

Course Syllabus—Fall 2000
BMGT 702: Applied Security Analysis and Portfolio Management

Course Instructor: Russ Wermers

Background: MBA Finance, UCLA
 PhD Finance, UCLA
 Specialize in Mutual Fund Research (Several recent articles on mutual funds in top finance journals)

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 Office Hours: Tuesdays, 3-5 p.m. and Wednesdays, 5-7 p.m. (in VMH 4419)
 Also, by appointment

Course Objectives:

1. To understand the historical behavior of stock vs. bond markets, which is currently receiving a great deal of attention in the media.
2. To give an in-depth introduction to the largest financial intermediary in the world—the United States mutual fund industry—this will include studying:
 - a. how mutual funds invest, i.e., their chosen investment “styles,”
 - b. why they invest using these styles—for example, what are the advantages and potential problems of using a small stock strategy, and
 - c. the current debate on active fund management vs. indexing.
3. To give you insight into stock trading mechanics through the use of the “FAST” trading simulation system.

Final Grade Weighting:

Exams (Midterm and Final)	40 %
Financial Analysis and Security	
Trading (FAST) Lab Sessions	20 %
Cases	40 %

Textbooks:

Required: Reilly and Brown (RB), *Investment Analysis and Portfolio Management*. Dryden, 6th edition, c2000—if you want to save money, I encourage you to share a copy between two or three people!

Required: Jeremy Siegel, *Stocks for the Long Run*. Irwin, 2nd edition, c1998. Available on www.amazon.com for \$23.96 per copy—if you want to save money, I encourage you to share a copy between two or three people!

Required: Cases (pick up from Stamp Student Union Bookstore)—not available yet, but I will keep you updated.

Other optional books of interest (not directly covered in course)

Fabozzi (F), *Bond Markets, Analysis and Strategies*. Prentice Hall, 4th edition, c2000.

The Cartoon Guide to Statistics, by Larry Gonick and Woollcott Smith.

Liar's Poker, by Michael Lewis.

The Intelligent Investor, by Benjamin Graham

Code of Academic Integrity:

The University of Maryland and The Robert H. Smith School of Business are serious about upholding the integrity of the academic process. If you are unaware of the guidelines in place, please review the University's code of academic integrity, which is on the web at: http://www.inform.umd.edu/CampusInfo/Departments/JPO/AcInteg/code_acinteg2a.html. I will conduct the course using these guidelines.

Web page:

Many course materials can be accessed through the Smith School's "Online Course Materials" site. Many students like to print the **powerpoint slides** before class to reduce note-taking. Therefore, slides will generally be available the week before class (unless I am revising them at the last minute!). The site is located at:

<http://courses.rhsmith.umd.edu>

Once you go to this page, touch the link for BMGT 702, and then enter the following for username and password when the system asks you for this information:

Username: bmg702rw

Password: stocks

Class

E-mail list:

Here's another thing not to be missed! You should be automatically signed up on this e-mail list, but if you have not yet received a message from me, it is because you have not successfully registered your e-mail address with testudo. If this is the case, then, as soon as possible, you should sign up for the e-mail list for the class. The instructions are simple: just send an e-mail message to (**ONLY DO THIS IF YOU HAVE NOT YET RECEIVED AN E-MAIL MESSAGE FROM ME**):

bmg702-0101-fall00-request@coursemail.umd.edu

In the ***body*** of this e-mail message (**not in the subject area**), you should place the following command (and nothing else should be in the body of the message)—for this example, suppose your e-mail address is jdoe@rhsmith.umd.edu:

subscribe jdoe@rhsmith.umd.edu

Stuff sent out on this e-mail list includes (1) stuff I forgot to say in class, (2) notice of class cancellation (if any) due to snowstorms, etc., and perhaps even (3) hints on what to study for the tests. Enough said—do not fail to sign up as soon as possible!

Homework:

You can't learn about portfolio management without working out the mathematics and doing the homework. Normal textbook homework will ***not*** be collected, however ***case homework will be collected*** (see the "Cases" section below. However, do not be tempted to skip doing the textbook homework—specifically, please note the following important message regarding textbook homework as well as the rest of the course:

BEWARE! *Your performance on exams will depend on you faithfully attending class and keeping abreast of the reading and homework assignments!!! Enough said.*

Cases:

We will cover several Harvard cases during the semester. For each case, I will hand out some questions that will guide your reading and understanding of the case. Your grade will depend both on your in-class participation and on your writeup. For the writeup, you must submit a short typed report that addresses all of the questions in my handout. More on this later.

FAST Trading Laboratory Sessions:

These simulated trading sessions will be held in one of our new "Netcentricity" labs—the Supply Chain Management Lab in VMH 1407. The Financial Analysis and Security Trading (FAST) software was developed by two finance professors at Carnegie Mellon University's Business School, and is being used at several leading finance programs. This software creates "the look and feel" of a real trading environment, which makes learning new finance concepts fun. On the other hand, these trading sessions are very fast-paced, and can be brutal if you are

unprepared. The best way to prepare is to read the documentation carefully before the lab session. These trading sessions will be done using groups of three to four students per trading station, so you must form a group and submit information about your group to me as soon as possible. It is also very helpful to discuss your strategy for each case with your group before entering the lab.

On this portion of the class, you will be graded on attendance, as well as on the level of your participation in the exercise. During the last 10 minutes of each class, I will stop the exercise and ask students to volunteer to tell me what they learned in this laboratory session. Therefore, I suggest that you have someone in your group take notes while you are playing so that you have something relevant to contribute to this discussion.

Also, expect a few exam questions that address what we learned in the FAST laboratory sessions (so, pay close attention and take notes during the lab sessions!).

Exams: THESE ARE HELD IN CLASS ON THE FOLLOWING DATES:

Midterm: Wednesday, October 18th (normal class time)

Final: Monday, December 18th, 4-6 p.m. (final exam time period)

These exams will cover any material covered in homework assignments, in class, on cases, or in lab sessions during the time period since the last exam (i.e., they are non-cumulative). The best preparation is to attend all classes, to do all the reading and homework assignments with care, and to be very attentive and to take good notes during the FAST trading sessions.

Please note: If you have an official university conflict during the exam day, then please notify me the week before the exam. An early exam will be arranged for you. If you encounter an unforeseen event (that can be documented) that prevents you from taking the exam (such as becoming ill, or experiencing a death in the family), then let’s talk about your options as soon as it becomes practical for you to do so. Makeup exams are very difficult to administer in a fair manner, so my general policy is “no makeup exams.” However, let’s talk if this happens.

Please also note: Be on time for the exams, as it is not possible to extend an exam beyond normal class hours.

<u>Week:Date</u>	<u>Topic</u>	<u>Reading Assignment</u>	<u>Homework</u>
1:Aug. 28	No class session on Monday Course Overview Stock and Bond Returns Since 1802	Siegel , Chapter 1	
2:Sep. 4	No class session on Monday Review of Interest-Rate Conversions	Handout	Handout
Problems	Risk, Return and the Coming Age Wave	Siegel , Chapter 2	
3:Sep. 11	<u>Introduction to FAST (Monday: Group A)</u> <u>Introduction to FAST (Wednesday: Group B)</u>		
4:Sep. 18	The Nifty Fifty Revisited <u>Case 1:</u> Introduction to Portfolio Theory Introduction to Asset Pricing Models	Siegel , Ch. 7 Harvard Case RB , Chapters 8 and 9	Problems 1-6 of the note To be assigned

<u>Week:Date</u>	<u>Topic</u>	<u>Reading Assignment</u>	<u>Homework</u>
5:Sep. 25	<u>FAST Trading Session RE1 (Monday: Group B)</u> <u>FAST Trading Session RE1 (Wednesday: Group A)</u>		Be prepared! Be prepared!
6:Oct. 2	Case 2: The Barnstable College Endowment Market Indexes and Index Products	Harvard Case RB , Chapter 5 and Handout	Handout Problems To be assigned
7:Oct. 9	Case 3: Penobscot Nation and Passamaquoddy Tribe	Harvard Case	Handout Problems

----- **MIDTERM COVERAGE ENDS HERE** -----

8:Oct. 16	Review for Midterm		
<i>Midterm (Wednesday): Mat'l & HW from Weeks 1-7</i>			
9:Oct. 23	<u>FAST Trading Session RE2 (Group B)</u> <u>FAST Trading Session RE2 (Group A)</u>		
10:Oct. 30	Professional Asset Management Evaluation of Portfolio Performance	RB , Chapter 26 RB , Chapter 27	To be assigned To be assigned
11:Nov. 6	Case 4: The Vanguard Group, Inc. (1998) Wermers (Journal of Finance, 2000)	Harvard Case Handout	Handout Problems
12:Nov. 13	Large Stocks, Small Stocks, Value Stocks, Growth Stocks (Style Investing) Case 5: Dimensional Fund Advisors: 1993	Siegel , Chapter 6 Harvard Case	Handout Problems
13:Nov. 20	Case 6: Numeric Investors, L.P. <i>ABC Nightline Video: "What goes up..."</i> <i>Happy Thanksgiving!</i>	Harvard Case	Handout Problems
14:Nov. 27	<u>FAST Trading Session CA0 (Group A)</u> <u>FAST Trading Session CA0 (Group B)</u>		
15:Dec. 4	Case 7: Smith Breeden Associates: The Equity Plus Fund (A)	Harvard Case	Handout Problems
16:Dec. 11	Review for Final Exam No class session on Wednesday		

Final Exam: Monday, December 18th, 4-6 p.m.—Mat'l & HW from Weeks 9-15