Finance 450 Section 01 (11283)
Applied Portfolio Management I
Fall 2020

Instructor: Dr. Mark K. Pyles
Class: 4:00 – 5:15 TR Tate 207
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Office Hours: TR: 11:00 – 12:00
W: 11:00 – 12:00; 1:00 – 3:00

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:**

*The Intelligent Investor*
By: Benjamin Graham

*Investment Banking*
By: Rosenbaum and Pearl

**Suggested:**

*One Up On Wall Street*
By: Peter Lynch

*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, 9/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 many functions still work much better (or only) on Windows and that if you chose to use an Apple machine, you will need to be able to run Windows on it.

**COURSE POLICIES**
Given the unique nature of the current environment and the difficulties that we are all navigating, the College of Charleston has approved the following statement for including in all syllabi. The sentiments expressed within provide the framework for how courses will be administered this semester.

*Institutional Syllabus Statement Regarding the Fall 2020 Semester*

*The College of Charleston is committed to promoting the health and safety of our campus community. To that end, all faculty and students must abide by public health guidelines that include practicing social distancing in the classroom and elsewhere on campus, following signage indicating the entrance, exit, and traffic flow in and around campus buildings, wearing a mask or cloth face covering while in the presence of others, washing or sanitizing hands frequently, sanitizing individual and shared learning and work spaces, and staying home when sick. These practices are mandatory. Students will not be allowed to attend class without an appropriate face covering or when showing symptoms of illness.*

*Due to social distancing requirements, the number of students allowed in the classroom at one time is significantly reduced. As a result, most in-person courses will include a variety of online and technology enhanced components to ensure continuity of learning for each student throughout the semester. These strategies will vary by course section and students are advised to read each syllabus.*
carefully. Faculty have planned each course to enable all students, whether they are in the classroom or working remotely, to be fully engaged in the learning experience. Before the drop/add deadline, students should decide whether the course plan on the syllabus matches their own circumstance. All faculty will use OAKS to facilitate student access to the course syllabus, course materials, and the gradebook. The College of Charleston’s standard grading system is in effect.

There is a possibility that the semester will be disrupted by weather or the pandemic. Every course syllabus will include a plan for a change in modality to ensure the continuity of learning in the event in-person classes must be suspended. Regardless of the method of instruction, all courses will move online for one week after Thanksgiving. Final exams will be administered online. Therefore, all students must have access to a computer equipped with a web camera, microphone, and Internet access. Resources are available to provide students with these essential tools.

The College anticipates that some members of the community will fall ill or test positive for the coronavirus, and then be required to quarantine thereby missing class, assignments, and assessments. Faculty are expected to provide reasonable accommodations as determined by the content, level, and expectations of their courses for students who become ill or indicate a need to isolate themselves. To the extent possible, arrangements will be made for students with COVID-19 related absences to continue in the class. Faculty are encouraged to make explicit in their syllabus what sorts of accommodations students can expect with respect to missed course meetings, assignments, and assessments. However, students should be aware that extended absences for any reason cannot be accommodated in every course. Missed assignments and assessments may result in poor or failing grades. If a student is absent from class for an extended period, a withdrawal (W) before the deadline should be strongly considered. In all cases, assigning course grades is the responsibility of the instructor consistent with the grading policy published on the syllabus.

Attendance Policy
Under normal circumstances it is unquestionably expected that each student attend and participate in all class periods, with the exception of College-supported excused absences. However, the current semester is far from normal in terms of circumstances provided. There is no WA grade, and absence memos will not be used. This course will rely upon an honor-based system where I will assume you make the best efforts possible to attend and participate in the course (whether in person or on-line). In turn, I ask that you please promptly and clearly communicate with me any issues regarding your attendance and/or your participation in the course. I will trust that your explanations for any missed classes are honest and truthful, and will work with you to the degree possible to make up any work missed. The entirety of the course materials will be available on OAKS, just in case we do have to move entirely online at any point, or if any enrolled students need to access any and all parts of the course remotely as it progresses.

In the end, it simply boils down to mutual respect and trust and I will do my part if you will do yours.
More specifically, the course will be conducted entirely virtually during the first three weeks, and then shift to a traditional in-person format until Thanksgiving break, after which it will again become solely virtual for the duration of the semester. We are fortunate that we are a small enough class that meets in a large enough room that we can all attend during the in-person section of the schedule. However, if you cannot or do not feel comfortable attending in-person classes, I ask that you communicate with me as soon and frequently as possible. Again, I will remain as flexible as possible throughout, as long as effort and respect is present on your behalf as well.

_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 XXF 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 XX to be expunged. The F is permanent. 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://deanofstudents.cofc.edu/honor-system/studenthandbook/index.php](http://deanofstudents.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. For more information, you may visit the disability services website: http://disabilityservices.cofc.edu/.

**OAKS**

OAKS, including Gradebook, will be used for this course throughout the semester to provide the syllabus and class materials and grades for each assignment, which will be regularly posted.

**Continuity of Learning**

Due to social distancing requirements, this class will include a variety of online and technology enhanced components to reinforce continuity of learning for all enrolled students. Before the drop/add deadline, students should decide whether the course plan on the syllabus matches their own circumstances.

> During the course of class, in response to the development of COVID-19, the course delivery mode could be switched among face-to-face, online, or hybrid. The students need to make sure that their study will not be interrupted by the change of the delivery mode.

**Recording of Classes (via ZOOM)**

Class sessions will be recorded via both voice and video recording. By attending and remaining in this class, the student consents to being recorded. Recorded class sessions are for instructional use only and may not be shared with anyone who is not enrolled in the class.

**Inclement Weather, Pandemic, or Substantial Interruption of Instruction**

If in-person classes are suspended, faculty will announce to their students a detailed plan for a change in modality to ensure the continuity of learning. All students must have access to a computer equipped with a web camera, microphone, and Internet access. Resources are available to provide students with these essential tools.

**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 class period 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.
Most class periods 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

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.

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

<table>
<thead>
<tr>
<th>Activity</th>
<th>Weight</th>
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</thead>
<tbody>
<tr>
<td>Sector or Macroeconomic Analysis</td>
<td>20%</td>
</tr>
<tr>
<td>Asset Analysis and Presentation (min of 2x)</td>
<td>40%</td>
</tr>
<tr>
<td>Officer Assignments</td>
<td>20%</td>
</tr>
<tr>
<td>Class Participation</td>
<td>20%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

Letter grades are assigned as follows:
A = 90% - 100%
B = 80% - 89%
C = 70% - 79%
D = 60% - 69%
F = below 60%
# TENTATIVE CLASS SCHEDULE

<table>
<thead>
<tr>
<th>Date</th>
<th>Roundtable</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 25</td>
<td>Macro</td>
<td>General information and discussion</td>
</tr>
<tr>
<td>August 27</td>
<td>Sector</td>
<td>Review of current holdings and August performance</td>
</tr>
<tr>
<td>September 1</td>
<td>Macro</td>
<td>Energy &amp; Materials</td>
</tr>
<tr>
<td>September 3</td>
<td>Macro</td>
<td>Utilities &amp; Real Estate</td>
</tr>
<tr>
<td>September 8</td>
<td>Macro</td>
<td>Prep for firm day</td>
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<tr>
<td>September 9</td>
<td></td>
<td>Firm Day - Raymond James</td>
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<tr>
<td>September 10</td>
<td></td>
<td>No class</td>
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<tr>
<td>September 15</td>
<td>Macro</td>
<td>Financials</td>
</tr>
<tr>
<td>September 17</td>
<td></td>
<td>Healthcare</td>
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<tr>
<td>September 22</td>
<td>Macro</td>
<td>Discretionary</td>
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<tr>
<td>September 24</td>
<td></td>
<td>Industrials &amp; Staples</td>
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<tr>
<td>September 29</td>
<td>Sector</td>
<td>Review of current holdings and September</td>
</tr>
<tr>
<td>October 1</td>
<td>Macro</td>
<td>Prep for firm day</td>
</tr>
<tr>
<td>October 2</td>
<td></td>
<td>Firm Day - JP Morgan</td>
</tr>
<tr>
<td>October 6</td>
<td>Macro</td>
<td>Tech &amp; Communications</td>
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<tr>
<td>October 8</td>
<td></td>
<td>Energy &amp; Materials</td>
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<tr>
<td>October 13</td>
<td>Macro</td>
<td>Utilities &amp; Real Estate</td>
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<tr>
<td>October 15</td>
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<td>Healthcare</td>
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<tr>
<td>October 20</td>
<td>Macro</td>
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<td>October 22</td>
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<td>Industrials &amp; Staples</td>
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<tr>
<td>October 27</td>
<td>Macro</td>
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<tr>
<td>October 29</td>
<td>Sector</td>
<td>Review of current holdings and October performance</td>
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<tr>
<td>November 3</td>
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<td>US Election Day</td>
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<tr>
<td>November 5</td>
<td></td>
<td>Tech &amp; Communications</td>
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<tr>
<td>November 10</td>
<td>Macro</td>
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<tr>
<td>November 12</td>
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<td>Financials</td>
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<tr>
<td>November 17</td>
<td>Macro</td>
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<td>November 19</td>
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<td>Discretionary</td>
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<tr>
<td>November 24</td>
<td>Macro</td>
<td>Industrials &amp; Staples</td>
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<tr>
<td>November 26</td>
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<td>Thanksgiving Break</td>
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<tr>
<td>December 1</td>
<td>Macro</td>
<td></td>
</tr>
<tr>
<td>December 3</td>
<td>Sector</td>
<td>Review of current holdings and November</td>
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