Finance 450 Section 01 (11659)
Applied Portfolio Management I
Fall 2018

Instructor          Dr. Mark K. Pyles
Class               4:00 – 5:15 TR Tate 207
Office              414 Beatty Center
E-mail              PylesM@cofc.edu
Phone Number        953-7991 (Office); 513-8970 (Cell)
Office Hours        12:30 AM – 1:30 PM TR
                     11:00 AM - 2:00 PM W

DESCRIPTION
This course presents an opportunity for advanced application of investment theory in a real-world environment. Course content will center on asset valuation, portfolio analysis, and active portfolio management. Investment analysis will be completed on a variety of public asset types, including equity, debt, derivatives, funds, and real assets.

PREREQUISITES
Permission of the instructor. Students must apply for enrollment.

OBJECTIVES
Course Objectives
Successful completion of this course will entail the student has a working knowledge in:

- financial market operations, both domestic and global
- public asset investments valuation methods
- portfolio theory
- equity, debt, derivatives and real asset trading
- portfolio creation and performance evaluation
- understanding group dynamic
- written and verbal communication
- utilizing technological tools associated with the profession

SB Objectives
Consistent with the goals of the School of Business, this course includes instruction in:

Communication Skills: Students will extensively test their ability to effectively communicate with fellow students, instructors, and financial professionals. The nature of the course and the associated real-world application of the management of funds requires students be prepared to defend their portfolio selections both internally and externally to the School and College. Students will complete numerous written and verbal reports during the course of the semester, many of which will be shared with external groups, including College leadership, financial professionals, and potential employers.

Quantitative Fluency: A high level of quantitative fluency is a necessity in the field of investments. During the course, students will apply traditional mathematical tools in firm and asset valuation and portfolio performance. In addition, students will use, to a high degree, technological tool to aid in
investment decisions. Doing so requires absorbing and organizing the mass amounts of quantitative information available.

**Global and Civic Responsibility:** Students will be asked to solve problems related to ethical dilemmas, encapsulated in problems related to the global investment environment. They will be asked to view issues through difference lenses and gain an appreciation for the complexities involved in addressing financial situations in a global economy. Students will learn to trade securities on exchanges around the world, develop an appreciation for the similarities and differences, and recognize the benefit of developing a global investment portfolio.

**Intellectual Innovation and Creativity:** Careful attention will be devoted to placing students in a position where they must utilize resourcefulness and creativity in solving problems related to investing financial assets. Questions will be asked in ways that require the students to use the materials learned in a variety of ways, rather than repeating known processes. Such flexibility in application is a necessity in successfully addressing changing investment environments. Students will be required to address situations where changing external parameters are not only possible, but expected.

**Synthesis:** This course requires knowledge from the associated disciplines of accounting, economics, math, and statistics. As such, students are expected to apply a level of proficiency in those subject areas in their understanding of financial principles and investment applications.

**COURSE MATERIALS**

**Textbook**

The course has no set textbook, but will include a large amount of reading. Initially, students are expected to read the following books related to investment and portfolio theory.

**Required:**

*One Up On Wall Street*
   By: Peter Lynch

*The Intelligent Investor*
   By: Benjamin Graham

*Investment Banking*
   By: Rosenbaum and Pearl

**Suggested:**

*A Random Walk Down Wall Street*
   By: Burton Malkiel

*Fooled by Randomness*
   By: Nassim Taleb

*MARGIN OF SAFETY*
   By: Seth Klarman

*The Go Giver*
   By: Burg and Mann

In addition, numerous readings will be assigned throughout the course and will be provided by the instructor.
Also, since this is an advanced course, a general level of knowledge related to finance and modeling is assumed. Thus, the following texts are suggested for use as supplemental reference.

**Fundamentals of Corporate Finance, 12/e**  
By Ross, Westerfield, and Jordan, McGraw Hill.

**Financial Modeling, 3/e, MIT Press.**  
By Benninga, MIT Press.

**Fundamentals of Investments, 7/e**  
By Jordan, Miller, and Dolvin, McGraw-Hill.

**Calculator**  
Using a calculator is a natural element of investment analysis. A financial calculator with functions such as present value and internal rate of return will be used periodically throughout the class. If you buy a new one, I highly recommend the TI BA II Plus. It is inexpensive and is considered very easy to use.

**Computer**  
Students will be expected to use their personal laptop computers at times during the course. While any computer will work, it is worth noting that the proprietary valuation model used by the program incorporates the SMF Add-in Functions, which does not work on MAC devices.

**COURSE STRUCTURE**  
Unlike traditional courses, the students will direct most of the activity within the classroom. A typical class period will include reports from students pertaining to both their administrative role and their sector assignment. In an attempt to replicate the real world feel of an investment firm, students are expected to be prepared to discuss their position at any point when called upon to do so. In addition, each sector will be asked to present a suggested investment opportunity at least twice during the semester.

Each course will begin with a thorough examination of the existing portfolio to determine any necessary reallocations that need to be completed before making decisions regarding investment in any new asset. Each new decision will be made only after a thorough analysis of the potential asset by the sector analyst, the supervising associate portfolio manager, the student portfolio manager, and the instructor.

Each class period will begin with either a discussion of the current macro conditions of the markets around the world or specifically the equity sectors within the U.S. financial markets, before then turning to the specific asset discussion at hand. There will also be class periods where it is necessary to reexamine the entire portfolio as a whole. Finally, there will be select classes where external parties will be invited to view the activities of the class period.

**COURSE POLICIES**
**Attendance Policy**

It is unquestionably expected that each student attend and participate in all class periods, with the exception of College-supported excused absences. Attendance will be taken randomly at the instructor’s discretion and the instructor reserves the right to include this information in determining the student’s participation in the course and the corresponding grade impact (see “Assignments”).

**Rules of Conduct**

This course is unique in many facets and must be respected as such. Students are accepted into the course under the assumption they have the personal drive and ability to succeed without constant prodding. There is a large degree of self-motivation that must come into play and will determine not only the student’s grade, but also what they obtain from the course.

Also of considerable concern is the fact that the collective cohort will make decisions that result in real financial gains or losses. While making money is not the primary concern of the course, it is a relevant factor and is absent in any other course at the College. This requires decisions to be made with extreme care and diligence. At any time the instructor feels a student is not doing so, the student may be removed from the decision making process.

It is critically important that everyone treats the opinions of others with respect. It is natural for opinions to differ, and questioning the conclusions of others is a necessary part of the process. However, if the criticism crosses the line from constructive to destructive, the offending source will be asked to remove themselves from the decision making process.

**Honor Code**

Lying, cheating, attempted cheating, and plagiarism are violations of our Honor Code that, when identified, are investigated. Each incident will be examined to determine the degree of deception involved.

Incidents where the instructor determines the student’s actions are related more to a misunderstanding will handled by the instructor. A written intervention designed to help prevent the student from repeating the error will be given to the student. The intervention, submitted by form and signed both by the instructor and the student, will be forwarded to the Dean of Students and placed in the student’s file.

Cases of suspected academic dishonesty will be reported directly by the instructor and/or others having knowledge of the incident to the Dean of Students. A student found responsible by the Honor Board for academic dishonesty will receive a XF in the course, indicating failure of the course due to academic dishonesty. This grade will appear on the student’s transcript for two years after which the student may petition for the X to be expunged. The student may also be placed on disciplinary probation, suspended (temporary removal) or expelled (permanent removal) from the College by the Honor Board.
Students should be aware that unauthorized collaboration—working together without permission—is a form of cheating. Unless the instructor specifies that students can work together on an assignment, quiz and/or test, no collaboration during the completion of the assignment is permitted. Other forms of cheating include possessing or using an unauthorized study aid (which could include accessing information via a cell phone or computer), copying from others’ exams, fabricating data, and giving unauthorized assistance.

Research conducted and/or papers written for other classes cannot be used in whole or in part for any assignment in this class without obtaining prior permission from the instructor.

Students can find the complete Honor Code and all related processes in the Student Handbook at http://studentaffairs.cofc.edu/honor-system/studenthandbook/index.php

Students with Disabilities
The College will provide reasonable accommodations for persons with documented disabilities. Students should apply at the Center for Disability Services/SNAP, located on the first floor of the Lightsey Center, Suite 104. Students approved for accommodations are responsible for notifying me as soon as possible and for contacting me one week before accommodation is needed.

ASSIGNMENTS
Students enrolled into the course will wear three hats. Each student will be assigned to a sector, defined by the S&P 500. Given the size of the cohort, there will be approximately two students assigned per sector. In this role, each group will be responsible for analyzing the sector, including key drivers and outlook. Each group will also be responsible for identifying a minimum of two securities within their sector they feel is a valid investment opportunity. Once identified, students will compile a complete valuation analysis of the asset and present their findings to the class for a vote.

In addition, each student will be assigned an officer role in the “investment company” that determines portfolio strategy and implementation. The roles will be determined, when at all possible, by the student’s area of strength and/or interest. However, there may remain instances where the instructor assigns a student a specific role. The responsibilities of each position differ and evaluation of the completion of these responsibilities will be determined at the subjection of the instructor.

Finally, each student is expected to be an ancillary participant in all class discussions and provide constructive criticism to those presenting at any point in time. This level of contribution is a critical component to the success of the course.

GRADING

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<tr>
<td>Sector or Macroeconomic Analysis</td>
<td>20%</td>
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<td>Asset Analysis and Presentation (min of 2x)</td>
<td>40%</td>
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<td>Officer Assignments</td>
<td>20%</td>
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<tr>
<td>Class Participation</td>
<td>20%</td>
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Letter grades are assigned as follows:
A = 90% - 100%
B = 80% - 89%
C = 70% - 79%
D = 60% - 69%
F = below 60%
<table>
<thead>
<tr>
<th>Date</th>
<th>Topic</th>
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<tbody>
<tr>
<td>Aug. 21</td>
<td>Overview of the Fund / Macroeconomic Roundtable (MER)</td>
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<tr>
<td>Aug. 23</td>
<td>Sector Roundtable (SR) / Value Investing as a Strategy</td>
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<td>Aug. 28</td>
<td>MER / Sector Asset Pitch</td>
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<td>Aug. 30</td>
<td>SR / Sector Asset Pitch</td>
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<td>Sept. 4</td>
<td>MER Roundtable / Preparation for Raymond James Day</td>
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<td>Sept. 6</td>
<td><em>Raymond James Day</em></td>
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<td>Sept. 11</td>
<td>MER / Sector Asset Pitch</td>
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<td>Sept. 13</td>
<td>SR / Sector Asset Pitch</td>
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<tr>
<td>Sept. 18</td>
<td>MER / Preparation for Lincoln Financial Day</td>
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<td>Sept. 20</td>
<td>SR / Sector Asset Pitch</td>
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<tr>
<td>Sept. 25</td>
<td>MER / Sector Asset Pitch</td>
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<td>Sept. 27</td>
<td>SR / Sector Asset Pitch</td>
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<td>Oct. 2</td>
<td>MER / Sector Asset Pitch</td>
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<tr>
<td>Oct. 4</td>
<td>SR / Sector Asset Pitch</td>
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<td>Oct. 9</td>
<td>MER / Roundtable / Sector Asset Pitch</td>
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<td>Oct. 11</td>
<td>Performance Analysis and Portfolio Overview</td>
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<tr>
<td>Oct. 16</td>
<td>SR / Sector Asset Pitch</td>
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<td>Oct. 18</td>
<td>MER / Sector Asset Pitch</td>
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<td>Oct. 23</td>
<td>SR / Sector Asset Pitch</td>
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<td>Oct. 25</td>
<td>MER / Sector Asset Pitch</td>
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<td>Oct. 30</td>
<td>SR / Sector Asset Pitch</td>
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<td>Nov. 1</td>
<td>MER / Sector Asset Pitch</td>
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<td>Nov. 6</td>
<td>Fall Break (no class)</td>
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<td>Nov. 8</td>
<td>SR / Sector Asset Pitch</td>
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<td>Nov. 13</td>
<td>MER / Sector Asset Pitch</td>
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<td>Nov. 15</td>
<td>SR / Sector Asset Pitch</td>
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<td>Nov. 20</td>
<td>MER / Sector Asset Pitch</td>
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<tr>
<td>Nov. 22</td>
<td>Thanksgiving (no class)</td>
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<tr>
<td>Nov. 27</td>
<td>MER / Sector Asset Pitch</td>
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<td>Nov. 29</td>
<td>Performance Analysis and Portfolio Overview</td>
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<td><strong>Dec. 11 (4:00)</strong></td>
<td><strong>Final Period (Exit and Contingency Plans)</strong></td>
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*Other Dates of Interest:*
- **Wednesday, September 19th:** Lincoln Financial Group Day
- **Friday, September 28th:** Goldman Sachs
- **Friday, October 26th:** HDH Advisors Day

- **Tuesdays: 9/25, 10/2, and 10/9: 5:30 – 6:30:** Private Equity Primer Sessions