

UNIVERSITY OF HOUSTON

FINA 7A23 Portfolio Theory & Practice Spring 2016

INSTRUCTOR: Guojun Wu, Ph.D. Professor of Finance
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OFFICE HOURS: Friday 2-4pm
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COURSE MATERIALS:

Required:

Investments, Bodie, Kane, and Marcus, 10th or later edition, McGraw-Hill/Irwin. [BKM]
ISBN-13: 978-0077861674 ISBN-10: 0077861671 (earlier editions acceptable)

Recommended:

Class notes, cases and readings on Blackboard

COURSE DESCRIPTION:

This course covers the portfolio theory, its applications and several other important concepts in investments.

The development of portfolio theory is considered to be a major achievement of modern finance. The course begins by looking at the history of interest rates and returns of assets of different risk levels. This leads to the discussion of investor's attitude toward risk and risk aversion, and naturally the relationship between risk and expected return. The analysis of portfolio starts with the simple case of two assets and then generalizes to the N-assets case. The concept of optimal portfolio and the efficient frontier is then developed.

The application of portfolio theory and the CAPM begins with the popular concept of "beta" and the index models. Investment philosophies are presented with the discussion of passive versus active management, and indexing versus market timing strategies. Finally return predictability and arbitrage trading strategies are presented.

COURSE WEBSITE

Course materials other than the textbooks are posted on the website. You should check the website regularly, and it should be the first place you want to look for course related information, or if you have questions regarding assignments and cases.

CASES

There will be one or two cases in the course. You are expected to form groups of three or four members. In order to deal fairly with evaluation problems, every group member will be required to submit a participation grade for every other member at the final quiz (on a scale of 1 to 10).

The written case report is due at the beginning of the assigned class period. No late submissions will be accepted. The analysis should consist of specific and concise responses to the case questions, supported by tables or quantitative analysis as required. For each case, one or more groups will be assigned to present their analyses in class. The presentation itself will not be graded. You are encouraged to email the presentation slides to me a day before the discussion.

CLASS PARTICIPATION:

Your active participation is required throughout the term. I recommend that you do the readings prior to each class and be prepared for cold callings.

QUIZ

There will be an in-class final quiz at the end of the seven-week term. All quizzes are open book, open notes.

ATTENDANCE

You are expected to attend all class meetings, and this is the most efficient way to do well in this course. Yet, you may miss up to one class meeting without excuse. Note that you are still responsible for learning the materials covered in all class meetings, and your assignments and case reports are due on the announced dates, except for emergency situations.

GRADE

Your grade will be determined according to the following weighting scheme:

Class Participation	10%
Case Reports	40%
Quiz	50%

COURSE OUTLINE: (subject to change by the instructor during the semester)

Pay attention to announcements in class for due dates.

Asset Classes and Returns

Portfolio Diversification and Capital Allocation

Readings: BKM Chapters
Dimension Fund Advisors, 2002 [HBS: 9-203-026]

Construction of Optimal Portfolios

Readings: BKM Chapters
CASE: Ontario Teachers' Pension Plan Board: The Asset Allocation Decision

Investment Philosophies and Strategies

Readings: Lecture notes
Martingale Asset Management [9-209-047]

Passive and Indexing Investment Strategies

Readings: Lecture notes
Vanguard Case [HBS: 9-207-129]

Technical Analysis and Predictability in Asset Returns

Readings: Lecture notes

Market Timing

Readings: Lecture notes
Pravda Asset Management [Darden Business School Case]

Arbitrage and Trading

Readings: Lecture notes

QUIZ (in class)