

MIDDLE EAST TECHNICAL UNIVERSITY
Department of Business Administration

BA 4814 & BA 5814 – Investments

Fall, 2008

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Yahoo groups for this course: <http://groups.yahoo.com/group/ba4814f08>

Course Objectives

The primary purpose in this course is to introduce students to the asset pricing models and the concepts of investments. In the first two thirds of the course, we will focus on characteristics of traditional equity and bond markets. In this section, we will also talk about two common analyses techniques, namely fundamental and technical analyses, used for identifying investment alternatives. In the last one third of the course we will focus on professional portfolio management and evaluation of portfolio performance.

Learning Outcomes

Students who complete this course should be able to:

- identify and describe different types of risks inherent in each investment
- understand the importance of diversification in portfolio management and its impact on portfolio risk
- discuss the main differences and similarities between the CAPM and the APT
- estimate the systematic risk of a security in a CAPM and APT framework
- define duration and convexity, and have an understanding of their impact on bond prices
- understand the principles underlying professional portfolio management and portfolio performance evaluation

Assessment

To achieve these goals and learning outcomes, I will be evaluating your performance in class on a continuous basis and giving you timely feedback on your performance. This assessment will be done via the interim and final exams, periodic homework assignments from the end of chapter problems, class participation, homework projects and Virtual Stock Exchange Game.

Course Prerequisites

Students enrolled in this course should have completed the equivalent of a course in Financial Management (BA 2802, BA 5802 or an equivalent). In addition to this, students should also have completed basic courses in economics, accounting and statistics. If you haven't taken these courses and you are still interested in taking this course, please talk to me as soon as possible.

Course Material:

- (a) Required Textbook: Investment Analysis and Portfolio Management by Frank K Reilly and Keith C. Brown, 8th edition, Thomson, 2006.
- (b) Regular reading of financial magazines and newspapers.

Course Requirements

Interim Exams

Students will take two interim exams. These exams will be administered in the evenings and will start at 17:45. These exam dates are **October 23** and **November 25, 2007**. Please make a note of these exam dates since they are firm and will not be changed unless something *very important* and *unforeseeable* comes up during the term.

Final Exam

A comprehensive final exam will be given on **December 29 or 30, 2008** (Monday or Tuesday) at 17:45. For the exact date, please check the bulletin boards or the website of the Department. Please note that this is **NOT** during regularly scheduled final exam week.

No exam make-ups will be given, except for extreme reasons. If you believe that you have an extreme reason, please try to notify me in writing before the exam and obtain my permission for not taking the exam. Please make sure that you added all supporting documents to your letter. If you cannot notify me before the exam, then try to do so as soon as possible after the exam in writing. If I am convinced that you had an extreme reason, I will redistribute the weight of the exam that you missed to the remaining exams.

Virtual Stock Exchange Game

In an effort to integrate actual investment decision making into the classroom setting, students will play a virtual stock exchange game that allows them to buy and sell securities on the Istanbul Stock Exchange (ISE). This game gives the students an opportunity to apply the material that they learned in the class to (almost) real life situations. Students will be assigned to groups of 4 or 5 members by the instructor. Each group manages an investment portfolio of 100,000 YTL. This money can only be invested in stocks trading on the ISE. Every time they trade, they have to give a written explanation and justification for their transactions. The game starts on **October 13, 2007**. The initial report explaining the strategy that will be followed by the group is due in class on October 13, 2008 as well. Stocks are assumed to be purchased at the closing prices on each trading day. The last day of trading in stocks is the **December 5, 2008**. Any stocks that are not sold by that day will be liquidated at the closing prices of the **December 5, 2008**. At the end of the game, groups will submit a final report that explains their investment strategy and lessons they learned from this game. This final report is due on, **December 22, 2008** in class. In this final report, groups should also evaluate the performance of their investment portfolio at the end of the game. The performance of students in this game will be evaluated based on their groups' standing in terms of the value of their portfolio at the end of the game and the validity of or their strategy and justifications that they provide for their transactions.

Scheduling

The following deadlines are very strict and will NOT be changed under any circumstances:

Trading Starts	Oct. 13, 2008
Initial Report is due	Oct. 13, 2008
Trading Ends	Dec. 5, 2008
Final Report is due	Dec. 22, 2008

Grading

Your grade on this game will mainly be based on the soundness of your analysis and consistency of your trades throughout the game with the strategy that you specified at the

beginning of the game. However, groups that are ranked highest based on their performance on this game, will get an additional 10 points on their report. This report will have a weight of 80% in your Virtual Stock Exchange Game grade.

Since this is a group project, each of you will be required to evaluate the contribution of your groupmates to the success of your group. This evaluation will be done during the final exam and will have a weight of 20% in your Virtual Stock Exchange Game grade.

Details on the initial and final reports of the Virtual Stock Exchange Game will be provided later in the semester.

Class Participation

Students are expected to participate in class discussions. A student who did not participate at all but came to all the class sessions will only get 40% of the class participation grade. A seating chart is maintained and absences are recorded periodically.

Homework Projects

There will be two homework projects done during the semester. These homework projects should be done individually and they are designed to assist you in making investment decisions. In the first project, students will work with the set of companies recommended by themselves and chosen by the instructor. They will obtain the efficient frontier for these securities. The second project relates to the analysis of common stocks. In this project, students estimate the risk and expected return of a company that they choose in a CAPM and APT framework. Details on these projects will be provided later in the semester. Due dates for these assignments are shown on the tentative course outline. Any unexpected changes to these due dates will be announced well in advance in class. Late assignments will not be accepted under any circumstances. These two homework projects are weighted equally and in total will comprise 20% of your course grade.

Homeworks

Students will be required to submit their solutions to some end of chapter problems from the book on a regular basis. These problems will be discussed in class on the day that they are due. Therefore, late homeworks will not be accepted. Students can work in groups on these homeworks as long as they provide the list of students that they worked together at the upper right hand corner of the first page of their own homework. If a student does not provide the list of students with whom s/he worked together on the homework, this student will be penalized for cheating on the homework and get a grade of 0. Even if homework is a group product, each student should still submit a separate individual homework for herself or himself to get a grade for that homework.

Student Background Form

Students are expected to fill out a student background form. Due date for these forms is **September 24, 2008**. Students should submit their forms in class on that day. At the beginning of the class on September 24, 2008, the instructor will take digital photos of the students in class. Five points will be deducted from the overall grade of students for late submission regardless of how late the submission is. These forms will help the instructor learn the names of students and associate names with faces.

Yahoo Groups

Students are required to become a member of the yahoo groups that I created for this course. All the course material, your grades, assignments and announcements will be posted there. So, if you are not a member then you will not have access to this material. To become a member of this group, you need have a yahoo ID. If you don't have one, you need to get one.

It does not take that long to get a yahoo ID. Once you have your yahoo ID, please to go to the following web site: <http://groups.yahoo.com/group/ba4814f08> and select "Join this Group". Then it will ask for your yahoo ID and password. After you enter the required information, it opens up a page for you. In the "Comment to Owner" section on that page, enter your full name. I check these names against the student list and give approval to those who are on my list of students for this course. Please do this as soon as possible.

Grade Determination

Grades are based on judgmental evaluation of student performance by the instructor as in any other course. Students' grades in this course will be based on their performance on two interim exams, a final exam, two homework projects, several end of chapter problem assignments, Virtual Stock Exchange Game and class participation. The following approximate weights will be used in determining final grades of students:

Interim Exams(Oct. 23 and Nov. 25, 2008)	15% each
Final Exam (Dec. 29 or 30, 2008)	15%
Virtual Stock Exchange Game (Initial and Final Report and performance in the game)	15%
Class Participation	10%
Homework Projects	20%
Homeworks	10%

Rules of Academic Honesty September 2008

Cheating: All university, faculty, and department principles on academic honesty will be strictly enforced. The usual consequence for academic dishonesty is failure in the course and additional disciplinary action. Examinations are individual and are to be completed without unauthorized outside assistance. Persons observed cheating during examinations will automatically receive a failing grade in the course. Homework assignments are individual, unless otherwise specified by the instructor, and are to be completed without unauthorized outside assistance as well. Persons observed cheating in their homework assignments will receive a score of zero for the portion of the semester grade that is allocated to such assignments. In addition to the consequences above, the instructor will initiate disciplinary action against the student(s) involved in academic dishonesty.

Plagiarism: The instructor assumes that students will do their own work. By placing their names (individual or team) on assignments, students are affirming that the contents are their

original work. Ideas should be stated in the student's own wording. Violation of this provision will be considered as unethical behavior, subject to disciplinary action. If you have any doubt about the use of a specific material, see the instructor ahead of time.

Civility in the Classroom: Students are expected to assist in maintaining a classroom environment which is conducive to learning. In order to assure that all students have an opportunity to gain from time spent in class, students are prohibited from using cellular phones or beepers, eating or drinking in class, arriving late or leaving early without prior permission, or engaging in any other form of distraction. Inappropriate behavior in classroom shall result in, minimally, a request to leave class.

Examination Rules: Students must present a valid METU Student ID before they can be allowed into the examination rooms. Those students who cannot present this ID will not be allowed into the examination room under any circumstances. Cellular phones must be turned off and stowed away during the examinations. Students whose phones are observed to be turned on and/or not stowed away will receive a score of zero for the examination.

Tentative Class Schedule (subject to change)

<u>Date</u>	<u>Topic</u>	<u>Reading</u>
Sept. 17	The Investment Setting	Chap. 1
Sept. 22-24	Organization and Functioning of Securities Markets	Chap. 4
<i>Sept. 24</i>	<i>Student Background forms are due in class.</i>	
<i>Sep. 29-Oct. 1</i>	<i>No Class (Religious Holiday)</i>	
Oct. 6-8	Security Market Indexes	Chap. 5
<i>Oct. 6</i>	<i>The Virtual Stock Exchange Game groups will be announced in class.</i>	
<i>Extra Class</i>	There will be two extra sessions either on Oct. 11 or 18, 2008 (Saturday)	
	Efficient Capital Markets	Chap. 6
Oct. 13-15	An Introduction to Portfolio Management	Chap. 7
<i>Oct. 13</i>	<i>The Virtual Stock Exchange Game starts. Initial Reports are due in class.</i>	
Oct. 20	An Introduction to Asset Pricing Models	Chap. 8
Oct. 22-27	An Introduction to Asset Pricing Models Multifactor Models of Risk and Return	Chap. 8 Chap. 9
<i>Oct. 23</i>	<i>First Interim Exam (Chap. 1, 4, 5, 6 and 7)</i>	
<i>Oct. 29</i>	<i>No Class (National Holiday)</i>	
<i>Extra Class</i>	There will be two extra sessions on Oct. 25 or Nov. 8, 2008 (Saturday)	
	Macroanalysis and Microvaluation of the Stock Market	Chap. 12

Nov. 3-5	Industry Analysis Company Analysis and Stock Valuation	Chap. 13 Chap. 14
Nov. 5	<i>First Homework Project is due in class.</i>	
Nov. 10	Company Analysis and Stock Valuation	Chap. 14
Nov. 12-17	Technical Analysis	Chap. 15
Nov. 19-24	The Analysis and Valuation of Bonds	Chap. 18
Nov. 25	<i>Second Interim Exam (Chap. 8, 9, 12, 13, 14 and 15)</i>	
Nov. 26-Dec. 1	Evaluation of Portfolio Performance	Chap. 25
Dec. 3-15	Professional Asset Management	Chap. 24
Dec. 5	<i>Second Homework Project is due in class.</i>	
Dec. 5	<i>Trading ends for the Virtual Stock Exchange Game.</i>	
Dec. 8-10	<i>No Class (Religious Holiday)</i>	
Dec. 17-22	International Diversification Bodie, Kane and Marcus Chap. 25	
Dec. 22	<i>Final Report on the Virtual Stock Exchange Game is due in class.</i>	
Dec. 24	Asset Allocation Decision	Chap. 2
Dec. 24	Exam Review	
Dec. 29 or 30	<i>Comprehensive Final Exam (at 17:45)</i>	