeyer

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Course Website: Blackboard

Office Hours: MW 11:00 – 12:00 and by appointment

Class Meeting

Monday, Wednesday & Friday, 7:00 – 10:00, Enterprise Hall 277

Course Objectives

This course is an introduction to portfolio management and asset valuation. The material focuses on institutional investing, although the course is also relevant for individuals. The class will help you understand strategies and risk management tools necessary for the management of fixed income and equity portfolios. In particular, you will learn the concepts of asset allocation, risk and return trade-off, diversification, option pricing, portfolio performance evaluation, and the theory of market efficiency.

Learning Goals

Upon successful completion of this course students will be able to (1) evaluate and explain the risk and return trade-offs in finance, (2) understand how to address behavioral and ethical issues in finance, and (3) conduct research necessary to construct and manage equity/fixed income portfolios and present the accompanying analysis.

Prerequisites

Students are expected to be familiar with basic economics and statistics. Thus, you are required to have successfully completed FNAN 301/303, ECON 103, ACCT 201/203, and OM 210/BUS 210. No exceptions to the SOM rules of admittance. Taking any of the aforementioned classes concurrently with this course is not possible. If you do not know whether you meet the requirement, you should notify the instructor and also consult Student Services.

Course Textbook and Resources

Required Textbook: Bodie, Kane, and Marcus, *Essentials of Investments*, 9th edition, McGraw-Hill/Irvin, 2012 (BKM). You may also want to consider the solutions manual for use with this book. An electronic version of the book may be found at the following website:

<https://connect.mheducation.com/class/d-horstmeyer-summer-2017>

Other Resources: A calculator is required (non programmable is recommended – e.g. HP 10b11+) and should be brought to class on a daily basis. A subscription to the Wall Street Journal is also encouraged (or another finance oriented publication like Business Week or the Financial Times).

Grades

Since this is an advanced course, it inevitably covers more difficult topics than those in FNAN 301/303. I expect this course to be intellectually challenging. My intention is to grade generously, but fair. I will, however, not hesitate to give low grades to those who clearly did not put in a sufficient amount of effort.

Your final grade will be based on:

Class Participation/Attendance	10%
Homework/Problem Sets	10%
Quizzes:	20%
Midterm Exam: (June 7th)	25%
Final Exam (See GMU's Schedule)	35%

Grade distribution is based on a standard 10-point scale: 92-100 = A; 90-92 = A-; 88-90 = B+; 82-88 = B; 80-82 = B-, etc. All grades are calculated straight from the raw points allotted from each assignment.

Note: The final exam is a comprehensive final and will cover issues from the first midterm exam. Students are not allowed to skip any exams and must take the exam at the scheduled time. Any student

missing an exam will receive a grade of zero. One exception is that you present a physician's statement attesting to illness on the day of the exam or for an extraordinary reason.

Problem Sets/Quizzes

I will assign problems for homework. The assignments will be collected and checked for effort. Part of the each exam will be taken either directly or slightly modified from the homework, thus it is your responsibility to do each assigned question. There will be 4 quizzes total, each worth 5% of your final grade.

Important Rules

The test and the final exam must be taken without notes or sheets of formulas. You will be required to bring your own financial calculator to the exams. Sharing calculators is not allowed.

Please write professional emails when corresponding. Any non-professional emails received will not be responded to on my part.

Appeal of Grading

If you wish your answer to a question to be regarded, first submit a copy of your answer to the question and a written explanation of why you believe that the grading is incorrect. You must turn in this material within one week after the graded work is returned. In general, the entire exam will be checked for grading errors, and correcting these could either raise or lower the overall score.

University Office of Disability Services

If you are a student with a disability and you need academic accommodations, please see me and contact the Disability Resource Center at (703) 993-2474. All academic accommodations must be arranged through the DRC.

Academic Misconduct

Academic misconduct causes failing the course and triggers quite unpleasant university-mandated procedures which result in further sanctions. Faculty Rule 2.11.5 (Faculty Responsibility under the Honor Code) requires alleged misconduct to be reported to the department and the Honor Committee. So follow the GMU honor code at all times and don't even think about cheating!

Tentative Course Outline

Each class period includes required readings from the textbook Bodie, Kane, and Marcus, 9th ed. (BKM).

Except for the dates of the exams, the dates in the course schedule are approximate and could be subject to change.

I. Assets and Financial Markets

Weeks 1 (May 22-26): Course Introduction, Asset Classes, Financial Securities
Course Syllabus, BKM 1, 2, 3

II. Portfolio Theory

Week 2 (May 29-June 2): Returns and Risk, Diversification and CAPM

BKM 5, 6, 7

Quiz 1: Chapters 1, 2, 3 and 5

Quiz 2: Chapters 6 and 7

Week 3 (June 5-9): Overflow and Review

Midterm Exam (June 7th)

III. Mutual Funds, Efficient Market Hypothesis, and Options

Week 4 (June 12-16): Mutual Funds, EMH, and Options

BKM 4, 18, 8, 15

Quiz 3: Chapters 4 and 18

Quiz 4: Chapters 8 and 15

Week 5 (June 19-23): Overflow and Review

BKM 15, 21

Final: Comprehensive (June 23rd at 7:30)

School of Business Recommendations for Honor Code Violations
Approved May 2016

UG-Non Freshman Students (including transfer students)

Type of Violation	First Offense	Second Offense
<p>Plagiarism</p> <ol style="list-style-type: none"> 1. Failure to cite/attribute sources 2. Representing someone else's work as the student's own (e.g., copying and pasting) 	<p>An F in the class; referral to Writing Center; and Academic Integrity Seminar completion</p>	<p>An F in the class; referral to the Writing Center; Academic Integrity Seminar completion; termination from the School of Business; and at least one semester suspension or expulsion</p>
<p>Cheating</p> <ol style="list-style-type: none"> 1. On a minor assignment (e.g., homework, quizzes) 2. Cheating on a major assignment or exam, submitting course work from another course as original work 	<p>An F in the class; and Academic Integrity Seminar completion</p> <p>An F in the class; and Academic Integrity Seminar completion, and at least one semester suspension</p>	<p>An F in the class, Academic Integrity Seminar completion; termination from the School of Business; and at least one semester suspension or expulsion</p>
<p>Lying (e.g., providing fraudulent excuse documents, falsifying data)</p>	<p>An F in the class; and Academic Integrity Seminar completion, and at least one semester suspension</p>	<p>An F in the class; Academic Integrity Seminar completion; termination from the School of Business; and at least one semester suspension or expulsion</p>
<p>Egregious Violation (e.g., stealing an exam; submitting coursework from another class as original work across multiple courses; lying to an employer about academic performance, false identification or posing as another, in person or online)</p>	<p>An F in the class, Academic Integrity Seminar completion; termination from the School of Business; and at least one year suspension</p>	<p>An F in the class; Academic Integrity Seminar completion; termination from the School of Business; and expulsion</p>