

# Special Topics in Investments

## [FINC-569]

### Spring 2007

**Instructor:** Professor Ludwig Chincarini, Ph.D., CFA

**Phone:** 703-848-1858

**Email:** [chincarini@hotmail.com](mailto:chincarini@hotmail.com)

**Office Hours:** 2<sup>nd</sup> Floor of Library. 3:00-4:00 P.M. Tuesday.

**Class Hours & Location:** Tuesday 4:15-6:15 P.M. CBN 202

**Prerequisites:** FINC 555, FINC 557 and FINC 565

**Credits:** 1.5

**Course Description:** The course will cover the topic of **hedge funds**. The course will be a blend of theoretical concepts and real-world applications. To enhance the value of the real-world applications, we will have at least 2 lectures by guest speakers. The course shall cover the legal and business issues of hedge funds, along with the types of hedge fund strategies, the statistics of hedge funds, the performance tracking of hedge funds, and other relevant news items.

**Course Objective:** To understand the basics of hedge funds and hedge fund management, hedge fund strategies, fund-of-funds due diligence, and business aspects of hedge funds.

**Required Texts:**

1. L'Habitant, Francois-Serge. *Hedge Funds: Myths & Limits*. [A Guide to the types of hedge funds, accounting for hedge funds, regulatory aspects of hedge funds, and the business set up of a hedge fund.]
2. Chincarini, Ludwig B. and Daehwan Kim. *Quantitative Equity Portfolio Management*, New York, McGraw-Hill.  
*Note:* Can be obtained from bookstore or ordered via [www.amazon.com](http://www.amazon.com) or [www.barnesandnoble.com](http://www.barnesandnoble.com).

**Reader:** A compilation of articles relevant to the course will be provided on Blackboard.

**Handouts:** Depending on current news topics, handouts relevant to the material will be distributed to students throughout the semester. It will be the students' responsibility to obtain any missed handouts due to absence at a particular class.

**Other Reading:**

1. The Wall St. Journal
2. Barrons

**Other Non-Required Books:**

1. McCrary, Stuart. A. *How to Create and Manage a Hedge Fund*. (Wiley-Finance), 2002. [*A general overview of the hedge fund process, less mathematical.*]
2. Philips, Kenneth S. and Ronald Surz (editors). *Hedge Funds. Definite Strategies and Techniques*. (Wiley-Finance), 2003. [*A group of articles on the hedge fund practice.*]
3. Bodie, Zvi, Alex Kane and Alan J. Marcus, *Investments*, Fifth edition, (New York: McGraw-Hill), 2002. [*General Text with some unique aspects on investment management.*]
4. Malkiel, Burton. *A Random Walk Down Wall Street*. [*A classic book and an easy read.*]
5. Bernstein, Peter. *Capital Ideas*. [*A book that explains the history of modern portfolio theory, including all of the major players from Markowitz to Fischer Black. A fun read.*]
6. Lewis, Anthony. *Liar's Poker*. [*A fantastic book that discusses, among other things, the great Salomon arbitrage traders of Meriwether & Co., including their love for the game of Liar's Poker.*]
7. Bruck, Connie. *Predator's Ball*. [*A fun book describing the history of Michael Milken and how the junk bond market was created. A fun read in a major movement in Wall St. history.*]

## Industry Licenses:

Some of you may wish to enroll in the CFA program ([www.aimr.org](http://www.aimr.org)) or in the MTA program ([www.mta.org](http://www.mta.org)). The first program is the Certified Financial Analyst pedigree, while the second is a Chartered Market Technician's pedigree. These are credentials that are increasingly being attained by people in the financial industry. A lot of the material in this course will be on the CFA exam.

## Course Requirements and Grading:

<b>Class Participation:</b>	<b>20 %</b>
<b>Final Exam</b>	<b>50 %</b>
<b>Portfolio Project:</b>	<b>30 %</b>
<b>Assignments:</b>	<b>0 % (** borderline **)</b>

## Further Notes:

- **Class participation** consists of attendance, making comments, answering questions, and or posing questions during class. I may randomly call on people. Please come to class on time for consideration of your professor and fellow students.
- The **Final Exam** will cover all material covered up to that point in the semester. Final exam **will include the material covered by the guest lectures, thus these are mandatory sessions.**
- **Portfolio Projects** will consist of group projects (2-3 per group) in which students prepare a document related to constructing and managing “real” portfolios and analyzing individual companies, like a Wall St. Analyst. These studies should use concepts learned in the class to manage the portfolios. The project will be split up into several parts. The due dates for each part have not been set, but as soon as they are, students shall be given the dates.

- **Assignments** will be given so that students can practice answering questions over the material studied, but will not be graded. Students are encouraged to pay attention to **financial news** as some questions may be linked to current financial market events.

**A Note on Academic Honesty:** Cheating is against the honor code of Georgetown University. Thus, projects, exams, quizzes, and homework should be done with complete integrity. If a case of cheating is detected, I am required by the university to report it to the honor council. Any act of plagiarism is a serious break of academic standards and a deliberate case can lead to suspension or expulsion. Any quotation from another source, whether written or spoken, must be bound by quotation marks and footnoted. Paraphrases must be footnoted as well. Generally, cite the use of words or work by others.

Students agree that by taking this course, papers may be submitted to Turnitin.com for the detection of plagiarism.

## Organization and Course Outline<sup>1</sup>

### Module 4: Hedge Funds

#### Session 1: March 20, 2007

##### 1. Intro to Hedge Funds: What & Why.

Reading: Chapter 2, L'Habitant

HF\_1: Agarwal and Naik. "Creative funds that have come unto their own."

HF\_2: Asness, C. "Do Hedge Funds Hedge?"

HF\_3: Lowenstein, R. "The Tiger Fund is Gone. Who's next?"

HF\_4: Jereski, L. and Aaron Lucchetti. "The Market Calms Down: Niederhoffer is Sunk by Market Maelstrom."

HF\_5: Anonymous. "A Speculator's Latest Lesson."

HF\_6: Dyan, Machan and Atlas Riva. "George Soros meet A.W. Jones."

HF\_7: McLean, Bethany. "Everybody's Going Hedge Funds."

HF\_8: Kadlec, Daniel. "The King of GARP."

HF\_9: Sender, Henny and Susanne Craig. "At Goldman, Top Fund and Earnings Drop."

HF\_20: *The Economist*. "Rolling in it"

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<sup>1</sup> This may change as we progress through the semester, but in that case, a new outline will be handed out.

**2. Hedge Funds & the Law.**

Reading: Chapter 3, L'Habitant

Chapter 3, L'Habitant.

HF\_10: Collins, Daniel. "One Last Stand on Registration"

HF\_11: Black, Keith. "Why Hedge Funds Don't Need Increased SEC Oversight."

HF\_12: Hughes, Siobhan. "More Hedge Funds Leave Rank of the SEC Registry"

HF\_13: *The Economist*. "Still Free"

HF\_14: *The Economist*. "Big Hitters"

**3. The Organizational Structure of Hedge Funds.**

Reading: Chapter 4, L'Habitant

HF\_15: Raghavan, Anita, Ianthe Jeanne Dugan, and Gregory Zuckerman. "Despite Blue-Chip Gains, Hedge Funds Increasingly are Faltering and Closing"

HF\_16: Pulliam, Susan. "The Hedge-Fund King is Getting Nervous"

**4. A Recipe for Starting a Hedge Fund.**

Reading:

**Session 2: March 27, 2007**

**5. Hedge Fund Investors**

Reading: Chapter 2, L'Habitant  
Handouts

**6. Hedge Fund Strategies**

Reading: Chapter 6, L'Habitant

Chapter 12, 13 Chincarini & Kim

Chapter 7, 8, and 9. L'Habitant

HF\_17: Smith, Randall. "Underwriting Shifts into  
Overdrive"

HF\_18: Sender, Henny and Anita Raghavan. "Worry  
Amid Hedge Fund Boom: Privileged Access to  
Information"

HF\_19: Block, Stanley. "Merger Arbitrage Hedge Funds"

**Session 3: April 3, 2007 (Room Change)**

**7. Hedge Funds Guest Speaker<sup>2</sup>**

Mark Holowesko, CEO and CIO of Templeton Capital  
Advisors

*Global Long-Short Hedge Fund*

**Location: McNeir Hall** (near Old North)

**Time: 5:30 – 8:00 PM** (please arrive early and sit in front)

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<sup>2</sup> Attendance required and will be tested on final.

**Session 4: April 10, 2007****8. Hedge Fund Selection**

Reading: Chapter 14 & 15, L'Habitant.

**9. Hedge Fund Horror Stories**

Reading: Chapter 13, McCrary.

HF\_21: Chincarini, Ludwig. "The Failure of LTCM".

HF\_22: Lewis, M. "How the Eggheads Cracked."

HF\_23: Perold, A. "LTCM"

HF\_24: Marthinsen, John Chapter 8. "Long-Term Capital Mismanagement"

HF\_25: Chincarini, Ludwig. "The Amaranth Debacle: Failure of Risk Measures or Failure of Risk Management?"

**Session 5: April 17, 2007****10. Hedge Funds Guest Speaker<sup>3</sup>**

Dr. Eric Rosenfeld

*Former Principle and co-founder of LTCM, Former Principle and co-founder of JWM Partners, Former Managing Director and co-head of Fixed Income Arbitrage Group at Salomon Brothers, Former Assistant Professor of Finance at Harvard Business School, B.S. and Ph.D. from MIT.*

**Location: McNeir Hall** (near Old North)

**Time: 5:30 – 8:00 PM** (please arrive early and sit in front)

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<sup>3</sup> Attendance required and will be tested on final.

**Session 6: April 24, 2007**

**11. The Risk Management of Hedge Funds**

Reading: Appendix, L'Habitant.

**12. Hedge Fund Performance and Data**

Reading: Chapter 11 & 12, L'Habitant.

**Session 7: May 8, 2007**

**13. Final Exam**

Tuesday 4-6 PM CBN 202