

KING FAHD UNIVERSITY OF PETROLEUM & MINERALS
College of Industrial Management
Department of Finance & Economics

Course Syllabus

Security Analysis and Portfolio Management
FIN 421 section 01
First (Fall) Semester (Term 091)

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| Instructor: Dr. Mohammed Alzahrani | Office: B24-248 |
| Phone: 860-1626 | Fax: 860-2585 |
| Class Hours: Section 01: UT 10:00 AM – 11:15 AM | Office Hours: Sunday 11:30 AM – 1:00 PM Tuesday 11:30 AM – 1:00 PM |
| Class Location: Section 01: B24-141 | Other times by appointment |
| E-mail: mfaraj@kfupm.edu.sa | Web:: http://faculty.kfupm.edu.sa/FINEC/mfaraj/fin421/index.html Check the course material on Balckboard/WebCT https://webcourses.kfupm.edu.sa/ |

Prerequisites: FIN 420. I also assume students to have finished all required math and statistics course.

Required Materials:

Text: Strong, Robert A., Portfolio Construction, Management, and Protection, 3ed., South-Western.

Class Notes: Available through WebCT

Selected Readings: from Financial Analysts Journal, Journal of Portfolio Management, and others.

Other References:

John L. Maginn , Donald L. Tuttle , Dennis W. McLeavey , and Jerald E. Pinto , Managing Investment Portfolios: A Dynamic Process, 3ed., (CFA Institute Investment Series)

Zvi Bodie, Alex Kane, Alan J. Marcus, Investments, 7ed., McGraw-Hill Companies.

Frank K. Reilly, and Keith C. Brown, Investment Analysis and Portfolio Management, 8ed., South-Western.

Recommended Readings:

A Random Walk Down Wall Street, 8e by B. Malkiel (Norton, 2004)
Capital Ideas by P. Bernstein (Free Press, 1993)
Wall Street Journal or Barron's
Business Week
Fortune
Economist

Purpose: the purpose of this course is to develop the quantitative and qualitative skills needed in the asset management industry.

This course is very useful for people preparing for the CFA exam. Students taking this course will be able to:

- 1- Understand the theory and practice of investment management within the portfolio context.
- 2- Understand the process of setting portfolio objectives.
- 3- Apply the analytical tools for selection and management of investment securities that are necessary for successful portfolio management.
- 4- Identify, evaluate, and manage the different investment securities in the global financial markets.
- 5- Calculate portfolio performance measures and apply attribution analysis of the portfolio performance.
- 6- Understand the risk minimization techniques using derivative securities.
- 8- Know the significance of regulatory constraints and ethical responsibilities in areas such as fiduciary duties, investment recommendations, inside information use.

Attendance: Attendance is expected. Students will be able to grasp the subject matter better if they have good attendance and are attentive in class. Additional study outside of class and homework (especially solving problems) are a prerequisite for earning good grades. Part of your course grade might come from attendance quizzes. Attendance quizzes are random checks of attendance. They may occur at any point in time during class.

Excessive Absences: A grade of “DN” will be given for more than 6 unexcused absences.

Examinations: There will be one mid-term exam and a final exam for this course. Each exam will be worth 25 points. Exams will be mostly essays and problem solving. Exams will be announced at least a week in advance, but a tentative schedule is attached.

Make-Up Exams:

No make-up exams will be given – even for illness or any other absence.

Course Project: The course project is mainly a team-based portfolio management exercise. Each team will be assigned the responsibility to invest and manage an hypothetical portfolio with initial value of \$1000,000. During the course, students will be asked to apply the techniques we learn in class on their portfolio. Students will not be evaluated based on their investment performance but based on their justifications of their investment decisions. Teams will be asked to provide a 5 minutes presentation about their portfolio status every 2 weeks. In addition should submit a final report at the end of the semester about their investment performance with all details of how they reach into the decisions they made in the project. More information will be given in a special handout later during the course.

Team Performance Evaluation: Students will be assigned to groups. Each student will have the chance to serve as a group leader during the semester. Each student will be evaluated by his peers as a member of the group and also as leader. Your scores for team-based tasks will be weighted by the valuation (by your peers) of your involvement in the group.

Homework and other assignments: Throughout the semester, there will be some assigned homework and other assigned tasks such as presentations on some selected readings, or presentations on a specific real-world investment issues.

Grades: Final grades will be based on a 100 point total.

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| Mid-Term Exam | 25 |
| Final Exam | 25 |
| Course Project | 25 |
| Homework, Attendance, Participation, and other assignments | <u>25</u> |
| Total Points | 100 |

Class average on exams will be adjusted UP to 70% if necessary (no downward adjustments).

Drop Policy: The official university policy will be followed. Be aware of these dates:

Wed, Oct 14, last day to drop the course with no record

Wed, Nov 11, last day to drop the course with an automatic "W"

Academic Dishonesty and Misconduct: The university policy will be followed. Cheating will not be tolerated. I assume all individually assigned tasks to be conducted by the students himself. I also expect each individual to be active in their group assigned tasks. Your group will have to evaluate your participation the group task and I will use it to give you your final score on the assigned group work.

Additional Policies:

- Preparing for the class in advance and reading the notes before the class is terribly necessary to be able to grasp the concept.
- You are responsible for all material presented in class. If you miss any material because of absence or tardiness, you should ask another student for notes.
- Class will begin on time. If you are late, make every effort to minimize disruption to other students.
- Office hours are specifically for the purpose of addressing questions and problems related to class and are reserved for students. Times other than posted for office hours are by appointment, but are available.
- Cell phones, pagers and other electronic devices must be turned off during the class. Repeated interruption from these items will run the risk of dismissing the student from the class or the items being confiscated.

FIN 421-UT First Semester (091) TENTATIVE SCHEDULE

| Date | Topic | Ch. | Notes |
|---|---|------------|--|
| Part One: Modern Portfolio Theory | | | |
| Sun, Oct 04 | The Process of Portfolio Management | 1 | |
| Tue, Oct 06 | Valuation, Risk, Return, and Uncertainty | 2 | |
| Sun, Oct 11 | Valuation, Risk, Return, and Uncertainty | 2 | |
| Tue, Oct 13 | The Mathematics of Diversification | 5 | |
| Sun, Oct 18 | The Mathematics of Diversification | 5 | HW1: Ch2: 20, 21, 22, 23+ 2 Prob. |
| Tue, Oct 20 | The Mathematics of Diversification | 5 | |
| Sun, Oct 25 | Why Diversification is a Good Idea | 6 | |
| Tue, Oct 27 | Why Diversification is a Good Idea | 6 | |
| Sun, Nov 01 | Why Diversification is a Good Idea | 6 | |
| Tue, Nov 03 | The Capital Markets and Market Efficiency | 8 | |
| Sun, Nov 08 | The Capital Markets and Market Efficiency | 8 | HW2: Ch5: 2,3,4,5,6 -- Ch6: 12,18 + 2 Prob. |
| Tue, Nov 10 | The Capital Markets and Market Efficiency | 8 | |
| Part Two: The Practice of Portfolio Management | | | |
| Sun, Nov 15 | Setting Portfolio Objectives | 3 | |
| Tue, Nov 17 | Investment Policy | 4 | |
| Sun, Nov 22 | Eid Break | | |
| Tue, Nov 24 | | | |
| Sun, Nov 29 | | | |
| Tue, Dec 01 | | | |
| Sun, Dec 06 | Investment Policy | 4 | |
| Tue, Dec 08 | Investment Policy | 4 | |
| Sun, Dec 13 | Mid-Term Exam (In Class) | | Ch.1,2,3,4,5,6,8 |
| Tue, Dec 15 | Picking the Equity Players | 9 | |
| Sun, Dec 20 | Picking the Equity Players | 9 | |
| Tue, Dec 22 | Security Screening | 10 | |
| Sun, Dec 27 | Revision of Equity Portfolio | 13 | |
| Tue, Dec 29 | Revision of Equity Portfolio | 13 | |
| Sun, Jan 03 | Benching the Equity Players | 20 | |
| Tue, Jan 05 | Bond Pricing and Selection | 11 | |
| Sun, Jan 10 | Revision of the Fixed-Income Portfolio | 14 | HW3: CH13: 3,4,5,6,10 -- CH20: 1,2,3,4 |
| Tue, Jan 12 | Revision of the Fixed-Income Portfolio | 14 | |
| Sun, Jan 17 | Removing Interest Rate Risk | 21 | HW4: CH14: 2,3,4,6,8 |
| Tue, Jan 19 | Performance Evaluation | 17 | |
| Sun, Jan 24 | Performance Evaluation | 17 | HW5:CH21: 6 -- CH17: 1,2,3,4,6,7,9,10 |
| Tue, Jan 26 | Performance Evaluation | 17 | |
| Mon, Feb 01 | Final Exam at 7:30 AM | | Ch.9,10,11,13,14,17,20,21 |
| Wed, Feb 10 | Grades Due (at 3 PM) | | |