John R. Thomas, C.F.A.
Finance Department, Ageno School of Business
GOLDEN GATE UNIVERSITY

Contact Information
Telephone: (415) 497-9576
Email: johnrthomas@me.com
Office Hours: By appointment

First Day of class: May 6, 2010
Last Day of class: August 19, 2010
Class meetings: Thursdays: 4:00 – 6:40 p.m.

Course Description
This is a course in investment analysis, providing a conceptual and analytical framework for making strategic investment decisions. Emphasis will be placed on developing an understanding of major asset classes, asset pricing models, efficient portfolios and valuation.

The course also will provide an introduction to derivative securities and construction of elementary derivatives portfolios that are substitutes for fixed income and equity portfolios. This course does not focus directly on individual securities, though some of the analytical constructs are applicable to individual securities.

Academic Lessons
This course will blend academic theory with practical experience. Through readings, lectures, and solving homework problems, students will become familiar with the academic knowledge and models central to strategic investment decision making:

- a) risk and return,
- b) asset allocation
- c) global financial markets structure
- d) efficient markets hypothesis
- e) asset pricing models
- f) portfolio theory
- g) liability funding strategies
- h) option pricing theory
- i) basic derivative trading strategies
- j) arbitrage
- k) risk management
- l) performance measurement.

Where possible, the objective is to provide students with the level of understanding that is required of a Certified Financial Analyst.
The course will draw on the instructor’s 45 year experience in the investment business to explain how the academic knowledge and models taught are used in the business of making strategic investment decisions and in evaluating individuals/firms who make investments. Two very interesting Harvard Business School cases will provide students the opportunity to apply their understanding of class material to the real world.

As you know, the financial world from 2007 – 2009 experienced the greatest financial meltdown since the Stock Market crash of 1929 and the subsequent great depression of the 1930’s. This course will examine some of the lessons/implications of the recent meltdown for real world practitioners.

A portfolio project which extends throughout the term provides students with hands-on experience in developing and implementing an investment policy by managing one’s own paper portfolio in a very realistic investment simulation.

**Prerequisites**
All MBA Finance foundation courses, and FI 300. Familiarity with basic statistics is important, and should include an understanding of distributions, correlation, regression, standard deviation, variance and co-variance.

A financial calculator is required. The Hewlett Packard HP-12C traditionally has been viewed as the industry standard. Purchase from HP on-line costs about $70. A cost effective alternative is the HP 10bII Financial Calculator, which will be more than adequate for homework problems, at a price of about $30.00.

For review sessions in economics, statistics, accounting, time value of money, and the use of a financial calculator, inquire with the office of the Department of Finance and Economics.

**Required Text, Other Readings & Portfolio Project**


This text is truly comprehensive; in many cases the detail overwhelms the critical substance. In teaching, I will focus on the important concepts or major general principles, and not on the details. Be sure to do the problems before class, since that will give a clue as to what I consider to be important.


Important insight and wisdom.


**PDF Articles to be found within Doc Sharing (this online course):**

• “Value at Risk – A Perspective”, Aswath Damordaran, Stern School of Business, NYU. Available in Doc Sharing.


• “The World’s Largest Hedge Fund is a Fraud”, November 7, 2005 Submission to the SEC, Madoff Investment Securities, LLC, Harry Markopolus. Available in Doc Sharing.

Course Material to be purchased:


• Once the course begins, you will need to obtain a StockTrak account for the Portfolio Project at a cost of $29.95.

• A subscription to the “Wall Street Journal” is required for all students who lack daily access to the paper. When you subscribe to StockTrak, you will be able to subscribe to the “Wall Street Journal” for $19.95 for a 15 week period, which substantially covers the term of the course.

Bookstore:
The Reilly & Brown textbook is available through eFollett, GGU’s official bookstore: www.ggu.bkstr.com/. The Malkiel and Shiller Textbooks should be readily available locally or via other sources. Information about acquiring the HBS cases will be provided at the first class.

To purchase course books and materials from eFollett, GGU's official online bookstore, please see the “Important Info” section of this course.

University Library
The Library is an excellent resource.
It provides access to important periodicals, including the Wall Street Journal”, “New York Times” and “Financial Times”. It also provides access to a wide range of company and other information through various databases.

The Research guide link is http://ggu.libguides.com/finance. You also can contact Margot Hanson, librarian liaison to the Finance Department, should you need assistance at mhanson@ggu.edu or at (415) 422-7258.
Please note, Margot Hanson will be providing an overview of the Library in class on **May 6th**. She also will demonstrate how to utilize a data-base to research companies, which will be helpful for the Portfolio Project on **May 20th**.

Remote (off campus) access to the databases **requires your last name and student ID#** (located on the front of your ID card). Be sure to type in ALL 7 digits, including the starting 0. Example: 0123456. You may access the library from GGU’s homepage at [http://www.ggu.edu](http://www.ggu.edu).

**CyberCampus**
This course is a Cyber-enhanced course. That is, certain readings will be made available in PDF format within the Doc Sharing tab of the online course. As we proceed, I anticipate that occasional articles and other items of interest will be made available here as well.

**Keys to Success in the Course**
You will succeed in this course if you do the following:

a) read the homework assignments thoroughly and solve the homework problems before each class
b) attend each class
c) participate positively in class: i.e., ask questions, offer observations, share relevant personal experience
d) let me know if you are having problems with the material or with the teaching, etc. through email

Be sure to pace yourself in reading the Malkiel and Shiller texts, and feel free to raise questions about them in class. You also must hand in each homework assignment by the end of the class.

**NO CELLPHONES, COMPUTERS OR ELECTRONIC EQUIPMENT, OTHER THAN YOUR FINANCIAL CALCULATOR, PERMITTED DURING EXAMS!**

**Student Evaluations**
You will receive an opportunity to evaluate the course and instructor at least once this term.

**Grading**

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Assignments and class participation (including unannounced quizzes)</td>
<td>15%</td>
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<tr>
<td>Portfolio Project</td>
<td>20%</td>
</tr>
<tr>
<td>Midterm</td>
<td>30%</td>
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<tr>
<td>Final Exam (Comprehensive exam)</td>
<td>35%</td>
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<tr>
<td><strong>Total % possible</strong></td>
<td><strong>100%</strong></td>
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Class participation can be either positive or negative. Examples of positive participation, noted in the prior paragraph, contribute to the learning experience of all students and will lead to a high score for class participation. Negative class participation; i.e., doing anything to distract from the learning environment of other students or otherwise disrupt the class, will detract from a student’s class participation score. Some examples of negative participation include arriving late to class, having conversations with other students during class, ringing cell phones, using a computer without approval, etc.

**No food or beverages of any kind are allowed in class.**
**No texting.**
Students should consult the current Golden Gate University Bulletin for University policies regarding incompletes, withdrawals, and academic integrity. **Makeup exams will be given only in exceptional circumstances, and only with my prior approval.** There will be no projects for extra credit. **Laptops and other devices can be used only to take notes; PRIOR APPROVAL REQUIRED.** The assigned homework should be completed prior to class. It will help you understand and assimilate the concepts introduced in each chapter. The homework, and any additional problems you do, is good practice for the exams. All solutions are on reserve in the library.

**Do not assume I have received your text message or email unless you receive return acknowledgement!**

### Class Schedule & Assignments

(Note, Chapter reading assignments and homework problem and question assignments refer to the Reilly and Brown text as indicated. Other assigned reading materials are specifically identified.)

**Thursdays: 4:00 – 6:40 p.m. (There will be a 10 minute break midway through each class.)**

<table>
<thead>
<tr>
<th>Date</th>
<th>Class Activity/Reading Assignment</th>
<th>Problems (Pr.) &amp; Questions (Q.) Due</th>
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<tbody>
<tr>
<td>Pre Mid-Term Exam</td>
<td>Prior to the midterm exam please read: Malkiel, <em>A Random Walk Down Wall Street; The Time-Tested Strategy for Successful Investing (Revised and Updated)</em> 2007. There will be several questions on the midterm exam from Malkiel.</td>
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<tr>
<td>Pre Final Exam</td>
<td>Between the midterm exam and the final exam, please read Shiller, <em>Irrational Exuberance</em> (2nd Paperback Edition), 2006. There will be several questions on the final exam from Shiller.</td>
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<tr>
<td>6-May</td>
<td>Review Syllabus, Portfolio Project, My Expectations Ch. 1, The Investment Setting/Key Definitions</td>
<td>Pr. 2, 5, 6; Appendix Pr. 2</td>
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<tr>
<td>13-May</td>
<td>Ch. 2, The Asset Allocation Decision Ch. 3, Selecting investments in a Global Market</td>
<td>Ch. 3: Pr. 5, 6, Appendix Pr. 1, 2</td>
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<td></td>
<td>Portfolio Project: Vanguard &amp; Schwab Exercises Due</td>
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<td>20-May</td>
<td>Ch. 4, Organization and Functioning of Securities Markets Ch. 5, Security Market Indexes</td>
<td>Ch. 4: Pr. 2, 4</td>
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<td></td>
<td>Portfolio Project I Due</td>
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<td>3-Jun</td>
<td>Ch. 7, An Introduction to Portfolio Management</td>
<td>Q 13, 14 (mis-labeled as 5)</td>
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<td>10-Jun</td>
<td>Ch. 8, Introduction to Asset Pricing Models Ch. 9, Multifactor Models of Risk and Return</td>
<td>Ch. 8: Q 6, 7 (b) &amp; (c) Pr. 7, 8</td>
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<td></td>
<td>Portfolio Project II Due</td>
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<td>1-Jul</td>
<td>Ch. 17, Bond Fundamentals</td>
<td>Ch. 17: Pr. 2, 4, 5</td>
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8-Jul  Ch. 18: (Read 18.7 through 18.8.4 only)  Ch. 18: Q. 8,10: Pr. 7  Ch. 19 Bond Portfolio Management Strategies: (Read 19.1 & 19.5 only)  Ch. 19: Pr. 2,4  
15-Jul  Ch. 11, Valuation  Pr. 1, 2, 3, 4, 5, 6  Thomson One: # 2 (just for GE)  
22-Jul  Ch. 16, Equity Portfolio Management Strategies  “Warren Buffett, 2005” (Darden Business Publishing)  Distributed by Harvard Business School  Q. 1,6: Pr. 1, 3, 5  Discussion Questions to be distributed July 15  
29-Jul  Ch. 20, Introduction to Derivative Markets & Securities  Ch. 21, Forward and Futures Contracts (through 21.4.4)  Ch. 20: Pr. 1, 2, 3  Ch 21: Pr. 1, 9  
5-Aug  Ch. 22, Option Valuation & Contracts (through 22.4.6)  Ch. 23, Swaps, Converts & Warrants (read p 847; Section 23.1.1; 23.3)  Risk Management Summary/Lessons from 2007-2009 Financial Meltdown  “Value at Risk – A Perspective”, Aswath Damordaran, Stern School of Business, NYU. Paper available on-line.  Skim: “Lessons worth Rembering from the Credit Crisis of 2007-2009”, Golub and Crum, Paper available on-line.  Q. 4, Pr. 1, 3, 4, 5  Discussion Questions to be distributed July 29.  I will draw on this paper in my lecture. A general familiarity with the paper will be important.  
19-Aug  Final Examination.  

Instructor Bio

John R. Thomas, CFA, was employed by JPMorgan’s asset management organization for 34 years. His activities included working as a “buy side” equity security analyst for 11 years, heading quantitative research and specialized client consulting activities for 8 years, founding and then managing a very successful institutional marketing organization for 10 years, and serving as President of JPMorgan Trust Bank (Japan), the firm’s investment management entity in Japan, for 5 years. After retiring from JPMorgan, Mr. Thomas headed his own consulting firm for 8 years, offering services to investment managers, with a primary focus on Japan-U.S. activities; after which he co-founded and helped run an activist hedge fund investing in Japanese stocks for two years. He currently serves as Vice Chairman of Martingale Asset Management.

Mr. Thomas serves as a Trustee and member of the Investment Subcommittee of Ohio Wesleyan University, his undergraduate alma mater, which oversees investment of the University’s endowment. He also is a member of the San Francisco CFA Institute and is a Board member of the Japan Society of Northern California.
Supplementary Reading List & Other Resources

Books:


• “Fixed Income Analysis” (CFA Institute Investment Series), Frank J. Fabozzi, Martin L. Liebowitz, 2007, John Wiley & Sons


• “Restoring Financial Stability, How to Repair a Failed System”, Viral V. Acharya, Matthew Richardson, Editors, 2009, NYU Stern School of Business


Online

• Aswath Damordaran, Professor at the NYU Stern School of Business, is a prolific writer on all things financial. I highly recommend his web site, http://pages.stern.nyu.edu/~adamodar/. He also writes a blog which is very insightful.

Periodicals