

**FIN 297.1: INVESTMENT THEORY AND PRACTICE**

Spring 2021

Sections: #04035 (MW 8:00-10:00 am), #04025 (MW 10:00-12:00 pm), and #04030 (MW 12:00-2:00 pm)

Professor: Keith C. Brown  
Office: CBA 6.256

Office Hours: MW 2:00 pm – 3:30 pm  
(RRH 5<sup>th</sup> Floor & Online)  
or by appointment (Online)

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**Objective:** To become a successful investor, an individual must command a considerable amount of financial market knowledge as well as a wide variety of qualitative and quantitative skills. This course is designed to provide students with a solid conceptual and analytical basis for making investment decisions. In addition to establishing a background for evaluating and managing financial risk and return dynamics, as well as how global capital markets are organized and function, the focus of the course will be on the examination and valuation of the major investment vehicles and strategies popular today. In particular, we will consider how investors allocate their financial assets by forming, managing, and evaluating the performance of portfolios consisting of instruments such as stocks, bonds, alternative assets, futures and option contracts, exchange-traded funds and mutual funds. Although the ultimate objective will be to develop a theoretical background upon which the student can expand his or her knowledge of the field of investments, the topical treatment will be rather practically oriented. This course is also appropriate for anyone contemplating a career as professional investment advisor, portfolio manager, or security analyst.

**Prerequisites:** The prerequisite courses for FIN 297.1 are: (i) completion of BA 285T (Financial Management), and (ii) completion of or concurrent enrollment in FIN 286 (Valuation). There will be no exceptions to this policy.

**Required Materials:** Students will be expected to have access to the following course materials on a continual basis throughout the entire semester:

(1) *Textbook:*

*Investment Analysis and Portfolio Management 11e* by F. Reilly, K. Brown, and S. Leeds  
(Cengage Learning, 2019)

(2) *Supplementary Readings:*

As detailed in the Course Outline, in addition to formal assignments from the textbook there will also be a significant amount of supplementary reading in the form of journal articles and other lecture notes. All of these supplementary readings can be downloaded from the course website.

*(3) Financial Calculator:*

Any business calculator with versions of the following function keys will be acceptable: PV, FV, PMT, i, n, CF and IRR. (The HP 12c is considered by many to be the finance industry standard, along with the TI BA II Plus.) The use of a calculator will be required on the in-class portion of all examinations in the course. It will also be useful to have your calculator available for each class session.

Course Structure: The material covered in the course can be divided into the following parts that will be taught over 15 class sessions. Each of the regular class sessions will be divided into the coverage of two distinct topics:

*Week 1:*

- Class 1: (i) The Global Investment Setting  
(ii) Global Capital Markets & Security Types
- Class 2: (i) Equity Style, Asset Securitization & Asset Class Investing  
(ii) Group Project Discussion & Financial Data Primer

*Week 2:*

- Class 3: (i) The Asset Allocation Decision  
(ii) Market Indicators & Indexed Investing
- Class 4: (i) Security Markets & Trading  
(ii) Risk & Return Principles: Diversification & Portfolio Formation

*Week 3:*

- Class 5: (i) Efficient Optimization: Efficient Frontier & Capital Market Line  
(ii) Asset Pricing Models & Factor Investing
- Class 6: (i) Equity Investing: Fundamentals & Valuation Principles  
(ii) Equity: Discounted Cash Flow Valuation

*Week 4:*

- Class 7: (i) Equity: Relative Valuation Techniques  
(ii) Equity Portfolio Strategies
- Class 8: Midterm Examination**

*Week 5:*

- Class 9: (i) Market Efficiency & Behavioral Finance  
(ii) Fixed-Income Investing: Instruments & Valuation
- Class 10: (i) Fixed-Income Valuation & Analysis  
(ii) Fixed-Income Portfolio Strategies

*Week 6:*

- Class 11: (i) Alternative Assets: Private Equity, Real Estate, Natural Resources  
(ii) Alternative Assets: Hedge Funds
- Class 12: (i) Performance Measurement: Basic & Risk-Adjusted Measures  
(ii) Performance Measurement: Attribution Analysis

*Week 7:*

- Class 13: (i) Forward & Futures Contracts: Fundamentals  
(ii) Forward & Futures: Valuation & Portfolio Strategies
- Class 14: (i) Option Contracts: Fundamentals & Valuation  
(ii) Options: Valuation & Portfolio Strategies

Final Exam Week:

**Class 15 Final Examination**

*(1) Location and Design of Daily Class Sessions:*

All class sessions will be held both in-person and online every Monday and Wednesday during the first half semester. (One notable exception to this schedule will be during the first week when the class session on Monday, January 18 (MLK Day) will be moved to Friday, January 22.) For those who will be attending class in person, we will meet in our assigned classroom (**RRH 5.402**). For those attending online, I have created a meeting invitation for each class session and these invitations can be found in the Zoom area of the course Canvas website.

Please note that a *different recurring meeting link is used for each class section* and these links cover every class session during the course. These section-specific Zoom meeting links are:

8:00-10:00 am (Section #04035): <https://utexas.zoom.us/j/99762659991>

10:00-12:00 noon (Section #04025): <https://utexas.zoom.us/j/97241179306>

12:00-2:00 pm (Section #04030): <https://utexas.zoom.us/j/96183830630>

Please note that if you join a class session via Zoom, it is expected that you will attend during your regularly assigned class period.

To facilitate learning the topical material in an optimal manner, I will record an overview of the lecture notes for each class session, which you should plan on viewing in advance of our meeting. The online class session will then be devoted to working specific case problems and textbook exercises, answering questions, and holding an interactive class discussion. I will also post on Canvas solutions to the case problems after the class session in which they are discussed; the Solution Manual for the entire textbook is already posted on Canvas. Assuming the technology works as promised, I will record each class session and these recordings will be available for viewing on the Canvas course website.

One final important note about the design of the class sessions should be mentioned. The hybrid delivery structure of the course is a difficult and challenging system in which to maintain successful learning outcomes. It has been adopted for the convenience of those students who greatly prefer face-to-face contact instead of online participation. *If there proves to be insufficient interest for in-person attendance, it will be in our collective interest to convert the class sessions to an online-only format.* If in-person attendance for any class section fall below 25% of the total enrollment, such a conversion will likely be invoked.

*(2) Class Session Topic Coverage:*

The Course Outline gives a specific session-by-session breakdown of the topics we will cover in class. Throughout the course, I may announce in class additional details of the specific assignments for subsequent sessions; this information will also be posted in the appropriate location on the course home page. If you have any questions about what is to be covered in any class, please consult the website or ask me directly before the class session.

The course home page on Canvas will also serve as an important mechanism for communicating course-related information. In particular, electronic versions of the lecture notes for each class sessions as well as any handouts or spreadsheets that we will be using are available to be downloaded. I will update these files as necessary throughout the course.

Grading Policies:

There will be two sources of evaluation in this course:

Midterm Examination	35%
Final Examination	35%
Group Project	22%
Class Participation	<u>8%</u>
	100%

As noted, your mastery of the course material will be evaluated with three distinct graded components: Examinations, Group Project, and Class Participation.

*(1) Examinations:*

There will be one midterm examination and there will be one final examination:

The midterm examination will consist of two components: (i) an online, in-class portion of the exam will be given during the regularly scheduled class period on **Wednesday, February 10**;

and (ii) a take-home portion of the exam will be distributed on **Saturday, February 6** and be due before the in-class portion of the exam commences. Collectively, the test will include all of the material covered from the beginning of class through the previous class session.

The final examination will consist of an online, in-class session that will be given during the Final Examination period on **Friday, March 5** from 1:00 – 4:00 pm. The test will include all of the material covered after the first examination through the end of the course.

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.

Two other course policies regarding examination should be noted: (i) copies of examinations from past semesters *will not* be released or posted; and (ii) students *may not* be allowed to keep their graded examinations, but will have ample opportunity to review their performance.

### *(2) Group Project:*

The Group Project component of your grade will consist of a course-long project that will allow you to explore several different aspects of the investment management process, including the initial asset class allocation decision, the creation of client-specific portfolios using different investment strategies, and the valuation and selection of individual securities. The specific description associated with this assignment will be distributed formally during the first week of the course.

Completion of the assigned project will require you to work in groups of three or four people. You will be assigned to the same group for the entire course. While you will be able to work fully with other members within your assigned group, you *will not be permitted* to collaborate in any form with members of other groups. At the end of the course, you will have the opportunity to provide a peer evaluation of the other members of the group to help determine the quality of each person's relative contribution.

The same grade will be assigned to every member of the group, *assuming each person contributes equal effort and output to the assignment.* Further, no late projects will be accepted for any reason.

### *(3) Class Participation:*

Your class participation score will be based on two elements: (1) *the consistency of your attendance (either in-person or online) in your assigned section*, and (2) *the quality of your contributions to the daily class discussions.* Class participation grades (as a percent of the overall course) will range from 10 (i.e., excellent attendance, frequent and substantive in-class contributions) to 0 (i.e., poor attendance, no in-class contributions, disruptive behavior).

As reflected by the Course Outline, consideration of the solutions to the case problems and assigned end-of-chapter questions and problems is an important focus, so it is vital that you consider them *before* each class meeting. You will be responsible for being prepared to discuss answers to all of the questions pertaining to a particular topic, even if some of them are not eventually covered in class. You also will be held responsible for everything covered or assigned in class which, at times, will depart significantly from the material contained in the textbook and articles.

To facilitate our class session discussions of the various case problems and problem sets, I will expect in-person students to *bring their name card to each class session* and have it displayed at all times and online students to keep their cameras on at all times with their full names displayed.

### *Final Course Grades:*

At the end of the course, the raw number of points that you earned on each graded component will be weighted by the percentages listed above. The weighted total scores for all students in all sections of the course will be combined to establish an overall final distribution.

Your final grade for the course will be determined by where your weighted average total score lies within the overall final distribution for the combined class. Consistent with the policy of adopted by the MBA Program Office, the following target grade assignment will be applied:

**A (4.00): 25%; A- (3.67): 20%; B+ (3.33): 15%; B (3.00): 35%; B- or below (2.67): 5%**

Please recognize, however, that this target distribution is not intended to be a guarantee; it presumes the successful completion of all course components on the part of each student. It also presumes that each student abides by the Professional Policy and the Honor Code, both of which are described below.

Class Attendance Policy: Simply put, **I expect that you will attend and contribute to the course section in which you are enrolled on a daily basis.** As noted, a considerable amount of the material that is covered in class (and on which you will be tested) *will not* appear in the textbook, the recorded lectures, the supplementary readings, or the class lecture notes that will be posted on the course website. Therefore, I consider consistent attendance to be a crucial element in maximizing your potential for learning to be a successful investor.

Hybrid & Online Class Protocols: It perhaps goes without saying that attempting to communicate and learn effectively in an online setting is a challenging endeavor. This challenge is further compounded when the classroom contains a mixture of online and in-person participants. In order to create an efficient, effective, respectful, and ultimately enjoyable learning environment, students attending a class session online should observe the following protocols:

- **Keep your camera on at all times**, just as if you were attending the session in person. In the event of an emergency that causes you to leave the session temporarily, turn your camera off while you are away.
- **Mute your microphone unless you are speaking.** This will cut down on background noise and limit any other distractions.
- **Be mindful of your actions during the session**, looking directly into the camera whenever you are speaking or interacting in any way. Also, refrain from distractions such as frequent abrupt movements, eating, checking other electronic devices, etc.
- **Participate freely, but respectfully, in all class activities.** In will be difficult for me to monitor the chat function during the session, so plan to use the raised hand button just as if you were in the classroom to be recognized.
- **Set up the most professional environment possible**, including using the most reliable WiFi connection you can access and removing all immediate distractions. You should also set up a professional-looking virtual background whenever possible.
- **Do not be late and stay for the entire session.** That is, treat the opportunity to attend the class session online with the same expectations as would be applied to face-to-face attendance.

Other Class Policies: The following additional policies will also be in place this semester:

#### *(1) Academic Dishonesty:*

Academic dishonesty (as defined by The Standard for Academic Integrity from the University of Texas Office of the Dean of Students) will not be tolerated and will be dealt with in the most severe manner possible. In promoting a high standard of academic integrity, the University broadly defines scholastic dishonesty—basically, all conduct that violates this standard, including *any act designed to give an unfair or undeserved academic advantage*, such as: (i) Cheating, (ii) Plagiarism, (iii) Unauthorized Collaboration, (iv) Falsifying Academic Records,

(v) Misrepresenting Facts, and (vi) Any other acts (or attempted acts) that violate the basic standard of academic integrity.

I assume that all students in this course will act as if bound by this Standard and you can expect the same from me. In particular, I will expect that on every individual assignment or examination the work you submit will be entirely your own and that you will provide a level and quality of input to the group projects commensurate with that of your colleagues. Failure to do so may result in failure on the project or failure in the course.

*Expectations Under the McCombs School of Business Honor System:*

- *Standards*

If a student is uncertain about the standards of conduct in a particular setting, he or she should ask the relevant faculty member for clarification to ensure his or her conduct falls within the expected scope of honor, trust and integrity as promoted by the Honor System. This applies to all tests, papers and group and individual work. Questions about appropriate behavior during the job search should be addressed to a professional member of the Career Services Office. Below are some of the specific examples of violations of the Honor System.

- *Lying*

Lying is any deliberate attempt to deceive another by stating an untruth, or by any direct form of communication to include the telling of a partial truth. Lying includes the use or omission of any information with the intent to deceive or mislead. Examples of lying include, but are not limited to, providing a false excuse for why a test was missed or presenting false information to a recruiter.

- *Stealing*

Stealing is wrongfully taking, obtaining, withholding, defacing or destroying any person's money, personal property, article or service, under any circumstances. Examples of stealing include, but are not limited to, removing course material from the library or hiding it from others, removing material from another person's mail folder, securing for one's self unattended items such as calculators, books, book bags or other personal property. Another form of stealing is the duplication of copyrighted material beyond the reasonable bounds of "fair use." Defacing (e.g., "marking up" or highlighting) library books is also considered stealing, because, through a willful act, the value of another's property is decreased. (See the appendix for a detailed explanation of "fair use.")

- *Cheating*

Cheating is wrongfully and unfairly acting out of self-interest for personal gain by seeking or accepting an unauthorized advantage over one's peers. Examples include, but are not limited to, obtaining questions or answers to tests or quizzes, and getting assistance on case write-ups or other projects beyond what is authorized by the assigning instructor. It is also cheating to accept the benefit(s) of another person's theft(s) even if not actively sought. For instance, if one continues to be attentive to an overhead conversation about a test or case write-up even if initial exposure to such information was accidental and beyond the control of the student in question, one is also cheating. If a student overhears a conversation or any information that any faculty member might reasonably wish to withhold from the student, the student should inform the faculty member(s) of the information and circumstance under which it was overheard.

- *Actions Required for Responding to Suspected and Known Violations*

As stated, everyone must abide by the Honor System and be intolerant of violations. If you suspect a violation has occurred, you should first speak to the suspected violator in an attempt to determine if an infraction has taken place. If, after doing so, you still believe that a violation has occurred, you must tell the suspected violator that he or she must report himself or herself to the course professor or Associate Dean of the Graduate School of Business. If the individual fails to report himself or herself within 48 hours, it then becomes your obligation to report the infraction to the course professor or the Associate Dean of the Graduate School of Business. Remember that although you are not required by regulation to take any action, our Honor System is only as effective as you make it. If you remain silent when you suspect or know of a violation, you are approving of such dishonorable conduct as the community standard. You are thereby precipitating a repetition of such violations.

### *The Honor Pledge*

The University of Texas at Austin McCombs School of Business requires each enrolled student to adopt the Honor System. The Honor Pledge best describes the conduct promoted by the Honor System. It is as follows:

"I affirm that I belong to the honorable community of The University of Texas at Austin Graduate School of Business. I will not lie, cheat or steal, nor will I tolerate those who do."

"I pledge my full support to the Honor System. I agree to be bound at all times by the Honor System and understand that any violation may result in my dismissal from the McCombs School of Business."

### *(2) McCombs Classroom Professionalism Policy*

The highest professional standards are expected of all members of the McCombs community. The collective class reputation and the value of the Texas MBA experience hinges on this.

**You should treat the Texas MBA classroom as you would a corporate boardroom.**

Faculty are expected to be professional and prepared to deliver value for each and every class session. Students are expected to be professional in all respects.

The Texas MBA classroom experience is enhanced when:

- **Students arrive on time.** On time arrival ensures that classes are able to start and finish at the scheduled time. On time arrival shows respect for both fellow students and faculty and it enhances learning by reducing avoidable distractions.
- **Students display their name cards.** This permits fellow students and faculty to learn names, enhancing opportunities for community building and evaluation of in-class contributions.
- **Students are fully prepared for each class.** Much of the learning in the Texas MBA program takes place during classroom discussions. When students are not prepared they cannot contribute to the overall learning process. This affects not only the individual, but their peers who count on them, as well.
- **Students respect the views and opinions of their colleagues.** Disagreement and debate are encouraged. Intolerance for the views of others is unacceptable.
- **Students do not confuse the classroom for the cafeteria.** The classroom (boardroom) is not the place to eat your breakfast tacos, wraps, sweet potato fries, or otherwise set up for a picnic. Please plan accordingly. Recognizing that back-to-back classes sometimes take place over the lunch hour, energy bars and similar snacks are permitted. Please be respectful of your fellow students and faculty in your choices.
- **Students minimize unscheduled personal breaks.** The learning environment improves when disruptions are limited.
- **Students attend the class section to which they are registered.** Learning is enhanced when class sizes are optimized. Limits are set to ensure a quality experience. When section hopping takes place some classes become too large and it becomes difficult to contribute. When they are too small, the breadth of experience and opinion suffers.
- **Technology is used to enhance the class experience.** When students are surfing the web, responding to e-mail, instant messaging each other, and otherwise not devoting their full attention to the topic at hand they are doing themselves and their peers a major disservice. Those around them face additional distraction. Fellow students cannot benefit from the insights of the students who are not engaged. Faculty office hours are spent going over class material with students who chose not to pay attention, rather than truly adding value by helping students who want a better understanding of the material or want to explore the issues in more depth. Students with real needs may not be able to obtain adequate help if faculty time is spent repeating what was said in class. There are often cases where learning is enhanced by the use of technology in class. Faculty will let you know when it is appropriate.
- **Phones and wireless devices are turned off.** We've all heard the annoying ringing in the middle of a meeting. Not only is it not professional, it cuts off the flow of discussion when the search for the offender begins. When a true need to communicate with someone outside of class exists (e.g., for some medical need) please inform the professor prior to class.

Remember, you are competing for the best faculty McCombs has to offer. Your professionalism and activity in class contributes to your success in attracting the best faculty to this program.

*(3) Students With Disabilities:*

Upon request, the University of Texas at Austin provides appropriate academic accommodations for qualified students with disabilities. Services for Students with Disabilities (SSD) is housed in the Office of the Dean of Students, located on the fourth floor of the Student Services Building.

Information on how to register, downloadable forms, including guidelines for documentation, accommodation request letters, and releases of information are available online at <http://deanofstudents.utexas.edu/ssd/index.php>. Please do not hesitate to contact SSD at (512) 471-6259, VP: (512) 232-2937 or via e-mail if you have any questions.

*(4) Campus Safety:*

The University has requested that all students be made aware of the following information regarding campus safety:

*Please note the following recommendations regarding emergency evacuation from the Office of Campus Safety and Security, 512-471-5767, <http://www.utexas.edu/safety/> :*

- *Occupants of buildings on The University of Texas at Austin campus are required to evacuate buildings when a fire alarm is activated. Alarm activation or announcement requires exiting and assembling outside.*
- *Familiarize yourself with all exit doors of each classroom and building you may occupy. Remember that the nearest exit door may not be the one you used when entering the building.*
- *Students requiring assistance in evacuation should inform their instructor in writing during the first week of class.*
- *In the event of an evacuation, follow the instruction of faculty or class instructors.*
- *Do not re-enter a building unless given instructions by the following: Austin Fire Department, The University of Texas at Austin Police Department, or Fire Prevention Services office.*
- *Behavior Concerns Advice Line (BCAL): 512-232-5050*
- *Further information regarding emergency evacuation routes and emergency procedures can be found at: [www.utexas.edu/emergency](http://www.utexas.edu/emergency)."*

*(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 holy day. If you must miss a class, an examination, a work assignment, or a project in order to observe a religious holy day, you will be given an opportunity to complete the missed work within a reasonable time after the absence.

## COURSE OUTLINE

The following outline lists the topic coverage, reading requirements, case studies, and problem sets for the semester. Some of the "Assignment" listings refer to the end-of-chapter problems that can be found in the 11<sup>th</sup> edition of Reilly, Brown, and Leeds' (RBL) *Investment Analysis and Portfolio Management* textbook. For the RBL assignments, the question and problem numbering system refers to the relevant chapter and question or problem (e.g., Q1.2 refers to the second *question* in Chapter 1, P2.3 refers to the third *problem* in Chapter 2). All of the supplemental materials can be downloaded from the "Assigned Readings & Case Problems" folder in the course website on Canvas.

### *Class #1: Wednesday, January 20*

Session Topic 1: Background and Review: The Global Investment Setting

Session Topic 2: The Global Investment Setting (cont.) and Global Capital Markets & Security Types

Reading: RBL Chapter 1, Appendix 1

Chapter 2 (pp. 49-63)

A. Ilmanen, "Understanding Expected Returns," *CFA Institute Conference Proceedings Quarterly*, June 2012

E. Fama and K. French, "Volatility Lessons," *Financial Analysts Journal*, 3<sup>rd</sup> Quarter 2018

Assignment: P1.5, P1A.2, P1A.3

Q2.9, P2A.1, P2A.2

### *Class #2: Friday, January 22 (Make-Up Day)*

Session Topic 1: Equity Style, Asset Securitization & Asset Class Investing

Session Topic 2: Group Project Discussion & Financial Data Primer

Reading: RBL Chapter 2 Appendix; Chapter 11 (pp. 401-409)

K. Brown, "An Overview of the Asset Securitization Process," Lecture Notes, January 2021

H. Marks, "Coming Into Focus," Oaktree Capital Management Working Paper, October 2020

Assignment: Q2.23, P2.9; Asset Allocation and the U.S. Investment Landscape Case Problem

### *Class #3: Monday, January 25*

Session Topic 1: The Asset Allocation Decision

Session Topic 2: Market Indicators & Indexed Investing

Reading: RBL Chapter 2 (pp. 33-49)

Chapter 4 (pp. 95-107), Appendix 4; Chapter 11 (pp. 381-388)

R. Ibbotson and P. Kaplan, "Does Asset Allocation Policy Explain 40, 90, or 100 Percent of Performance," *Financial Analysts Journal*, January-February 2000

K. Brown, "Using Indicators of Market Performance," Lecture Notes, January 2021

Assignment: Q2.8, P2.8

P11.7; Calculating Indicators of Market Performance Case Problem

*Class #4: Wednesday, January 27*

Session Topic 1: Security Markets & Trading

Session Topic 2: Risk & Return Principles: Diversification & Portfolio Formation

Reading: RBL Chapter 3

Chapter 6 (pp. 171-188)

R. Preece and S. Rosov, "Dark Trading and Equity Market Quality," *Financial Analysts Journal*, November-December 2014

K. Brown, "A Brief Review of the Portfolio Formation Process," Lecture Notes, January 2021

Assignment: Q3.3, Q3.9; Markets and Trading Case Problem

P6.5; Portfolio Risk and Return Calculations Case Problem

*Class #5: Monday, February 1*

Session Topic 1: Efficient Optimization, Efficient Frontier & Capital Market Line

Session Topic 2: Asset Pricing Models & Factor Investing

Reading: RBL Chapter 6 (pp. 189-192), Appendix 6, Chapter 7 (pp. 209-218)

Chapter 7 (pp. 209-18, 221-222, 223-227, 229-241)

K. Brown, "Some Useful Facts About Beta," Lecture Notes, January 2021

D. Blitz, G. Baltussen, P. van Vliet, "When Equity Factors Drop Their Shorts" *Financial Analysts Journal*, F 2020

Assignment: Q6.14, P6.10; Efficient Portfolio Formation Case Problem

P7.6, P7.9; Estimating Risk Factor Models Case Problem

*Class #6: Wednesday, February 3*

Session Topic 1: Equity Investing: Fundamentals & Valuation Principles

Session Topic 2: Equity: Discounted Cash Flow Valuation

Reading: RBL Chapter 8 (pp. 251-279), Appendix 8

Chapter 10 (pp. 369-371), Appendix 10

K. Brown, "The Foundations of Stock Valuation," Lecture Notes, January 2021

K. Brown, "Some Thoughts on Cash Flow," Lecture Notes, January 2021

J. Berk and J. van Binsbergen, "How Do Investors Compute the Discount Rate? They Use the CAPM," *Financial Analysts Journal*, 2<sup>nd</sup> Quarter 2017

Assignment: Dividend Discount Model Case Problem

Q8.8, P8.10; Company Valuation Analysis Case Problem

*Class #7: Monday, February 8*

Session Topic 1: Equity: Relative Valuation Techniques

Session Topic 2: Equity Portfolio Strategies

Reading: RBL Chapter 8 (pp. 279-285)

Chapter 11 (pp. 388-405)

K. Brown, "The Conceptual Relationship Between DCF and Relative Valuation Techniques," Lecture Notes, January 2019

M. Mauboussin, D. Callahan, and D. Majd, "Thirty Years: Reflections on the Ten Attributes of Great Investors," Credit Suisse Working Paper, August 2016

Assignment: P8.2, P11.5; Comparable Multiples Valuation Case Problem

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*Class #8: Wednesday, February 10*

Session Topic: Midterm Examination

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*Class #9: Monday, February 15*

Session Topic 1: Market Efficiency & Behavioral Finance

Session Topic 2: Fixed-Income Investing: Instruments & Valuation

Reading: RBL Chapter 5 (pp. 125-136, 139-149)

Chapter 12 (pp. 423-439, 441-457)

M. Statman, "Behavioral Finance: Finance With Normal People," *Borsa Istanbul Review*, 2014

G. Bhandari and R. Deaves, "The Demographics of Overconfidence," *Journal of Behavioral Finance*, First Quarter 2006

K. Brown, "The Fundamentals of Bond Valuation," Lecture Notes, January 2021

Assignment: Q5.23

P12.7; Bond Valuation Case Problem

*Class #10: Wednesday, February 17*

Session Topic 1: Fixed-Income Valuation & Analysis

Session Topic 2: Fixed-Income Portfolio Strategies

Reading: RBL Chapter 13 (pp. 465-475, 477-489, 493-499)

M. Kritzman, "What Practitioners Need to Know about Duration and Convexity," *Financial Analysts Journal*, September-October 1992

Assignment: Q13.1, P13.1; Analyzing Bond Portfolio Strategies Case Problem

*Class #11: Monday, February 22*

Session Topic 1: Alternative Assets Overview: Private Equity, Real Estate, Natural Resources

Session Topic 2: Alternative Assets: Hedge Funds

Reading: RBL Chapter 17 (pp. 648-650, 672-679)

Chapter 17 (pp. 664-672)

R. Harris, T. Jenkinson, and S. Kaplan, "How Do Private Equity Investments Perform Compared to Public Equity?," *Journal of Investment Management*, Third Quarter 2016

S. Lack, "The Hedge Fund Mirage: The Illusion of Big Money and Why It's Too Good to Be True," *CFA Institute Conference Proceedings Quarterly*, December 2012

R. Ibbotson, P. Cheng, and K. Zhu, "The ABCs of Hedge Funds: Alphas, Betas, and Costs," *Financial Analysts Journal*, Jan-Feb 2011

Assignment: Endowment Investment Committee Case Problem

Hedge Fund Performance Analysis Case Problem

*Class #12: Wednesday, February 24*

Session Topic 1: Performance Measurement: Basic & Risk-Adjusted Measures

Session Topic 2: Performance Measurement: Attribution Analysis

Reading: RBL Chapter 18 (pp. 693-709, 727-729)

Chapter 18 (pp. 715-722)

Assignment: Q18.8, P18.3; Mutual Fund Performance Measurement Case Problem

P18.7; Portfolio Holdings and Attribution Case Problem

*Class #13: Monday, March 1*

Session Topic 1: Forward & Futures Contracts: Fundamentals

Session Topic 2: Forward & Futures: Valuation & Portfolio Strategies

Reading: RBL Chapter 14 (pp. 519-525, 531-533, 545-547); Chapter 15 (pp. 559-564)

Chapter 15 (pp. 565-573, 576-580)

Assignment: P14.1a(1)-b(1), P14.2a(1)-b(1); Futures Contract Risk and Return Case Problem

P15.4; Stock Index Arbitrage Case Problem

*Class #14: Wednesday, March 3*

Session Topic 1: Option Contracts: Fundamentals & Valuation

Session Topic 2: Options: Valuation & Portfolio Strategies

Reading: RBL Chapter 14 (pp. 525-528, 533-543); Chapter 16 (pp. 603-624)

Chapter 14 (pp. 547-550); Chapter 16 (pp. 625-633)

K. Brown, "The Foundations of Option Valuation," Lecture Notes, January 2021

Assignment: P14.4, P16.5; Analyzing Call and Put Options Case Problem

P16.10; Option Valuation Case Problem; Altering Portfolio Risk With Derivatives Case Problem

*Class #15: Friday, March 5 (1:00 – 4:00 pm)*

Session Topic: Final Examination

THIS OUTLINE SHOULD BE CONSIDERED REPRESENTATIVE OF THE MATERIAL WE WILL COVER DURING THE SEMESTER; IT IS SUBJECT TO CHANGE UPON PROPER NOTIFICATION.

## Biographical Sketch of the Course Instructor



*Keith C. Brown*  
*University Distinguished Teaching Professor*  
*& Fayez Sarofim Fellow*

*Department of Finance*  
*University of Texas at Austin*

Keith Christopher Brown currently holds the positions of University Distinguished Teaching Professor and Fayez Sarofim Fellow in the Department of Finance at the McCombs School of Business, University of Texas at Austin. He received his M.S. and Ph.D. in Financial Economics from the Krannert Graduate School of Management at Purdue University. Since leaving school in 1981, he has specialized in teaching Investment Management, Portfolio Management and Security Analysis, Capital Markets, and Derivatives courses at the BBA and MBA levels and has received eighteen awards for teaching innovation and excellence. In 2006, he was elected to the University's prestigious Academy of Distinguished Teachers and also serves as a Provost's Teaching Fellow. Keith's publications have appeared in such journals as *Journal of Finance*, *Journal of Financial Economics*, *Review of Financial Studies*, *Journal of Financial and Quantitative Analysis*, *Review of Economics and Statistics*, *Financial Management*, *Journal of Financial Markets*, *Financial Analysts Journal*, *Journal of Portfolio Management*, *Journal of Investment Management*, *Journal of Fixed Income*, *Journal of Applied Corporate Finance*, *Journal of Retirement*, and *Advances in Futures and Options Research*. He received a Graham and Dodd Award from the Financial Analysts Federation as a co-author of one of the best articles published by *Financial Analysts Journal* in 1990, a Smith-Breedon Prize from the *Journal of Finance* in 1996, and a Harry M. Markowitz Special Distinction Award from *Journal of Investment Management* in 2016. Keith is also a co-author of two textbooks, *Interest Rate and Currency Swaps: A Tutorial* (with Donald J. Smith) and *Investment Analysis and Portfolio Management, 11e* (with Frank K. Reilly and Sanford J. Leeds).

Keith is the co-founder and Senior Partner of Fulcrum Financial Group, a portfolio management, business valuation, and investment advisory firm located in Austin, Texas. For more than sixteen years, he served as President and Chief Executive Officer of The MBA Investment Fund, LLC, a private capital appreciation fund managed by students at the University of Texas and also was the Director of the Department's Hicks, Muse, Tate & Furst Center for Private Equity Finance. From May 1987 to August 1988 Keith was based in New York as a Senior Consultant to the Corporate Professional Development Department at Manufacturers Hanover Trust Company. He has also lectured extensively in the global Executive Development programs for companies such as Fidelity Investments, Commonfund Institute, FTSE, JP Morgan Chase Bank, Apollo Global Management, Citibanamex-Atlas CapGlo, Merrill Lynch, Lehman Brothers, Chase Securities, Union Bank of Switzerland, Chemical Bank, Chase Bank of Texas, USAA Investment Management, Security Commission of Malaysia, The Beacon Group, Motorola, Halliburton, Association for Investment Management and Research, and served for eleven years on the Investment Committee of LBJ Family Wealth Advisors, a Texas-based private wealth management firm. In August of 1988, Keith received his charter from the CFA Institute. He currently serves as Advisor to the Board of Trustees of Teacher Retirement System of Texas and the Board of Directors of University of Texas Investment Management Company and as Associate Editor for *Journal of Investment Management* and *Journal of Behavioral Finance*. For five years he held the position of Research Director for the Research Foundation of the CFA Institute.