THE UNIVERSITY OF AUCKLAND
Te Whare Wānanga o Tāmaki Makaurau
NEW ZEALAND

BUSINESS SCHOOL

Course Outline
Finance 761: PORTFOLIO THEORY AND INVESTMENT ANALYSIS (15 POINTS)

Semester 1 (1173)

This course covers contemporaneous issues in investments and builds on knowledge acquired in Finance 261 and 361. This is a graduate course geared towards students who will conduct research in the form of dissertation or thesis. The course is designed to give students exposure to a wide variety of research in the area of empirical asset pricing. The course is based on seminars in which the students present assigned papers.

Location and Time

OGGB Room 205, Thursday 9 am -12 pm

Assessment
The total course mark used to determine your overall grade is calculated as follows

	MARKS
Assignments (10 + 5 + 15)	30
Participation	10
Presentations	20
Test	40
Total Course Mark	100

Presentation
From Week 4 onwards each student will be responsible for two presentations which are expected to go beyond the paper as opposed to giving a mere summary of the paper. In particular, the presenters should address questions such as: What is the importance of the paper? How does it relate to the literature in the area? (A brief overview of related papers is necessary to address this question.) What are the practical implications of the paper? Are there any unanswered questions? Can the research design be improved? Are there any ambiguities? Seminar presenters are also expected to lead active class discussion in which everyone participates. (Note reading slides or notes will discourage others from participating.) Engaging other students and keeping lively discussion going is an important factor determining

presentation grades. Presenters are encouraged to see the lecturer and discuss their assigned papers well ahead of time.

You will do a group presentation on a topic in the area of "Hedge Funds".

Participation
This course relies heavily on students' participation in seminars. Learning in a seminar is an evolving process which includes outside preparation and seminar discussions. Everyone is expected to ask questions, raise issues, contribute and challenge the opinions of others. Participation grades will be determined by a combination of evident preparation, frequency and quality of participation. Participation will account for 10% of your final grade.

Note Out of respect for all participants in FIN761, mobiles need to be switched off during class and laptops/tablets are not allowed!

Assignments
Students who do not have presentation responsibility are required to provide a critique with at least two questions for each paper. A good question helps others better understand the paper and/or leads to interesting class discussion. At least one of the questions must be brought up for discussion during the in class seminar presentation. Questions may relate to the motivation of the paper, or a specific detail of the methodology used. Alternatively you may have a query as to the relevance of the research to New Zealand or the possibility of conducting similar research using a different data set. The written questions must be handed in at the start of each session. This counts for 10% of your final grade.

You also have to write a referee report. The referee report should be no longer than three pages, one and a half spaced. The paper for the referee report will be distributed in class later on. The referee report counts for 5% of your final grade.

The remaining 15% is allocated to an empirical assignment. The assignment will require the use of computers. We recommend that you use SAS, although any statistical programming language such as R, Matlab, EViews, Stata or Gauss will work as well. Excel may also work but it will be impractical and tedious without macro programming. Details about the empirical assignment will be announced later.

Test
The test is open-book and counts for 40% of your final grade.

Learning Outcomes

At the successful completion of the course, students should be able to
1. Understand the core principles of asset pricing
2. Understand current empirical research in the area of asset pricing
3. Critically evaluate claims of successful investment strategies
4. Come up with interesting research questions in the field of asset pricing

In addition to developing your knowledge of and research skills in asset pricing, Finance 761 aims to develop generic skills as required by relevant professional bodies and the University of Auckland Business School (UABS). At the end of the course, you should be able to

5. Demonstrate verbal, written, and interpersonal communication skills, at a level where you can communicate knowledge clearly and succinctly.

Teaching Staff

Professor Henk Berkman
Room 577, Owen G. Glenn Building
E-mail h.berkman@auckland.ac.nz
Phone 373 7599 ext. 84861 (Office hours by appointment)

Professor Dimitri Margaritis
Room 571, Owen G. Glenn Building
E-mail d.margaritis@auckland.ac.nz
Phone 373 7599 ext. 87181 (Office hours by appointment)

Course Structure

This course is spread over 10 weekly research seminars.

Week 3 (Thursday, 23 March) Asset Pricing from 361 to 761 Henk Berkman

- Fama, Eugene F., and Kenneth R. French (1992) "The cross-section of expected stock returns." *Journal of Finance* 47(2), 427-465.
- Fama, Eugene F., and Kenneth R. French (1993) "Common risk factors in the returns on stocks and bonds." *Journal of Financial Economics* 33(1), 3-56.
- Fama, Eugene F., and Kenneth R. French (2004) "The capital asset pricing model theory and evidence." *The Journal of Economic Perspectives* 18(3), 25-46.

Week 4 (Thursday, 30 March) More on Asset Pricing and Anomalies Henk Berkman

- McLean, R. David, and Jeffrey Pontiff. (2016) "Does academic research destroy stock return predictability?" *The Journal of Finance* 71.1 5-32.
- Berkman, Henk, Ben Jacobsen, and John B. Lee (2011) "Time-varying rare disaster risk and stock returns." *Journal of Financial Economics* 101(2), 313-332.

Week 5 (Thursday, 6 April) Empirical regularities Dimitri Margaritis

- Andrew Ang, Robert Hodrick, Yuhang Xing, and Xiaoyan Zhang (2006) "The cross-section of volatility and expected returns," *Journal of Finance* 51(1), 259-299.
- Narasimhan Jegadeesh and Sheridan Titman (1993) "Returns to buying winners and selling losers Implications for stock market efficiency," *Journal of Finance* 48(1), 65-91.

Week 6 (Thursday, 13 April) Behavioural Finance Dimitri Margaritis

- Malcolm Baker and Jeffrey Wurgler (2006) "Investor sentiment and the cross-section of stock returns," *Journal of Finance*, 61(4), 1645-1680.
- Kenneth A. Froot and Emile M. Dabora (1999) "How are stocks affected by the location of trade," *Journal of Financial Economics*, 53(2)189-216.
- Robert F. Stambaugh, JianfengYu and YuYuan, (2012), "The short of it Investor sentiment and anomalies," *Journal of Financial Economics*, 104(2), 288-302.

Week 7 (Thursday, 4 May) Short-selling Henk Berkman

- Ljungqvist, Alexander, and Wenlan Qian (2014) "How Constraining Are Limits to Arbitrage? Evidence from a Recent Financial Innovation." No. w19834. National Bureau of Economic Research. Downloadable from ssrn.com
- Drechsler, Itamar, and Qingyi Freda Drechsler (2014) "The shorting premium and asset pricing anomalies." No. w20282. National Bureau of Economic Research.
- Eli Ofek and Matthew Richardson (2003) "Dotcom mania: The rise and fall of internet stock prices." *Journal of Finance*, 58(3), 1113 -1138.

Week 8 (Thursday, 11 May) Hedge Fund Session

Week 9 (Thursday, 18 May) Investment Professionals Henk Berkman

- Lou, Dong (2012) "A flow-based explanation for return predictability." *Review of Financial Studies*, 25 (12), 3457-3489.
- Loh, R. K., & Stulz, R. M. (2011). When are analyst recommendation changes influential?. *Review of Financial Studies*, *24*(2), 593-627.

Week 10 (Thursday, 25 May) Market Microstructure Henk Berkman

- Hans R. Stoll (1989) "Inferring the components of the bid-ask spread Theory and empirical tests," *Journal of Finance*, 44(1), 115-134.
- Berkman, Henk, Paul D. Koch, and P. Joakim Westerholm. "Informed trading through the accounts of children." *The Journal of Finance* 69.1 (2014) 363-404.

Week 11 (Thursday, 1 June) Dynamics of expected returns Dimitri Margaritis

- E. Scott Mayfield (2004) "Estimating the market risk premium," *Journal of Financial Economics*, 73, 465-496.
- Tobias J. Moskowitz, Yao Hua Ooi and Lasse Heje Pedersen, 2012, "Time series momentum," *Journal of Financial Economics*, 104(2), 228-250.

Week 12 (Thursday, 8 June) Bond market liquidity risk Dimitri Margaritis

- Nils Friewald, Rainer Jankowitsch, and Marti G. Subrahmanyam, 2012, "Illiquidity or credit deterioration A study of liquidity in the US corporate bond market during financial crises," *Journal of Financial Economics* 105, 18-36.
- Jack Bao, Jun Pan and Jiang Wang, 2011, "The Illiquidity of Corporate Bonds," *The Journal of Finance* 66(3), 911-946.