

C.T. Bauer College of Business  
Portfolio Theory and Practice FINA 7A23 Tuesday 6-9 PM  
Spring 2017 March 20 - May 10

Instructor: Prof. Kris Jacobs  
Office: MH 240E  
Phone: (713) 743 2826  
Email: [kjacobs@bauer.uh.edu](mailto:kjacobs@bauer.uh.edu)  
Office Hours: Tue 16:50-17:50, or by appointment

## Course Description

The objective for students in this course is to acquire a solid grasp of modern portfolio theory and practice. This requires students to understand the theoretical trade-off between risk and return in a portfolio consisting of several assets, and to apply these insights in practice.

The hallmark of modern portfolio theory is a mathematical and statistical approach to these questions. This approach is used by most investment banks, hedge funds and portfolio managers. As a result part of this course and the exams will be quantitative in nature.

## Textbook

Required: Bodie, Kane, and Marcus, **Investments**, McGraw-Hill Irwin, Ninth Edition, ISBN 978-0-07-353070-3. The solution manual is available through the bookstore.

For those students interested in more technical material and portfolio theory in particular, I recommend Elton, Gruber, Brown, and Goetzmann, **Modern Portfolio Theory and Investment Analysis**. This book is not required.

## Lecture Notes

The lectures will be supported by Powerpoint lecture notes. These will be made available electronically. You are not required to use them, they are simply meant to help you. If instead you feel comfortable taking notes, fine. However, I will proceed at a speed that is appropriate for someone who has the lecture notes handy.

## Readings

I have made additional readings available through the library system at <http://guides.lib.uh.edu/7A23PTP>

Frequently (daily) reading the Financial Times and the Wall Street Journal is also entirely optional but highly recommended.

## Grading

Grading will be based upon the following requirements:

Final Exam	35%
Homework	25%
Excel Project and Case	40%

- The date for the final exam will be announced in class and on blackboard.
- There are four homeworks. They are available electronically through blackboard. HW1 is due April 3, HW2 is due April 10, HW3 is due April 24, and HW4 is due May 4. You should submit the homeworks through blackboard. If your performance on the final is better than your performance on the homeworks, I will count the final for 60%.
- There is one excel assignment that will be made available through blackboard, due April 10. There is one case, due April 23. Please form groups of three or four and submit your solutions through blackboard. If you have trouble forming a group let me know as soon as possible. It is important that each group member does their share because you will have the opportunity to evaluate your fellow group members. Your analysis should consist of concise responses to the excel and case questions, supported by tables, figures, and quantitative analyses as required. Late submissions will not be accepted. To retrieve the case, please use the following course link at Harvard Publishing: <http://cb.hbsp.harvard.edu/cbmp/access/62696696>

## Tentative Schedule

<u>Dates</u>	<u>Topics</u>	<u>BKM Chapters</u>
March 21, March 28	Risk and Return: The Historical Record	5
March 28, April 4	Portfolio Theory	6, 7
April 11, April 18	Factor Models	8, 9, 10
April 25, May 2	Market Efficiency and Empirical Evidence on Security Returns	11, 12, 13

## Light(er) Reading

The following books are great reading, and a must for anyone interested in a career in finance.

- Malkiel, Burton, **A Random Walk Down Wall Street**, Norton

A classic of the efficient market genre

- Bernstein, Peter, **Capital Ideas**, The Free Press

Provides the intellectual background and development of portfolio theory

- Bernstein, Peter, **Against the Gods**, Wiley

One of my favorites. Very ambitious description of the origins of modern finance

- Siegel, Jeremy, **Stocks for the Long Run**, McGraw-Hill Irwin

Controversial but an indispensable read

- Shiller, Robert, **Irrational Exuberance**, Princeton University Press

A breakthrough manuscript for behavioural finance, written by one of its greatest advocates

- Fox, Justin, **The Myth of the Rational Market**, Harper Business

According to Keynes: "The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually slaves of some defunct economist."

After you read this book, I think you will agree with Keynes' statement.