

FIN 511: Investments

Spring 2018, CRN 49390
Gies College of Business
University of Illinois at Urbana-Champaign

Instructor Dale W.R. Rosenthal `daler@illinois.edu`

Relevant Experience

Head Partner. Q₃₆ LLC. 2018–present
Proprietary Trader/Researcher. Equity Trading Lab, Morgan Stanley. 2000–2003
Strategist. Equity Derivatives, Long-Term Capital Management. 1995–2000
Intern Programmer/Analyst. Listed Equities (Block Desk), Goldman Sachs. 1993, 1994.

Class Time Business Instructional Facility 2005, Monday 15:30–18:20

Office Hours TBA

Summary

This course introduces investing, capital markets, asset pricing, risk measurement, portfolio theory, and derivatives. After this course, students should understand:

1. how different classes of investments behave;
2. how markets work and have changed;
3. some ways to analyze investment risk;
4. benefits of diversification;
5. the meaning of bond prices, credit spreads, and yield curves;
6. valuation and risk models for stocks and bonds; and,
7. basic workings of derivative contracts.

Coursework

I expect you to come prepared to think, ask questions, and discuss current financial events. If you do not understand the lectures: review the slides; read the book; and if those do not work, email or meet with me to ask questions.

I will give an in-class quiz *every week* — along with a few homeworks and a final.

Grading 10% class participation, 30% in-class quizzes, 15% homework, 45% final.

Since we have weekly quizzes, you will get rapid feedback on how you are doing — which is why we do not need a midterm.

Please note that you cannot pass with few/no quiz points. So skipping class and showing up at the final guarantees you an F.

Integrity You will do your own work on quizzes and homeworks. That means no talking or whispering in quizzes and tests and no copying code or answers on homeworks.

If I have evidence of one student copying from another, I will (1) photocopy both sets of work for University records and (2) drop the final grade for *both students* by one whole letter. A student cheating a second time will fail the course.

Handouts Please bring the slides to class — printed or on a tablet — so you can take notes.

Required Materials Rosenthal, *A Quantitative Primer on Investments with R*.

There is a copy on reserve at the undergraduate library. You can also read the first few chapters (minus one or two pages) on Amazon. My goal is not to make money from you: the book is a great deal for a color textbook that is up-to-date; and, I will donate any profits to your favorite charity.

Suggested Materials

You should try to regularly read the *Wall Street Journal*, *Financial Times* or *Economist*.

Week-by-Week Outline

Readings are in the text (and one handout which I will give you). The table below lists readings to prepare you for each week.

I *highly* recommend reading the chapters before class. That helps you understand the terms used in lecture and ask useful questions. This is especially helpful if you have not spent years speaking English in a work environment.

| Week | Topic Covered | Reading |
|------|---------------------------------|--------------|
| 1 | Introduction | Ch. 1 |
| | Asset Classes | Ch. 2 |
| 2 | Markets in General | Ch. 3 |
| | Modern Markets | Ch. 4 |
| 3 | Efficiency and the Macroeconomy | Ch. 5 |
| 4 | Returns | Ch. 6 |
| | Risk vs. Return | Ch. 7 |
| 5 | Risk Measures | Ch. 8.1–8.4 |
| | Diversification | Ch. 9 |
| 6 | Fixed Income | Ch. 11 |
| | Yield Curves | Ch. 12 |
| 7 | Cost of Capital | Handout |
| | Equity Valuation | Ch. 13 |
| 8 | The CAPM | Ch. 14 |
| 9 | Factor Models and the APT | Ch. 15 |
| 10 | Examining Microfoundations | Ch. 16 |
| 11 | Global Investing | Ch. 17 |
| | Foreign Exchange | Ch. 18 |
| 12 | Forwards, Futures, and Swaps | Ch. 19 |
| | Options Basics | Ch. 20 |
| 13 | Option Valuation | Ch. 21 |
| 14 | Credit | Ch. 22 |
| | Investment Companies | Ch. 23 |
| 15 | Crises and Outlook | Ch. 25, Coda |