

*Principles of Investment*  
*[FINC-241-03]*  
*Fall 2005*

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

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**Office Hours:** Library on the 2<sup>nd</sup> floor in front of the café. (Mon & Wed. 3:00-4:00 PM).

**Class Hours & Location:** Mon & Weds 1:15-2:30 PM

Room: Healy, 103

**Prerequisites:** FINC-211.

**Course Description:** The course is intended to provide an understanding of the investment process. Topics include a study of securities markets and functions; securities legislation; sources of investment information; evaluation of alternative investments; valuation of bonds and stocks; risk-return analysis; and portfolio strategies.

**Course Objective:** To be familiar with investment analysis for ease of understanding concepts produced in the financial press, for a background that would allow a basic intuitive and mathematical understanding of their behavior for work in the financial markets, and to understand how to manage portfolios for investors.

**Required Text:** Reilly, Frank K. and Keith C. Brown, *Investment Analysis and Portfolio Management*, Seventh Edition, (Fort Worth: The Dryden Press), 2005.

**Reader:** A compilation of articles relevant to the course will be provided on the blackboard class site in \*.pdf files.

**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.

**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, it will be handled by the Dean. 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.

**Other Reading:**

1. The Wall St. Journal [sign-up sheet to be passed around first few classes]
2. Barrons

**Other Non-Required Books:**

1. 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.*]
2. Malkiel, Burton. *A Random Walk Down Wall Street*. [*A classic book and an easy read.*]
3. 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.*]
4. 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.*]
5. 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.*]
6. Chincarini, Ludwig and Daehwan Kim. *Quantitative Equity Portfolio Management*.. [*A book with everything from A-Z in equity portfolio management. Will show you in detail how to manage equity portfolios efficiently. Coming in bookstores: **Early 2006.***]

**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 Chartered 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>10 %</b>
<b>Mid-Term:</b>	<b>25 %</b>
<b>Brokerage Project:</b>	<b>20 %</b>
<b>Final Exam:</b>	<b>40 %</b>
<b>Assignments:</b>	<b>5 %</b>

**Note: 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 **Mid-Term** will cover all material covered up to that point in the semester.

**Brokerage Projects** will consist of students creating brokerage accounts and doing some basic research to pick stocks. They will invest in these stocks and write up a report on the stocks. The **Final Exam** will cover material for the second-part of the course.

**Assignments** will be given so that students can practice answering questions over the material studied and will be used primarily to determine border-line cases. Students are encouraged to pay attention to **financial news** as some questions may be linked to current financial market events.

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

### Session 1: August 31, 2005<sup>2</sup>

1. **Intro to course**
2. **Overview of the Course**
3. **The Investment Setting**  
**Reading:** Chapters 1. RB.<sup>3</sup>

### Session 2: September 7, 2005

4. **Asset Allocation (a.k.a. Investor Preferences)**  
**Reading:** Chapter 2 . RB.
5. **Selecting Investments (a.k.a. Opportunity Set)**  
**Reading:** Chapter 3, RB.  
**In-Class Workshop: Preparing an IPS**  
**In-Class Workshop: Choosing an investment**

### Session 3: September 12, 2005

6. **Selecting Investments (a.k.a. Opportunity Set)**  
**Reading:** Chapter 3, RB.  
**In-Class Workshop: Preparing an IPS**  
**In-Class Workshop: Choosing an investment**

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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.

<sup>2</sup> In all cases, dates are the most probable, but again this could change as the semester evolves.

<sup>3</sup> RB refers to the required textbook, Reilly & Brown.

**Sessions 4: September 14, 2005****7. The Structure of Securities Markets**

**Reading:** Chapter 4, RB.

Angel, James. "Market Mechanics: A Guide to U.S. Stock Markets." Handout.

**Sessions 5: September 19, 2005****8. Understanding Stock Market Indicators**

**Reading:** Chapter 5. RB.

**Handout:** Chincarini, Ludwig. "Beware of Funds Bearing Taxable Gains."

**9. Efficient Markets and Anomalies**

**Reading:**

Barberis, Nicolas. "Investors Seek Lessons in Thinking"  
Reading Packet.

Gervais & Odean. "The Perils for Investors of Human Nature." Reading Packet.

**In-Class Workshop: Testing market efficiency.**

**Sessions 6: September 21, 2005****10. Efficient Markets and Anomalies**

**Reading:**

Barberis, Nicolas. "Investors Seek Lessons in Thinking"  
Reading Packet.

Gervais & Odean. "The Perils for Investors of Human Nature." Reading Packet.

**In-Class Workshop: Testing market efficiency.**

**Sessions 7: September 26, 2005****11. Portfolio Theory**

**Reading:** Chapter 7, RB.

Chincarini, Ludwig (& Foliofn Research). "Modern Portfolio Theory: From Theory to Reality". Reading Packet.

Markowitz, Harry. "Portfolio Selection." Reading Packet.

**In-Class Workshop: Setting up a brokerage account**

**12. The CAPM**

**Reading:** Chapter 8, RB.

Chincarini, Ludwig (& Foliofn Research). "Part 1: Diversification," *Handbook of Folio Investing*. Reading Packet.

Foliofn Research, "Beta Folios." Reading Packet.

**Session 8: September 28, 2005****13. APT**

**Reading:** Chapter 9, RB.

**In-Class Workshop: Purchasing a stock, an ETF, and an option**

**In-Class Workshop: Random sampling to show ideas of diversification.**

**Session 9: October 3, 2005****14. APT**

**Reading:** Chapter 9, RB.

**In-Class Workshop:** Purchasing a stock, an ETF, and an option

**In-Class Workshop:** Random sampling to show ideas of diversification.

**15. Review for Mid-Term****Session 10: October 5, 2005****16. Financial Statement Analysis (The Nuts & Bolts of FA)**

**Reading:** Chapter 10, RB.

**In-Class Workshop:** Computing financial ratios for a company.

**Session 11: October 12, 2005****17. Midterm Exam****Session 12: October 17, 2005****18. Security Valuation (The Holy Grail)**

**Reading:** Chapter 11 & 15, RB.

Chincarini, Ludwig et al. "The Housing Market and Lockheed-Martin Examples" from QEPM book. Reading Packet.

McGoey, Dan. "Clinker Thinker". Reading Packet.

**In-Class Workshop:** How a money manager uses ratios to screen.

**Session 13: October 19, 2005**

**19. Industry Analysis**

**Reading:** Chapter 14, RB.

**Group Portfolio Project 1 Due: Report on Investments  
Class Discussion**

**Session 14: October 24, 2005**

**20. Stock Market Valuation**

**Reading:** Chapter 13, RB.

Wilcox, Stephen. Market Valuation Measures: Does the Fed Model Really Work?" Reading Packet.

Yardeni, Edward. "Stock Valuation Models." Reading Packet.

Ritter, Jay. "The Biggest Mistakes We Teach." Reading Packet.

Shiller, Robert and John Campbell. "Valuation Ratios and the Long-Run Stock Market Outlook." Reading Packet.

**Session 15: October 26, 2005**

**21. Technical Analysis**

**Reading:** Chapter 16, RB

Chincarini, Ludwig et al. "Technical Trading Rules Table" from QEPM book. Reading Packet.

**In-Class Workshop: Building Technical Indicators**

**Session 16: November 7, 2005**

**22. Portfolio Management Styles**

**Reading:** Chapter 17. RB.

Chincarini, Ludwig. "Style Analysis". *from QEPM book*.  
Reading Packet.

**Session 17: November 9, 2005**

**23. Professional Asset Management**

**Reading:** Chapter 25, RB.

Lawson, Brad. "Evaluating Quantitative Managers"  
Reading Packet.

**Session 18: November 14, 2005**

**24. Quantitative Equity Portfolio Management**

**In-Class Workshop: Building a Peter Lynch & Quant.  
Portfolio**

**Session 19: November 16, 2005**

**25. Performance Attribution**

**Reading:** Chapter 26, RB.

**In-Class Workshop: Analyzing the performance of real-  
world portfolios**

**Session 20: November 21, 2005**

**26. Performance Attribution**

**Reading:** Chapter 26, RB.

**In-Class Workshop: Analyzing the performance of real-  
world portfolios**

**Session 21: November 23, 2005**

- 27. Bonds Basics and Valuation**  
**Reading:** Chapter 18, 19. RB.

**Session 22: November 30, 2005**

- 28. Bonds Basics and Valuation**  
**Reading:** Chapter 18, 19. RB.

**Session 23: December 5, 2005**

- 29. Bond Portfolio Management**  
**Reading:** Chapter 20, RB.  
Chincarini, Ludwig. "Investment Strategies". Reading Packet.

**Session 24: December 7, 2005**

- 30. Bond Portfolio Management**  
**Reading:** Chapter 20, RB.  
Chincarini, Ludwig. "Investment Strategies". Reading Packet.

- 31. Review for Final**

**Session 25: December 15, 2005**

- 32. Final Exam: 12:30 PM – 2:30 PM**

**Note: We will miss class on the following days.**

**September 5, 2005: Labor Day**

**October 10, 2005: Columbus Day**

**Guest Speakers<sup>4</sup>**

- 1. We may have a guest speaker from a local money management firm.**

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<sup>4</sup> None of the guest speakers are confirmed.