MGP 261 **Katrina Ellis**
Investment Analysis **Winter 2004**

Course Schedule – MGP 261

Class	Topic	Reading
Wed Jan 7	Introduction and Overview of Investments	Skim Chapters 1 – 5 Course Packet Reading 1 Course Packet Reading 2
Wed Jan 14	Macro and Industry Analysis, Security Valuation	Chapters 17-19
Wed Jan 21	Portfolio Theory	Chapters 6 – 8
Wed Jan 28	Asset Pricing Models *Industry Analysis Due*	Chapters 9 – 11
Wed Feb 4	Factor Models and Market Efficiency *Asset Allocation Due*	Chapters 12, 13 Course Packet Reading 3
Wed Feb 11	Case Discussion* and Behavioral Finance	Course Packet Reading 4 Course Packet Reading 5
Wed Feb 18	Guest Speaker	
Wed Feb 25	Portfolio Performance Evaluation Barra Portfolio Analysis	Chapter 24 Course Packet Reading 6 Computer Application
Wed Mar 3	Active Portfolio Management, Bond Pricing *Stock Selections Due*	Chapter 27 Course Packet Reading 7 Chapter 14
Wed Mar 10	Bond Portfolios, Case Discussion*	Chapters 15-16 Course Packet Reading 8

* indicates that a full written analysis is to be handed in on this case.

University of California Davis
Graduate School of Management

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Contact Details

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Office hours: flexible – email contact is preferred, but my door is typically open, please stop by.

Course Topics and Goals

In this course, students will learn about and experience financial decision making from the point of view of an investor. The course will focus on the fundamental principles of risk and return, diversification, asset allocation, and efficient markets. Students will learn about equity and fixed income securities, portfolio performance strategies and evaluation methods. The primary goal of the course will be to present material of practical value. Investment and trading decision-making skills will be developed through case studies, problem assignments, classroom lectures and discussion, an investment project and guest speakers from industry.

The course is targeted at second-year fulltime (second and third year WP) MBA students who are contemplating a career in investment banking, the investing industry, consulting or corporate treasury. The topics, of course, will be of broader interest to other non-Finance specialists. At times, the course will deal will complex analytic concepts and quantitative analysis, but will not focus on mathematical derivations.

Pedagogy

The course employs cases, classroom lectures, excel spreadsheet calculations, and use of a risk management software tool from BARRA, "Barra On Campus". Each student will be expected to contribute regularly to classroom discussion, to prepare case assignments in the form of executive memoranda. There will be a final exam during the exam week. The case assignments and investing team reports will be completed by a group of 4 or 5 students. The investing team report will require student groups to make industry forecasts, portfolio allocations and stock selections.

Prerequisites

The prerequisite for MGT/ MGP 261 is MGT / MGP 205 (Core Finance). Students will be expected to have successfully completed Core Accounting and Statistics.

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Reading material

The course packet contains the cases.

Background readings from the required text: *Investments* by Bodie, Kane and Marcus (fifth edition) will be set. The text comes with an id access to a website that provides financial data from Standard and Poors Market Insight. I can provide access to students who purchase the book second hand.

Not Required, but are all an interesting read

Some suggested easy-to-read books that cover investments. (You can purchase these online at Amazon or other online book retailers, or in the finance section of most bookstores)

- Robert Haugen, "The new finance: the case against efficient markets", Prentice Hall 1999
- Mark Kritzman, "Puzzles of finance: six practical problems and their remarkable solutions", Wiley 2000
- Michael Lewis, "Liar's Poker", Penguin 1990
- Jeremy Siegel, "Stocks for the Long Run", McGraw Hill 1998

Other resources

I strongly encourage students to do regular reading of the financial press, such as the Wall Street Journal (http://interactive.wsj.com) or Financial Times (http://www.usa.ft.com). Some of these on-line newspapers require registration and involve modest user fees (great student discounts!)

The class will have a subscription to Morningstar.com which provides indepth analysis of mutual funds and stocks. Other interesting finance websites are Motley Fool www.fool.com, Yahoo Finance http://finance.yahoo.com, and many more!

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The UC Davis library has several electronic resources that might be useful.

- ABI/Inform Global [via Proquest] New and enhanced version of the ABI/Inform database, with additional full-text options: pdf images, charts and graphs. Citations to articles in over 1,000 journals in business, management, finance, and economics from 1971 to the present, full text coverage beginning in 1991; currently 600 titles in full text.
- FISonline Moody's Financial Information Services Online, a daily updated source of information on US and international companies. UCD subscribes to Company Data Direct/U.S and International, with reports on Business History, Property, Subsidiaries, Officers, Long Term Debt and Capital Stock as well as detailed Financial Statements. Data can be customized and downloaded into spreadsheets.
- LexisNexis Academic One of the largest web-based full-text databases for current news, business and legal information, supporting a broad range of interdisciplinary research. Provides full-text access to nearly 6,000 individual titles.
- National Newspaper Index [via Infotrac] New and enhanced version of the Newspaper Articles Database, prOviding additional retrospective coverage, and more frequent updates. Indexes articles in the Christian Science Monitor, Los Angeles Times, New York Times, New York Times Book Review, New York Times Magazine, Wall Street Journal and Washington Post. Coverage: 1977 to present
- CRSP and Compustat Data available on GSM web site at http://faculty.gsm.ucdavis.edu/~data/

Barra On Campus

The GSM network will have software loaded that we will be using in this class. It was donated by Barra and is their risk management software (equities and fixed income) used by investment professionals worldwide, and provided to business students free of charge in order to give you exposure to a professional risk management tool. The documentation (to be handed out) explains how to use the software, and also describes how the Barra tools measure risk. There are 6 cases that you can work through to perform analysis of both equity and fixed income portfolios. We will be spending a class session using Barra.

Teams

During the first week of class students will form teams of 4 or 5 members. Each case and the portfolio performance report will be analyzed by the team. Formation of teams will be left to your discretion.

Teams are to work independently on the cases. In class, team members should sit in adjacent seats to facilitate discussion and to help me learn the teams.

Case Writeups

When written analyses are required, each team should submit one memo. (12 point, double-spaced, at least one inch margins, all exhibits clearly labeled). The format of the writeup is as an executive memorandum. You should clearly state the problem and your solution at the start of the memo.

Three cases will require a thorough written analysis due at the **beginning** of class. Your analysis should cover the questions raised in the guidelines as well as any other issues relevant to the decision. Please do not treat the discussion questions as a grocery list to be addressed item by item, rather provide an integrated discussion of the situation and your recommendations.

Grading

Individual Classroom Contribution	10%
2 Case Writeups	20%
Investment Report	30%
Final Exam	40%

MGT 261 Final: March 18, 3pm, 261 AOB4
MGP 261 Final: March 17, 6pm, OCM 3

Individual Classroom Contribution

Students are expected to prepare for each class using the assignments associated with each class in the outline. Students are evaluated on the basis of their contribution to lecture discussions, and case analyses. Over the quarter, each student will have been given sufficient opportunity to contribute to the classroom experience. I will monitor contribution and will contact those who are more cautious to invite them to participate more.

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Daily News

Each group will be expected to do one daily news presentation. This will be a 5 minute presentation at the start of each Wednesday class. Using a maximum of 2 overhead slides, the group will briefly give the class some news about the financial markets. This presentation will be incorporated as part of your individual classroom contribution grade.

CFA Curriculum

For those of you interested in taking the CFA Level 1 exam, this course covers most of the aspects of investment theory that are relevant to the CFA Level 1 exam, and some parts of the Level 2 exam. Many of the problems in the textbook are questions from past CFA exams. I will provide solutions to the textbook problems to you in class.

Investment Report

At the end of the course, I will be investing an imaginary $1 million dollars in the "UCD GSM Investments Portfolio". This portfolio will consist of stocks recommended by student groups. The investment will be for one year, and the performance results will be presented to next year's class. In order to make wise selections, you will be performing rigorous stock analysis during the quarter. The investment analysis will occur in three stages:

(1) Industry analysis: each group must perform an industry analysis (industries will be provided by Prof Ellis). The analysis must include forecasts for expected one year growth, as well as analysis of macroeconomic and business cycle effects.
(2) Portfolio assignments: based on the industry return forecasts from (1) student groups will need to make asset allocation recommendations for our portfolio using Markowitz portfolio analysis.
(3) Within the selected industry, the group will need to recommend two stocks for investment. Investment analysis will include valuation, one year price forecast, and descriptive analysis of the company.

Due dates are:
(1) Monday January 26
(2) Monday February 9
(3) Monday March 8

Each group must hand in a one-page analysis. The analyses will be shared with the entire class (as well as graded by Prof Ellis) and the class will vote on the final investment decisions. Each report is worth 10% of the final grade (giving a total of 30% for the investment project).