

UNIVERSITY OF HOUSTON

FINA 7A23, Portfolio Theory & Practice Spring 2023

University Policy Notice:

Vaccinations

Data suggests that vaccination remains the best intervention for reliable protection against COVID-19. Students are asked to familiarize themselves with pertinent vaccine information and to consult with their health care provider. The University strongly encourages all students, faculty and staff to be vaccinated.

Reasonable Academic Adjustments/Auxiliary Aids

The University of Houston complies with Section 504 of the Rehabilitation Act of 1973 and the Americans with Disabilities Act of 1990, pertaining to the provision of reasonable academic adjustments/auxiliary aids for disabled students. In accordance with Section 504 and ADA guidelines, UH strives to provide reasonable academic adjustments/auxiliary aids to students who request and require them. If you believe that you have a disability requiring an academic adjustments/auxiliary aid, please contact the Justin Dart Jr. Student Accessibility Center (formerly the Justin Dart, Jr. Center for Students with DisABILITIES).

Excused Absence Policy

Regular class attendance, participation, and engagement in coursework are important contributors to student success. Absences may be excused as provided in the University of Houston Undergraduate Excused Absence Policy and Graduate Excused Absence Policy for reasons including: medical illness of student or close relative, death of a close family member, legal or government proceeding that a student is obligated to attend, recognized professional and educational activities where the student is presenting, and University-sponsored activity or athletic competition. Under these policies, students with excused absences will be provided with an opportunity to make up any quiz, exam or other work that contributes to the course grade or a satisfactory alternative. Please read the full policy for details regarding reasons for excused absences, the approval process, and extended absences. Additional policies address absences related to military service, religious holy days, pregnancy and related conditions, and disability.

Recording of Class

Students may not record all or part of class, livestream all or part of class, or make/distribute screen captures, without advanced written consent of the instructor. If you have or think you may have a disability such that you need to record class-related activities, please contact the Justin Dart, Jr. Student Accessibility Center. If you have an accommodation to record class-related activities, those recordings may not be shared with any other student, whether in this course or not, or with any other person or on any other platform. Classes may be recorded by the instructor. Students may use instructor's recordings for their own studying and notetaking. Instructor's recordings are not authorized to be shared with anyone without the prior written approval of the instructor. Failure to comply with requirements regarding recordings will result in a disciplinary referral to the Dean of Students Office and may result in disciplinary action.

Syllabus Changes

Due to the changing nature of the COVID-19 pandemic, please note that the instructor may need to make modifications to the course syllabus and may do so at any time. Notice of such changes will be announced as quickly as possible through (specify how students will be notified of changes).result in disciplinary action.

INSTRUCTOR: Guojun Wu, Ph.D. Professor of Finance
OFFICE: Melcher 220F
OFFICE HOURS: Email for Zoom sessions
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E-MAIL: gwu2@uh.edu

COURSE MATERIALS:

Required:

“**Investments**”, Bodie, Kane, and Marcus, 12th edition, McGraw-Hill.
ISBN 978-1260013832 (earlier edition 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 investment management.

The development of portfolio theory is considered a major achievement of modern finance. This 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 are 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, indexing strategies, ETFs and market timing strategies. Finally, financial modelling and arbitrage trading strategies are discussed.

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

Case package at
<https://hbsp.harvard.edu/import/1038273>

There might be one or two cases for assignment 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 PPT 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.

QUIZ

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

ATTENDANCE

Students should attend all live Zoom classes during class time.

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GRADE

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

Case Reports	50%
Quiz	50%

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

Pay attention to announcements in class for due dates.

Monetary Policy and Interest Rate Dynamics

Asset Classes and Risk Premium

Portfolio Diversification and Capital Allocation

Readings: BKM Chapter 5-6
Dimension Fund Advisors, 2002 [HBS Case]

Construction of Optimal Portfolios

Readings: BKM Chapter 7
Investments: Delineating an Efficient Portfolio [HBS Case]

CASE Assignment: Ontario Teachers' Pension Plan Board: The Asset Allocation Decision

Investment Philosophies and Strategies

Readings: BKM Chapter 11
Martingale Asset Management [HBS Case]

Passive and Indexing Investment Strategies, ETFs

Readings: BKM Chapter 8, 10
Vanguard Group, Inc., in 2006 and Target Retirement Funds [HBS Case]
Exchange-Traded Funds at Vanguard (A) [HBS Case]

Market Timing, Arbitrage and Trading

Readings: Lecture notes

Fixed Income Arbitrage in a Financial Crisis (A, B): US Treasuries in November 2008 [HBS Case]
AQR's Momentum Funds (A, B) [HBS Case]

QUIZ (posted to Blackboard)