



COURSE SYLLABUS

Course: **FINN 4163 Fixed Income Securities I**
Prerequisite: FINN 3013 and FINN 3063.

Course Description:

Welcome to FINN 4163 Fixed Income I (“Arvest Fixed Income Class I”). This course seeks to educate students in state-of-the-art techniques for the selection and management of a portfolio of fixed income securities, and includes management of a fixed income portfolio worth approximately \$5 million on behalf of Arvest Bank. In addition, students will have input into the management of the fixed income components (if any) of the University of Arkansas Foundation account (this account totals approximately \$4 million), TNG account (totaling approximately \$250,000), and Rebsamen Trust (totaling approximately \$1 million) associated with the Garrison Financial Institute. Selection is by invitation only.

Course Material:

RECOMMENDED:

1. Frank J. Fabozzi, “Bond Markets, Analysis, and Strategies,” 7th ed., Prentice Hall, 2010. ISBN #: 978-0-13-607897-5
2. Financial Calculator: HP-12C recommended (TI BAII plus is acceptable). Bring your calculator to every class.

Expected Performance:

Class Attendance: Participation in this course is a privilege, not a right. Attendance is mandatory, and I will take attendance at will at the beginning of each class session. You should arrive a few minutes early, never late. You must notify me in advance of missed classes, and should have a good reason (job interview, serious illness, death, etc.) for any missed class. Your final grade may be reduced by at least one grade (from an A to a B, for example) if you miss classes or have unexcused absences. Being late or not showing up at all for any meetings during field trips without my prior authorization will result in automatic grade penalties - guaranteed.

Class Participation:

Class participation is encouraged. It is important that you participate fully in class discussions. Constructive feedback is always encouraged and appreciated.

Reading Assignments:

Students are expected to read material BEFORE we discuss it in class. Quizzes may be administered at any time.

Research Project:

Students will be organized into teams of 1-3 members to conduct research on specific topics.

Points and Grading:

Letter grades will be assigned according to the following scale:

Grading Scale

A	90-100%
B	80-89.99%
C	70-79.99%
D	60-69.99%
F	0-59.99%

The (estimated) point totals for the class are as follows:

	Points	Percent
Final Exam	100	25%
3 rd Quarter Report	100	25%
4 th Quarter Report	100	25%
Individual Reports Participation & Quizzes	<u>10</u>	<u>25%</u>
Total	<u><u>550</u></u>	<u><u>100.0%</u></u>

In addition, students are required to demonstrate that they have passed Bloomberg Professional certification in Fixed Income by the end of the course (Pass/Fail).

Any “curve” applied to the grading scale will be performed at the end of the semester, not to individual exams or assignments.

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 assets. 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 team environment where everything counts, both on and off the job.

In this course, readings, presentations, reports, group assignments, quizzes, 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 carefully groomed moustache and/or beard (but not be in between), and be dressed appropriately (typically a clean well-pressed suit, polished shoes, etc.). 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, notably those applicable to Chartered Financial Analyst candidates.

Expectations are **EXTREMELY HIGH**. 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 and Trading Suites 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 of questionable materials, etc., will be permitted.

Professional Designations:

The Chartered Financial Analyst (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), and Level 2 exams in June. This professional program is the top designation in the investments field, but is extremely demanding. Students interested in Equity or Fixed Income Research, or Portfolio Management, really need to pursue their CFA. Individual study is required, but voluntary study sessions for interested students on Friday afternoons and nights can be arranged. An optional CFA Level 1 study course will also be available in the Spring – please contact Sergio Santamaria and/or Ventsi Stamenov at the Garrison Financial Institute in Reynolds 207 for additional details. Participation in the CFA is not required for successful completion of FINN 4163, but is encouraged.

Students are also strongly encouraged to participate in the Chartered Market Technician (CMT) designation, details of which are available at the Market Technician’s Associate web site. Students interested in a trading career really need to pursue their CMT.

Travel:

Students will be expected to participate in travel to the following locations: (1) to likely local-area employers in Fayetteville, Springdale, and Rogers; (2) to Little Rock (likely to

Stephens Inc., possibly to other area employers as well); and (3) to Dallas-Fort Worth (to banks, investments firms, etc.) in the spring. Funding support will be provided for Dallas-Fort Worth only. There may also be opportunities for student participation in trips to other locations.

Misconduct:

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 – particularly those in the field outside Fayetteville - 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. Unauthorized absences or other misconduct such as insubordination will automatically result in final grade reduction by at least one grade, and may result in your being sent home immediately.

Academic Integrity:

Academic dishonesty will be dealt with severely in accordance with University policy. University recommended sanctions for academic dishonesty are described in the University of Arkansas Catalog. In addition, the Code of Ethics of the CFA Institute should serve as a model for student ethics.

Disabilities:

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

Inclement Weather:

Inclement weather will be dealt with in accordance with University policy.

The Global Financial Trading Center:

The Global Financial Trading Center, Walker Hall 333, is shared by this Class, the Portfolio Management Class, and the MBA 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 a great (and expensive) resource, so learn to use them – and 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 this privilege, and never use it for personal copying. If there are 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:

Quarterly Class Reports are class team reports. Individual/Group Reports are done by 1-2 students (if students work in Groups, 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.

I suggest that the 3rd Quarter and the Annual (4th Quarter) Reports contain at least 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 Fixed Income asset class
4. Bond Performance Measurement and Evaluation – include a Zephyr Style Analysis, possibly also Barra Aegis Analysis, and Projected Future Performance
5. U.S. & Global Economic Analysis and Outlook for Fixed Income Markets – U.S., Europe (Developed and Developing), Japan, Canada, Australia, Asia (Developed and Developing), Latin America, & Middle East. There should be an introduction and conclusion addressing overall themes for investment opportunities and risks.
6. Fixed Income Sector Analysis – one for each of the following Fixed Income sectors:
 - U.S. Treasuries (T-Bills, Notes, Bonds, TIPS)
 - U.S. Agencies
 - Corporate Bonds
 - Municipal Bonds
 - Global Bonds
 - Mortgages, Pass-Through Securities, and Other Asset Backed Securities
 - Convertible Bonds
 - Interest Rate Futures, Options, Swaps, Caps, and Floors, and Credit Derivatives
 - Fixed Income ETFs and Mutual Funds
7. Portfolio Management Strategies to Control for Risk (Active vs. Indexing vs. Immunization)
8. Individual Securities Reports – one for each Fund/Security held in the Arvest Bank Portfolio, plus one for each Fund/Security held in the University of Arkansas Foundation or the TNG Accounts. All Fixed Income Reports should include a Duration and Convexity Analysis. Municipal and Corporate Bond Reports will require credit analysis and credit risk modeling.

Bloomberg Certification:

To pass the course, each student will have to prove that they have passed the requirements necessary to become Bloomberg Certified in Fixed Income. (Bloomberg Certification in Equities 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, both Trading Suites, and Garrison Financial Institute. Students are given two opportunities to pass each test by Bloomberg – so don't blow them both! Typically, students participate in a Bloomberg TV demo, and then contact Bloomberg through the Bloomberg message system to enable access to each exam. A live demo leading to the first Certification exam 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:

Proposed Arvest trades will be presented by the Class to officers of Arvest Bank. Trades in other accounts will be made at least twice a semester before Quarterly Reports are done.

Competition:

The competition on September 29th will be to determine which team of up to 3 presenters gets to compete before the Garrison Financial Institute (GFI) Advisory Board of Directors. GFI Faculty and Staff will select winners.

Tentative Schedule:

Etiquette Training – TBA (Must Attend)

Aug 20 – Dr. Rennie – Intro to Course; Collect Resumes; Introduction to Applied Fixed Income Investing; Portfolio Assignments (see last page of Syllabus)

Aug 27 – Dr. Rennie – Global macro-economic situation; Top-Down Asset Allocation using Mean Variance Optimization; Intro to Morningstar EnCorr; Modeling; Bond Prices and Yields

- **Chapter 1 (Introduction)**
- **Chapter 2 (Pricing of Bonds)**
- **Chapter 3 (Measuring Yield)**

Sep 3 – Dr. Rennie – Intro to Bloomberg Professional, Equity & Fixed Income, Complete 1st Bloomberg Course and Exam (2nd if time)

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

Sep 10 – Dr. Rennie – Bloomberg Professional, Part 2 – more demos, more courses

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

Sep 17 - Dr. Rennie – Review Group Presentations, and Draft of 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 Fixed Income asset class
4. Bond Performance Measurement and Evaluation
5. U.S. & Global Economic Analysis and Outlook for Fixed Income Markets
6. Fixed Income Sector Analysis – one for each of the following Fixed Income sectors:
 - U.S. Treasuries (T-Bills, Notes, Bonds, TIPS)
 - U.S. Agencies
 - Corporate Bonds
 - Municipal Bonds
 - Global Bonds
 - Mortgages, Pass-Through Securities, and Other Asset Backed Securities
 - Convertible Bonds
 - Interest Rate Futures, Options, Swaps, Caps, and Floors, and Credit Derivatives
 - Fixed Income ETFs and Mutual Funds
7. Portfolio Management Strategies to Control for Risk (Active vs. Indexing vs. Immunization)

Sep 21 (Special) – Tentative local area visits, including Arvest Bank

Sep 24 – Select GFI Faculty & Staff - Competition – in groups of 3 of Sections 1-7, final report

Sep 27-28 (Special) – Tentative Little Rock Area Visits

Oct 1 – No Class (Make Up Time for “Special” Classes) – Dr. Rennie tentatively in New York

Oct 8 – Dr. Rennie – Clean Up and Presentations of Sections 1-7, & Bond Price Volatility and Yields

- **Chapter 4 (Bond Price Volatility)**
- **Chapter 5 (Factors Affecting Bond Yields)**

Oct 15 - 3rd QUARTER REPORT DUE

Oct. 22 - Dr. Rennie – US Treasuries, Agencies, Corporates, and Municipal Bonds

- **Chapter 6 (Treasury & Agency Securities)**
- **Chapter 7 (Corporate Debt Instruments)**
- **Chapter 8 (Municipal Securities)**

Oct. 29 – Dr. Rennie – Global Bonds, Mortgages, & Pass-Through Securities

- **Chapter 9 (Global Bonds)**
- **Chapter 10 (Residential Mortgage Loans)**
- **Chapter 11 (Agency Mortgage Pass-Through Securities)**

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

Nov 5 - Dr. Rennie – Agencies, Mortgage Backed Securities, etc.

- **Chapter 12 (Agency CMOs and Stripped MBS's)**
- **Chapter 13 (Non-Agency Mortgage Backed Securities)**
- **Chapter 14 (Commercial Mortgage Loans & Mortgage Backed Securities)**

Nov 12 – Dr. Rennie – Review of Annual Report and Presentation

- **Chapter 15 (Asset Backed Securities)**
- **Chapter 16 (Collateralized Debt Obligations)**

Nov 19 – Sergio Santamaria – Advanced Topics in Fixed Income – and **Final Exam**

Nov 26 – Sergio Santamaria – Advanced Topics in Fixed Income

Dec 3 – Sergio Santamaria – Advanced Topics in Fixed Income

Dec 7 – Dead Day - FINAL ANNUAL REPORT (4TH Quarter Report)

Dec 14 – Official end of course

Position Preferences – Arvest Fixed Income Class - 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 can be done in teams)

Global Economist – US

Global Economist - Canada

Global Economist – Europe (including U.K.)

Global Economist - Middle East

Global Economist – Far East

Global Economist - 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 teams)

U.S. Treasuries: T-Bills (and other Money Market Securities)

U.S. Treasuries: T-Notes

U.S. Treasuries: T-Bonds

U.S. Treasuries: TIPS

U.S. Agencies

Corporate Bonds

Municipal Bonds

Global Bonds

Mortgages, Pass-Through Securities, and Other Asset Backed Securities

Convertible Bonds

Interest Rate Futures, Options, Swaps, Caps, and Floors, and Credit Derivatives

Fixed Income ETFs and Mutual Funds