THE UNIVERSITY OF ROCHESTER
William E. Simon Graduate School of Business Administration

FIN 434
Investment Management and Trading Strategy
Spring 1997

Course Outline

Professor Rajiv Dewan
Professor G. William Schwert

Our segment of this course will focus on costs of trading and market microstructure. We will distribute a few journal articles that should be read before the assigned classes. There is no required text for this part of the course. Grading will be based on "grading cash" from use of the Financial Trading System (FTS) and on a group project that is due in class on Thursday May 29. The classes taught by Dewan and Schwert are denoted [DS] below.

Professor Michael J. Barclay

The text for the fixed income segment of this course is Fixed Income Securities by Bruce Tuckman (John Wiley and Sons, New York). You should review the first four chapters of Tuckman's book to refresh your memory of topics covered in FIN 402 and FIN 411. Grading will be based on a group project due in class on Thursday, May 8, and two shorter group assignments. The classes taught by Barclay are denoted [MB] below.

Professor Jay Shanken

The text for the equity portfolio management segment of this course is Investments by Bodie, Kane, and Marcus (Third Edition). There will also be a packet of additional readings. You should review chapters 5-8 of the BKM book to refresh your memory of portfolio theory topics covered in FIN 402 and FIN 411. Grading will be based on a group assignment or two, a group project due on June 3, and a quiz given on May 27. The classes taught by Shanken are denoted [JS] below.
Class Schedule & Assignments

April 1  All  Introduction to Markets and administrative discussion [project assignments, FTS handouts, Bloomberg information] - form study groups for course

April 3  DS  Costs of Trading [projects assigned, trading experiment, market microstructure]

April 4  DS  Lab: RE1 case using FTS [not graded]

April 8  DS  "Arbitrage" - Implementation Issues [relative costs of trading different kinds of instruments, NYSE vs. NASDAQ, block trading, transactions taxes]

April 10 MB  Measuring risk in fixed income portfolios for parallel shifts in interest rates. The price value of a basis point, duration and convexity. Tuckman, Chapters 10-12.

April 11 DS  Lab: RE2 case using FTS [graded]

April 15 MB  Applying duration measures to fixed income securities with embedded options: The case of CMOs. Tuckman, Chapters 15 and 18.

April 17 MB  Arbitrage based pricing of interest-rate derivative securities. Tuckman, Chapters 5-7.

April 18 MB  Lab: Using Bloomberg information Systems to analyze CMOs.

April 22 MB  Models of the term structure of interest rates. Tuckman, Chapters 7-8.

April 24 MB  More term-structure modeling. Tuckman, Chapters 7-8.

April 25 MB  Lab: Using the BARRA Cosmos System to manage risk in a fixed income portfolio.

April 29 MB  Measuring risk in fixed-income portfolios for more general shifts in interest rates. Multi-factor models and duration, key rate duration. Tuckman, Chapter 13.

May 1  DS  Information and Trading [discussion of Barclay-Warner "Stealth Trading" paper].
May 2  DS  Lab: RE3 and RE4 cases using FTS [graded].

May 6  DS  Further discussion of "Arbitrage" - Implementation Issues

May 8  JS  Active portfolio management and the use of various investment performance measures.  BKM: Chapters 23 and 24.

May 9  JS  Lab: Barra - Analysis of portfolio risk and diversification.


May 15 JS  Review of market anomalies, return predictability, and asset pricing model tests.  BKM: Chapter 11, Section 4 of Chapter 12, Section 2 of Chapter 29.

May 16 JS  Lab: Barra - generation of portfolio expected returns and use of the macroeconomic model in the Aegis Alphabuilder System.  Review chapter 17 of BKM to refresh your memory of valuation topics covered in FIN 402.


May 23 JS  Lab: Barra - Constructing superior portfolios with the Aegis optimizer

May 27 JS  Quiz and some final thoughts.

May 29 DS  Projects turned in - renewed discussion of trading costs.


June 3  DS  Student presentations of projects.