

University of Kansas
School of Business
Business 752 – Investment Analysis

Syllabus

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Spring Semester 2006
6:30 – 10:10 pm
Regents Center 265

Course Overview. “Investments” is typically the second course in an MBA finance sequence. At KU, the field of investments is covered in two short courses. The first course provides an overview of instruments (stocks, bonds), their historical returns, institutions (stock exchanges, mutual funds), portfolio theory and optimization, key results from stock market research, portfolio performance evaluation, and international stock markets. This course, “Investment Analysis,” addresses the following topics:

- (a) fixed income instruments (bonds) and bond portfolios;
- (b) the analysis of individual stocks and companies; and
- (c) options, futures and swaps.

This course will also cover three case studies: one on merger arbitrage (Farallon), one on a famous case of quantitative analysis gone awry (Long-Term Capital Management), and one on a leading firm in sub-prime mortgage lending (Novastar).

Again, my aim will be to offer a mix of analytical skills, on the one hand, and institutional and historical knowledge, on the other.

I will repeat the following from the previous syllabus: The ultimate aim is to give you the tools and knowledge to operate as an investment professional in an environment that is increasingly quantitative, increasingly complex and increasingly global. I am aware that some class participants have extensive math backgrounds while others do not. I’ll try to focus on relatively simple mathematical examples and provide the institutional and economic context that provides meaning for the math.

The explicit aim is to offer training for a career in finance. The material in this course should also help you make better decisions with respect to your retirement and personal finances.

Text

Bodie, Kane and Marcus (BKM), *Investments*, McGraw-Hill Irwin, 2005 (6th edition). This is a widely used, standard text. It covers relevant institutional knowledge, the math, formal definitions, questions (many used on the CFA or Chartered Financial Analyst exams), and background for further courses and specialized literature.

Office Hours

My official office hours:

10:00 – 11:00 am Wednesdays, Summerfield 306

Office hours aside are a university requirement. Let me emphasize, I welcome visits and inquiries at other times. Feel free to call me at 785-864-7541 or send me an email (bittlingmayer@ku.edu).

Course Requirements

Case Assignments (Farallon and LTCM)

Final Exam

Your grade will be determined by the following formula:

$$\text{Grade} = (0.30) \times (\text{Case Assignment}) + (0.70) \times (\text{Final Exam})$$

I appreciate class participation. It helps me, and it helps the class as a whole. Class participation can affect your grade, increasing it, say, from a B to a B+ or a B+ to an A-.

Weekly problem sets. I will make available weekly problem sets, as well as model answers. However, I will not grade or collect them. The problem sets and the case assignments will form the basis the final exam.

Blackboard

For information about the course, including assignments and handouts go to “Blackboard,” at

<https://courseware.ku.edu>

Class Sessions

Current Events. Read the *Wall Street Journal* and stay informed on current developments in stock and bond markets. I’ll try to come up with a topic every week, but I especially welcome suggestions from class participants.

Lecture. Our job is to get through the material in Bodie, Kane & Marcus, *Investments*.

Professor’s Corner. I’ll tackle some aspect of academic research that I think might be of interest to practitioners. I also welcome suggestions.

Final Exam. These will be closed-book exams. You may bring one sheet of paper, maximum size of 8-1/2 x 11 inches, with formulas and other notes front and back. You may also use a calculator. Use of calculators to store information (e.g. formulas) will be viewed as a violation of the KU honor code. During the exam, you must place all extraneous material (books, notebooks, briefcases) at the front of the room.

Academic Misconduct

The honor code for the School of Business is available at:

http://www.business.ku.edu/gen/bschool_generated_bin/documents/basic_module/honorcode.pdf

You will be expected to sign the following pledge on each exam: "On my honor, I have neither given nor received any unauthorized aid on this exam. Nor am I aware of anyone giving or receiving any unauthorized aid on this exam."

I view cheating on the exams as a serious offense, especially at the graduate level and for a course aimed at professionals.

Week	Date	Topic	Chapter in BKM
1	March 28	Bond Prices and Yields	14
		Term Structure	15
2	April 4	Managing Bond Portfolios	16
		Macroeconomics and Industry Analysis	17
3	April 11	Equity Valuation Models <u>Case: Farallon Capital Management*</u>	18
4	April 18	Financial Statement Analysis <u>Speaker: Todd Banks, Founder, <i>Blackthorn Investment Group</i>, “Expectations Investing”</u>	19
5	April 25	Options	20, 21
6	May 2	Futures and Swaps <u>Case: Long-Term Capital Management*</u>	22, 23
	May 6	<i>Berkshire Hathaway Annual Meeting, Omaha</i>	
7	May 9	The Mortgage Market and Novastar Morgan Stanley reading on “Mortgages”* Plus additional material to be assigned* <u>Speaker: Michael Bamberg, Chief Investment Officer, <i>Novastar Financial Inc.</i></u>	
8	May 16	FINAL EXAM	

* Will be distributed.