

UNIVERSITY OF WINDSOR
Odette School of Business
Portfolio Management (0472-472-Sections 1 and 2)

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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*, Eighth Edition, by Frank K. Reilly and Keith C. Brown: Thomson, South-Western.

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 (weeks 1 and 2)

- 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 (weeks 3, 4, 5 and 6)

- An Introduction to Portfolio Management: Risk and Returns, Measures of Risk and Markowitz Portfolio Theory: Chapter 7.
- 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 8 and 9.

- An Introduction to Derivatives Markets and Securities: Options, Futures, Forwards and Swaps. Investing with Derivatives Securities, The Use of Derivatives in Portfolio Management: Chapter 20 (some materials from Chapters 21, 22 and 23 might be used).
- Efficient Market Hypothesis: Forms and Tests of EMH: Chapter 6.

III: Analysis and management of bonds and stocks (weeks 7, 8, and 9)

- The Analysis and Valuation of Bonds: Term Structure Theories and What determines the Price Volatility for Bonds: Chapter 18.
- Bond Portfolio Management and the Implications of Capital Market Theory: Chapter 19.
- Equity Portfolio Management and Strategies: Passive versus Active Management, Management Strategies, Asset Allocation Strategies and Using Futures and Options in Equity Portfolio Management: Chapters 16, 21 and 22.

IV: Investment companies and performance measures (weeks 10, and 11)

- Evaluation of Portfolio Performance: Composite Portfolio Performance Measures and Factors that Affect Use of Performance Measures : Chapter 25.
- The Asset Management Industry: Closed-end versus Open-end Investment Companies: Chapter 24 (if time allows).

It is expected that we cover Part I and most of Part II before the midterm. The rest will be covered afterwards.

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 (40%)**; a comprehensive **final examination (50%)**; and assignments (**10%**). The **mid-term** exam will take place on **Saturday, February 17, 2007 (Time and Place will be announced in class later)**. 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. The final class grades will conform to the Odette School of Business grading standards, which prescribe that the mean grade for this course shall be in the C+/B-/B range (i.e., 67 - 76.9).

Other related matters: very important

- Check also my homepage: www.uwindsor.ca/assaf for updates on topics or references related to the course.
- 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.
- **Registration, Adding, and Dropping Courses:** it is your responsibility to make sure you are officially registered in this course. Check the class list on the SIS before the day of the “late registration date”. You will not be registered for this course after that date, nor is any switching of sections allowed. If you are not officially registered in this course by the late registration date, you will not be graded in any way. The late registration date for the present semester can be found at the “Important Dates” link at <http://www.uwindsor.ca/registrar>.
- 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 Integrity and Code of Conduct:** academic dishonesty will **NOT** be tolerated under any circumstances. Any student convicted of cheating will automatically receive an “**F**” in the course. Plagiarism, unauthorized collusion, or cheating in any form are serious offences whether in examinations, quizzes, assignments or other course components contributing to the final grade. There will be no supplementary exam or assignments for individuals who have breached this code of conduct. Occurrences of plagiarism or cheating are reported to the Associate Dean and disciplinary proceedings may be initiated pursuant to Senate Bylaw 31. The University of Windsor policy on plagiarism (See: University of Windsor Calendar, <http://cronus.uwindsor.ca/registrar>, 2.4.21 Policy on Plagiarism or the web page of the academic integrity office: uwindsor.ca/aio) will be strictly followed and enforced for all assignments and projects.
- **Student Evaluation of Teaching (SET):** administration of the SET form will be at the beginning of a class within the last two weeks of the class schedule. The instructor will leave the classroom during the evaluation period and a student will be selected from class to distribute and collect the evaluation forms. At the end of the evaluation, the completed forms will be placed in an envelope and then sealed. The student and instructor should sign across the sealed flap, and the student will then return the sealed envelope to the appropriate secretary’s office.
- 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.