

Shidler College of Business
University of Hawai'i at Manoa
Spring 2020

Finance 311 – Investments

Instructor: Alex Hittle
Office Hours: By Arrangement
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W-F: 10:30-11:45 am
Location: Shidler D201
W-F : 1 :30-2 :45pm
Location: Shidler G103

Course Description:

Finance 311 is an introduction to how an investor views and combines financial assets in an effort to preserve or increase wealth. The course is therefore a mirror of Bus 314 (Business Finance, where a grade of C- or better is a prerequisite for this course). In Bus 314 you learned how companies sell claims on their businesses in order to fund their assets. In this class, we will look at how the owners of those claims think and act.

The class will be divided into 4 units:

1. Investment **fundamentals** –
 - a. Discounting and Compounding – how the score is kept in investments
 - b. Making a market with the bid/ask spread – how every market is constructed
2. **Bonds** – investments that entitle the owner to payouts according to a contractual formula
3. **Stocks** – investments that entitle the owner to whatever is left after the bondholder's obligation has been met
4. **Portfolio theory** – how to combine stocks and bonds to make as much money as possible as smoothly as possible

Textbook:

Essentials of Investments, 10th Edition, Bodie, Kane, & Marcus. McGraw Hill.

Financial Calculator:

Most students will be best served by a traditional algebraic-entry business offering from HP or TI. Nowadays there are very good financial calculator apps for smart phones – I will allow you to use these on the tests. Just be aware that in other settings you may not be able to use your smartphone – therefore *if you become familiar with a calculator format on your phone make sure you own or are willing to own a physical copy of the same calculator.*

For the truly dedicated and adventurous: the classic on Wall Street is the Hewlett Packard (HP-12C), but this requires that you commit and accustom yourself to an unconventional data entry pattern called Reverse Polish Notation (the key advantage of which is that you avoid the need for parenthesis). If you truly believe you will be pursuing investments in the future, it may be worthwhile to consider learning how to use this calculator.

Computer:

In addition to a calculator, I expect that all students will have access to a computer with a copy of the spreadsheet program Excel.

Grading Structure:

Midterm one (in class):	20%
Midterm two (take home):	20%
Valuation Paper:	20%
Final:	30%
Attendance:	10%

The final will be cumulative. The in-class exams (midterm one and the final) will include quantitative problems with point answers as well as short answer problems. Calculators will be permitted.

I believe that attendance is important. I draw heavily from what I discuss in lectures to develop my exams and have found a consistent relationship between poor attendance and poor grades. I also understand that things come up in life; as a courtesy, I encourage you to alert me ahead of time that you can't make a class – a brief e-mail will do. NOTE THAT OTHER STUDENTS USUALLY SHOW UP, SO CONSISTENT ATTENDANCE IS UNLIKELY TO DIRECTLY BOOST YOUR GRADE, BUT A LARGE NUMBER OF UNEXCUSED ABSENCES MAY HURT YOU.

Make-up exams can only be made under unusual circumstances. If there is a reason you cannot take an exam, you must make arrangements before the exam. Unless approved in advance, no make-up exam will be given.

Academic Dishonesty:

It is not worth it! It is much easier to simply learn the material rather than cheat. So don't do it. Instances of academic dishonesty, as defined by the University Student Conduct Code:

(http://www.studentaffairs.manoa.hawaii.edu/policies/conduct_code/) will not be tolerated and may result in a grade of "F".

Fin 311: Investments

<i>PART 1: Investment Fundamentals</i>			
Class:	Date:	Topic(s):	Reading:
1	1/15	Syllabus <ul style="list-style-type: none"> • Review of Basics of Corporate Finance • Review of Discounting and Compounding 	none
2	1/17	The Language of Investments <ul style="list-style-type: none"> • Financial intermediaries 	Chapter 1 pp: 1-15
3	1/22	Securities Markets – Basics <ul style="list-style-type: none"> • Bid/Ask • Liquidity 	Chapter 3 pp: 54-69
4	1/24	Securities Markets <ul style="list-style-type: none"> • Order Types • Margin loans 	Chapter 3 Pp:59-61 pp: 70-71
5	1/29	Securities Markets – Short sales	Chapter 3 pp: 72-75
6	1/31	Mutual Funds and Investment Cos. (Midterm study sheet and problems handout)	Chapter 4 All
7	2/5	Midterm Review Session	
8	2/7	Midterm #1	
<i>Part 2: Cash & Bonds</i>			
9	2/12	Review Midterm #1	
10	2/14	Cash & Bonds Basics	Chapter 2 pp: 26-37
11	2/19	Bonds: Yield and Price – Yield to Maturity (YTM)	Chapter 10 pp: 289-304 pp: 308-311
12	2/21	Bonds: Default Risk	Chapter 10 pp: 312-319
13	2/26	Bonds: Yield Curve and Duration	Chapter 11 pp: 319-324 pp. 334-350
14	2/28	Bonds: Duration #2	Chapter 11 pp: 334-350
15	3/4	Bonds: Convexity and Portfolio Management	Chapter 11 pp: 350-356

		Part 3: Equity (Stocks)	
16	3/6	Equity Introduction Midterm #2 – take home	Chapter 2 pp: 38-46
17	3/11	Valuing Equity: Method #1 – dividends and comparables	Chapter 13 pp: 402-425
18	3/13	Valuing Equity: Method #2 – discounted cash flow (DCF). Midterm #2 -- due	Chapter 13 pp. 425-431
	3/18, 3/20	No Class, Spring Break	
19	3/25	Review Midterm #2	
20	3/27	Valuing Equity: Method #2 – discounted cash flow (DCF).	Chapter 13 pp. 425-431
21	4/1	Analyzing Equity: Financial Statements and Ratio Analysis	Chapter 14 pp. 443-452
22	4/3	Analyzing Equity: DuPont System	Chapter 14 pp: 452-471
23	4/8	Analyzing Equity: Technical Analysis Valuation Paper Assigned	Chapter 9 pp:274-280
	4/10	Day off – Good Friday	
		Part 4: Portfolio Theory	
24	4/15	Nobel Prize #1 – Risk and Return – the Capital Allocation Line	Chapter 5 pp: 110-139
25	4/17	Nobel Prize #2 – the Efficient Frontier	Chapter 6 pp: 147-168
26	4/22	Nobel Prize # 3 – Bridging Corporate Finance and Portfolio Theory: The Capital Asset Pricing Model (CAPM) Valuation Paper due	Chapter 7 pp: 192-210
27	4/24	Nobel Prize #4 – Multifactor Models and Arbitrage Pricing Theory	Chapter 7 pp: 210-221
28	4/29	Efficient Markets	Chapter 8 pp: 232-257
29	5/1	TBD: Derivatives or catch-up.	TBD
30	5/6	Review for final	
		Final Exam: Week of 5/11-5/15	