



UNIT OUTLINE

ACCG839 PORTFOLIO MANAGEMENT

SECOND SEMESTER 2008

**MACQUARIE UNIVERSITY
DIVISION OF ECONOMIC AND FINANCIAL STUDIES
UNIT OUTLINE**

Year and Semester: 2008, Second semester

Unit convenor: Dr Garry Hobbes

Prerequisites

The content of this unit is appropriate for students who have completed an intermediate unit in finance. Those students who are unsure of their suitability for enrolment should speak to Dr G Hobbes during the first seminar.

Students in this unit should read this unit outline carefully at the start of semester. It contains important information about the unit. If anything in it is unclear, please consult the teaching staff in the unit.

ABOUT THIS UNIT

This unit provides an understanding of the theory, empirical evidence and practice of portfolio management. Techniques of portfolio analysis and investment management are applied using a portfolio management simulation. Student teams aim to maximise portfolio return relative to a benchmark.

The unit prepares students for further study in the area of portfolio management and for employment in institutions involved in investment and investment advising (e.g. Broking firms, banks, merchant banks, finance regulatory bodies).

Studies in portfolio management complement the content of related units such as ACCG818 Investments, ACCG806 Risk Management and Derivatives, ACCG832 Business and Financial Analysis, ACCG837 Capital Markets, ACCG838 Business Valuation, ACCG890 Corporate Financial Forecasting and ECON867 International Financial Management.

TEACHING STAFF

Convenor Dr. Garry Hobbes, Building E4A Room 231
Tel: 9850 8510, Email: ghobbes@efs.mq.edu.au

CLASSES

The three hour seminar for this unit consists of a lecture, presentations by individual students of academic papers related to the previous weeks topic and a discussion of the portfolio management project.

REQUIRED AND RECOMMENDED TEXTS AND/OR MATERIALS

References

- Z. Bodie, A. Kane and A. J. Marcus, **Investments**, Irwin, 7th edition, 2008.
E. J. Elton and M. J. Gruber, **Modern Portfolio Theory and Investment Analysis**, John Wiley and Sons Inc., 6th edition, 2003.
F. Fabozzi, **Investment Management**, Prentice Hall, 2nd edition, 1998.
J. Farrell, **Portfolio Management: Theory and Applications**, McGraw-Hill, 2nd edition, 1997.
R. A. Haugen, **Modern Investment Theory**, Prentice Hall, 5th edition, 2001.
C. P. Jones, **Investments: Analysis and Management**, Wiley, 10th edition, 2007.

The references are available from the Reserve Collection of the library.

ASSESSMENT

The assessment for ACCG839 consists of a verbal and written group report on a portfolio management project, an individual research paper presentation, and a final written examination. The relative weights applied to each of these tasks is as follows.

Portfolio management report	20%
Portfolio management presentation	10%
Class research study presentation	10%
Final examination	60%

To pass the unit students must obtain at least 30 marks out of the aggregate 60 marks allocated to the final exam. They must also obtain at least 50 marks out of the total 100 marks for all assessment tasks.

The portfolio management project report and presentation are to be completed by groups of three or four students. The report is to be submitted at the time of the presentation in Seminar 12. Late submissions will result in a reduction in the assessment mark by 1/10 for each day the task is overdue.

Details of the evaluation sheets used to assess the portfolio management presentations and reports will be provided in class.

You are expected to present yourself for examination at the time and place designated in the GACC Examination Timetable. The timetable will be available in its Final form prior to the commencement of the examinations.

The only exception to not sitting an examination at the designated time is because of documented illness or unavoidable disruption. In these circumstances you may wish to consider applying for Special Consideration. Information about unavoidable disruption and the special consideration process is available on the Macquarie University website.

If a Supplementary Examination is granted as a result of the Special Consideration process the examination will be scheduled after the conclusion of the official examination period.

You are advised that it is Macquarie University policy not to set early examinations for individuals or groups of students. All students are expected to ensure that they are available until the end of the teaching semester, the final day of the official examination period.

LEARNING OUTCOMES

Following completion of this unit, students should be able to

- Understand the theoretical underpinnings of portfolio management
- Differentiate between active and index portfolio management strategies
- Identify and implement investment styles
- Select a portfolio of fixed interest securities
- Manage a portfolio of diverse national and international assets
- Modify the risk/return characteristics of the portfolio using derivatives
- Assess the performance of the portfolio
- Present the results of the management process verbally to client and management
- Prepare written reports on the portfolio management process

In addition to the discipline-based learning objectives, all academic programs at Macquarie seek to develop students' generic skills in a range of areas. One of the aims of this unit is that students develop their skills in the following key competencies:

Foundation skills of literacy, numeracy and information technology;
Self-awareness and interpersonal skills;
Communication skills;
Critical analysis skills;
Problem-solving skills;
Creative thinking skills.

TEACHING AND LEARNING STRATEGY

The lectures will explain and illustrate major ideas, and may also be used to disseminate information about the operation and administration of the unit. The portfolio management simulation will reinforce the ideas introduced in the lectures and provide a 'hands-on' introduction to the management of a portfolio.

Students will be provided with details of references and questions each week. They should read the relevant articles and references, review the discussion questions, work in small teams to manage the portfolio and prepare reports, and present an overview of a research study once during the course.

SEMINAR PROGRAM

Seminar Program
Seminar 1 Portfolio Construction
Seminar 2 Portfolio Management and the APT
Seminar 3 Equity Portfolio Management - Passive Strategy
Seminar 4 Equity valuation models
Seminar 5 Stock Selection Techniques
Seminar 6 Asset Allocation
Seminar 7 Investment Styles
Seminar 8 International Investment
Seminar 9 Portfolio Management using Futures
Seminar 10 Fixed Interest Portfolio Management
Seminar 11 Portfolio Performance
Seminar 12 Group Presentations
Seminar 13 Final Examination

RESEARCH STUDY PRESENTATIONS

Seminar	• Readings
Seminar 3 Portfolio Construction The APT	<ul style="list-style-type: none"> • K. Winkelmann, Improving Portfolio Efficiency, Journal of Portfolio Management, Winter 2004, pp. 23-38. • L. Merville et. al., Identifying the Factor Structure of Equity Returns, Journal of Portfolio Management, Summer 2001, pp. 51-61. • L. Guilko, Efficient Irrational Markets, Journal of Portfolio Management, Winter 2005, pp. 64-72.
Seminar 4 Equity Portfolio Management - Passive Strategy	<ul style="list-style-type: none"> • A. Frino, D. Gallagher et. al., Index Design and Implications for Index Tracking, Journal of Portfolio Management, Winter 2004, pp. 89-95. • D. Minor, Beware of the Index Fund Fundamentalists, Journal of Portfolio Management, Summer 2001, pp. Winter 2004, pp. 45-50. • B. Arshanapalli, Active versus Passive Strategies for EAFE and the S&P 500, Journal of Portfolio Management, Summer 2004, pp. 51-60. • E. Flood et. al., Integrating Active and Passive Management, Journal of Portfolio Management, Fall 2000, pp. 10-19. • J. Berk, Five Myths of Active Portfolio Management, Journal of Portfolio Management, Spring 2005, pp. 27-31.
Seminar 5 Equity valuation models	<ul style="list-style-type: none"> • P. Bostock, The Equity Premium, Journal of Portfolio Management, Winter 2004, pp. 104-111. • K. Fisher et. al., Cognitive Biases in Market Forecasts, Journal of Portfolio Management, Fall 2000, pp. 72-81. • P. Giot, Relationships Between Implied Volatility Indexes and Stock Index Returns, Journal of Portfolio Management, Spring 2005, pp. 92-100. • J. Wilcox et. al., The P/B-ROE Valuation Model Revisited, Journal of Portfolio Management, Summer 2005, pp. 56-66. • M. Ratner et. al., Sector Dispersion and Stock Market Predicability, Journal of Portfolio Management, Spring 2006, pp. 56-72.

Seminar 6 Stock Selection Techniques	<ul style="list-style-type: none"> • P. Estep, Cash Flows, Asset Value, and Investment Returns, Journal of Portfolio Management, Spring 2003, pp. 17-26. • J. Abate et. al., The EVA Style of Investing, Journal of Portfolio Management, Summer 2004, pp. 61-72. • H. Bierman, The Price-Earnings Ratio, Journal of Portfolio Management, Summer 2002, pp. 57-60. • E. Sorensen et. al., The Decision Tree Approach to Stock Selection, Journal of Portfolio Management, Fall 2000, pp. 42-52. • M. Bagnoli et. al., Trading Strategies Based on Analysts Estimate Revision Clusters and Associated Corporate Information Events, Journal of Portfolio Management, Spring 2006, pp. 32-42.
Seminar 7 Asset Allocation	<ul style="list-style-type: none"> • M. Leibowitz et. al., The Changing Mosaic of Investment Patterns, Journal of Portfolio Management, Spring 2004, pp. 10-25. • W. Anson, Thinking Outside the Benchmark, Journal of Portfolio Management, 30th Anniversary Issue 2004, pp. 104-112. • M. Anson, Strategic versus Tactical Asset Allocation, Journal of Portfolio Management, Winter 2004, pp. 8-22. • F. Dopfel, How Hedge Funds Fit, Journal of Portfolio Management, Summer 2005, pp. 9-20.
Seminar 8 Investment Styles	<ul style="list-style-type: none"> • F. Bourguignon et. al., Value versus Growth, Journal of Portfolio Management, Summer 2003, pp. 71-79. • Y. Ertimur et. al., Confirming or Conflicting Sales and Earnings Signals, Journal of Portfolio Management, Summer 2002, pp. 45-56. • T. Philips, The Source of Value, Journal of Portfolio Management, Summer 2002, pp. 36-44. • G. Allen, The Active Management Premium in Small-Cap U.S. Equities, Journal of Portfolio Management, Spring 2005, pp. 10-17. • J. Kizer, Index Fundamentalism Revisited - Redux, Journal of Portfolio Management, Winter 2005, pp. 112-119. • J. Griffin et. al., Global Momentum Strategies, Journal of Portfolio Management, Winter 2005, pp. 23-39.

Seminar 9 International Investment	<ul style="list-style-type: none"> • F. Reilly et. al., Analysis of Risk-Adjusted Performance of Global Market Assets, Journal of Portfolio Management, Spring 2004, pp. 63-77. • S. Cavaglia et. al., Investing in Global Equities, Journal of Portfolio Management, Spring 2004, pp. 88-94. • B. Gendreau et. al., Sovereign Spreads and Emerging Market Equity Returns, Journal of Portfolio Management, Fall 2003, pp. 104-114. • A. Puchkov et. al., Sources of Return in Global Investing, Journal of Portfolio Management, Winter 2005, pp. 12-21. • R. Pozen et. al., An Alternative Approach to International Growth Investing, Journal of Portfolio Management, Spring 2005, pp. 19-26.
Seminar 10 Portfolio Management using Futures	<ul style="list-style-type: none"> • G. Jensen et. al., Tactical Asset Allocation and Commodity Futures, Journal of Portfolio Management, Summer 2002, pp. 100-111. • J. Hill et. al., Synthetic and Enhanced Index Strategies using Futures on U.S. Indexes, Journal of Portfolio Management, May 1999, pp. 61-78. • R. Aggarwal et. al., Cross-Hedging Currency Risks in Asian Emerging Markets using Derivatives in Major Currencies, Journal of Portfolio Management, Spring 1997, pp. 88-95. • T. Miller et. al., Beating Index Funds with Derivatives, Journal of Portfolio Management, May 1999, pp. 75-95.
Seminar 11 Fixed Interest Portfolio Management	<ul style="list-style-type: none"> • E. Altman et. al., Defaults and Returns on High-Yield Bonds, Journal of Portfolio Management, Winter 2004, pp. 58-73. • M. Fridson, Semiannual Seasonality in High-Yield Bond Returns, Journal of Portfolio Management, Summer 2000, pp. 102-111. • Ilmanen et. al., Which Risks Have Been Best Rewarded?, Journal of Portfolio Management, Winter 2004, pp. 53-57. • S. Rasaswamy, Managing Credit Risk in a Corporate Bond Portfolio, Journal of Portfolio Management, Spring 2002, pp. 67-72 • A. Biglova et. al., Different Approaches to Risk Estimation in Portfolio Theory, Journal of Portfolio Management, Fall 2004, pp. 103-112.

Each student will present a summary of one of the above research papers during the semester. The presentation must utilise PowerPoint software via a computer-based projector and must be 10 to 15 minutes in duration.

Evaluation criteria for the presentation will be provided during the first seminar when students will select a paper from the above list. Each week, the class commence with research paper presentations.

Copies of these articles are available from the Macquarie University Library shelves at the reference HG4501.J6.

PORTFOLIO MANAGEMENT PROJECT

Groups of three or four students will be formed during the second seminar to manage a portfolio of securities. This major project will involve the Assembly, Rebalancing and Performance assessment of a portfolio as detailed below.

Companies

Select from any of the listed companies in the local or overseas stock markets where information is available from the internet or DataStream.

DataStream is a Macquarie Library resource which gives access to an extensive international financial database. To use the DataStream PC in the Library, either book time on the PC at the Level 3 Reference Desk of the Library or ring the Desk on extension 7518 (9850 7518 from outside the University).

Securities may be added or dropped from your portfolio only at each portfolio rebalance date.

Portfolio Rebalancing

Each group will invest AUD1M in an initial portfolio covering at least 5 stocks. This initial portfolio will be rebalanced three times. The dates associated with rebalancing are,

Seminar 3: Form an equity portfolio with reference to portfolio theory

Seminar 6: First rebalance with active and passive equity investments

Seminar 9: Second rebalance based on asset classes

On all dates prior to the final report groups will be required to submit their weightings for each security via email to ghobbes@efs.mq.edu.au. Note, however that each of the portfolio selections will have to be justified in the final report.

The rebalance in seminar 9 may include any securities (for example, any Australian or international shares, bonds, fixed interest securities or derivatives).

Measurement of portfolio performance is an important aspect of the project. A week will be the basic unit of time. As such prices (Friday Close) must be collected by each group for each of the assets.

The final report will provide a justification for each of your choices plus an examination of the performance of your portfolio. The report will contain approximately 3000 words with additional material in an Appendix. The final report is to be submitted during the seminar in week 12.

RELATIONSHIP BETWEEN ASSESSMENT AND LEARNING OUTCOMES

The portfolio management project enables students to demonstrate and develop their abilities in the areas of literacy and numeracy. Information technology is used extensively in this assessment task via computer modelling, internet-based research and information collection from financial databases.

Verbal communication skills are enhanced by presentation of the portfolio management results and analysis of the research study to the class. These assessment tasks also reinforce students' critical analysis and problem-solving skills.

PLAGIARISM

The University defines plagiarism in its rules: "Plagiarism involves using the work of another person and presenting it as one's own." Plagiarism is a serious breach of the University's rules and carries significant penalties. You must read the University's practices and procedures on plagiarism. These can be found in the *Handbook of Undergraduate Studies* or on the web at: <http://www.student.mq.edu.au/plagiarism/>

The policies and procedures explain what plagiarism is, how to avoid it, the procedures that will be taken in cases of suspected plagiarism, and the penalties if you are found guilty. Penalties may include a deduction of marks, failure in the unit, and/or referral to the University Discipline Committee.

UNIVERSITY POLICY ON GRADING

Academic Senate has a set of guidelines on the distribution of grades across the range from fail to high distinction. Your final result will include one of these grades plus a standardised numerical grade (SNG).

On occasion your raw mark for a unit (i.e., the total of your marks for each assessment item) may not be the same as the SNG which you receive. Under the Senate guidelines, results may be scaled to ensure that there is a degree of comparability across the university, so that units with the same past performances of their students should achieve similar results.

It is important that you realise that the policy does not require that a minimum number of students are to be failed in any unit. In fact it does something like the opposite, in requiring examiners to explain their actions if more than 20% of students fail in a unit.

The process of scaling does not change the order of marks among students. A student who receives a higher raw mark than another will also receive a higher final scaled mark.

For an explanation of the policy see

<http://www.mq.edu.au/senate/MQUonly/Issues/Guidelines2003.doc> or

<http://www.mq.edu.au/senate/MQUonly/Issues/detailedguidelines.doc>.

STUDENT SUPPORT SERVICES

Macquarie University provides a range of Academic Student Support Services. Details of these services can accessed at

<http://www.student.mq.edu.au>.