



## **COURSE SYLLABUS**

Course: **FINN 4173 Fixed Income Securities II**

Prerequisite: FINN 4163

### **Course Description:**

Welcome to FINN 4173 Fixed Income Securities II. 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 the management of a fixed income portfolio worth approximately \$5 million on behalf of Arvest Bank. In addition, students will have input/advise on 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) through the Garrison Financial Institute. Selection is by invitation only. Prerequisites are FINN 3013, FINN 3063, and FINN 4163.

### **Course Material:**

#### **REQUIRED:**

1. Frank J. Fabozzi, "Bond Markets, Analysis, and Strategies," 7<sup>th</sup> 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:**

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 any missed classes, and should have a good reason (job interview, illness, death, etc.) for any missed class. Your final grade will 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 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:

	<b>Percent</b>
Final Exam (mock Series 7)	25%
Research Report	25%
3 <sup>rd</sup> Quarter Report	10%
4 <sup>th</sup> Quarter Report	15%
Hand-in tasks	15%
Participation & Quizzes	<u>10%</u>
Total	<u>100.0%</u>

The Final Exam will be a mock **Series 7 General Securities Representative Exam**.

The Research Report is due on Dead Day. Research Reports will be done individually on topics relevant to fixed income portfolio management approved by me, and will consist of at least 10 pages plus references, figures, tables, and appendices, include a title page with executive summary, introduction, literature review, discussion of sample/methodology/study design, empirical or other results, sensitivity analysis/robustness tests, conclusion, references, figures, tables, and appendices..

Class 3<sup>rd</sup> and 4<sup>th</sup> Quarter Reports are required for students **to pass the course**. Hand-in tasks will consist of models and reports for particular securities, updates to components of quarterly reports, etc. Participation may include unannounced quizzes.

In addition, students are required to demonstrate that they have passed Bloomberg Professional certification in Equities (on top of Fixed Income from last semester) 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 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 “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 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.

### **Professional Designations:**

The course will cover material for the **Series 7 General Securities Representative Exam** because the material closely parallels information needed to be an effective fixed income manager/analyst/trader. Series 7 content includes 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 Exam.

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 4163, 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) local-area employers in Fayetteville, Springdale, and Rogers; (2) Dallas-Fort Worth (to banks, investments firms, etc.) in the spring. Funding support will be provided for Dallas-Fort Worth only.

### **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 therefore 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, may result in your being sent home immediately, and could result in the award of an "F" or other action.

### **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. 100% attendance is expected. If you have an EXCELLENT reason for an absence, you must inform me in advance and obtain my approval.

### **The Global Financial Trading Center:**

The Global Financial Trading Center, Walker Hall 333, is shared by this class and 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 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 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 3<sup>rd</sup> Quarter and the Annual (4<sup>th</sup> 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 Equities. 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:**

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.

## **Tentative Schedule:**

**Jan 18** – Introduction, Syllabus, Discussion of Market Events

**Jan 25** – Review – Pricing, Yield, Volatility, Term Structure, Treasuries, Agencies

**Feb 1** – Municipal Bonds

**Feb 8** – Foreign Bonds

**Feb 15** – Mortgages and Pass-Through Securities

**Feb 22** – Interest Rate Models, Options, Convertibles

**Mar 1** – Bond Credit Analysis and Modeling, **3<sup>rd</sup> Quarter Report Due**

**Mar 7** – **Bond Credit Report and Model Due**, Active Bond Portfolio Management vs. Indexing vs. Liability-Driven Strategies

**Mar 14** – Bond Performance Measurement and Evaluation

**Mar 19-23** – **Bond Portfolio Management Report Due**, Interest Rate Derivatives (Futures, Options, Swaps, etc.)

**Mar 28** – Pitch and Trade (date TBA)

**Apr 4** – Series 7 topics I – fixed income portfolio management review (Ventsi)

**Apr 10** – Series 7 topics II – fixed income portfolio management review (Ventsi)

**Apr 17** (est.) – Visit to Dallas-Fort Worth (precise dates TBA)

**Apr 25** – Series 7 topics III – fixed income portfolio management review (Ventsi)

**May 2** – Series 7 topics IV – fixed income portfolio management review (Ventsi)

**May 6** – Dead Day – **4<sup>th</sup> Quarter Report Due, Research Report Due, Final Exam**