



Department of Finance
Spring Semester, 2011

Dr. Craig G. Rennie
BA 472, 236-4777

FINN 4153-001 – PORTFOLIO MANAGEMENT II

M 6-8:50 pm

W.J. Walker Hall Seminar Room 0031 (Global Financial Markets Trading Center)

COURSE SYLLABUS

Course Description

Welcome to FINN 4153 Portfolio Management II. This course continues FINN 4143 Portfolio Management I as students continue to learn about the application of advanced investments concepts in the management of the Rebsamen Trust, a portfolio with approximately \$1 million in financial securities. Students maintain their statement of investment objectives, top down asset allocation based on quantitative analysis of index returns, and bottom up portfolio management using fundamental analysis. The course continues to be run like an investments management firm rather than a class.

This semester, students will continue to apply institutional portfolio management techniques learned in FINN 4143 Portfolio Management I, while learning more details about the Investment Banking Industry. Specifically, students will be covering alternative valuation models used by Investment Banks in assessing LBOs and M&A activities, including comparables, precedent transactions, and discounted cash flow, will gain experience in writing and presenting proposals for LBO/M&A deals, and how to create a hedge fund, mutual fund, or become a Registered Investment Advisor. Visits to local investments firms and participation in a field trip to Dallas, TX, will form an important part of the course. Finally, students are strongly encouraged to participate in Level 1 of the Chartered Financial Analyst designation (CFA) and Level 1 of the Chartered Market Technicians' Designation (CMT). Material from both programs will be covered in this semester. Selection for this course requires additional selection following completion of FINN 4143 by the instructor. By the end of the course, students will also have the knowledge to be able to write the **Series 7 General Securities Representative Exam**.

Course Objective

Your primary goal is to increase the overall value of the Rebsamen Trust, and other assigned funds, while preserving capital. You are accountable to the Trustees for this. Accordingly, you must tailor recommendations for security purchase and sale according to stated investment objectives which were based on the Trustees' objectives and risk tolerances, just as you would do for a real life client. You will adhere to the fund management style that you developed and had approved in FINN 4143, with modifications approved by the Faculty Advisor and Trustees, and measure performance according to appropriate benchmarks. This semester you will prepare a 3rd quarter and a 4th quarter ("annual") report. In the process of managing the Trust, you will gain a thorough understanding of advanced investments concepts and their application in practice.

The secondary objective of the course is for students to learn additional methods of valuing securities (comparables, precedent transactions, and discounted cash flow), used by Investment Banks for LBOs and M&As, and challenges and opportunities available in the form of Hedge Funds and Mutual Funds, and gain practice in writing and presenting proposals for LBOs, M&As, and the creation of a Hedge Fund or Mutual Fund.

A tertiary objective of the course is to help students become proficient at portfolio management, so they can be wise stewards of their own investment portfolios or at least know what kinds of questions they should ask, and performance they should expect, of their own portfolio managers.

Teaching Philosophy

My “teaching” philosophy (actually, “chair,” “facilitator,” and “in-house consultant” philosophy, for this course) is to maximize student learning by constantly relating theory to practice. I will strive to ensure you master the theoretical material covered and gain experience applying it while managing the assets of the Rebsamen Trust. Wherever possible, I will get you to think through problems rather than give you immediate answers. An important part of the learning experience for this course will be to get you used to a work-like environment, functioning effectively as a management team.

In this course, readings, presentations, reports, group assignments, and exams are designed to maximize learning and to ensure success. This course will be demanding in terms of workload, but it will be graded fairly. Teaching is at least a two-way process. To obtain the most from this course, you must do your part by working hard. The material is complex. I expect mastery of detail.

Your dedication and effort will pay off in the form of skills and knowledge that will help you throughout the rest of your career. Students who possess real-world experience, whether domestic or international, are encouraged to share their experience in the classroom, to enrich the learning environment. All students will attend EVERY meeting, understand assigned readings and problems before meetings, and participate fully.

Expectations are extremely high in this course. You will work as a team, put in long hours on research in the Portfolio Management “bull pen” (the Trading Center), and master concepts and application of assigned materials and their real-world application. Qualities sought by financial industry employers, including high standards of dress and deportment, timeliness, broad general knowledge, presentation skills, social skills, social adaptation, conversational manners, and writing skills, will be emphasized.

Professional Conduct

High levels of professionalism will be required from all students. This means that students cannot participate in any kind of behavior, including perceived excessive drinking, any form of criminal activity, or any kind of non-attendance (or late attendance), that could reflect badly on the class, college, or university. Students must do as instructed on field trips as ambassadors to the class, college, and university. Any failure to do so could result in students immediately being sent home during field trips, and possible grade consequences (including the likely award of an “F”). If you have any doubt about your willingness to submit to these standards, withdraw now - there will be no exceptions or special cases. The CFA code of ethics and conduct is a fine measure of the standards we expect of our students.

Value of the Course

Students receive state-of-the-art instruction in modern top down asset management and bottom-up fundamental analysis techniques, while gaining additional experience in the analysis of real-time news which drives the markets. You will obtain hands-on experience in all aspects of the solution of the portfolio management problem, including fundamental and technical analysis, portfolio performance evaluation, and risk assessment.

The CFA Institute offers students the ability to register for the Chartered Financial Analyst (CFA) program. Details of this program are available at <http://www.cfainstitute.org/>. This program is in three steps, with Level 1 exams in June (or December). This professional program is the TOP designation in the investments field, but is extremely demanding. Individual study is required, but voluntary study sessions for interested students are recommended. Participation in the CFA is not required for successful completion of FINN 4143/53, but is strongly encouraged.

Similarly, the Market Technicians Association offers students the ability to register for the Chartered Market Technician’s program. Details are available from the MTA website. Participation in the CMT is not required for successful completion of FINN 4143/53, but is strongly recommended.

Texts and Materials

Required:

Rosenbaum, Joshua, and Pearl, Joshua, *Investment Banking: Valuation, Leveraged Buyouts, and Mergers and Acquisitions*. Wiley Finance, 2009.

Recommended:

- Haugen, Robert A., 1999. *The Inefficient Stock Market: What Pays Off and Why?* Prentice Hall.
- Lo, Andrew W. 2008. *Hedge Funds: An Analytic Perspective (Advances in Financial Engineering)*. Princeton University Press.
- Lo, Andrew W. 2009. *The Heretics of Finance*. Bloomberg Press.
- Bodie, Zvi, Kane, Alex, and Marcus, Alan J., *Investments*, 8th ed. McGraw-Hill Irwin.
- The Wall Street Journal*.
- Papers – from SSRN

Class Schedule

Assignments

Assignment #1: “LBO/M&A Deal Pitch Book” (proposal – includes a spreadsheet model) prepared in groups (hand-in report due March 28, 2010, with group presentations in-class). Make sure you comment on opportunities, with concrete investment strategies, to take advantage of possible LBOs/M&A Deals from the point of view of the MBA Rebsamen Trust – due Mar 28, the day after spring break.

Assignment #2: “Portfolio Management Research Paper”

Assignment #3: “Rebsamen Trust (and other) Report(s)” (update, prepared by class as a whole, with an interim report due before the Dallas trip and a final report due May 5, 2010 (day before dead day).

Grading

Grades will be determined by the quality of reports, peer evaluations, presentations, and participation as follows:

Assignment #1: LBO/M&A Pitch Book and model	33%
3 rd and 4 th Quarter Reports & Presentations	33%
Participation and Final Exam (or Portfolio Management Research Paper for students in both fixed income and portfolio management classes)	33%

Assignments and due dates are shown below. The Final Exam (for non-Fixed Income Class students) will be a mock Series 7 General Securities Representative Exam. Students who are in both the Fixed Income and Portfolio Management Classes will be required to write an additional report on a topic related to portfolio management in lieu of the Final Exam (because they are writing the same Final Exam in Arvest Fixed Income class). Note: A’s are not guaranteed, and will not be awarded to any student who submits low quality reports, reports infrequently, or does not participate fully in class.

Academic dishonesty will be dealt with severely in accordance with University policy. Adherence to the code of ethics and standards of professional conduct of the Association for Investment Management and Research (see Reilly & Brown) is expected. Deliberate downloading of unauthorized software or pornography will result in severe discipline.

Disability issues will be dealt with in accordance with University policy. Inclement weather will be dealt with in accordance with University policy. 100% attendance is expected. If you have an EXCELLENT reason for an absence, you must inform me in advance and obtain my approval.

The Trading Center is in part dedicated to this class. It is the depository for trust materials, readings and resources. It is *your* room, so use it. **You are required to keep it clean and orderly.** The Bloomberg machine is yours to use. It's a great (and expensive) resource, so learn to use it...a lot. You may use the Finance Dept. copy card and copier to copy material for daily class handouts, but do not overuse it, or use it for personal copying. If there are any particular speakers you would like to bring to class, let me know. We will have visits by local investment folks, whom I will schedule. The Trading Center is not to be used by students outside the portfolio class, except as authorized by the Faculty Advisor.

Keep a comprehensive file of everything going on in the course. You're going to have to keep track of many different things, and keep them in focus. In all your reports, use overkill- not underkill. Pay attention to detail! Learn everything you can about securities/firms in your economic sector, and keep current with news about your firms and industries. You can write for, or use the internet, to obtain information on companies you are researching. Feel free to contact people outside the school for additional information (ex – analysts) – but be professional and judicious in the use of their time and keep track of such contacts for our reports.

The portfolio can be accessed at: www.stephensaccess.com

Account #: 237160416

Password: RAZORBACKS

(Do not attempt access more than twice – if you do the account will be switched off and Dr. Rennie will have to reset through Stephens Investment Bank in Little Rock.)

Staff functions and secondary duties:

Students will be assigned economic sectors (etc.) as primary duties:

CONSUMER DISCRETIONARY ANALYST

CONSUMER STAPLES ANALYST

ENERGY ANALYST

FINANCIALS ANALYST

HEALTH CARE ANALYST

INDUSTRIALS ANALYST

INFO TECH ANALYST

MATERIALS ANALYST

TELECOM ANALYST

UTILITIES ANALYST

GLOBAL (?) ANALYST

ECONOMIST

PORTFOLIO MANAGER

Secondary duties MAY include the following:

MARKETING SPECIALIST

PORTFOLIO ADMINISTRATOR (STANDARDS)

WEB MANAGER

PORTFOLIO PERFORMANCE EVALUATION

SOCIAL COORDINATOR

Tentative Schedule:

Jan. 23 - Introduction, feedback from 1st semester – then discuss research process, SSRN website search (for topics of interest), demo of WRDS, **Bloomberg**, Ibbotson & Associates (Trading Center), S&P, etc., and discuss assignments 1-3.

Part I – Investment Banking (Rosenbaum and Pearl, 2009) - Valuation

Jan. 30 - Chapter 1: Comparable Companies Analysis

Feb 6 - Chapter 2: Precedent Transactions Analysis

Feb 13 - Chapter 3: Discounted Cash Flow Analysis

Part II – Leveraged Buyouts

Feb 20 – Chapter 4 - Leveraged Buyouts

Feb 27- Chapter 5 - LBO Analysis

Part III – Mergers and Acquisitions

Mar 5 – Chapter 6 - M&A Sale Process Assignment: Put together a “Pitch Book” for an LBO or M&A deal

Part IV – Portfolio Management and Asset Pricing/Market Efficiency Concepts

Mar 12 - CAPM, APT, and Market Efficiency

Mar 19-23 – No classes (Spring Break)

Mar 26 – Student Presentations of LBO/M&A Pitchbooks, Behavioral Finance, Hand in of **LBO/M&A Pitchbooks**

Apr 2 – Portfolio Management Review (Series 7 topics) - *Ventsi*

Apr 9 - Portfolio management Review (Additional Series 7 topics) - *Ventsi*

Apr 16 (est.) – Visit to Dallas-Fort Worth (Precise Dates TBA)

Apr 23-24 – Visit for selected students to Newport Beach, CA

Apr 30 – Portfolio Management Review (Additional Series 7 topics) - *Ventsi*

May 6 – Dead Day – All remaining projects are due, final exam, etc.

Note: Series 7 content will include Equity Securities, Debt Securities, Municipal Securities, Options, Customer Accounts, Margin Accounts, Issuing Securities, Trading Securities, Brokerage Support, Investment Company Products, Retirement Plans, Variable Annuities, Direct Participation Programs, Economics & Analysis, Ethics, Recommendations, and Taxation, US Government and State Rules and Regulations, and Other SEC and SRO Rules and Regulations. This material will be taught at various points throughout the course, and especially during the month of April. The final exam will be a mock **Series 7 General Securities Representative Exam**.