



THE UNIVERSITY OF  
NEW SOUTH WALES  
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Faculty of Commerce and Economics  
School of Banking and Finance

**FINS2624  
PORTFOLIO MANAGEMENT**

**COURSE OUTLINE  
SESSION 1, 2007**

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## 1. COURSE STAFF

| Lecturer        | Office    | Consultation    | E-mail                                                                       | Telephone |
|-----------------|-----------|-----------------|------------------------------------------------------------------------------|-----------|
| Julia Henker*   | QUAD3058  | Wed 13:00-15:00 | <a href="mailto:j.henker@unsw.edu.au">j.henker@unsw.edu.au</a>               | 9385-4280 |
| David Gallagher | QUAD3031B | Tue 9:00-11:00  | <a href="mailto:david.gallagher@unsw.edu.au">david.gallagher@unsw.edu.au</a> | 9236-9106 |

\*Julia Henker is the lecturer in charge.

| Tutor                      | Office   | Consultation | E-mail                                                                 |
|----------------------------|----------|--------------|------------------------------------------------------------------------|
| Angela Cheung <sup>†</sup> | QUAD3054 | TBA          | <a href="mailto:angelac.cheung@gmail.com">angelac.cheung@gmail.com</a> |
| Karen Chow                 | QUAD3054 | TBA          | <a href="mailto:karenylchow@gmail.com">karenylchow@gmail.com</a>       |
| Andrew San                 | QUAD3054 | TBA          | <a href="mailto:sanandrew@gmail.com">sanandrew@gmail.com</a>           |
| Daniel Veytsblit           | QUAD3054 | TBA          | <a href="mailto:DVeytsblit@Gmail.com">DVeytsblit@Gmail.com</a>         |

<sup>†</sup> Angela Cheung is the tutor in charge.

### 1.1 Communication with Staff

Students with questions about course administration or content are encouraged to:

- Check the Vista site or, for policy issues, the Faculty/School website
- Ask the instructor during class (or after for non-content issues)
- Ask the tutor during tutorial
- Ask the tutor during consultation hours
- E-mail the instructor
- Contact the instructor during consultation hours

## 2. INFORMATION ABOUT THE COURSE

### 2.1 Teaching times and Locations

There are three scheduled lectures:

- Wednesday 15-17 (Webster B)
- Wednesday 18-20 (Applied Science L1)
- Tuesday 11-13 Electrical Eng G25

Students must attend the class at the time and location of their official UNSW registration.

### 2.2 Units of Credit

This course has 6 units of credit and 3 contact hours per week.

### 2.3 Relationship of this course to other course offerings

This course is one of four required courses for a finance major. It provides the basic investment tools that you will need to succeed in our advanced finance classes, as well as to contribute as a finance professional upon graduation.

## **2.4 Assumed Knowledge**

Modern investment theory, by necessity, is very mathematical. A solid mathematics background, including probability theory and statistical methods, is required. The prerequisite subject is FINS1613, Business Finance. Before the start of the lectures, students are advised to become familiar with the materials covered in Chapters 1-5 of the required text, as well as its quantitative review in Appendix A. It is assumed that students can use standard word processing packages (e.g., Word) and have easy access to the internet. Prior knowledge of spreadsheet packages (e.g., Excel) will be useful, but we will introduce basic Excel techniques in the tutorials prior to their use for the assignment(s).

## **2.5 Approach to learning and teaching**

There is a lot of material to cover in this class, but we want to ensure that it will be relevant and meaningful to you in class and after you graduate: To help achieve this objective we have a number of teaching aims:

- Create a climate of engagement, dialogue and ongoing feedback between students and lecturers regarding the content, teaching strategies, learning experiences and outcomes (Guidelines on Learning that Inform Teaching at UNSW (GLIT) numbers 2,7,10);
- Cater for a variety of learning preferences and abilities by providing a range of learning activities and teaching methods (GLIT number 9);
- Develop independent learning skills and create an environment that both provides structure and guidance as well as encouraging students to extend their learning (GLIT numbers 2,11);
- Develop skills in collaboration and teamwork, which is directly relevant to the skills required of a Finance professional (GLIT numbers 6, 14).

## **3. COURSE AIMS AND OUTCOMES**

### **3.1 Course Aims**

This class develops a basic conceptual framework to understand modern investments. Students learn to evaluate alternative investment strategies, develop a more complete understanding of the risk-return relation, and discuss recent developments in investment management. The course surveys various financial markets and provides a review of the instruments used to allocate capital and manage risk. Topics include measuring risk and return, designing portfolios, pricing risk, valuing equities and fixed income securities, hedging with derivatives.

### **3.2 Student Learning Outcomes**

Upon completion of this course you will have a working knowledge of risk and return, portfolio engineering, and some basic understanding of equity valuation, fixed income investing, and derivatives management. Specifically, you will:

1. Be able to build and analyse investment portfolios
2. Have a working knowledge of the operations of key financial markets
3. Discuss and write about major investment topics
4. Be confident in valuing a range of asset types
5. Develop links between theory and the professional practice of investment management
6. Select subsequent elective finance courses

### 3.3 Teaching Strategies

This course consists of weekly two-hour lectures and one-hour tutorials. The high levels of interaction and preparation required for this class are intended to provide the necessary foundation for success in subsequent finance elective courses and in the workplace. Different assessment tasks will be based on either individual or group work. When possible we will bring current research to class, but our focus will be on the fundamental theories of investments.

## 4. STUDENT RESPONSIBILITIES AND CONDUCT

### 4.1 Workload

It is expected that you will spend at least **ten hours** per week studying this course. This time should be made up of reading, working on exercises and problems, and attending classes. In periods where you need to complete assignments or prepare for examinations, the workload may be greater. Over-commitment has been a cause of failure for many students. You should take the required workload into account when planning how to balance study with employment and other activities.

### 4.2 Attendance

Your regular and punctual attendance at lectures is expected in this course. University regulations indicate that if students attend less than eighty per cent of scheduled classes they may be refused final assessment.

### 4.3 General Conduct and Behaviour

You are expected to conduct yourself with consideration and respect for the needs of your fellow students and teaching staff. Behaviour that unduly disrupts the class, such as ringing or talking on mobile phones, repeated late arrivals or early departures, is contrary to the UNSW Code of Conduct and will not be tolerated. Such disruptions may lead to disciplinary action. More information on student conduct is available at: [www.my.unsw.edu.au](http://www.my.unsw.edu.au).

### 4.4 Keeping informed

You should take note of all announcements made in lectures, tutorials or on the course web site. Most information that you need for this course is available on-line through Vista, and you are expected to be fully aware of resources and information on the class Vista site throughout the term. From time to time, the University will send important announcements to your university e-mail address without providing you with a paper copy. You will be deemed to have received this information.

## 5. LEARNING ASSESSMENT

### 5.1 Formal Requirements

To pass this course, you must:

- achieve a composite mark of at least 50; and
- make a satisfactory attempt at all assessment tasks (see below);

### 5.2 Assessment Details

Assessment in this course is a combination of individual and group assignments. In the case of individual assignments, all work submitted must be your own. In the case of group assignments all work must be from the team. Copying or not acknowledging the work of others is considered plagiarism. The assessments are designed to promote and reinforce our learning objectives. In particular,

- Be able to build and analyse investment portfolios
  - Tutorial problems, assignments, mid-session and final examinations reinforce and assess this objective
- Have a working knowledge of the operations of key financial markets
  - tutorial problems, assignments and examinations all assess this objective.
- Discuss and write about major investment topics
  - Tutorial participation and review address this objective.
- Be confident in valuing a range of asset types
  - Tutorials, assignments and examinations assess this. We require that you to communicate your understanding of investments in a variety of environments.
- Develop links between theory and the professional practice of investment management
- Assignments and some tutorial problems assess this objective. On-line materials also support non-assessed exploration of each topic.
- Select subsequent finance electives
  - Lecture and tutorial discussions support this objective.

Feedback, both graded and ungraded, comes in a variety of modes:

- Tutorial problems reinforce each lecture's content. The solution manual is a packaged with the required textbook.
- Questions about Excel will be addressed in tutorials.
- Assignments are designed to promote teamwork and in-class discussion
- Mid-session and final examinations provide a thorough assessment of the course material
- Contact the instructor or tutor during consultation hours provides additional opportunity for feedback on comprehension of specific topics.

A comprehensive list of possible grades can be found at:

<https://my.unsw.edu.au/student/academiclife/assessment/AssessmentMainPage.html>

### 5.3 Assessment Submission Procedure

The summary table below provides an overview of the assessment tasks, due dates and relative weighting.

| <i>Assessment</i>                                  | <i>Learning outcome</i> | <i>Due date</i>                     | <i>Weight for course</i> |
|----------------------------------------------------|-------------------------|-------------------------------------|--------------------------|
| Tutorial attendance, preparation and participation | 1,2,3,4,6               | Every week, beginning week 2        | 5 %                      |
| Assignment #1                                      | 1,3,5                   | Before enrolled tutorial in Week 6  | 7 %                      |
| Mid-session examination                            | 1,2,3,4                 | Week 7                              | 38 %                     |
| Assignment #2                                      | 1,2,3,4,5               | Before enrolled tutorial in Week 13 | 10 %                     |
| Final Exam                                         | 1,2,3,4,5               | Centrally scheduled final exam      | 40 %                     |
| <b>Total</b>                                       |                         |                                     | <b>100 %</b>             |

### 5.4 Late Submission/ Absence

Under conditions of hardship, and only with their tutor's permission, students may arrange to attend an alternate tutorial or lecture TEMPORARILY.

Assignments will be available several weeks prior to the due date. Consequently, late submissions, regardless of the problem, will incur a penalty as described in the assignment instructions.

Extensions will not be granted because of work and other commitments.

### 5.5 Special Consideration and Supplementary examinations

All students need to be aware of special consideration rules and supplementary assessment. These rules are available on the University website. If you are unable to meet a required deadline through illness or misadventure, there are some forms of relief that may be available to you. **THESE ARE NOT ADMINISTERED THROUGH THE INSTRUCTOR.** For this course, all requests for special consideration and supplementary examinations, including for the mid-session examination, will be considered at the end of the semester, after final examinations are completed, by a committee of the School. The committee's decision may be based on the student's performance on the rest of the assessments and history as well as the application. For more information please refer to the School of Banking and Finance website following links to "Current Students" and then to the section on "Policies".

### 5.6 Assessment Specifics

#### Tutorials

Due: Weekly  
Weight: 5% of the Final Grade  
Details: Students are expected to prepare tutorial problems, consider the solutions and bring specific questions to tutorial and to participate in tutorial discussions

#### Assignment #1

Due: At start of enrolled tutorial in week 6  
Weight: 7% of the Final Grade  
Details: Available from Vista

This assignment will give students a chance to try what they have learned in more applied setting. It will require the use of basic spreadsheet techniques, an essential skill for all finance professions. Finally, it will enable students to work in small groups. Detailed grading and assessment criteria are given in the assignment description, which is available on the Vista site.

**Mid-session examination**

Due: Week 7  
Weight: 38% of the Final Grade

The mid-session examination tests material covered either in the text or in the lecture notes during the first 6 weeks of class. It will be comprised of multiple choice, short-answer, and short computation questions. The examination is closed book.

**Assignment #2**

Due: At start of enrolled tutorial in week 13  
Weight: 10% of the Final Grade  
Details: Available from Vista

**Final examination**

Due: Held during the UNSW Final Exam Week (date to be determined centrally)  
Weight: 40% of the Final Grade

The final examination tests material covered either in the textbook or in the lecture notes during weeks 8 through 14 of session. It will be comprised of multiple choice, short-answer, and short computation questions. The examination is closed book.

All exams are conducted in accordance with the UNSW Rules for the Conduct of Examinations and it is the student's responsibility to be familiar with these rules. For more information, refer to the UNSW examination website at:

<https://my.unsw.edu.au/student/academiclife/assessment/AssessmentMainPage.html>

**6. ACADEMIC HONESTY AND PLAGIARISM**

The University regards plagiarism as a form of academic misconduct, and has very strict rules regarding plagiarism. For full information regarding policies, penalties and information to help you avoid plagiarism see:

<http://www.lc.unsw.edu.au/plagiarism/index.html>

## 7. STUDENT RESOURCES

### 7.1 Course Resources

#### Required textbook

Investments, by Z. Bodie, A. Kane, and A. Marcus, 6th Ed., McGraw-Hill Irwin, 2005.  
Solutions manual to Investments

#### Other useful resources

##### Texts

- Essentials of Investments, by Z. Bodie, A. Kane, and A. Marcus, McGraw-Hill Irwin, 2001.
- Options, Futures, and Other Derivatives, by John C. Hull, 4th Ed., Prentice Hall, 2000.
- Spreadsheet Applications to Securities Valuation and Investment Theories, by Henry Yip, 1st Ed., Prentice Hall, 2005.

##### Other Readings

- Against the Gods: The Remarkable Story of Risk, by Peter L. Bernstein, John Wiley & Son, 1996. *Reviews the development of probability theory and its applications to risk management.*
- Capital Ideas: The Improbable Origins of Modern Wall Street, by Peter L. Bernstein, Free Press, 1992. *The development of modern finance theory and how it has changed Wall Street.*
- A Random Walk Down Wall Street, by Burton Gordon Malkiel, 7th Ed., W. W. Norton & Company, 1999. *A classic book that has educated many investors.*
- Security Analysis, by Benjamin Graham and David L. Dodd, McGraw Hill, 1934. *Still in print, this is regarded as the bible of value investing.*

#### Vista

The Vista website includes the following:

- Lecture notes
- Regular announcements
- A personal log of your use of the website
- Your assessment results as well as summary statistics for the class
- Suggested preparation and review strategies
- On-line technical support

The Vista site for this course can be accessed from the Vista log-in page at:

<http://www.webct.unsw.edu.au>

### 7.2 Other Resources, Support and Information

The University and the Faculty provide a wide range of support services for students, including:

- Learning and study support;
- Counselling support;
- Library training and support services;
- Disability support services;

In addition, it is important that all students are familiar with University and Faculty policies and procedures in relation to such issues as:

- Examination procedures and advice concerning illness or misadventure;
- Supplementary Examinations;
- Occupational Health and Safety policies and expectations;

For information and links relating to the above services, please see the School of Banking and Finance website. Follow the link to “Current Students”.

#### Education Development Unit

Additional learning support, tailored to the needs of FCE students, is available from the

Education Development Unit (EDU) in the Faculty. The EDU offers a range of services for FCE students including:

- Academic skills workshops run throughout the session;
- Printed and on-line study skills resources e.g. referencing guide, report writing and exam preparation;
- A drop-in resource centre containing books and audio visual material that can be borrowed;
- A limited consultation service for students with individual or small group learning needs.

More information about the EDU services including on-line resources, workshop details and consultation request forms are available from the EDU website.

EDU Web: <http://education.fce.unsw.edu.au>

EDU Location: Room 2039, Level 2 Quadrangle Building

EDU services are free and confidential and are available to students of the Faculty of Commerce and Economics.

### **Other UNSW support**

In addition to the EDU services, the UNSW Learning Centre provides academic skills support services for students. The Learning Centre is located on Level 2 of the Library and can be contacted by Phone: 9385 3890 or through their website: <http://www.lc.unsw.edu.au/>

Students experiencing problems of an academic or personal nature are encouraged to contact the Counselling Service at UNSW. This service is free and confidential and run by professional counsellors. The Counselling Service is located on Level 2, Quadrangle East Wing, and can be contacted on 9385 5418.

Those students who have a disability that requires some adjustment in their teaching or learning environment are encouraged to discuss their study needs with the Equity Officer (Disability) in the EADU 9385 4734. Issues to be discussed may include access to materials, signers or note-takers, the provision of services and additional exam and assessment arrangements. Early notification, preferably by letter from the Equity Officer is essential to enable any necessary adjustments to be made.

## **8. CONTINUAL COURSE IMPROVEMENT**

Each year feedback is sought from students and other stakeholders about the courses offered in the School and continual improvements are made based on this feedback. UNSW's Course and Teaching Evaluation and Improvement (CATEI) Process ([http://www.ltu.unsw.edu.au/ref4-5-1\\_catei\\_process.cfm](http://www.ltu.unsw.edu.au/ref4-5-1_catei_process.cfm)) is one of the ways in which student evaluative feedback is gathered.

Significant changes to courses and programs within the School are communicated to subsequent cohorts of students.

## 9. COURSE SCHEDULE

| <i>Week</i>         | <i>Lecturer</i> | <i>Topic</i>                                             | <i>Text chapter(s)</i> | <i>Tutorial problems Discussed next week</i>                                                                                                                  | <i>Assessment</i>                 |
|---------------------|-----------------|----------------------------------------------------------|------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|
| 1                   | Henker          | Introduction and Overview                                | 1-5                    | Ch3: 4,15,17<br>Excel intro (on VISTA)                                                                                                                        | <b>no tutorial week 1</b>         |
| 2                   | Henker          | Risk and Return                                          | 5-6                    | Ch5: 2,4,5,11-17<br>Ch6: 7-9,13-15                                                                                                                            | tutorial                          |
| 3                   | Henker          | Portfolio Optimization                                   | 7-8                    | Take the MSN risk quiz and read the risk tolerance article (5 <sup>th</sup> &6 <sup>th</sup> websites on page 215)<br>Ch7: 1-5,7-9,13,18-22<br>Ch8: 1-8,18-26 | tutorial                          |
| 4                   | Henker          | CAPM                                                     | 9                      | Use the moneychimp calculator to find the risk adjusted discount rate for MSFT (website page 304)<br>Ch9: 1,4,5-12,13-15,21-27                                | tutorial                          |
| 5                   | Henker          | SIM, Factor Models                                       | 10                     | Ch10: 1-11,14,18,19                                                                                                                                           | tutorial                          |
| 6                   | Henker          | APT                                                      | 11                     | Ch11: 1-5,7,11-19<br>(to be discussed in week 8)                                                                                                              | <b>Assignment#1</b><br>tutorial   |
| <b>Break</b>        |                 |                                                          |                        |                                                                                                                                                               |                                   |
| 7                   | Henker          | <b>Midsession examination</b>                            |                        |                                                                                                                                                               | <b>exam</b>                       |
| 8                   | Gallagher       | Market Efficiency & Empirical Evidence of Market Returns | 12-13                  | Ch12:1-13,17,22,31<br>Ch13:1-5,6,12                                                                                                                           | tutorial                          |
| 9                   | Gallagher       | Valuation of Equity Securities                           | 18                     | Ch18:1-7,9,13,15-17,25                                                                                                                                        | tutorial                          |
| 10                  | Gallagher       | Fixed Interest Securities                                | 14-15                  | Ch14:1,4-5,7,9,12,27<br>Ch15:1,3,6,11                                                                                                                         | tutorial                          |
| 11                  | Gallagher       | Bond Portfolio Management                                | 16                     | Ch16:1-3,6,8,10-11,14,17,19,24                                                                                                                                | tutorial                          |
| 12                  | Gallagher       | Derivative Securities                                    | 20-22                  | Ch20:1,3,4<br>Ch21:4,6-7,9,13,26-27<br>Ch22:1,11-12,17                                                                                                        | tutorial                          |
| 13                  | Gallagher       | Portfolio Performance Evaluation                         | 24                     | Ch24:1,2, 4-7, 17, 22, 25,26                                                                                                                                  | <b>Assignment #2,</b><br>tutorial |
| 14                  | Gallagher       | Conclusion/revision                                      |                        |                                                                                                                                                               | tutorial                          |
| <b>Study period</b> |                 |                                                          |                        |                                                                                                                                                               |                                   |
|                     |                 | <b>Final examination</b>                                 |                        |                                                                                                                                                               | <b>exam</b>                       |

## 10. FREQUENTLY ASKED QUESTIONS

### Why can't I form a group outside of my tutorial?

It is essential that you have regular opportunities to meet your group members in an academic environment. Furthermore, your group may wish to ask questions of the tutor during the tutorial, and since all members of the group receive the same mark, all should be present at any discussion about the assignment. Moreover, your assignment is due in your enrolled tutorial and everyone in the group must have the same due date and time.

### Why does my assignment grade depend on someone else?

Most important financial decisions are made by groups and the ability to contribute to and manage a group is one of the more important skills that you can acquire while in school. In our experience a group component to the curriculum, with assessment consequences, is one of the key requests from people in industry interested in hiring students in finance. It is important that you work towards a well

functioning group and remember that you are responsible, in part, for the learning of others in the class.

**If I join the class late aren't I at a disadvantage?**

Yes, so don't. University starts in week 1. In this course, we have a significant amount of information to convey, and every week is important. If you are "shopping" for a class, you must still be an active contributor to all classes that you are attending. We expect that you will be ready to participate in all aspects of the class in all weeks, even if you later decide it is not for you. If you cannot be in the country at the start of the University semester and are determined to be a student in this course, you will have to catch up on your own.

**What happens if a group member drops the class?**

If a group member drops the class, your group will continue to work with its reduced number.

**I could not login to Vista; can I be relieved from my class responsibilities due to a computer problem?**

No. One of your key responsibilities is to be prepared for each lecture and to be working with your peers. If you experience difficulties with Vista or the computer you use to connect to Vista be sure to take advantage of the many support options provided (visit UNSW EDTeC for more information). Note that you will not have Vista access until you are properly enrolled in the class.

**I cannot login to Vista. What should I do?**

**INSTRUCTORS ARE UNABLE TO SOLVE "ACCESS" PROBLEMS WITH VISTA – THESE CAN ONLY BE RESOLVED THROUGH IT SERVICE DESK.** Vista automatically synchronizes with UNSW's registration lists to allow enrolled students access to the class site. If you drop the course, your Vista access will cease. Similarly, if you have recently added the course, it will take up to 2 days for UNSW to process your course addition and for Vista to recognize your enrolment. If you are having difficulty accessing the site the first thing you need to check is that you are correctly enrolled in the class. If this enrolment has been very recent, then you are best to wait and see if Vista picks your enrolment up in the next 48 hours. If you have been enrolled for some time and cannot access to course it could be a problem with the Vista account system. In this instance we have been advised to refer you to the IT Service Desk where they will check on your status and may refer your case to the Vista support team. Access to the Vista site is automatically granted to all registered students. Instructors are unable to solve "access" problems with Vista – these can only be resolved through IT Service Desk. Teaching staff do not have access to UNSW registration details and Vista specifics. Hence, we are not able to assist in the details of solving problems with access to Vista. As much of the course material is on-line we encourage students in the strongest possible way to confirm site access and remedy any conflicts as soon as possible. All lecture notes and support materials are only accessible on-line.

**Do we get to use formula sheets for the examinations?**

No. Basically there are three reasons. First, when you are working (say in a meeting) you are often asked a question when a text is not handy. By getting you to learn (rather than memorize) how key formulae work you will be much better able to develop intuition for problems and comment intelligently on implications, without having to rely exclusively on texts and other support materials. Second, upon graduation you may want to sit for a range of industry-related certifications, including the CFA. Typically these examinations do not allow any support materials, so we are using an examination regimen that you will be asked to abide by when working in industry. Finally, remember that the complexity of the examination is related to the resources allowed. If we allowed more detailed support in the examination we would simply ask more difficult questions.

**Should I use a financial calculator for the examinations?**

For this course, you may use any calculator that meets UNSW's explicit policy on the type of calculators that can be used in examinations. For more details please go to myUNSW and lookup information on examinations. In general, a financial calculator is acceptable, but it will not confer any

advantage over a scientific calculator. For computational questions we require you to show your work to get credit for any answer, so simply using a special calculator will not ensure you a passing grade. Our aim is to test for a significant understanding of the material, and the questions reflect this view.

**The required text is from the US and it covers a lot of US institutional detail. Are we getting too much exposure to the US markets in this class?**

The text is probably the best-known and most-adopted investment text among top business schools. We are very comfortable with the topics covered and the technical aspects of the text content. Further, most available texts will have a US focus for one simple reason – American capital markets are by far the largest in the world, attracting investors from all over the globe, and influencing regulations in all markets. So even if you plan on basing your career in Australia you will need a strong working knowledge of the world's largest and most influential capital market. If you would like more background, you will find a lot of references covering various finance centres. For example, see: <http://www.bis.org/publ/regpubl.htm> Moreover, institutional detail will not be the focus of the course.