



## ACCG352 — APPLIED PORTFOLIO MANAGEMENT

Unit outline: Semester 2, 2007

Unit Convenor: Geoffrey Loudon  
Prerequisites: ACCG329(P) or corequisite ACST305

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 unit convenor.

### 1 About this unit

This unit provides students with the analytical skills and techniques required to effectively manage diversified portfolios of securities. The first section of the unit reviews theoretical and practical issues relating to the management of portfolios containing options, futures and other derivatives. Section two prepares students for asset allocation management and performance assessment of diversified portfolios. Material presented has relevance for students interested in careers as security analysts, portfolio managers and corporate treasurers.

It is a 3 credit point unit that complements the material covered in ACCG329 or ACST305. It emphasises the practical implementation of portfolio and option pricing theory within the context of portfolio management.

### 2 Teaching staff

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Consultation hours will be advised in lectures.

\* Lecturer-in-charge and unit administrator; Lecturer for weeks 1–7.

\*\* Lecturer for weeks 8–13.

### 3 Classes

The weekly three hour class time for this unit consists of a two hour lecture and a one hour tutorial. There are no tutorials in weeks 1 and 7. Weekly tutorials cover material based on the lecture of the previous week.

The timetable for classes can be found on the University web site at: <http://www.timetables.mq.edu.au/>

Students cannot change from one class to the other without the permission of the Convenor. Please note that changes to tutorial classes must be done online and no later than the Friday of the first week of classes.

Tutorial attendance will be recorded and may be taken into account when considering any appeals for special consideration.

## 4 Required and recommended texts and/or materials

There are no required textbooks. For the first six weeks, the recommended textbook is J.C. Hull, *Options, futures and other derivatives*, 6th edition, Prentice Hall. Students may also find the accompanying text helpful: J.C. Hull, *Options, futures and other derivatives: solutions manual*, 6th edition, Prentice Hall.

Additional references may be prescribed for individual topics as appropriate.

## 5 Unit web page

The web page for this unit can be found at: <http://online.mq.edu.au>

Consult the web page frequently. Lecture notes, tutorial solutions, unit announcements and other reference materials will be posted to this site throughout the semester.

## 6 Learning outcomes

The broad learning outcomes of this unit are an enhanced ability by students to apply concepts in portfolio and option pricing theory to practical settings faced by portfolio managers. Specific learning outcomes for each topic are set out on the first content page of the weekly lecture notes.

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 generic skills, such as interpersonal, communication, critical analysis, problem solving, and creative thinking skills, in the effective accomplishment of finance related tasks. Foundation skills of numeracy and information technology are also enhanced by the use of finance-related software.

## 7 Learning and teaching strategy

Lectures will explain and illustrate major ideas, and disseminate information about the operation and administration of the unit. Tutorials will reinforce the ideas introduced in the lectures, primarily through discussion and numerical exercises.

To help achieve the learning outcomes of the unit, you should

1. read the assigned references for the current week's lecture
2. attend the weekly lecture and review the lecture notes
3. prepare answers to the weekly assignment questions and problems in advance of the tutorial
4. identify any problems in relation to the lectures or tutorial problems and discuss these issues during the tutorial
5. develop reasoning skills and not only rely on the reproduction of textbook or other source material.

## 8 Relationship between assessment and learning outcomes

Learning outcomes are assessed on three levels:

1. your ability to display an adequate knowledge and understanding of unit concepts
2. your demonstrated competency to provide technical solutions for typical problems faced by portfolio managers
3. the extent to which you show an informed appreciation of the strengths and limitations of applying the unit material in practical situations.

### Assessment

Mid-semester test	35%
Major project	30%
Final examination	35%

To achieve a passing grade in this unit, you must obtain a total of at least 35 marks out of the 70 marks available from the Mid-semester test and Final examination components of assessment.

#### *Mid-semester test:*

There will be a mid-semester test held during normal lecture hours in week 7 (September 11). Total time available for the mid-semester test is 90 minutes plus 5 minutes reading time. The mid-semester test is based on topics covered during lectures 1 to 6, inclusive.

No dictionaries of any kind are allowed in the mid-semester test. Non-programmable calculators are allowed, provided that they are not capable of storing text.

#### *Major project:*

Students must complete a major practical project based on the material taught in weeks 8 to 13. Details will be provided later. Please direct all enquiries regarding this project to Professor John Okunev.

#### *Final examination:*

Exam date, time, location will be advised separately. The exam is based on topics covered during lectures 8 to 13, inclusive. Total time available for the final examination is 2 hours plus 10 minutes reading time.

No dictionaries of any kind are allowed in the final examination. Non-programmable calculators are allowed, provided that they are not capable of storing text.

## 9 Student support services

Besides the general services available (see below in Section 12.4), the Division of Economics and Financial Studies offers the following:

ERIC: EFS Resource and Information Centre  
[http://www.efs.mq.edu.au/student\\_support/eric](http://www.efs.mq.edu.au/student_support/eric)  
Location: E4B 106.

## 10 Class schedule

### Week number and topic:

1. Unit introduction and structured products
2. Modeling portfolio returns: practical issues
3. Portfolio management with forwards/futures
4. Portfolio management with options
5. Managing portfolios of derivatives
6. Review of weeks 1–5
7. Mid-semester test  
*Mid-semester recess*
8. Asset Allocation
9. Bond Portfolio Management
10. Foreign Currency Management
11. Equity style investing
12. International equity diversification
13. Review of weeks 8–12

## 11 Weekly lecture topics, readings and assignment questions

Lecture notes, readings and assignment questions can be downloaded from the unit web site.

In completing the assignments, you are encouraged to use appropriate software for numerical calculations, wherever possible.

### 11.1 Unit introduction and structured products

**Readings:** Lecture for week 1.

- Lecture notes
- Equity-Linked Notes, An Introduction, Lehman Brothers, 2001.
- P.A. Stoimenov and S. Wilkens, 2005, Are structured products ‘fairly’ priced? An analysis of the German market for equity-linked instruments, *Journal of Banking & Finance* 29, 2971–2993

### 11.2 Modeling portfolio returns: practical issues

**Readings:** Lecture for week 2.

- Lecture notes
- Hull, Chapter 12, Sections 12.1–12.4
- Hull, Chapter 13, Sections 13.1–13.4
- Hull, Chapter 19

### 11.3 Portfolio management with forwards/futures

**Readings:** Lecture for week 3

- Lecture notes
- Hull, Chapter 3
- T. Brailsford, K. Corrigan and R. Heaney, 2001, A comparison of measures of hedging effectiveness: a case study using the Australian All Ordinaries Share Price Index Futures contract, *Journal of Multinational Financial Management* 11, 465-481
- J. Cotter and J. Hanly, 2006, Reevaluating hedging performance, *The Journal of Futures Markets* 26(7), 677-702.

### 11.4 Portfolio management with options

**Readings:** Lecture for week 4

- Lecture notes
- Hull, Chapter 10
- B.H. Do, 2002, Relative performance of dynamic portfolio insurance strategies: Australian evidence, *Accounting and Finance* 42, 279-296
- J. Board, C. Sutcliffe and E. Patrinos, 2000, The performance of covered calls, *The European Journal of Finance* 6, 1-17

### 11.5 Managing portfolios of derivatives

**Readings:** Lecture for week 5

- Lecture notes
- Hull, Chapter 15
- S. Nandi and D.F. Waggoner, 2000, Issues in hedging options positions, *Federal Reserve Bank of Atlanta Economic Review*, 24-39
- T.C. Green and S. Figlewski, 1999, Market risk and model risk for a financial institution writing options, *Journal of Finance* 54, 1465-1499.

### 11.6 Review of weeks 1-5

**Readings:** Lecture for week 6

- No new readings. Revise readings from weeks 1-5, inclusive.

### 11.7 Weeks 8-13 inclusive

Readings, tutorial work and project details to be advised later. Please direct all enquiries regarding this section of the unit to Professor John Okunev.

## 12 Important general requirement for all units

### 12.1 Examinations

The University Examination period is from 14–30 November 2007. You are expected to present yourself for examination at the time and place designated in the University Examination Timetable. The timetable will be available in draft form approximately eight weeks before the commencement of the examinations and in Final form approximately four weeks before the commencement of the examinations. <http://www.timetables.mq.edu.au/exam>

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 at: <http://www.reg.mq.edu.au/Forms/APSCon.pdf>

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, that is, the final day of the official examination period.

No aids, other than a pen and pencil, may be brought into an exam unless specifically permitted by the Convenor. The following are expressly forbidden: mobile phones, calculators, computers, I-pods, PDAs, MP3s and any other electronic aid, and books.

### 12.2 Plagiarism and cheating

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 Disciplinary Committee.

Plagiarism is simply a type of cheating. Any confirmed cheating may result in serious penalties, including deduction of marks, failure in the unit, and/or referral to the University Disciplinary Committee.

### 12.3 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 standardized 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 performance 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 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>

The standard grading scheme is:

0 – 45	Fail
46 – 49	Conceded Pass
50 – 64	Pass
65 – 74	Credit
75 – 84	Distinction
85 – 100	High Distinction

## **12.4 Student support services**

Macquarie University provides a range of Academic Student Support Services. Details of these services can be accessed at <http://www.student.mq.edu.au>

## **12.5 Classroom etiquette**

Students are expected to arrive on time, certainly before five minutes past the hour, and not to leave until the class ends. If you have a recurring problem that makes you late, or forces you to leave early, have the courtesy to discuss this with your lecturer/tutor.

Students are expected to be quiet during lectures unless, of course, class participation is required.

Mobiles should be turned off during classes; not simply set to “silent”.