Investment Management   Course Syllabus
Professor Stambaugh   Fall 2009

Course Description

The course undertakes a rigorous study of concepts and evidence relevant to investment management. Topics include asset allocation, diversification, long-short strategies, factor models, long-horizon investing, portfolio optimization, hedge funds, mutual funds, behavioral finance, performance evaluation, trading, and simulation. The course does not deal with individual security valuation, i.e., "equity research" or "stock picking."

The prerequisites are Fin 601 and Stat 621 (MBA students) or Fin 100 and Stat 101 (undergraduates). Given that investment management requires one to analyze and deal effectively with uncertainty, a good grounding in statistics is essential, and familiarity with statistics should extend through multiple regression, covariance, and correlation.

Purchases

1. *Investments*, by Zvi Bodie, Alex Kane, and Alan J. Marcus (8th ed.), McGraw-Hill. (*Student Solutions Manual* recommended.)

2. Cases available from Wharton Reprographics, via www.Study.Net.

Grading

Course grades will be based on two exams, four project write-ups, and class participation:

	Percent
Exam 1 (**Oct. 26**, in class)	30
Exam 2 (**Dec. 3**, in class)	30
Project write-ups	20
Class participation	20
Total	100

Team sign up

At the beginning of the course, students will form teams of three or four members for purposes of submitting project write-ups and preparing for class discussions. Team sign up is via the course eRoom on Wharton's web*Café*, and all members of a team must be in the same course section.

Projects

Team members will work jointly on each of the four projects and submit one write-up per team. Write-ups should be submitted by **9:00 AM on the due date**, using web*Café*, in order to avoid lateness penalties. Project assignments will be posted on web*Café* about two weeks prior to the due dates. Project due dates are September 23, October 14, November 18, and December 9.

Case discussions

A significant portion of the class participation grade is based on case discussions. It is expected that team members will work jointly in analyzing cases and preparing for class discussions, but every student in the class should be prepared to discuss each case.   I will cold-call occasionally but expect students to volunteer comments much of the time. About a week before each case discussion, I will post on web*Café* a few pertinent questions about the case.   These questions are not intended to be a comprehensive summary of the issues that could arise during the case discussion, but I hope they will be useful when thinking about the case and in stimulating discussion. Written answers are not submitted.

Exams

The exams, given during regular class-meeting times, are closed-book but you may bring one 8½ × 11 inch "cheat sheet" (two-sided) to each exam.   Exam answers will be posted on webCafé a day or two following the exam.

Readings and homework problems

I will use web*Café* to post assigned readings from the text ("BKM") and homework problems for you to work (but not submit).   In addition, I will often post copies/links of articles and other material for students wishing more depth or background on topics covered in class.

Help and questions

I welcome students to see me outside of class to discuss any aspect of the course.   My scheduled office hours, when students may come without appointments, are Wednesday from 4:30 to 5:30 (after my last class) and Thursday from 2:00 to 3:00. I am available by appointment at other times. My office is at 3251 SHDH, my e-mail is stambaugh@wharton, and my phone is 8-5734.

The TA's for the course are James Park and Robert Ready, who are Wharton Ph.D. students in finance. James's email is parkjam@wharton, and his office hours are Thursdays, 2:30-4:00, in SHDH 2435. Rob's email is rready@wharton, and his office hours are Tuesdays, 1:30-3:00, in SHDH 2316.

Questions about course material or course management should be submitted using the Discussion feature on web*Café*. That way all students in the course can view responses that may overlap with questions they have as well.

Note: Non-Wharton students who are enrolled in the course but do not yet have a Wharton computing account (required for eRoom access) can apply online at http://accounts.wharton.upenn.edu.

version: 8-31-2009

CLASS SCHEDULE

	Topics	Cases & Projects
9-Sep	Overview, stock-cash positions, using return swaps & futures	
14-Sep	Beta, hedging, market-neutral	
16-Sep	Long-short, margin & leverage, portable alpha	*The Vanderbilt University Endowment (2006)*
21-Sep	Return factors	*Dimensional Fund Advisors, 2002*
23-Sep	Portfolio volatility; predicting volatility	**Diversification write-up due**
28-Sep	Behavioral finance	*Behavioral Finance at JP Morgan*
30-Sep	Strategies and implementation	*numeric investors l.p.*
5-Oct	Portfolio opportunity sets	
7-Oct	Guest speaker: Kent Daniel - Goldman Sachs (4:30 – room TBA)	
12-Oct	Portfolio optimization	*The Harvard Management Company and Inflation-Protected Bonds*
14-Oct	Black-Litterman model; Bayesian approaches	**Optimization write-up due**
19-Oct	no class - fall break	
21-Oct	no-class - 2nd-year MBA interviews	
26-Oct	**Exam 1 (in class)**	
28-Oct	Hedge funds	
2-Nov	Equity premium	*Deutsche Bank: Discussing the Equity Risk Premium*
4-Nov	Value investing	*Grantham, Mayo, Van Otterloo & Co., 2001*
9-Nov	Long-horizon investing	*The Vanguard Group, Inc. in 2006 and Target Retirement Funds*
11-Nov	Guest speaker: Gregor Andrade - AQR (4:30 – room TBA)	
16-Nov	Long-horizon investing	*The Risk of Stocks in the Long Run: The Barnstable College Endowment*
18-Nov	Performance evaluation and attribution	**Stock-screening write-up due**
23-Nov	Pension-fund asset allocation	*Pension Policy at The Boots Company PLC*
25-Nov	Trading, liquidity	*At the T. Rowe Price Trading Desk (A)*
30-Nov	no class - day before Thanksgiving	
3-Dec	**Exam 2 (in class)**	
7-Dec	Simulation approaches	*Investment Policy at the Hewlett Foundation*
9-Dec	Active vs. passive management, liquidity risk & contagion	**Simulation write-up due**