Three econometricians went out hunting, and came across a large deer. The first econometrician fired, but missed, by a meter to the left. The second econometrician fired, but also missed, by a meter to the right. The third econometrician didn’t fire, but shouted in triumph, "We got it! We got it!" – Anonymous

“Forecasting is like trying to drive a car blindfolded and following directions given by a person who is looking out of the back window.” – Anonymous

“We have 2 classes of forecasters: Those who don't know . . . and those who don't know they don't know.” – John Kenneth Galbraith

“The herd instinct among forecasters makes sheep look like independent thinkers.” – Edgar R. Fiedler

I. Objectives:
The focus of this course is on the examination and valuation of the major investment vehicles and strategies popular today. In particular, we will consider how investors allocate their financial assets by forming, managing, and evaluating portfolios containing instruments such as stocks, bonds, futures and option contracts, and mutual funds. Although the ultimate objective will be to develop a conceptual and theoretical background upon which the student can expand his or her knowledge of the field of investments, the topical treatment will be rather practically oriented.

II. Prerequisites:
Quantitative Analysis – ECON 350 or MATH 240

III. Text and Learning Resources:
Required Texts:

Note: Make sure that the book you purchase provides the OTIS Student Access Kit. If you purchase a used textbook go to: https://register.pearsoncmg.com/reg/buy/buy1.jsp?productId=22806 to purchase access to OTIS

IV. Student Responsibilities:
Homework and Quizzes:
Homework problems are assigned for each chapter covered. Completing the assigned homework is an invaluable source of information. In fact, past experience indicates that those who complete the homework assignments as the course progresses do remarkably better than those who fail to make the attempt. Again, I cannot stress enough how much reviewing the assigned homework problems will assist you in learning the required material. We will cover a great deal of material in this class. As a result, the only way to gain a firm understanding of the material is to review the material on your own time, e.g., completion of the assigned homework. Occasionally and at random, I will collect textbook assignments to be graded. You should also remember to turn in (on time) all assigned homework that is not from the text.
Class Attendance:

In addition to regular attendance at lectures, students will be expected to read their assigned text(s) and complete a substantial number of practice problems and exercises (both graded and ungraded) applying key concepts. Students should also be encouraged to utilize available supplemental material including, but not limited to, course workbooks and interactive software and/or websites (typically accompanying a text) for additional practice.

V. Examinations and Grading:

The course will consist of two examinations, possible quizzes, assignments, weekly presentations to the class, an Online Trading and Investment Simulator (OTIS), and a term paper. Your final course grade can be determined using the following absolute (i.e., no curve) scale (your final grade will reflect plus and minuses):

<table>
<thead>
<tr>
<th>Grade</th>
<th>Points Range</th>
<th>Component(s)</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>450 – 500</td>
<td>Exams 1, and 2</td>
<td>200</td>
</tr>
<tr>
<td>B</td>
<td>400 – 449</td>
<td>Quizzes and Assignments</td>
<td>100</td>
</tr>
<tr>
<td>C</td>
<td>350 – 399</td>
<td>Journal Article Presentations</td>
<td>100</td>
</tr>
<tr>
<td>D</td>
<td>300 – 349</td>
<td>Participation in and Report on OTIS</td>
<td>100</td>
</tr>
<tr>
<td>F</td>
<td>000 – 299</td>
<td>OTIS Performance Modification</td>
<td>***1</td>
</tr>
</tbody>
</table>

Total 500 points

Except in extreme circumstances, missed exams will not be tolerated. If you are involved in a DePauw University sponsored activity (i.e., sporting events, or other clubs) or ill, and will be unable to take an exam on the exam date then you must make special arrangements with me BEFORE the exam date! (No exceptions to this rule.) Otherwise, a student who misses an exam with a sufficient reason will have the weight of that exam added to the final. Specific requirements concerning the Journal Article Presentations, and OTIS will be provided at a later date.

VI. Miscellaneous:

Sources of Support:
Although my office hours are presented above, I want each of you to feel that you can come to my office at any time. If needed, I will try to arrange a time that we can meet and resolve whatever problems you may have encountered. If you have any questions and do not feel comfortable coming to me in person then, by all means, feel free to email your questions to me and, as far as that medium will allow, I will make an attempt to answer your questions. (I encourage you to take advantage of this resource!) This is probably the easiest way to contact me if you have questions. Keep in mind, however, that sending email is not a perfect substitute for stopping by my office.

STEPS TO RECEIVING AN ‘A’ IN THIS COURSE:
Step 1: Study!
Step 2: Stop by my office!
Step 3: Complete the homework assignments!
Step 4: Study!
Step 5: Stop by my office!
Step 6: Complete the homework assignments!
Step 7: Relax. This course should not be simply memorizing equations. If you view it as such, it will become tedious to you, as well as myself. Ask questions and get involved!

What’s in an ‘A’ – What grades mean?
Below is a description of what I think grades mean (annotated from Dr. Balensuela):

A C indicates that the work shows a competent understanding of the assignments but the work will not go beyond the obvious. A C may indicate work with clear factual errors or writing that is difficult to follow or is inconsistent. Mere attendance of the class with little attempt to join in discussions or seek additional explanation in a timely manner can be seen as acceptable, but not exceptional work. A C can be seen as a default grade – the grade I assume will be given for any assignment, but which is revised (up or down) as I evaluate the assignment. As I evaluate your work, I ask myself, “Why is this more or less average?”

1 This will be discussed in more detail at a later date.
A B indicates that the student’s work is good (i.e., the student has a good understanding of the material and writes in a clear and effective manner), but the work is weak in some areas. These weaknesses may be problems of organization, style, factual materials, or other deficiencies.

An A indicates that the student has near complete mastery of the material. Few changes, corrections, or suggestions can be made to the work submitted. An A also indicates that the student has taken an active role in learning the material through participation, class discussion, and getting outside help, *when needed*, in a timely manner.

A D indicates work that has some merit (that a student attempted to understand the material), but also has clear problems of factual understanding, clarity of writing, or organizational problems. A D indicates that there are some good aspects to the student’s work, but that there are many areas of improvement and correction. Often D work indicates an attempt to merely repeat material of the text or lecture without a full understanding of the material.

An F indicates work that is consistently weak, reflecting little thought or effort. An F also indicates serious problems with participation, factual information, or clarity of writing. It is possible for a student to devote a moderate amount of work to an assignment and still earn only an F if that work is sufficiently problematic. In other words, F is not a default grade for only lack of effort, but the grade given for lack of comprehension.

*Web Page:* For your convenience I have provided a web page (the address is provided above) for this class. This page is meant to provide students with their most recent grades. If you feel that the grade on the web page does not accurately reflect your grade in the class, then please notify me and I will attempt to correct the discrepancy. Furthermore, from time-to-time I will try to keep a list of all recently assigned work and important dates. However, claiming that you missed an exam date because I failed to post it on the web page is not a valid excuse.

*Academic Integrity Policy:* Cheating, plagiarism, submission of work of others, etc. violates DePauw Policy on academic integrity and may result in failure or expulsion. It is your responsibility to be familiar with the University’s policy regarding academic integrity. Negligence or ignorance of the policy will not be accepted as an excuse for violation of the policy. I take cheating personally. It represents: a lack of respect for your fellow students as well as myself, a lack of effort on your part to learn the required material, a total disregard for higher learning, and signifies your untrustworthiness.

*Changes to Syllabus:* I reserve the right to amend the syllabus at any time.

### VII. Covered Topics:

<table>
<thead>
<tr>
<th>Week</th>
<th>Chapter</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Week 1</td>
<td>NA</td>
<td>Introduction to Class</td>
</tr>
<tr>
<td>Week 2</td>
<td>Chapter 1</td>
<td>The Investment Environment</td>
</tr>
<tr>
<td>Week 3</td>
<td>Chapter 2 and 3</td>
<td>Investment Markets and Transactions (Read Ch 3 on your own)</td>
</tr>
<tr>
<td>Week 4, 5</td>
<td>Chapter 4</td>
<td>Risk and Return and Modern Portfolio Concepts</td>
</tr>
<tr>
<td>Week 6, 7, 8</td>
<td>Chapter 5</td>
<td>Modern Portfolio Concepts</td>
</tr>
<tr>
<td>Week 9</td>
<td>FALL BREAK</td>
<td>Mutual Funds – Read Ch 13 and 14 (Ch 12 and 13 in 10th edition)</td>
</tr>
<tr>
<td>Week 10, 11</td>
<td>Chapter 9 and 6</td>
<td>Market Price Behavior and Common Stocks (Read Ch 6 on your own)</td>
</tr>
<tr>
<td>Week 11, 12</td>
<td>Chapter 8 and 7</td>
<td>Stock Valuation and Analyzing Common Stocks</td>
</tr>
<tr>
<td>Week 13</td>
<td>Chapter 10 and 11</td>
<td>Bonds and Bond Valuation (Read Ch 10 on your own)</td>
</tr>
<tr>
<td>Week 14, 15</td>
<td>Chapter 15</td>
<td>Options (Ch 14 in 10th edition) ~ Tentatively</td>
</tr>
<tr>
<td>Week 15</td>
<td>Chapter 16</td>
<td>Futures (Ch 15 in 10th edition) ~ Tentatively</td>
</tr>
<tr>
<td>Week 16</td>
<td>Presentations</td>
<td>Presentations</td>
</tr>
</tbody>
</table>

*Note: this outline should be considered representative of the material we will cover during the semester; it is subject to change upon proper notification. Thus, this timeline should be viewed as an APPROXIMATION!*
The following represents some of the seminal pieces of literature in finance.

**I. Introduction: The Statistical Properties of Stock Returns**


**II. Efficient Capital Markets**


**III. Bond Markets & Interest Rates**


**IV. Bond Markets & Interest Rates**


**V. The Pricing of Futures**

VII. The Capital Asset Pricing Model: Theory, Tests and Extensions


VIII. Portfolio Evaluation and Management