

PORTFOLIO MANAGEMENT

MODULE: OAP - FINANCIAL MARKETS

Numbers of hours and language: 15 (English)

Lecturer : Purnur AGIACAI SCHNEIDER, FRM

Learning objectives:

This course begins by unfolding the need for investing in financial markets, the investment environment and instruments, and then proceeds through the stages of the portfolio management process. These stages include the formulation of investment policy, passive and active asset allocation, portfolio construction, and portfolio performance evaluation. In the process, we will discuss theories, principles, and techniques of portfolio management. The course will end with a description of professional investment managers.

Course Contents:

I. Introduction to Portfolio Management

1. The Investment Problem

- Why to invest?
- What are the risks?

2. The Investment environment

- Major players
- Financial intermediation
- Financial markets
- Regulation and CFA standards

II. The Portfolio Management Process:

1. Formulation of investment policy

- Investment Objectives and Returns

2. Strategic asset allocation

- Specify Asset Classes
- Specify Capital Market Expectations
- Derive the Efficiency Frontier
- Find the optimal asset mix with modern portfolio theories: CAPM, APT, Index Model
- Efficient Market Hypothesis

3. Active Portfolio Management

- Market Timing
- Security Selection: Treynor-Black Model

4. Execution of portfolio decisions

- Trading Costs
- Portfolio Monitoring and Rebalancing

5. Performance measurement and evaluation

- Performance Evaluation
- Performance Attribution
- Performance-Based Style Analysis
- Performance Appraisal
- Performance Presentation (GIPS)

III. Professional money managers

- Types of investment organizations
- Characteristics of Hedge Funds
- Hedge Fund Investment styles
- Massive Hedge Fund failures and successful investors

Course Materials:

- Lecture Notes
- Main Textbook: Zvi Bodie, Alex Kane and Alan J. Marcus, Investments
- Alternative Textbook: Frank Reilly and Keith Brown, Investment Analysis and Portfolio Management
- Recommended Readings: optional

Assessment:

Optional Track Exam covering credit 3 of Optional Tracks: 30 minutes – 10% of final grade. The tested material will cover the lecture notes. The recommended readings will not be tested in the exam, but may be a helpful reference in understanding the course topics. The exam is closed book with calculator. Students will be allowed to use a previously prepared (maximum 2-pages) formula sheet.

Recommended Readings:

- What Practitioners need to know about...
 - Utility
 - Risk and Return
 - Optimization
 - Hedging
 - Factor methods

by Mark Kritzman

- Managing Assets in Turbulent Markets, Mark Kritzman, 2009
- The Capital Asset Pricing Model: Some Empirical Tests, Fischer Black, Michael C. Jensen, Myron Scholes, 1972
- Risk, Return and Equilibrium: Empirical Tests, Eugene Fama, James MacBeth, 1973

- Some Anomalous Evidence Regarding Market Efficiency, Michael C. Jensen, 1978
- Efficient Markets Hypothesis, Andrew W. Lo, 2007
- Prospect Theory: An Analysis of Decision under Risk, Daniel Kahneman and Amos Tversky, 1979
- Reconciling Efficient Markets with Behavioral Finance: The Adaptive Markets Hypothesis, Andrew Lo, 2005
- Global Portfolio Optimization, Fischer Black and Robert Litterman, 1992
- The Importance of Asset Allocation, Roger Ibbotson, 2010
- An Introduction to Omega, Con Keating and Bill Shadwick, 2002
- Hidden Survivorship in Hedge Fund Returns, Rajesh K. Aggarwal and Philippe Jorion, 2010
- Delegated Portfolio Management: Are Hedge Fund Fees Too High? François-Serge Lhabitant, 2007
- Hedge Funds: Past, Present and Future, René Stulz, 2007
- Modern Portfolio Theory, Financial Engineering, and Their Roles in Financial Crises, Harry M. Markowitz, 2009
- Standards of Practice Handbook, 2005
- Asset Manager Code of Professional Conduct, 2009
- Global Investment Performance Standards, 2010