FINANCE 4200-002: INVESTMENTS
Spring 2015

PROFESSOR: Ian Liu, Ph.D., CFA
OFFICE: BLB358F
CLASS: Tue, Thu 12:30-1:50 BLB035
OFFICE HOURS: Tue, Thu 9:30 -11:00 AM
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COURSE OBJECTIVES
Investment is a blend of theory and practice, and we learn that way. Theory is based on
the textbook, but application goes beyond the book into the real stock market. Topic one
(Elements of Investment) guides you to start to be an investor, topic two (Security
Analysis) teaches you to be a better investor and topic three and four (Portfolio Theory
and Options) trains you to be a relatively sophisticated investor.

The philosophy of the instruction is to “Free Your Mind”. Students are encouraged and
required to actively create and use knowledge, not passively receive and memorize
recycled information. Students are expected to be able to handle investment problems
that they don’t see in class by using the skills they learn in class.

PREREQUISITES:
FINA 3770 and ACCT 2010 and 2020 or equivalent with grades of C or better.

COURSE MATERIALS
➢ Required Text: Essentials of Investments, by Bodie, Kane and Marcus, 9 th
➢ Calculator: A calculator is required for this course. The recommended model is
the Texas Instruments Business Analyst II plus. There is no sharing of calculators
during the exam.
➢ Database and Platform: Bloomberg Terminal, Morningstar Direct

GRADING
| Investment Project1(group project): Security Analysis | 20% |
| Project2: Who wants to be a millionaire! | 5% |
| Project3: Investment Ethics | 5% |
| Midterm Exam | 35% |
| Final Exam | 35% |

Scale
➢ A = 90 – 100
➢ B = 80 – 89.9
➢ C = 70 – 79.9
➢ D = 60 – 69.9
➢ F = 0 – 59.9

I will try to adhere to the above grading scale but I reserve the right to deviate from it.
EXAMS

- Exams will cover only lecture material.
- Any missed exam will receive a grade of zero if no legitimate reasons are provided by the student and approved by the instructor before the exam. When approved, the student can carry the weight of the missed midterm to the final. There will be no make up for the final.

CLASS PARTICIPATION

- Participation: The course is to be taught in an interactive style. Raising and answering questions are extremely important.
- Class attendance is required. You can miss one class without any penalty. If you miss more than one, missing each additional class will result in a ½ grade reduction in your overall grade. Any exceptions must be discussed with me prior to the absence.
- If a student misses a class it is the student's responsibility to find out what material was covered in class and to catch up.
- You should try to read the chapter before we cover it in class. Use the study guide and PPT notes to help you read. Reading ahead will help you participate in the conversation in class.

INCOMPLETE:

I will adhere to University policy regarding the assignment of a grade of Incomplete. Unless you are in compliance with University policy do not ask me to assign a grade of incomplete.

DISABILITY ACCOMMODATION

The University of North Texas is on record as being committed to both the spirit and letter of federal equal opportunity legislation; reference Public Law 92-112 – The Rehabilitation Act of 1973 as amended. With the passage of new federal legislation entitled Americans with Disabilities Act (ADA), pursuant to section 504 of the Rehabilitation Act, there is renewed focus on providing this population with the same opportunities enjoyed by all citizens.

As a faculty member, I am required by law to provide "reasonable accommodations" to students with disabilities, so as not to discriminate on the basis of that disability. Student responsibility primarily rests with informing faculty of their need for accommodation and in providing authorized documentation through designated administrative channels. Information regarding specific diagnostic criteria and policies for obtaining academic accommodations can be found at http://www.unt.edu/oda/apply/index.html. Also, you may visit the Office of Disability Accommodation in the University Union (room 321) or call them at (940) 565-4323.

If you need an accommodation, please contact me as soon as possible but at the latest by the second week of class.
ACADEMIC DISHONESTY

Academic dishonesty is defined in the UNT Policy on Student Standards for Academic Integrity. Any suspected case of Academic Dishonesty will be handled in accordance with the University policy and procedures. Possible academic penalties include a grade of “F” in the course. You will find the policy and procedures at http://vpaa.unt.edu/academic-integrity.htm

If I suspect that you have engaged in academic dishonesty, I will deal with the situation as outlined in the University Policy shown above. You will be allowed to remain in the class during the entire time that the academic misconduct accusation is being investigated, adjudicated, and appealed. As noted above, the maximum academic penalty that can be assessed by an instructor is an F in the course. However, university officials use the academic misconduct information to decide if other misconduct sanctions are then to be applied, and the student has separate rights to appeal those decisions, remaining in the class until all appeals are exhausted.

STUDENT EVALUATION OF TEACHING EFFECTIVENESS (SETE)

The Student Evaluation of Teaching Effectiveness (SETE) is a requirement for all organized classes at UNT. This short survey will be made available to you at the end of the semester, providing you a chance to comment on how this class is taught. I am very interested in the feedback that I get from students, as I work to continually improve my teaching. I consider participation in the SETE to be an important part of your involvement in this class and in all of your classes so please participate in the SETE process. The administration of the SETE will begin a couple of weeks before the end of the semester and remain open through the week of finals to try to maximize student SETE participation. You can access the SETE instrument by going to http://www.my.unt.edu.

EAGLE CONNECT ACCOUNT

All students should activate and regularly check their EagleConnect (e-mail) account. EagleConnect is used for official communication from the University to students. Many important announcements for the University and College are sent to students via EagleConnect. For information about EagleConnect, including how to activate an account and how to have EagleConnect forwarded to another e-mail address, visit https://eagleconnect.unt.edu/
# COURSE OUTLINE (Tentative)

<table>
<thead>
<tr>
<th>Week</th>
<th>Date</th>
<th>Content</th>
<th>Topic</th>
<th>Chapter</th>
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<tbody>
<tr>
<td>Week 1</td>
<td>1/20-1/22</td>
<td>Major Investment Issues</td>
<td>I: Elements of Investment</td>
<td>1</td>
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<tr>
<td>Week 2</td>
<td>1/27, 1/29</td>
<td>How Securities are Traded</td>
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<tr>
<td>Week 3</td>
<td>2/3, 2/5</td>
<td>Equity Valuation</td>
<td>II: Security Analysis</td>
<td>13</td>
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<td>Week 4</td>
<td>2/10, 2/12</td>
<td>Equity Valuation-application</td>
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<td>Week 5</td>
<td>2/17, 2/19</td>
<td>Macroeconomic and industry analysis</td>
<td>Financial Statement Analysis</td>
<td>12, 14</td>
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<td>Week 6</td>
<td>2/24, 2/26</td>
<td>Application of Security Analysis</td>
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<td>Week 7</td>
<td>3/3, 3/5</td>
<td>3/3 Midterm Exam (Chapter 1, 3, 12, 13, 14)</td>
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<td>3/5: Group Project Discussion</td>
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<td>Week 8</td>
<td>3/10, 3/12</td>
<td>Risk and Return</td>
<td>III: Portfolio Theory: Risk and Return</td>
<td>5</td>
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<td>Week 9</td>
<td>Spring Break</td>
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<td>Week 10</td>
<td>3/24, 3/26</td>
<td>Diversification</td>
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<td>Week 11</td>
<td>3/31, 4/2</td>
<td>CAPM</td>
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<td>Week 12</td>
<td>4/7, 4/9</td>
<td>Option Markets</td>
<td>IV: Options</td>
<td>15</td>
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<tr>
<td>Week 13</td>
<td>4/14, 4/16</td>
<td>Option Markets-Application</td>
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<td>15</td>
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<tr>
<td>Week 14</td>
<td>4/21, 4/23</td>
<td>4/21 Option Valuation</td>
<td>4/23 Group Project Discussion</td>
<td>16</td>
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<td>Group Project Due on 4/26, Sunday</td>
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<td>Week 15</td>
<td>4/28, 4/30</td>
<td>Group Project Presentations</td>
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<td>Week 16</td>
<td>5/5, 5/7</td>
<td>Random Walk on Investing and Ethics</td>
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<td>Project 2: (Who wants to be a millionaire) due on 5/8, Friday</td>
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<td>Week 17</td>
<td>5/14</td>
<td>Final Exam (Chapter 5, 6, 7, 15, 16)</td>
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<td>10:30 a.m. - 12:30 p.m.</td>
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*The stated schedule and procedures in this course are subject to change in the event of extenuating circumstances.*
Investment Projects

Project 1: Security Analysis (this is a group project)
As a stock market analyst, you should recommend one stock to your investors. Write a 20 page (double space) report (not including tables or charts copied from other resources) following the stock analysis template. You should also include any Excel spread sheets used in your analysis. Each team (including every team member) will do a PowerPoint presentation (about 15 minutes) in class. Some guidelines:

- Each team member should contribute to and understand the whole project.
- Group members will also evaluate your contribution to the project.
- The project should be presented in a professional way.
- The report should be assembled in a professional way.
- The written report, PowerPoint and Excel files should be emailed to me on the due date specified in the syllabus.
- A hard copy of the report and PowerPoint presentations are due on the day of your group’s presentation.
- Bloomberg terminal and Morningstar Direct (installed in the trading room) are great database and platform for your security analysis. Make sure you take advantage of them in your project.

Project 2: Who wants to be a millionaire! (This is an individual project)

- Join class UNT2015spring
- Start trading stocks from “UNT2015spring”. You can also view your portfolio, trade history, benchmarks, and rankings.
- Your grade of the project is related with the relative performance of your portfolio (at the end of the term) and how active you are in trading.

Game Details:

Game name: UNT2015spring Password: UNT2015spring
Start Date: 1/20/2015 End Date: 12/31/2015
Game Tagline: Just trade it! Invest to Learn, Invest to Enjoy, Invest to Enrich

Portfolio Options

Starting balance for players: $100,000.00
Commission: $10.00
Credit Interest Rate: 1.00%
Leverage Debt Interest Rate: 6.00%
Minimum Stock Price: $0.00
Maximum Stock Price: $5,000.00
Trading Volume Limit: 50.00%
Short Selling: Enabled
Margin Trading: Enabled
Limit Orders: Enabled
Stop Loss Trades: Enabled
Partial Share Trading: Disabled
Project 3: Investment Ethics
One major designation for investment professionals is the Chartered Financial Analyst (CFA). CFAs are required to comply with all laws and regulations governing the profession. In order to successfully complete the requirements for FINA 4200 Investments, students must complete the seven course module entitled Ethics and Standards of Practice prepared by the CFA Institute. The module can be accessed at http://www.cfainstitute.org/learning/products/onlinelearning/Pages/62901.aspx
After you complete the seven modules, you can record 7 CE credits by clicking Record Credits. After you do so, please print the page and give it to your instructor. You must complete all seven modules to receive credit.

Ethics in the College of Business
The College of Business is committed to the highest ethical and professional standards of conduct as an integral party of its mission of preparing tomorrow’s business leaders. It is recognized that the faculty and staff of the College of Business serve as role models for our students and for the greater business community. Thus, we expect our faculty, staff and students to adhere to a standard of behavior that encompasses the Core Values of the College.

The Core Values of the College of Business include:
- **Integrity** – demonstrated by honesty, trustworthiness, character and truth
- **Fairness** – demonstrated by equity and respect for others
- **Courtesy** – demonstrated by civility and politeness
- **Transparency** – demonstrated by openness
- **Inclusion** – demonstrated by stakeholder input and participatory decision making where appropriate

Additional Ethics Study and Award Opportunity – Ricco Ethics Award
Each year the College of Business Awards the Nicholas and Anna Ricco Ethics Award to a student in the College. The award is intended to stimulate applicants to new heights of reasoning and self-discipline, with the ultimate result being a higher level of ethical understanding within the context of business and one’s daily life. To apply, a student must submit a narrative of no more than two typed pages (using AP Style), highlighting what the applicant believes to be an outstanding example of ethical behavior in one of the business disciplines. The applicant is encouraged to cite notable research to support his or her views. The narrative may be derived from a class assignment, or it may be ad hoc. It must deal with an ethical issue arising from a business transaction or business situation.

If you would like to apply for the award (deadline is usually in February), please contact your FINA 4200 instructor for additional information and possible extra credit for submitting a narrative for the award.
Framework of Security Analysis Project

I. Quick opinion. Summarize your analysis by simple numbers, including: Report Date, S&P value, Last Price (when the report is submitted), Intrinsic Value, Economic Moat, and Recommendations. Use the Morningstar style and put this session on the top your report.

II. The Theme: This part highlights your major insights into the company and its stock.

III. Business Analysis: When you buy stock of a company, essentially you are buying the business. Analyzing a stock starts with understand its business.

   1. Profile of company (in your own words)
   2. Macroeconomic and industry analysis
   3. Analysis of the company and the prospects of its major products and services.

IV. Financial analysis: Major financial statements and ratio analysis. More important is forecasting the future. More specifically, a projection of sales, margins (gross margin, operating margin, profit margin), profits and most important, earning per share (EPS) for the coming quarter and fiscal year end. It should also project growth rate of sales and earnings for next five years. Extensive use of spreadsheets is expected. Use historical data from Morningstar Direct in your analysis. From Morningstar Direct, you should be able to obtain historical moat rating, star rating, all historical financial statement data and data derived from financial statements. Try to project long term trend using those historical data.

V. Stock Valuation: Calculating the fair current value (Intrinsic Value) of the stock. In theory, fair value (also called intrinsic value) is what the stock price should be given the market is free from errors. It can be calculated in various ways, depending on what model you use. Commonly used models are P/E multiples, Dividend discount models and Free Cash Flow models. This analysis needs the help of analytical tools like Excel. Some reports also project expected stock price in one year.

VI. Bulls vs. Bears: There are always bull and bear views for any stock. That is why at any price, there are buying and selling orders—the two side of the same coin of a transaction. Try to see the arguments for two sides.

VII. The moat: You should also discuss the economic moat (a concept borrowed from Warren Buffet), which is the sustainable competitive advantage in the long term.

VIII. Investing strategy: this is your action plan as an investor. Your strategy choices include buy, sell, hold, wait, avoid, short, etc…

IX. Notes: A timely records of analysis of important events of the company and its stock

X. Reference: You MUST cite ALL resources your analysis uses.

   1. It is OK to use information from various resources. It is not acceptable not to cite them. Just listing several websites at the end is not the correct way of citation. Citation is always important for other investors to check your facts and numbers.

   2. Whenever an external recourse is used, you should use footnotes like this: Recent Morningstar reports states that “Unprecedented increases in
commodity costs have put a strain on Kraft’s profitability." ¹ All cited information must be quoted using quotation marks and Italicize the text like the example. Each citation cannot be longer than three sentences.

- You can use external resources for historical financial statement data, but projections for future performance and calculations of intrinsic values must be your own.

¹ Morning star report on KFT, October 2010
How to choose a stock for your research

A business you can understand well
- Products/services we have personal experience
  - Avoid industry/business that your experience is only from reading newspapers and financial statements. Leave them to experts and insiders in that area. Examples: Lehman Brothers, AIG
  - Focus on consumer oriented businesses. It offers products and services that you might be able to judge independently. Examples: EBay, Amazon, Wal-Mart
- Business/products that are simple to understand
  - Netflix, Blockbuster, Apple
- Business/products, company we are interested in

Which stock to buy, and when?\(^1\)
1. A stock/business you understand very well.
3. Management: An able and trustworthy management A management team that aligns its interest with shareholders. A team with vision.
4. Safe Margin: At a reasonable price entry point, normally 20% lower than our fair value

\(^1\) The four principles should be credited to Warren Buffett, and similar ideas can be found in Berkshire Hathaway annual report