



COURSE SYLLABUS

Course: **FINN 4143 Portfolio Management I**

Selection is by invitation

Co-requisite: ACCT 3723

Prerequisite: FINN 3063 and by invitation only

Course Description:

Welcome to FINN 4143 Portfolio Management I. This course applies modern investment theory to the practical management of the Rebsamen Trust and related accounts through the Garrison Financial Institute of the Sam M. Walton College of Business. Students explore cutting edge research in portfolio management, prepare a statement of investment objectives for their client (the Rebsamen Trust), recommend an asset allocation strategy based upon a quantitative analysis of asset class returns, and select securities using fundamental analysis supplemented by technical analysis. Classes are organized as management meetings and feature visits to investment firms as an important part of the class. Selection is by invitation only.

Students' primary duties are to follow the U.S. and global economies, stock, bond, derivatives, commodities, and currencies markets, assigned economic sectors/industries, firms, and investments, where securities are either held by or of interest to the portfolio. Students are also assigned secondary duties (see below). Students are expected to read, research, and present (both individually and as teams) assigned topics, and make very specific buy, hold, or sell recommendations, on a wide variety of financial security types and combinations. In the real world, investments professionals are expected to show initiative, professionalism, and perseverance.

This class is not structured like an academic class where you are taken by the hand and assigned very specific tasks each and every class. Instead, students are expected to come prepared with fresh ideas, to show initiative, and do what it takes to outperform applicable benchmarks.

Students are ***strongly*** encouraged to participate in Level 1 of the CFA, for which separate study sessions are being arranged. Mock Level 1 exams may be held under CFA Level 1-like conditions (2 sessions of 3 hour exams) in December, at the instructor's option. However, grades are primarily determined based on the quantity and quality of presentations (oral and written) made by the students in class and especially before investments professionals during field trips and at the end of the semester.

Students who participate in FINN 4143 Portfolio Management I are expected to make the commitment to participate in FINN 4153 Portfolio Management II in the spring, contingent on satisfactory performance in FINN 4143.

Course Objective:

The goal of the class is to increase the overall value of the Rebsamen Trust and such other funds as are entrusted to the class through the Garrison Financial Institute, on a risk-adjusted basis, at a rate that exceeds that of the Russell 1000 index, while preserving capital. The funds currently entrusted to the class are approximately \$1.1 million in the Rebsamen Trust, plus indirect input in the management of another \$8.9 million. You are accountable to the Faculty Advisor (Dr. Rennie) and the Trustees (Dr. Eli Jones, Dr. Liu, and Dr. Dominick) for this. The appropriate benchmark is the Russell 1000. The appropriate investment style is large-cap blend/core (possibly with a mid-cap and value bias). You must tailor recommendations for security purchase and sale according to stated investment objectives based on Trustees'/clients objectives and risk tolerances, just as you would for real life clients. You will develop and adhere to a fund management style, with modifications, approved by the Faculty Advisor and Trustees. You will measure portfolio performance according to the Russell 1000, S&P 500, and other appropriate benchmarks. You will prepare quarterly and annual reports – on time, complete, and highly professional. Most trades will generally occur in 4 batches during the two courses (mid-term and end of year), although sufficiently well thought out and documented trades can take place at any time. In the process of managing the Trust and other funds, you will gain a thorough understanding of advanced investments concepts and their application in practice.

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 that 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 working in a work-like environment, where everything counts, including functioning as an effective 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 extremely 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 experiences in the classroom to enrich the learning environment. All students will attend EVERY meeting, understand assigned readings and problems before meetings, and participate fully.

Real-world employers in the financial services industry demand extremely high levels of professionalism from their employees. Accordingly, all students who enroll in the class are expected to maintain a **very high standard of dress, deportment, and conduct.** For example, when students meet with business people (whether in or outside class), male students will typically be expected to have had a recent haircut, have shaved or sport a beard (but not be in between), and be dressed appropriately (typically a clean well-pressed suit). Female students will be expected to maintain similar high standards of dress and deportment. Failure to adhere to

these standards could result in disciplinary action. Moreover, students are required to adhere to the highest ethical standards, such as those applicable to CFA Charterholders and candidates.

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” (Walker Hall Trading Center and Trading Suites 333 and 334), and master concepts and application of assigned materials and their real-world application. Qualities sought by financial industry employers, including timeliness, broad general knowledge, presentation skills, social skills, social adaptation, conversational manners, writing skills, initiative, leadership skills, and ethics, will also be emphasized.

Your use of the Trading Center as part of the portfolio management class after hours is a special privilege – any abuse of this privilege (such as allowing entrance to the facility by non-class members) will result in penalties. Similarly, extreme caution must be exercised in the use of center computers – no unauthorized downloads, viewing, etc.

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 on Friday afternoons and nights is being arranged. Participation in the CFA is not required for successful completion of FINN 4143, but is strongly encouraged. Students are also encouraged to participate in the Chartered Market Technician’s designation, details of which are available at the Market Technician’s Associate web site.

Travel:

Students will be expected to participate in travel to the following locations:

- (1) to local-area employers in Fayetteville, Springdale, and Rogers;
- (2) to Little Rock (likely to Stephens Inc., possibly to other area employers as well);
- (3) to Dallas-Fort Worth (to banks, investments firms, etc.); and
- (4) to New York (to a variety of investments firms). Funding support will be provided for Dallas-Fort Worth and New York only.

Misconduct during Travel:

Many of the business professionals whom you meet during this course are senior executives who have agreed to sacrifice their valuable time and other company resources to meet with you. Non-attendance at scheduled meetings constitutes misconduct. Students who miss scheduled visits to employers/other institutions must apply for and receive written permission from their instructor(s) to do so in advance. Unauthorized absences will automatically result in final course grade reduction by at least one grade, and may result in the award of “F”.

Texts and Materials:

Recommended:

1. Bodie, Zvi, Kane, Alex, and Marcus, Alan J., *Investments*, 7th ed. McGraw-Hill Irwin, 2008. (Recommended)
2. Rosenbaum, Joshua, and Pearl, Joshua, *Investment Banking: Valuation, Leveraged Buyouts, and Mergers and Acquisitions*. Wiley Finance, 2009.
3. Schweser CFA Level 1 Study Materials (Recommended)

Additional Readings:

1. Akerlof, George A., and Shiller, Robert J., 2010. *Animal Spirits: How Human Psychology Drives the Economy, and Why it Matters for Global Capitalism*. Princeton University Press.
2. Bernanke, Ben S., 2004. *Essays on the Great Depression*. Princeton University Press.
3. Campbell, John Y., Lo, Andrew MacKinlay, A., Craig, 1997. *The Econometrics of Finance*. Princeton University Press.
4. Elton, Edwin J., Gruber, Martin J., Brown, Stephen J., and Goetzmann, William N., 2010. *Modern Portfolio Theory and Investments*, 8th ed., Wiley.
5. Friedman, Milton, 1971. *A Monetary History of the United States, 1867-1960*. Princeton University Press.
6. Graham, Benjamin and Dodd, David, 1940, *Security Analysis: The Classic 1940 Edition*. McGraw-Hill.
7. Haugen, Robert A., 1999. *The Inefficient Stock Market: What Pays Off and Why?* Prentice Hall.
8. Hayek, Frederick A., 2007. *The Road to Serfdom: Text and Documents – the Definitive Edition*. University of Chicago Press.
9. Litterman, Bob, 2003. *Modern Investment Management: An Equilibrium Approach*. Wiley Finance.
10. Lo, Andrew W. 2009. *The Heretics of Finance*. Bloomberg Press.
11. Lo, Andrew W., 2008. *Hedge Funds: An Analytic Perspective (Advances in Financial Engineering)*. Princeton University Press.
12. Rosenbaum, Joshua, Pearl, Joshua, and Perella, Joseph R., 2009. *Investment Banking: Valuation, Leveraged Buyouts, and Mergers and Acquisitions*. Wiley Finance.
13. Roubini, Nouriel, 2010. *Crisis Economics: A Crash Course in the Future of Finance*.
14. Smith, Adam, 1776. *The Wealth of Nations*. Thrifty Books (2009).

Students are encouraged to read these important texts, and to conduct their own research by reviewing topics of interest on SSRN.

Financial calculator (HP12C is STRONGLY recommended, but a TI BAI plus is O.K.) – bring it to every meeting. Be thoroughly conversant with the *Wall Street Journal* and *Bloomberg*.

Grading:

Grading for the course will be as follows:

Class Rebsamen Fund 3rd Quarter Report	20%
Class Rebsamen Fund Annual (4th Quarter) Report	20%
Class Rebsamen Fund Web-site Construction and Maintenance	20%
Participation and Attendance in Class, and for Guest Speakers,	20%

Participation in Local Visit (Questions Asked)
Participation in and Little Rock/New York Visits (Questions Asked)
Individual/Group Reports - Investment Policy Statement, Global Economy, U.S.
Economy, Sector Reports 20%
Bloomberg Professional Certification – Equities – **MUST PASS** to pass course (P/F)

Academic dishonesty:

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 is expected.

Disability:

Disability issues will be dealt with in accordance with University policy.

Inclement weather:

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 Trust Room, Walker Hall 333, is shared by this class and the Arvest fixed income class and the MBA/MACC Shollmier Fund 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 machines are yours to use. They are great (and expensive) resource, so learn to use them...a lot. You may use the Finance Dept. copy card and copier to copy material for daily class handouts, but do not overuse it, and never use it for personal copying. If there are any particular speakers you would like to bring to class, please let your instructor know. We will have visits by local investment folks, whom we will also schedule.

You are going to have to keep track of many different things, and keep them in focus. In all your reports, use overkill- not under-kill. 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.

Reports:

Class Reports are class team reports. Individual/Group Reports are done by 1-2 students (if students work in pairs, the Group will be expected to do twice as many reports). Grades will be determined by the quality of the content as well as the professionalism of these reports. Text should be in two columns, making extensive use of summary statistics and graphs. Always date Grammatical or spelling mistakes will be punished severely.

The 3rd Quarter and the Annual (4th Quarter) Reports must contain the following:

1. Title Page – include a list all members of the class, with their titles, date of report, etc.
2. Investor Policy Statement – summarize investment objectives based investor needs and

- objectives, knowledge and experience, liquidity needs, tax status, etc. The Statement must include a detailed asset allocation analysis with supporting spreadsheet analysis, and a detailed description of risk management
3. Current Holdings – grouped by asset class, sector, industry, etc.
 4. Performance – include a Zephyr Style Analysis, possibly also Barra Aegis Analysis, and Projected Future Performance
 5. Global Economic Analysis – look at U.S. (in great detail), Europe, Japan, Canada, Australia, Developing Markets in Asia, Developing Markets in Europe & Middle East. There should be an introduction and conclusion that addresses overall themes for investment opportunities and risks to be avoided.
 6. Sector Analysis – one for each of the 10 GICS economic sectors
 - Consumer Discretionary
 - Consumer Staples
 - Energy
 - Financials
 - Health Care
 - Industrials
 - Information Technology
 - Materials
 - Telecom
 - Utilities
 7. Individual Securities Reports – one for each Fund/Security held in the Portfolio (there should be a minimum of 20, and more likely 40, holdings in the portfolio). Price targets for purchase and/or sale, including limit orders/stop loss amounts where applicable, should be clearly indicated.

Bloomberg Certification:

To pass the course, each student will have to prove that they have passed the requirements necessary to become Bloomberg Certified in Equities. (Bloomberg Certification in Fixed Income will be a requirement for passing Part II of the course in the spring.) Details on the Certification program are available on Bloomberg.

To sign up for Bloomberg Courses, you will need to create a personalized Bloomberg account. To do so, Bloomberg will need a phone number to call you to verify who you are. Bring a cell or other means of communicating with Bloomberg when you first sign up for your personalized Bloomberg account.

Bloomberg Certification courses are available on the Bloomberg Professional system which is available in the Trading Center and both of the Trading Suites. Students are given two opportunities to pass each test by Bloomberg – so don't blow both of them. Typically, students participate in a Bloomberg TV demo, and then contact Bloomberg through their messaging system to enable access to each exam. A live demo including taking the first Certification course will be done in class. Subsequent classes and exams can be done in the Trading Center and Trading Suites after hours or on weekends – student ID cards will be enabled to access the facilities. As Bloomberg Professional will dramatically help you in all phases of the class, you are strongly encouraged to do the Certification sooner rather than later in the course.

Trades:

There will be a minimum of two groups of trades in the class. These will be right before the 3rd Quarter and the Annual Report (4th Quarter) Reports are due. Trades must indicate what is to be traded, how much to be traded, whether the trade is at the market/limit order, whether there are stop losses and if so where, etc., or if the trade is to be combined with another position (i.e., a pairs, trade, etc.). Trades need to correspond to Buy/Hold/Sell recommendations in individual securities reports. In addition, trades can be initiated by students at any time (this will generate bonus points). Note that proposed trades must be written up with justification, presented in class, sent to the Professor and Instructor, and approved by 2 of the 3 Trustees (Dean Worrell, Dr. Liu, and Dr. Dominick), before they will be executed.

Tentative Schedule:

Etiquette Training – TBA (Must Attend)

Aug 22 – Dr. Rennie – Intro to Course; Guest Speaker Sarah Spiegel (Business Librarian); \ Collect Resumes; Introduction to Applied Investments, Mutual Funds, and ETFs; Portfolio Assignments (see last page of Syllabus)

Aug 29 – Dr. Rennie – Global macro-economic situation; Top-Down Asset Allocation using Mean Variance Optimization; Intro to Morningstar EnCorr; Modeling

Sep 5 – Dr. Rennie – Intro to Bloomberg Professional, Equity & Fixed Income, Complete 1st Bloomberg Course (2nd if time)

Sep 7 (Special) - 1-3 pm, Trading Center – Stephens Inc. Little Rock Investment Banking Recruiting Visit (suit or equivalent)

Sep 12 – Dr. Rennie – Individual Security Selection and Modeling

Sep 14 (Special) – 1-4 pm (details TBA), Trading Center – Raymond James Options Program Recruiting Visit (suit or equivalent)

Sep 19 - Dr. Rennie – Review Draft of Following:

1. Title Page
2. Investor Policy Statement (including detailed asset allocation analysis with supporting spreadsheet analysis, and description of risk management)
3. Current Holdings – grouped by asset class, sector, industry, etc.
4. Performance (include a Zephyr Style Analysis, possibly also Barra Aegis Analysis, and Projected Future Performance)
5. Global Economic Analysis
6. Sector Analyses

Sep 21 (Special) – Tentative local area visits

Sep 26 – COMPETITION - Starting at 6:30 in Walker Hall 333, select GFI Faculty and Staff –

competition in groups of 3 of Mutual Funds/ETFs report

Sep 27-28 (Special) – Tentative Little Rock Visit

Oct 3 – No Class (Make up Time for “Special” Classes – work on group presentations) - Dr. Rennie tentatively in New York

Oct 10 - Dr. Rennie – Debrief of New York, Bloomberg Professional Part II

Oct 17 - 3rd QUARTER REPORT DUE, COMPETITION

Oct 24 - Dr. Rennie - Screening, Selection, Portfolio Performance Evaluation, Valuation, and Analysis of Bonds, Stocks, and Funds

Oct 31 - Securities Reports on Individual Securities/Funds

Nov 2 (Special) – GFI Advisory Board Meeting, RCED 103 (all day) suit or equivalent

Nov 7 - Dr. Rennie – Building a Financial Model of a Company

Nov 14 - Dr. Rennie – Valuing Stock Based on a Financial Model of a Company

Nov 21 - Sergio Santamaria – Advanced Topics in Portfolio Management – and Final Exam

Nov 27 – Sergio Santamaria – Advanced Topics in Portfolio Management

Dec 4 – Sergio Santamaria – Advanced Topics in Portfolio Management

Dec 7 – DEAD DAY – FINAL ANNUAL REPORT (4TH QUARTER REPORT) DUE

Dec 14 – Official end of course

Preferences for Positions – Rebsamen Trust - complete in class and turn in on 1st day

Your Name

Group 1: (number from 1 to 3, where number 1 is your top pick)

Portfolio Manager

Deputy Portfolio Manager

Web Manager

Chief Investment Officer

Compliance & Standards Officer

Portfolio Performance Evaluation Officer

Marketing Manager

Social Coordinator

Group 2: (number from 1 to 3, where number 1 is your top pick – note: this will be done in pairs)

Global Economist – US and Canada

Global Economist – Europe (including U.K.) and Middle East

Global Economist – Far East and Australia

Global Economist – Latin America

Group 3: (number from 1 to 3, where number 1 is your top pick – note: list partners if you plan to work in pairs)

Consumer Discretionary Analyst

Consumer Staples Analyst

Energy Analyst

Financials Analyst

Health Care Analyst

Industrials Analyst

Info Tech Analyst

Materials Analyst

Telecom Analyst

Utilities Analyst