Fall 2005 Course Syllabus

Course Objectives and Procedures

This course is the continuation of Finance 511 (Professor Kannan) from the Summer semester. It deals with modern investment theory and its application to investment management. The focus will be on equity investments (students with an interest in fixed-income instruments are encouraged to enroll also in FIN 515 Management of Fixed-Income Portfolios). We will cover the key concepts and tools that are heavily used for the management of equity portfolios. The discussion will include modern portfolio theory and asset pricing concepts; the measurement and management of investment risk; portfolio optimization; security selection and stock valuation; the measurement, evaluation and attribution of investment performance. The concepts of modern investment theory have had a profound effect on money management, and are widely used in practice. An understanding of these key concepts is a vital requirement for investment professionals.

Course Requirements and Grading

Students are encouraged to participate in all class discussions. Discussions and lectures will draw on, and supplement, the reading assignments listed below (although we won't necessarily cover every reading in class). As there is a fair amount of material to absorb, students are strongly encouraged to read (or at least skim over) the assigned readings before coming to class. Students should have working knowledge of basic statistics and regression analysis, as well as familiarity with spreadsheet modelling.

Grades are assigned on a letter plus/minus system, and will be based on a midterm exam (30%), a final exam (40%), homework sets (15%), and class participation (15%). You are expected to abide by the University's policies on academic integrity.

Reading Assignments

The required text for the course is


Additional required readings will also be used from academic and practitioner journals.
Reading List

I. Risk and return: the historical record, domestic and international

1. Text, Chapter 5.

II. Portfolio analysis and asset pricing models

A. Portfolio theory (review)

3. Text, Chapter 8.

B. Asset Pricing Models: Theory and Evidence

4. Text, Chapter 9.

C. Multi-factor models of risk and return

6. Text, Chapters 10, 11.

III. Equity portfolio management

D. The Efficient Markets Hypothesis

8. Text, Chapter 12.

E. Active portfolio management and predicting expected returns

IV. Evaluating portfolio performance

F. Performance evaluation

12. Text, Chapter 16.

G. Performance attribution and style analysis


V. Security analysis

H. Stock valuation models

16. Text, Chapter 18.

I. Analyst recommendations


VI. Equity portfolio risk management

J. Portfolio optimization


K. Risk budgeting