University of Illinois, Chicago
Finance 310, Investments
Fall 2012

- GENERAL INFORMATION -

Instructor: Dr. Özgür Arslan-Ayaydin

TA: Janice Hou, (email: jiayinhou10@gmail.com)

Time & Place of the Course: 12:30 – 01:45 (Tuesdays and Thursdays), BSB 319

Office Hours: My office is in UH # 2416. Please e-mail me at orslan@uic.edu to set up a time for a meeting.

In-Class Examinations: There will be two quizzes and two in-class examinations. No make-up will be offered neither for the quizzes nor the examinations unless there are compelling medical reasons which are supported by an official certificate of a medical doctor.

Exam Format: Exams will consist of a combination of true/false questions, multiple choice questions, short and/or long essay questions and problems requiring calculations. There will be a final group assignment in place of a final examination. It will not be cumulative but will build on the material covered throughout the course.

Class Participation: You are expected to enrich class discussions by your participation and this will constitute a portion of your grade. You are expected to attend all the lectures and attendance will be taken at the end of every lecture. You need to keep up with readings and any changes to them. During the term, those changes will be announced in the class and you will be held responsible for being abreast of such changes.

Assignments: Assignments are to be submitted on due dates. Late submission will be penalized.

Honor Code: This course is being administered under the policies of the *University of Illinois at Chicago College of Business Administration Honor Code*. All students are expected to respect and uphold this code. For the exams, no consultation of any form is allowed except that you are allowed to ask me questions for clarification. Please turn off your cellular phones during the lectures.

Weighting	News Analysis & Presentation	15 %
	Class Participation	5 %
	Quiz1	10 %
	Quiz 2	10 %
	Examination 1	20 %
	Examination 2	20 %
	Final Group Assignment	20 %

Grading	A	90% - 100%
	B	80% - 89%
	C	70% - 79%

Required Text: 1) Z. Bodie, A. Kane and A.J. Marcus (2011) "Investments", *Ninth Edition*, McGraw-Hill , ISBN: 978-0-07-353070-3

Recommended: 1) The Wall Street Journal
2) Financial Times

Schedule of the Classes

Date	**Topics**
August 28	Ch. 1 - The Investment Environment & Financial Markets
August 30	Ch. 2 - Asset Classes and Financial Instruments
September 4	Ch. 2 - Bond Market & Equity Securities, Derivative Markets
September 6	Ch. 2 - Bond Market & Equity Securities, Derivative Markets (cont'd)
September 11	Ch. 3 - How Securities are Traded
September 13	Ch. 3 - How Securities are Traded (Cont'd)
September 18	**1st QUIZ (Chapters 2, 3)**
September 20	Ch. 3 - Initial Public Offerings, Types of Markets
September 25	Ch. 3 - Market Orders, Buying on Margin & Short Sales
September 27	Ch.4 – Mutual Funds and Other Investment Companies
October 2	Ch. 4 - Types of Mutual Funds & Cost of Investing in Mutual Funds
October 4	**1st EXAM (Chapters 1, 2, 3, 4)**
October 9	Ch. 4 - Exchange Traded Funds (ETFs)
October 11	Ch. 5 - Introduction to Risk, Return and the Historical Record
October 16	Ch. 5 - Comparing Rates of Return for Different Holding Periods, Effective Annual Return, Annual Percentage Rates, Risk and Risk Premiums
October 18	Ch. 5 - Time Series versus Scenario Analysis, Expected Returns, (Arithmetic vs. Geometric Returns), Standard Deviation, Reward to Volatility Ratio
October 23	Ch. 6 – Risk Tolerance and Asset Allocation
October 25	**2nd Quiz (Chapters 5 and 6)**
October 30	Ch. 6 – Risk Tolerance and Asset Allocation
November 1	Ch. 7 – Diversification & Optimal Risky Portfolios (Cont'd)
November 6	Ch.7 - The Risk-Return Trade-off with Two-Risky Asset Portfolios
November 8	Ch. 9 - Index Models (Cont'd)
November 13	Ch. 9 - The Capital Asset Pricing Model
November 15	Ch. 9 – The Capital Asset Pricing Model (Cont'd)
November 20	Ch. 10 - Arbitrage Pricing Theory
November 22	**Thanksgiving Holiday: No Classes**
November 27	Ch. 10 – Fama – French Three Factor Model & Four Factor Model
November 29	**2nd Exam (Chapters 6, 7, 8, 9 and 10)**

December 3	Ch. 11 - The Efficient Market Hypothesis
December 6	**Presentation of Assignments**

*The schedule may be subject to change during the term.

- ASSIGNMENTS –

Assignments are an integral part of this course and your grades. They are designed to amplify classroom work and to help you more fully understand the concepts in each chapter. Assignments are of two types. First, there is a team news analysis and classroom presentation, with a written summary. Finally there is a final assignment, which will be completed as a team project with basing on work in the latter part of the semester. Therefore, all the assignments require teamwork and the <u>same</u> team will work on the both assignments. You are required to select your team members and inform me no later than **September 12, Wednesday**.. Teams may have a minimum of four (4) to a maximum of five (5) members. As soon as I learn the team makeup and number of teams, I will randomly select the order in which the teams will present their news analysis.

Note: While preparing the hardcopies of both of the assignments please use *Single Space* and *Times New Roman 11 Font* (I find it more practical to read less number of pages.)

News Analysis & Presentation: The news analysis exercise should be considered as a mini-lecture for the class. You are going to be the expert on this topic. The assignment is intended to focus your attention on the financial press as it relates to investments. An example of such an article can be found in the *Appendix*. Each team is required to select an article that appeared in the financial press, either in <u>*Financial Times*</u> or <u>*Wall Street Journal*, no more than 15 days prior to the due date of assignment</u> (Please note that the articles from Bloomberg.com nor finance.yahoo.com will not be accepted for presentation.). This article will be one that illustrates or amplifies concepts we have discussed in class or raises questions about how these concepts apply in practice. A good analysis will summarize the story and show how the reported phenomenon conforms to the theory or diverges from what the theory predicts. You are encouraged to introduce material from other sources where you feel this will help the class to put the story into proper context. Your presentation to the class should be no more than 10 minutes, followed by a question and answer session. In addition to the oral presentation, you are required to submit your work in writing, accompanied by the <u>copy of the article</u> and <u>references</u>. You will be graded on the quality of your presentation and the thoroughness of the analysis. Each team member must participate fully in this project although not all members of the team have to present. Exactly how the presentation will be made is a decision for the group. The assignment must be submitted with a signature page with the names and signatures of each member of the group.

Final Assignment: This assignment is worth 20% of your grade. It must be submitted, in hard copy, at the last day of the classes, which is <u>**December 6, 2012**</u>. It is a group assignment based on the group you currently have for the news analysis & presentation assignment. The assignment must be typed and accompanied by a signature page with the names and signatures of each member of the group. <u>**No late submissions will be accepted.**</u> The details of the assignment will be announced later during the term. The final assignments are going to be presented by each group for 5 to 10 minutes during the class on December 6, 2012.

Appendix
(Example of an Article for the Assignment of News Analysis & Presentation)

Publication: Financial Times (USA); Date: May 28, 2011; Section: Financial Times; Page: 16
Markets

THE DRAWBACK WITH ETFS LIES IN THEIR ADVANTAGES

John Authers THE LONG VIEW

Regular readers of the Weekend FT know that ETFs are a great idea. Exchange traded funds are cheap, they allow retail investors access to whole asset classes that were previously in effect closed to them, and they allow for easy expression of a macro view.

That matters. Over time, asset allocation decisions tend to be far more important than making choices between different stocks. But the transaction charges involved in, say, switching from US equities to industrial metals, could be prohibitive. With ETFs, every retail investor with an internet connection can make their own attempt at being a global macro hedge fund manager.

That hints at the problem with ETFs. As the sector has grown – and it passed $1,000bn in assets in the US alone at the end of last year – so the worries and concerns have begun to multiply. As with other sensible financial innovations, the risk is that they can be misused. Running a global macro hedge fund is difficult. If too many people try it, the risks grow that they come a cropper. Perhaps more importantly, this adds to the risk that they take the international money markets down with them.

Even though it makes eminent sense for any given individual investor to use ETFs, there are at least three reasons why it might make sense to restrict ETFs' growth. First, they enable and encourage herding. This is a human tendency, which has driven investment bubbles for centuries and it is difficult to stand away from the crowd. ETFs neatly channel investment in a given sector into the specific securities included within their funds. The remarkable correlations between formerly disparate asset classes that have occurred since the crisis would surely have been harder to sustain without the growth of ETFs.

Second, they speed up markets and encourage short-termism. ETFs, in concept, are open-ended funds that are used as investment vehicles. Passive index-tracking mutual funds have been around for a while, and they are not traded on exchanges. They allow you to enter or exit any day you like, which is more than enough flexibility for any sensible long-term investor. What is the advantage of being traded on an exchange? For those who already have an account with a broker, trading on an exchange probably works out cheaper. But far more importantly, they allow you to trade by the minute, potentially moving between asset classes several times in the same day. Split-second trading, like selling commodities and switching in to bonds the moment that unemployment numbers come out worse than expected, is possible with exchange traded funds, and not with traditional passive mutual funds. This puts swift trading within the reach of many people who have never tried it before. It also enables those traders who were already in the business of trading fast to do so in very much greater volumes. All of this is potentially destabilizing.

Third, ETFs can foster confusion. Difficult financial engineering goes in to ensuring that an ETF's price moves in line with the asset it is supposed to be tracking. Investment trusts are essentially the same thing – large bundles of securities that can be bought and sold on-exchange – and they can trade at very steep discounts to their net asset value. The collateral that ETF managers hold at any point can vary widely from what it says on the label.

They also foster confusion by coming in an unnecessary range of varieties. Passive investment should not require too many categories. But according to BlackRock, at the turn of this year there were already 894 ETFs in the US, with another 828 in the pipeline. ETFs have a genuine virtue in making investing simpler, but such overproduction risks going in the opposite direction. None of this means that this innovation should be junked. Financial innovation understandably has a bad name these days, but credit default swaps, to take one controversial example, started as a sensible way to allow banks to spread out their credit exposures. Similarly, ETFs have a role to play. That is obvious from the mere fact that they have such obvious uses for retail investors.

Direct intervention should be avoided if at all possible. It should be obvious to those in the industry that they are at risk of killing the goose that lays the golden eggs. But if they do not regulate their own behaviour, then perhaps ETFs should be made subject to the same ownership restrictions as hedge funds – only "qualified" (in other words, very wealthy) investors should be allowed to hold them. And most retail investors should ask if they really the need the ability to trade on an exchange, and deliver themselves from the temptation to try day-trading by going with a traditional mutual fund instead.