

ACCG839 PORTFOLIO MANAGEMENT

2010 Unit Outline

1. DESCRIPTION OF OBJECTIVES

This unit will provide you with introductory understanding on the theory and empirical evidence associated with portfolio management. It includes coverage on a range of broad topics areas which relate to portfolio management, such as a background on securities and financial markets, portfolio analysis, asset pricing, asset allocation, risk management, international investment, evaluation of performance, efficient markets and behavioural finance. Throughout the unit students will be exposed to theoretical portfolio analysis techniques as well as the current issues surrounding investment management.

The unit is designed to prepare students for further study in more advanced portfolio management topics and for employment in institutions involved in investment management and advising (e.g. stockbroking firms, commercial banks, merchant banks and 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.

2. PRE-REQUISITES

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 are required to discuss their circumstances with the lecturer-in-charge during the first week of semester.

3. TEXTBOOKS

Prescribed text:

Modern Portfolio Theory and Investment Analysis by Elton, Gruber, Brown and Goetzmann, Wiley, 2010. ISBN: 978-0-470-388832-7

Refer to the unit web page for other useful references and resources.

4. STAFF CONTACTS

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Unit Convenor

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5. ASSESSMENT

Your final grade will be influenced by your performance in each component of assessment as follows:

Assessment Weightings for Final Grading

Class Tests	10%
Tutorial Homework	10%
Mid Semester Test	30%
Final Exam	50%

Refer to section 5.3 for further information about examinations and grading.

5.1. TUTORIALS & TUTORIAL ASSIGNMENTS.

- (1) Tutorial attendance is compulsory.
- (2) You are strongly advised to attempt all assigned tutorial questions before the weekly tutorial class, and before consulting the solutions. It is very easy to be lulled into a false sense of security by simply reading questions and looking at the solutions.
- (3) **Randomly (3 times throughout the semester) you will be required to submit to your tutor your attempt at the questions marked with a star (*). Submit the starred questions only.** These mini-assignments must be **submitted on time, in the tutorial class.** Your assignment submission record will serve as a record of your attendance. Four of the submitted assignments, randomly selected, will be assigned a mark. Assignments will be marked out of 3 for both effort and outcome. Here is the grading scale:
 - (a) 3/3 is awarded for a complete, well-presented attempt. Answers should be substantially correct but need not be error free.
 - (b) 2/3 is awarded for a complete, satisfactory attempt. Less than full marks are awarded due to a shortfall in the substance or presentation of the submitted work.
 - (c) 1/3 is awarded for an incomplete or incoherent attempt. This mark may also be awarded if your answers are completely wrong or unsubstantiated.
 - (d) 0/3 is awarded if you do not submit the questions on time in your assigned tutorial, or, if what you submit does not merit a mark
- (4) Solutions to tutorial questions will be provided at the end of the week in which they're due.
- (5) You mark out of 9 will make up 10% of your assessment.

5.2. CLASS TESTS.

- (1) Over the course of the semester you will be required to do three short tests during your tutorial class. One test will be held between weeks 2 and 5 inclusive,

and the remaining tests will be held after week 6. The format of the tests is as follows:

- (a) Duration: 15 mins
 - (b) Tests will be comprised of one or two questions very similar (if not identical) to the tutorial questions due in the week of the test.
 - (c) The questions will be straightforward, focusing on core concepts. Calculations may or may not be required.
 - (d) The tests will be closed book, however, you will not be provided with any formulae required to do calculations (unless informed otherwise).
- (2) Please note the following rules:
- Tests will be held at times of your tutor's choosing, that is, without prior warning. You must therefore attend all tutorial classes prepared to do a test. This means doing your weekly homework.
 - Tests must be done in your assigned tutorial class. If you cannot attend your assigned tutorial class for reasons of documented illness or misadventure, then you will be required to do a make up test.
 - As per the statement on plagiarism at the end of this document, anyone caught colluding or cheating in a class test will receive zero marks, and the matter will be pursued at University level.
- (3) Your final mark for this component of the assessment will be an equally weighted average of your best two test performances.

5.3. MID-SEMESTER TEST & FINAL EXAM.

- A 75-minute mid-semester test based on the topics covered in lectures 1-5 (inclusive) will be held during the lecture time in week 6.
- The final exam will be a three hour paper. All topics covered during the semester will be examinable in the final. No 'notes' will be permitted to be taken into the exam. You will be advised of any formulas that will be provided.

- You must achieve a satisfactory level of performance in *both* the mid-semester test and the final exam to pass the unit. Note that you must pass the final exam to pass the unit.
- Non-programmable calculators may be used in both the mid-semester test and final exam. You are not permitted to use dictionaries in either the test or final exam.
- No aids, other than writing implements, may be brought into an exam unless specifically permitted by the Convenor. The following are expressly forbidden: mobile phones, programmable and financial calculators, computers, Ipods, PDAs, MP3s and any other electronic aid, and books.

6. LECTURE TOPICS, READING AND TUTORIAL ASSIGNMENTS

IMPORTANT: If I become aware of any errors in the lecture notes, tutorial solutions or any other document I will correct the problem as soon as possible, post an update and flag the revision on the web page.

At times the readings for this unit, are highly mathematical and spend much time on the derivations of formulas (often found in the appendixes), however, this unit's focus will be on the theoretical and practical aspects of portfolio management. Where possible additional readings will be provided to supplement the unit objectives.

Week 1: Introduction to Financial Securities, Financial Markets, & Portfolio Management

(Week beginning February 22, 2010)

Reading: Chapters 1, 2, 3 & 4.

Tutorial Questions due Week 2: Ch.1: Q.1*, Q.3; Ch.2 + Ch.3: Question: Outline four factors as described in the text that affect the return characteristics of assets within an portfolio*. Ch.4: Q.1, Q.3, Q.4*, Q.6.

Week 2: Creating Efficient Portfolios

(Week beginning March 1, 2010)

Reading: Chapters 5 & 6.

Tutorial Questions due Week 3: Ch.5 Q.1; Ch.6 Q.1*, Q.3*. Q.5*.

Week 3: The Correlation Structure of Security Returns: Single and Multi-Index Models

(Week beginning March 8, 2010)

Reading: Chapters 7, 8 & 9.

Tutorial Questions due Week 4: Ch.7 Q.1, Q.2*, Q.3*, Q.4a; Ch.8 Q.5; Ch.9 Q.1*.

Week 4: Asset Allocation and the Optimum Portfolio(s)

(Week beginning March 15, 2010)

Reading: Chapters 10 & 11.

Tutorial Questions due Week 5: Ch.10 No Questions; Ch.11 Q.5*, Q.6*, Q.7*, Q.8, Q.9

Week 5: Understanding the Capital Asset Pricing Model

(Week beginning March 22, 2010)

Reading: Chapters 13 & 14

Tutorial Questions due Week 7: Ch. 13 Q.1*, Q.2, Q.3, Q.4, Q.7*, Q.8; Ch. 14 Q.1, Q.4*

Week 6: Mid-Semester Test (*Week beginning March 29, 2010*) The mid-semester test will be held in your enrolled lecture time and covers the material from Week 1 - 5.

The mid-semester test will be reviewed in Week 7:

Mid-Semester Break (*April 2 - April 18, 2010*)

Week 7: Understanding the Arbitrage Pricing Model (*Week beginning April 19, 2010*)

Reading: Chapters 15 & 16.

Tutorial Questions due Week 8: Ch. 15, Q.1*, Q.2*, Q.4; Ch. 16, Q.1, Q.3*

Week 8: Efficient Markets and Behavioural Finance

(Week beginning April 26, 2010)

Reading: Chapters 17 & 20.

Tutorial Questions due Week 9: Ch. 17, Q.1*, Q.3*, Q.4, Q.5, Q.6, Q.7, Q.8; Ch. 20, Outline 4 (four) heuristics that lead to biased or poor choices under uncertainty and 4 (four) alternative biases in financial decision-making*.

Week 9: International Diversification*(Week beginning May 3, 2010)**Reading:* Chapter 12*Tutorial Questions due Week 10:* Ch. 12, Q.1*, Q.2*, Q.3*.**Week 10: The Management of Bond Portfolios***(Week beginning May 10, 2010)**Reading:* Chapters 21 & 22.*Tutorial Questions due Week 11:* Ch. 21, Q.1*, Q.2*; Ch. 22, Q.1*, Q.2.**Week 11: The Valuation and Use of Options and Futures***(Week beginning May 17, 2010)**Reading:* Chapters 23 & 24*Tutorial Questions due Week 12:* Ch. 23, Q.1*, Q.2*, Q.3, Q.4, Q.5*; Ch. 24, Q.1, Q.2, Q.3, Q.6.**Week 12: Evaluation of Portfolio Performance and Review***(Week beginning May 24, 2010)**Reading:* Chapters 25 & 27*Tutorial Questions due Week 13:* Ch. 25, Q.1*, Q.2*, Q.3, Q.4, Q.5*, Q.6; Ch. 27 No Questions.**Week 13: Final Examination***(Week beginning May 31, 2010)*

ABOUT LECTURES: There is one combination lecture / tutorial per week, on Wednesday 11am - 2 pm in W6B325. Attendance at lectures is not compulsory, but highly recommended.

As a matter of basic courtesy mobile phones should be turned off during all classes (lectures and tutorials); not simply set to “silent”. More generally, please consider others

and avoid talking during lectures and tutorials as it is very disruptive to both students and teachers.

LECTURE NOTES: will be available on the web, prior to the lecture - usually the week before the lecture. Log in to the unit web page on Blackboard from: <https://learn.mq.edu.au> and check the page regularly for updates.

The lecture materials define the unit content. As a general rule, if the textbook covers a topic that is not mentioned in the lectures, it will only be examinable if it is covered in one of the assigned tutorial questions.

ABOUT READINGS AND HOMEWORK: Always check the lecture materials for additional reading or additional tutorial questions. The reading guide provided above is approximate: there may be material in some of the chapters that are not covered in the unit (i.e. examinable), or there may be material in lectures not covered in the book.

7. REGARDING SPECIAL CONSIDERATION AND SUPPLEMENTARY EXAMS

Students requesting special consideration should acquaint themselves with the University policy on special consideration at

http://www.mq.edu.au/policy/docs/special_consideration/policy.html

Note that applications for special consideration must be accompanied by the appropriate supporting documentation - including a Professional Authority form if you're ill.

Please note that everyone in this unit is subject to the same assessment requirements. If you do meet the criteria for special consideration then you'll be required to complete an appropriately adjusted version of the assessment that you missed.

The only exception to not sitting an examination (mid-semester or final exam) at the designated time is because of a documented severe illness or unavoidable disruption. In these circumstances you may wish to consider applying for Special Consideration. This may result in a supplementary exam.

Note: Supplementary final exams will **NOT** be granted under any circumstances should your course work be unsatisfactory i.e. less than 45%. Additionally, an application for special consideration for the final exam may be rejected where, a student, despite having severe medical condition on the examination day ignore their Doctor's diagnosis, sit the final exam, which subsequently results in their unsatisfactorily performance.

8. REGARDING PLAGIARISM

Please acquaint yourself with the University rules on plagiarism at <http://www.student.mq.edu.au/plagiarism/>

Please be aware that you can expect a zero tolerance approach to plagiarism or any other form of cheating in this unit. If you're caught, you will receive zero marks for your efforts and the matter will be pursued in accordance with University procedures.

9. FEEDBACK

Feedback from Students: I welcome constructive comments and suggestions for improvements to the unit. Please feel free to contact me during semester to convey your thoughts, e-mail is best.

Feedback to Students: The changes to the style and form of assessment in 2010 are designed to reduce the stress associated with the mid-semester test and final exam by encouraging and rewarding success in a series of smaller assessment tasks. Specifically, the tutorial tests provide you with a greater continuity of feedback and a good measure of whether you're on top of core concepts. Do not ignore poor performance in the tutorial tests or mid-semester test.

If you are working hard and still performing poorly then you must seek help from your tutor or lecturer straight away.

In seeking help:

- DO bring along your attempt at the question or problem at hand. Asking a specific question (even if it's basic) is likely to be far more productive than going to a tutor and saying something like 'I don't understand options'.

- DO NOT delay. More often than not students come along a week or two before the final exam to ask questions about issues they should have clarified weeks or months earlier. Usually by then, it's too late. The material in this unit is not well suited to last minute cramming.

10. 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/>

11. GRADING, GRADE REVIEWS AND EXAM SCRIPT VIEWING

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. Please see the University Handbook for more details regarding Grades and SNGs.

Prior to lodging any Grade Review application, it is strongly recommended that you view your final exam script (in person or by proxy). Public script viewing sessions will be held following the release of grades (July). For further information please see the Faculty Appeals Against A Final Grade web page.

If you honestly believe there is an error in your final grade or that it is unfair, please submit a Grade Review application to the Faculty (in person or by proxy) at the times and place specified on the Faculty Appeals Against A Final Grade website.

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