PORTFOLIO ANALYSIS AND MANAGEMENT

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Objective: Successful portfolio management requires the development of a broad array of quantitative and qualitative skills, involving an analysis of both the investment instruments available in the capital markets and the objectives and constraints of the intended investor. The purpose of this course is to acquaint the student with conventional and state-of-the-art tools currently employed in the asset management industry. Through a series of lectures, projects, and case analyses we will examine the process of creating, maintaining, and evaluating the performance of profitable investment portfolios. This course, which will follow the general approach used in the Chartered Financial Analyst (CFA) candidate training program, is appropriate for anyone contemplating a career as an investment professional, portfolio manager or security analyst. A prerequisite for this course is the successful completion of FIN 367.

Texts: Required - Investment Analysis and Portfolio Management, 9e by F. Reilly and K. Brown (South-Western Cengage Learning, 2009)
Cases & Readings Packet (Available at University Copy Center, 3rd Floor GSB)

Recommended – A Random Walk Down Wall Street, 10e by B. Malkiel (Norton, 2011)
Pioneering Portfolio Management, 2e by D. Swensen (Free Press, 2009)


Grades: Your performance in this course will be evaluated in the following manner:

Midterm Examination I 23%
Midterm Examination II 23%
Final Examination 23%
Group Projects 23%
Class Participation 8%
Class Participation 100%

A more complete discussion of the method used for assessing your performance can be found below in the Grading Policies section of the syllabus.
The course is divided into the following parts and sections:

**Part 1:**
- I - Portfolio Formation and the Asset Allocation Process
- II - Risk, Return, and Portfolio Construction

**Part 2:**
- III - Equity Portfolio Management
- IV - Fixed-Income Portfolio Management

**Part 3:**
- V - Professional Asset Management
- VI - Portfolio Performance Measurement
- VII - Derivatives in Portfolio Management

(i) **Location of Daily Class Sessions:**
- As a rule, the class will meet every Monday and Wednesday of the semester in the regularly assigned classroom (CBA 4.330). Each class session will run between 75-80 minutes in length.

- On a few occasions during the semester, we may hold our class meeting in the Financial Trading and Technology Center (FTTC) classroom to facilitate our use of the myriad financial databases now available to us. These FTTC sessions will be announced in advance and take place during the normal class time.

(ii) **Class Session Topic Coverage:**
- The Course Outline gives a specific session-by-session breakdown of the topics we will cover in class. Throughout the semester, I will announce in class the details of the precise assignment for subsequent sessions; this information will also be posted in the appropriate location on the course home page. If you have any questions about what is to be covered in any class, please consult the website or ask me directly before the class session.

- The course home page (which is listed on the first page of this syllabus) will serve as an important mechanism for communicating course-related information. However, anything crucial to your class performance that is posted online also will be available through either more traditional outlets (e.g., e-mail, class handouts) or upon request. In addition to electronic versions of many of the materials distributed in class, the website will contain a file that summarizes the material covered in previous classes as well as one that specifies the required readings and problems for the next session. These files will be updated—assuming there are no network problems—no later than 2:00 pm on the day before a class session.

- PowerPoint files containing the class lecture notes will also be posted no later than 2:00 pm on the day before a class session. As a rule, these notes will not be distributed in class; if you would like to have them available during the lecture, you should download them (in hard copy form) and bring them with you to class.

(iii) **Examination Schedule and Coverage:**
There will be an examination given at the end of each of the three parts of the course:

- The first midterm examination will consist of two parts: (i) an in-class portion of the exam will be given during the regularly scheduled class period on **Monday, February 21**; and (ii) a take-home portion of the exam will be distributed on **Friday, February 18** and be due before the in-class portion of the exam commences. Collectively, the test will include all of the material covered from the beginning of class through the previous class session.

- The second midterm examination will consist of two parts: (i) an in-class portion of the exam will be given during the regularly scheduled class period on **Monday, April 4**; and (ii) a take-home portion of the exam will be distributed on **Friday, April 1** and be due before the in-class portion of the exam commences. Collectively, the test will include all of the material covered after the first examination through the previous class session.

- The final examination will be given during **Finals Week**. It will not contain a separate take-home portion. The length and topic coverage of the final exam will be determined at a later date.
Grading: As noted, your mastery of the course material will be evaluated with three distinct graded components: Examinations, Group Projects, and Class Participation

(i) Examinations:
- The three examinations given during the semester will carry equal weight toward your final grade. The tests will involve a combination of questions designed to assess your problem-solving, analytical and interpretative (i.e., essay) skills.

- The in-class portion of each test will be closed-book, closed-note. All necessary materials (i.e., test booklet, equation sheet, extra paper) will be provided to you. You will need to bring to each exam the following items: writing instruments, financial calculator, and picture ID card. You will not be allowed to use laptop computers or any other electronic devices during the examinations.

- It is expected that you will be present at the time and date for each of the examinations. **No makeup examinations will be given without the prior consent of the instructor.** Such consent will only be given for demonstrable conflicts and with the proper documentation.

(ii) Group Projects:
- The Group Projects component of your grade will consist of three separate projects that will be spread throughout the semester and linked to each part of the course. These projects will allow you to explore several different aspects of the investment process, including the asset allocation decision, the valuation and selection of individual securities in the context of the portfolio formation process, and a performance evaluation of a security portfolio. The specific descriptions associated with these assignments will be distributed formally beginning in mid-January.

- Completion of the assigned projects will require you to work in groups of four people. You will be assigned to the same four-person group for the entire semester, but you will be allowed to select your own group. While you will be able to work fully with other members within your assigned group, you will not be permitted to collaborate in any form with members of other groups. At the end of the semester, you will have the opportunity to provide a peer evaluation of the other members of the group to help determine the quality of each person’s relative contribution.

- Your final class project grade will be an equally weighted average of the scores earned on each of the three separate projects. On each project, the same grade will be assigned to every member of your group, assuming each person contributes equal effort and output to the assignment. Further, no late projects will be accepted for any reason.

(iii) Class Participation:
- Your class participation score will be based on two elements: (1) the consistency of your attendance in your assigned section, and (2) the quality of your contributions to the daily in-class discussions. Class participation grades (as a percent of the overall course) will range from 8 (i.e., excellent attendance, frequent and substantive in-class contributions) to 0 (i.e., poor attendance, no in-class contributions, disruptive behavior).

- **It is expected that you will attend and contribute to the section in which you are enrolled on a daily basis.** More than two missed class sessions without some form of prior approval will begin to have an adverse effect on your class participation grade. An excessive number of unexcused absences will be interpreted as a sign of neglect and lack of preparation, which could lead to being dropped from the course. Instances of tardiness or leaving class early without explicit prior permission will be counted as the equivalent of an absence.

- **You may not attend a section of the course in which you are not enrolled** without the prior written (i.e., by e-mail) consent of the instructor. Unauthorized attendance in a different section will be treated as an absence for the purpose of assigning class participation grades.

- As reflected by the Course Outline, consideration of solutions to the case studies and assigned end-of-chapter questions and problems is an important focus, so it is vital that you consider them before each class meeting. You will be responsible for being prepared to discuss answers to all of the questions pertaining to a particular topic, even if some of them are not eventually covered in class. You also will be held responsible for everything covered or assigned in class which, at times, will depart significantly from the material contained in the textbook and articles.
Grading Policies:

(iv) Overall End-of-Semester Assessment:

- At the end of the semester, the raw number of points that you earned on each graded component (i.e., exams, projects, class participation) will be averaged by the weighting percentages listed earlier. The weighted total scores for all students in all sections of the course will then be curved together to determine the final distribution.

- At a minimum, the following percentile ranges will be applied to the distribution of relative weighted scores (i.e., not the raw numerical scores on each graded component) when assigning final grades: A: 92.0-100; A-: 90.0-91.9; B+: 87.0-89.9; B: 82.0-86.9; B-: 80.0-81.9; C+: 77.0-79.9; C: 72.0-76.9; C-: 70.0-71.9; D+: 67.0-69.9; D: 62.0-66.9; D-: 60.0-61.9; F: Below 60.0. In borderline situations, both class participation and improvement on your test scores throughout the semester will be determining factors.

Other Policies:

The following additional policies will also be in place this semester:

(i) Academic Dishonesty:

- Academic dishonesty (as defined by the Policy Statement on Scholastic Dishonesty for the McCombs School of Business) will not be tolerated and will be dealt with in the most severe manner possible. I assume that all students in this course will act as if bound by this policy and you can expect the same from me. In particular, I will expect that on every individual assignment or examination the work you submit will be entirely your own and that you will provide a level and quality of input to the group projects commensurate with that of your colleagues. Failure to do so may result in failure on the project or failure in the course.

The McCombs School of Business has no tolerance for acts of scholastic dishonesty. The responsibilities of both students and faculty with regard to scholastic dishonesty are described in detail in the Policy Statement on Scholastic Dishonesty for the McCombs School of Business:

By teaching this course, I have agreed to observe all of the faculty responsibilities described in that document. By enrolling in this class, you have agreed to observe all of the student responsibilities described in that document. If the application of that Policy Statement to this class and its assignments is unclear in any way, it is your responsibility to ask me for clarification. Policy on Scholastic Dishonesty: Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course and/or dismissal from the University. Since dishonesty harms the individual, all students, and the integrity of the University, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at http://deanofstudents.utexas.edu/sjs/ or the General Information Catalog to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.

(ii) Prohibition Against Using Electronic Devices in the Classroom:

- Consistent with the policy of the Department of Finance, the use of computers and other electronic devices in class is generally prohibited. On occasion, however, the use of laptop computers may be permitted in class solely for the purposes of note-taking and discussion of the homework problems and when authorized in advance by the instructor.

- Please note that accessing the internet, recreational programs, or e-mail and messaging accounts without prior consent of the instructor is strictly forbidden.

(iii) Students With Disabilities:

- The Provost’s Office offers the following statement to help inform students of available resources and to fulfill due diligence for Americans With Disabilities Act (ADA):

The University of Texas at Austin provides upon request appropriate academic accommodations for qualified students with disabilities. For more information, contact the Office of the Dean of Students at 471-6259, 471-4641 TTY.
COURSE OUTLINE

The following outline lists the topic coverage and reading requirements for the semester. The "Assignment" listings refer to the end-of-chapter problems that can be found in the ninth edition of Reilly and Brown's (RB) Investment Analysis and Portfolio Management textbook. For the RB assignments, the question and problem numbering system refers to the relevant chapter and question or problem (e.g., Q1.2 refers to the second question in Chapter 1, P2.3 refers to the third problem in Chapter 2). All of the supplemental readings and case studies are contained in the course reading packet, except where indicated by an asterisk (*); the case studies and readings marked by an asterisk can be downloaded from the course website.

I. Portfolio Formation and the Asset Allocation Process

Class #1: Wednesday, January 19
Topic: Overview of the Portfolio Formation Process and Recent Financial Market Trends
Reading: RB Chapter 1, Appendix 1A
Assignment: Q1.11, P1.5, P1A.2, P1A.3

Class #2: Monday, January 24
Topic: The Asset Allocation Decision: Background and Investment Policy Statements
Reading: RB Chapter 2 (pp. 31-48), Appendix 2A
Assignment: Q2.1, Q2.6, Q2.9, P2.5

Class #3: Wednesday, January 26
Topic: Asset Allocation Strategy Formation
Reading: RB Chapter 2 (pp. 48-54)
    - Chapter 16 (pp. 568-572)
Assignment: P16.6, Strategic Asset Allocation Case Study - *

Class #4: Monday, January 31
Topic: Equity Style and Passive Investment Management
Reading: RB Chapter 16 (pp. 539-548, 559-568)
Assignment: Q16.1, Q16.2, Q16.8, P16.5, P16.8
Class #5: Wednesday, February 2

Topic: The Endowment Investment Model


Assignment: Endowment Investment Committee Case Study

II. Risk, Return, and Portfolio Construction

Class #6: Monday, February 7

Topic: Risk and Diversification: Fundamentals, Downside Risk and Efficient Optimization Principles

Reading: RB Chapter 7


Assignment: Q7.3, Q7.6, Q7.12, P7.5, P7.6, P7.7

Class #7: Wednesday, February 9

Topic: Risk and Diversification: Optimization Examples and Components of Portfolio Risk


Assignment: Q7.11, Efficient Portfolio Formation Case Study - *

Class #8: Monday, February 14

Topic: Advanced Portfolio Risk Analytics: Value at Risk and Implied Expected Return Forecasts

Reading: A. Damodaran, “Value at Risk (VaR),” Chapter 7 from *Strategic Risk Taking* (Wharton Publishing), August 2007 - *


Assignment: Asset Class Risk Analysis Case Study - *

Class #9: Wednesday, February 16

Topic: Risk and Expected Return: Capital Asset Pricing Model & Multi-Factor Models

Reading: RB Chapter 8 (pp. 205-222, 228-231)

Chapter 9 (pp. 237-241, 246-257)

K. Brown, “Some Useful Facts About Beta,” Lecture Notes, January 2011 - *


Class #10: Monday, February 21

Topic: Midterm Examination #1
III. Equity Portfolio Management

Class #11: Wednesday, February 23
Topic: Market Efficiency and Behavioral Finance
Reading: RB Chapter 6
Assignment: None

Class #12: Monday, February 28
Topic: Equity Valuation Analysis: Fundamental Concepts
Reading: RB Chapter 11 (pp. 317-336)
Assignment: Q11.1, Q11.8, P11.4, P11.6, P11.15

Class #13: Wednesday, March 2
Topic: Equity Valuation Analysis: Company Analysis and DCF Techniques
Reading: RB Chapter 14 (pp. 453-470)

Class #14: Monday, March 7
Topic: Comparable Firm Techniques & Equity Portfolio Formation
Reading: RB Chapter 11 (pp. 336-341)
Chapter 14 (pp. 470-491)
Assignment: Q14.10, Q14.11, Q14.21, P14.16, P14.18a

Class #15: Wednesday, March 9
Topic: Active Equity Portfolio Strategies
Reading: RB Chapter 16 (pp. 548-559)
Assignment: Q16.9, Harbor Capital Appreciation Fund Case Study

IV. Fixed-Income Portfolio Management

Class #16: Monday, March 21
Topic: Bond Fundamentals: Yield Curve Analysis, Instruments and Valuation
Reading: RB Chapter 17 (pp. 579-587)
Chapter 18 (pp. 609-618, 625-635)
Assignment: Q17.8, P17.4, Q18.1, Q18.5, Q18.6, P18.2
Class #17: Wednesday, March 23

Topic: Bond Risk Measurement
Reading: RB Chapter 18 (pp. 640-663), Appendix 18
Assignment: Q18.7, Q18.8, Q18.18, P18.3, P18.7

Class #18: Monday, March 28

Topic: Fixed-Income Portfolio Strategies: Passive and Dedicated
Reading: RB Chapter 19 (pp. 677-682, 697-708), Appendix 19
Assignment: Q19.1, Q19.8, P19.3, P19.7

Class #19: Wednesday, March 30

Topic: Fixed-Income Portfolio Strategies: Active and Core-Plus
Reading: RB Chapter 19 (pp. 682-697)
Assignment: P19.1, P19.5, Greydanus Boeckh Case Study

Class #20: Monday, April 4

Topic: Midterm Examination #2

V. Professional Asset Management

Class #21: Wednesday, April 6

Topic: Traditional Asset Management: Private Firms and Mutual Funds
Reading: RB Chapter 24 (pp. 891-906, 924-929)
Assignment: None

VI. Portfolio Performance Measurement

Class #22: Monday, April 11

Topic: Traditional Evaluation Measures: Peer Comparisons and Basic Risk-Adjusted Measures
Reading: RB Chapter 25 (pp. 937-955)
Assignment: Q25.3, Q25.6, P25.1, P25.2, P25.3

Class #23: Wednesday, April 13

Topic: Traditional Evaluation Measures: Advanced Risk-Adjusted Measures
Reading: RB Chapter 25 (pp. 957-962, 967-970)
Assignment: Q25.4, Q25.5, Q25.8, P25.4, P25.6
**Class #24: Monday, April 18**

Topic: Attribution Analysis
Reading: RB Chapter 25 (pp. 963-967)
Assignment: Q25.7, P25.7, P25.8

**V. Professional Asset Management (cont.)**

**Class #25: Wednesday, April 20**

Topic: Alternative Asset Management: Private Equity
Reading: RB Chapter 24 (pp. 906-910, 918-924)
Assignment: Yale University Investments Office Case Study

**Class #26: Monday, April 25**

Topic: Alternative Asset Management: Hedge Funds
Reading: RB Chapter 24 (pp. 910-918)
Assignment: Maverick Capital Case Study

**VII. Derivatives in Portfolio Management**

**Class #27: Wednesday, April 27**

Topic: Altering Portfolio Risk and Return with Derivatives
Reading: RB Chapter 20 (pp. 727-748 [Note: This should be review material]; 751-756)
  - Chapter 22 (pp. 828-839)
  - Chapter 23 (pp. 848-855, 860-863)
Assignment: P20.1, P20.2, P20.3, P20.7a, P22.10, P22.11, Q23.7

**Class #28: Monday, May 2**

Topic: Embedded Derivatives & Equity Investment Alternatives
Reading: RB Chapter 23 (pp. 866-870, 872-875)
Assignment: Q23.9, P23.6, P23.9

**Class #29: Wednesday, May 4**

Topic: Equity Investment Alternatives (cont.) and Examination Review
Reading: RB Chapter 23 (pp. 858-861)
Assignment: P23.5

*THIS OUTLINE SHOULD BE CONSIDERED REPRESENTATIVE OF THE MATERIAL WE WILL COVER DURING THE SEMESTER; IT IS SUBJECT TO CHANGE UPON PROPER NOTIFICATION.*