

UNIVERSITY OF WINDSOR
Odette School of Business
Portfolio Management (0472-472)

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Course objective

The goal of this course is to give students a broad introduction to the theory of portfolio management. The emphasis is on the practice and theory of portfolio analysis. To accomplish this purpose, you need to learn about the investment alternatives that are available today and, what is more important, to develop a way of analyzing and thinking about investments and how to evaluate them. The course materials will discuss available investment instruments and consider the purpose and operation of capital markets in Canada, the United States and around the World. The theoretical portion details how you should evaluate current investments and future opportunities to develop a portfolio of investments that will satisfy your risk-return objectives.

Throughout the course, we show how to use financial theory to solve practical problems, and also to illuminate the facts and institutional material that students of portfolio management must absorb. Topics are approached with a blend of theory and applications. Such topics include (1) The Asset Allocation Decision and Selecting Investments in a Global Market, (2) Efficient Market Hypothesis, (3) Asset Pricing Models, (3) Analysis and Valuation of Common Stocks, (5) Analysis and Valuation of Bonds, (6) Financial Derivatives, and (7) Evaluation of Portfolio Performance.

Textbook

The textbook, on which this course is based, is *Investment Analysis and Portfolio Management*, Seventh Edition, by Frank K. Reilly and Keith C. Brown: The Dryden Press.

It is highly recommended that you follow the lectures, and I suggest that you consider them as the best set of notes you could have. There are some good textbooks on portfolio management that could be used as well:

Modern Portfolio Theory and Investment Analysis, Fifth Edition, by Edwin J. Elton and Martin J. Gruber: John Wiley & Sons, Inc.

Modern Investment Theory, Fifth Edition, by Robert A. Haugen :Prentice Hall.

Investments, Third Canadian Edition, by Bodie, Kane, Marcus, Perrakis and Ryan: McGraw-Hill Ryerson.

List of topics and readings

I: The investment background

- The Investment Setting: What is an Investment, Measures of Return and Risk, Determinants of Required Rate of Return and Relationship between Risk and Return. Computation of Variance, Covariance, Standard Deviation and Correlation: Chapter 1 and Appendix of Chapter 3.
- The Asset Allocation Decision: The Portfolio Management Process and Importance of Asset Allocation, Global Investment Choices and Historical Risk/Return on Investments: Chapters 2 and 3.

II: Developments in portfolio theory

- Efficient Market Hypothesis: Forms and Tests of EMH: Chapter 7.
- An Introduction to Portfolio Management: Risk and Returns, Measures of Risk and Markowitz Portfolio Theory: Chapter 8.
- An Introduction to Asset Pricing Models: Capital Market Theory, The Capital Asset Pricing Model (CAPM) and the Arbitrage Pricing Theory (APT). Relationship between Systematic Risk and Return: Chapters 9 and 10.
- An Introduction to Derivatives Markets and Securities: Options, Futures, Forwards and Swaps. Investing with Derivatives Securities, The Use of Derivatives in Portfolio Management: Chapter 11 (some materials from Chapters 23, 24 and 25 might be used).

III: Analysis and management of bonds and stocks

- The Analysis and Valuation of Bonds: Term Structure Theories and What determines the Price Volatility for Bonds: Chapter 16.
- Bond Portfolio Management and the Implications of Capital Market Theory: Chapter 17.
- Equity Portfolio Management and Strategies: Passive versus Active Management, Management Strategies, Asset Allocation Strategies and Using Futures and Options in Equity Portfolio Management: Chapter 22.

IV: Investment companies and performance measures

- Evaluation of Portfolio Performance: Composite Portfolio Performance Measures and Factors that Affect Use of Performance Measures : Chapter 27.
- The Asset Management Industry: Closed-end versus Open-end Investment Companies: Chapter 26 (if time allows).

Grading for the course

A letter grade will be determined based on your performance in the exams, assignments, project and participation. Students will be required to write one midterm (35%); a comprehensive final examination (50%); and assignments (15%). The **mid-term** exam will take place on the **Wednesday before reading week (February 23, 2005)**. The final exam will cover the entire course. The problems given on the examination will require understanding of the subject material and will not necessarily be a repeat of the end-of-chapter problems. Students with good comprehension of the materials and those who are well prepared for the exam will find the exam easy.

Note: the week of 7-11 of March will be canceled. Details will be given later about any arrangement.

Other related matters: very important

- Check also my homepage: www.uwindsor.ca/assaf for updates on topics or references related to the course.

- Students should be aware that the course is organized according to the order of the lectures and not that of the textbook. Students who do not attend regularly should consult with others to determine the order of the materials.
- **CELLULAR** phones are **NOT** allowed in classes or exams. This policy has to be respected under all circumstances.
- There are no supplemental exams or assignments for this course. Make-up or extra work to improve your grade is **NOT** possible.
- Students missing an exam without my prior permission will receive **ZERO** on that exam. Students missing an exam with my permission will have the points for the missed exam added to their final exam.
- Do not challenge any work due dates. They are firm and the penalties are severe. All deadline for any class work will be **STRICTLY** followed. **NO** credits will be given if any work is submitted after the deadline.
- Do not beg and plead for a higher grade. Your final grade is determined solely by your exam scores. If you feel your grade should have been higher, explain why. When I make the final decision, do not argue with me.
- Academic dishonesty will **NOT** be tolerated under any circumstances. Any student convicted of cheating will automatically receive an “**F**” in the course. All violations will be reported to the appropriate authorities.
- Class attendance is important to successfully complete the course. If you do not attend a class it is entirely **YOUR** responsibility to determine what you have missed, including any administrative announcements I may have made.
- All material covered in class is examinable.

N.B.: This outline is subject to minor revisions as the course progresses. Revisions, if any, will be announced in class.