

Finance FNBSLW-780 Portfolio Theory/Practice Spring 2007 (Internet)

This Syllabus is Subject to Change

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Office Hours: TTH 12:15-2:15 p.m. and W 9:00-11:00 a.m., electronic (online) W 6:00-8:00 p.m., and by appointment. Adjustments to office hours (i.e. I am at a conference) will be posted in D2L.

Recommended Text:

Investments by Bodie, Kane, and Marcus, 6th edition, Irwin-McGraw Hill. The ISBN on my book is 0-07-286178-9 (available in the bookstore and other places). Unfortunately the CD was required before the 7th edition became available at the beginning of November, 2006, so the lectures, homework, etc., are all based on the 6th edition. On the positive side, there should be some cheap ones available online if you can't find them at the bookstore. Some previous students have complained about the cost of the text (actually, I don't control the price of textbooks) therefore, I have labeled the text as recommended rather than required. Personally, I would get one if you can afford it.

Optional CD:

FNBSLW-780 (only available in the bookstore). The only material on the CD is the course lectures. The lectures are available over the internet using our streaming server. Depending on your connection speed, the streaming server should be sufficient for most people. Those with connection issues or wanting to have a copy of the lectures for future reference may want to consider purchasing the CD.

Course Objectives:

The purpose of this course is to introduce students to investment finance and portfolio construction using modern portfolio theory (MPT). Following the introductory section (chapters 1-5), approximately equal emphasis will be placed on (1) understanding of financial theory and (2) application of financial models to portfolio optimization problems. Some time will be spent on the introduction to options in chapter 2 and at the end of the course. This is not a stock picking course – it is a portfolio optimization course. If you want a stock picking course, you need to take Securities Analysis. You will select a mutual fund in the Module 4 assignment but that is the extent of our “picking” in this course.

Prerequisites:

This is the only required course for a finance emphasis. It is generally considered the “capstone” finance course, not the “introductory” finance course. Students are assumed to have a working knowledge of the courses taken prior to FNBSLW-780. Students are required to have the appropriate prerequisites: graduate standing and FNBSLW-718 and MARKETNG-731. Material learned in your statistics course (e.g. means, variances, covariances, OLS regressions), as well as single variable calculus and matrix algebra will be used in this course. I no longer give calculus (derivative) assignments in this course but I have not removed the calculus from the lectures (Chapters 6-9) since it is an integral part of understanding the development of Modern Portfolio Theory (MPT). If you have not had calculus or have forgotten your calculus and you want a complete understanding of the material covered in this course, you may want to get out your old textbooks or spend some time at websites like www.calculus.org. MPT also makes considerable use of matrix algebra (some call it linear algebra). Application of the calculus and matrix algebra will be done through standard tools and functions in Excel.

Textbook and Lectures:

The Investments textbook associated with this course is a valuable reference but I do not do everything by the book. Some of the material I cover in the lectures is not in the textbook and some of the material in the textbook is not covered in the lectures. The textbook and the lectures are meant to complement each other – if you cannot find the solution to an assignment in the text consider listening to the lectures and vice versa.

Exams:

Because of the switch to D2L, it is now possible to have exams in the online version of this course just like in the in-class version of the course. D2L has an excellent random question generator so every student can get a different exam that covers the same topics. The exams will be the same length and difficulty as my in-class exams meaning they will be 2 - 2.5 hour exams with 50 to 70 multiple choice questions. Exams are closed book but the use of a 4 x 6 note card is allowed if hand written. No electronic equipment other than a calculator is allowed. Since this is an online class, you might be snickering by now or at the least asking how I could possibly know what you do or do not use during the exam or even if you are actually the person writing the exam – good question and one of significant concern to the faculty, administrators, and companies that hire our students. Since I am interested in your opinion on this topic, I plan to put up a discussion area on the topic.

There will be two exams – the first is scheduled for **Wednesday, March 7th**, and the second for **Wednesday, May 9th**. The first exam will cover chapters 1 through 6, and the second will cover 7-10, 12, and 20.

For the simple homework style questions that are on exams, calculators are much more efficient than a laptop with Excel and I will assume you are using one. The first exam will have a question on yield to maturity which requires a calculator capable of computing an interest rate (I) given present value (PV), future value (FV), interest

payments (PMT) and number of periods (N). If your calculator does not have the row of keys N I/Y PV PMY FV, or something similar you have the choice of buying one (~30.00 for the TI BAII or HP 10B series), borrowing one, or guessing at the answer to that question on the exam. Any kind of calculator will work for the second exam.

Assignments:

There are 5 assignments in this course. Details of the assignments will be posted in D2L content area about 3 weeks in advance of the assignment due date. **All assignments must be submitted through the D2L Dropbox. Emailed assignments will not be accepted.** Assignments are due on Wednesdays by midnight central time. I do not accept late assignments for any reason. We all know that life loves to throw curve balls - have a contingency plan. Students are expected to look ahead and allot their time accordingly.

The mutual fund assignment **requires** a group of **three** students (there are currently 27 students in the class so I have set up 9 groups in D2L). Use the first week(s) of the course to look for a compatible group and enroll in that group using D2L (the “Groups” tab is in the “Classlist” area) before week 4 (module 4). Only one assignment should be submitted per group. Groups must be setup in D2L and the names of each group member must be on the submitted assignment. The mutual fund assignment is due **Wednesday, February 28th**. Students are expected to look ahead and allot their time accordingly.

The remaining assignments (4 of them) require the use of Excel. We will be using the “Data Analysis” and “Solver” tools in Excel. These tools are not installed by default – check your version of Excel to be sure they are available or whether they need to be installed. After you install them, you still need to go to Tools | Add-Ins and turn them on. If you do not have Excel, University of Wisconsin students can purchase Microsoft Office Professional for ~\$80 at www.wisc.edu/wisc. I no longer accept assignments completed using Excel 97 or earlier, since computations of variances, and variance-covariance matrices have been changed in the more recent versions. If you submit solutions to your assignments using Excel 97 or earlier, I will grade your assignments as incorrect where the answers differ from the more recent versions.

The 4 computer assignments and do not require groups but groups are allowed. Historically, the better students have chosen not to work in a group but the choice is yours. Policing “free riders” is the responsibility of the students but to avoid (as much as possible) free riding, the maximum group size is **two** students. If you choose to form a group, you do not need to keep the same partner for all computer assignments nor do you need to remain in a group for all computer assignments. Only one assignment should be submitted per group. **Working across groups is prohibited – these are not class projects.** If you choose to work individually, you must work individually. The names of **each** group member **must** be on the submitted assignment or only the person submitting the assignment will receive credit - there is no recourse should you accidentally forget the name of your partner - **they will receive a zero.** Computer assignments are due on **Wednesday March 14th, April 11th, April 18th, and May 2nd**. Students are expected to look ahead and allot their time accordingly.

Please do not pre-submit any assignment with a request for a general check over – I will not pre-grade assignments nor respond to questions like “can you look over our

assignment and let us know if anything needs correcting". I do not have time to do this for everyone, so in fairness, I will not do it for anyone. I am happy to answer specific questions but you need to explain what the problem is and what you have already tried so I know which direction I need to go in to give you some help. That will save us playing email tag.

Discussions

There two discussion weeks in this course: **February 18-24 and April 22-28**. Discussion grading requires students to be in on **multiple different days** during the discussion. In general, you must be in **at the beginning of the discussion week as well as later in the week**. See the discussion instructions for specifics. Students are expected to look ahead and allot their time accordingly.

Grading:

I expect that 93-100 will be an A, 88-92 an AB, 83-87 a B, 78-82 a BC, etc. In my classes, fairness trumps compassion: if I cannot do something for everyone, I will not do it for anyone. Individual extra credit is not available in this course. Everyone has the option of adding an additional 0.5% to their grade for submitting a final teacher evaluation. Since I round grades (i.e. 92.5 goes to 93 and 92.49 goes to 92), the 0.5% for submitting the teacher evaluation can be very important to those close to grade borders. The length of time it takes to grade assignments depends on the complexity of the assignment and the quality of the submissions. I will attempt to post grades in D2L on or before each Monday at 9:00 p.m. except for the mutual fund assignment that can take considerably longer that a few days to grade. Grade distributions are available in D2L by clicking on the statistics button. Final grades are posted on the WINS system (the official grades) as soon as possible after the end of the term.

Grade Appeals :

The grade appeal process is online at <http://www.uww.edu/uwwhdbk/GradeAppeals.htm>.

Chapter Coverage:

Anticipated chapter coverage is 1-10, 12, and 20 with additional material added from other sources.

Email:

In the online version of this course, the preferred method of communication seems to be email. I follow the school policy of responding to email within 24 hours during regular business days (i.e. if I receive an email on Monday at 9:00 a.m. you should expect to receive a response by Tuesday at 9:00 a.m. and if I receive an email on Friday at 9:00 a.m. you should expect to receive a response by Monday at 9:00 a.m.). During online office hours I will usually respond more rapidly. Depending on how busy these hours are, you should expect a response to your query within two to four hours. Please recognize

that all email is considered public information by the legal council of the University of Wisconsin System. Emailing grades is a violation of Wisconsin law - **I DO NOT EMAIL GRADES OR DISCUSS GRADES VIA EMAIL.**

If I need to get in touch with everyone for some reason I will use your UWW email address. You are responsible for checking your UWW email. Like most people, I get a lot of junk mail and use a spam filter. UWW email will not be blocked by the spam filter and I strongly suggest you send all email to me through your UWW account.

Academic Misconduct:

Students are expected to perform to the best of their ability in an honest and sincere manner. Academic dishonesty of any kind (e.g. cheating, plagiarism, using groups where individual work is specified, sending any part of an assignment to another student not in your group, showing/discussing any part of an assignment to/with another student not in your group, submitting work as your own work that is the work of another student, working together on exams, having another person take your exam, **or assisting other students in any of these acts**, etc.) is prohibited and will be dealt with as severely as possible under university regulations. The maximum penalty for academic dishonesty is expulsion from the university system. At a minimum you can expect to be removed from the course and receive a grade of F. I have to deal with this problem almost every term. Academic misconduct hurts everyone and lowers the perceived quality of your online degree.

Required Statement (FS989-11 paragraph 3.a.i.-ix.):

The University of Wisconsin-Whitewater is dedicated to a safe, supportive and non-discriminatory learning environment. It is the responsibility of all undergraduate and graduate students to familiarize themselves with University policies regarding Special Accommodations, Misconduct, Religious Beliefs Accommodation, Discrimination and Absence for University Sponsored Events. (For details please refer to the Undergraduate and Graduate Timetables; the "Rights and Responsibilities" section of the Undergraduate Bulletin; the Academic Requirements and Policies and the Facilities and Services sections of the Graduate Bulletin; and the "Student Academic Disciplinary Procedures" [UWS Chapter 14]; and the "Student Nonacademic Disciplinary Procedures" [UWS Chapter 17]).

Introduction."