

**University of California Davis
Graduate School of Management**

**MGT 261 / MGP 261
Investment Analysis**

**Katrina Ellis
Fall 2004**

Course Schedule – MGT 261

Class	Topic	Reading
Thurs Sep 30	Introduction and Review of CAPM	Chapters 2,4
Tues Oct 5	Value and Growth Funds	
Thurs Oct 7	Risks don't add up – portfolio construction	Chapter 6, Chapter 8 Barra Case 1 as Homework
Tues Oct 12	Constructing the Efficient Frontier – excel work in class	Chapter 8 Barra Case 3 as Homework
Thurs Oct 14	Case Discussion Industry Analysis Due	Harvard Management Case
Tues Oct 19	Structural Models of Risk and Returns	Chapter 10, Chapter 11
Thurs Oct 21	Structural Models of Risk and Returns	Chapter 11 cont.
Tues Oct 26	BARRA exercise – look at multifactor exposures of various portfolios	Barra Case 2
Thurs Oct 28	Behavioral Finance Efficient Frontier Due	Chapter 12
Tues Nov 2	Case Discussion	Numeric Investors Case
Thurs Nov 4	Guest Speaker in Equity Investing * Special Meeting Time 6pm OCM with WP students *	
Tues Nov 9	Exceptional Returns – Performance Evaluation, Information Ratio	Chapter 24
Thurs Nov 11	No Class: Columbus Day	
Tues Nov 16	Fixed Income Securities	Chapter 14
Thurs Nov 18	Bond Pricing	Chapter 15
Tues Nov 23	Bond Pricing	Chapter 15 cont.
Thurs Nov 25	No Class: Thanksgiving	
Tues Nov 30	Bond Portfolios	Chapter 16
Thurs Dec 2	Bond Portfolios Stock Selections Due	Chapter 16 cont.
Tues Dec 7	BARRA Exercise	Barra Case 5
Thurs Dec 9	Case Discussion	Hamlin Asset Management Case

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Thurs Oct 7	Risks don't add up – portfolio construction Constructing the Efficient Frontier – excel work in class	Chapters 6, 8 Barra Case 1 as Homework
Thurs Oct 14	Case Discussion Structural Models of Risk and Returns Industry Analysis Due	Harvard Management Co Chapters 10, 11
Thurs Oct 21	BARRA exercise – look at multifactor exposures of various portfolios Behavioral Finance	Barra Case 2 Chapter 12
Thurs Oct 28	Case Discussion Exceptional Returns – Performance Evaluation and Tracking Error Efficient Frontier Due	numeric investors Chapter 24
Thurs Nov 4	Guest Speaker	
Thurs Nov 11	No Class: Columbus Day	
Thurs Nov 18	Fixed Income Securities Bond Pricing	Chapters 14,15
Thurs Nov 25	No Class: Thanksgiving	
Thurs Dec 2	Bond Portfolios BARRA Exercise Stock Selections Due	Chapter 16 Barra Case 5
Thurs Dec 9	Case Discussion	Hamlin Investors

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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 strategies and performance evaluation methods. The primary goal of the course will be to present material of practical value.

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. Students should be comfortable with statistics, in particular regression analysis which we will use.

Pedagogy

The course employs cases, classroom lectures, excel spreadsheet calculations, a trading game “Stocktrak” 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. The trading game will be done individually, and will involve weekly trading decisions and writeups.

Grading

Classroom Contribution (individual)	5%
3 Case Writeups (group)	20%
Trading Game – weekly writeups (individual)	20%
Investment Report (three separate hand-ins) (group)	20%
Final Exam (individual)	35%

MGT 261 Final: December 15, 3pm, 261 AOB4

MGP 261 Final: December 16, 6pm, OCM 3

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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.

Reading material

There is no textbook for this course, but a required course packet.

I have constructed a course packet with readings from a text “Investments” by Bodie, Kane and Marcus (fifth edition). Rather than require the textbook, which I do not cover completely, I have selected the relevant chapters and included the cases. Other readings will be distributed.

Course Web Page

The lecture materials, excel exercises, documentation for Barra software and other relevant information will be provided on the course web page. It will be updated weekly (lecture notes are produced just-in-time, but will be available prior to class) and you should check it regularly. The web page is accessed via my.ucdavis.edu

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 (www.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>.

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Online sources of data:

- **FISonline** – electronic resource via UC Davis library. www.lib.ucdavis.edu. 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.
- **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 (available on course web page) 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.

Stock-Trak Portfolio Simulation Game and Performance Report

Each student participate in a portfolio simulation exercise managing \$500,000 over the quarter. The simulation is professionally managed by Stock-Trak Portfolio Simulations based in Atlanta GA (www.stocktrak.com). The fee per registered account will be announced in the first week of class – approximately \$20.

Each investor can invest in any NYSE, AMEX or Nasdaq stock (with traded price of \$5), a series of government and corporate bonds, a selection of over 2000 mutual funds and certain stocks trading on stock exchanges around the world, including London, Paris, Frankfurt, Mexico City and Tokyo.

Trades can be submitted by phone (1 800 786 TRAK), by fax (678 475 0645), email stocktrak@stocktrak.com and via their web page. Students will receive weekly statements showing account activity, value and performance. The web page has access by account number and password to review account activity, class rank as well as background resources for researching stocks, with price quotes and charts. You can buy on margin and sell securities short.

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Teams**

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During the first week of class students will form teams of 4 or 5 members. Each case and the stock selection for the class portfolio will be conducted by the team. Formation of teams will be left to your discretion. Stocktrak trading is to be done INDIVIDUALLY not in teams.

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, 5 pages (not including exhibits) maximum. (12 point, single-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.

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.

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

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CFA exams. I will provide solutions to the textbook problems to you on the course web page.

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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.

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.