SAN JOSE STATE UNIVERSITY
COLLEGE OF BUSINESS
BUSINESS 277 - INVESTMENTS
October 16 – December 4, 2007

INSTRUCTOR: Dr. Janis K. Zaima

COURSE OBJECTIVE:
This course is intended to teach students to analyze various securities including common stocks, bonds, options and futures. Practical experience is provided by allowing students to manage four portfolios. GOOD LUCK!!

TEXTBOOKS:
Contemporary Investments: Security & Portfolio Analysis by Douglas Hearth and Janis K. Zaima, Southwester Publishing, ITP, fourth edition, 2004.

Prerequisites:
Business 207 and all prerequisites for Business 207.

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Grading Policy:
The grade for the course is based on the following distribution.
All analysis reports and exams must be turned in and class presentations made in order to pass the course.

Four analysis reports	80 points
Presentation/ Investment summary report	10 points 10 points
Midterm exam	100 points
Final exam	100 points
TOTAL	300 points

Class participation is encouraged. Make-up exams will NOT be given. If you anticipate a problem with the exam schedule, please notify me **prior** to the exam date.
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Investment Summary Report is due on or before December 7 (Friday)
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DATE	TOPIC	READINGS
10/16	Introduction Technical analysis	Ch 1 – 6 Ch 8
10/23	Market efficiency & stock selection Fundamental analysis: Theory and application	Ch 7 Read Chs 11 – 13 Lecture on Ch 14
10/27 Saturday 9 AM to 1 PM	PRESENTATION 1***** P/E ratio & its use Portfolio theory: risk and diversification	Ch 14 Ch 17
10/30	Capital Asset Pricing Model Asset Allocation Portfolio Performance	Ch 18 Ch 20 Ch 21
11/6	PRESENTATION 2***** Portfolio performance Review	 Ch 21
11/10, Saturday 9AM to 1PM	Investment Oppt set program for Report **MIDTERM EXAM** (9:30 – 11:30)	 Ch 14, 17, 18, 20 & 21
11/13	Options strategies	Ch 15
11/20	PRESENTATION 3***** Black Scholes Option Pricing	 Ch 15
11/27	Bond fundamentals & strategies	Ch 9 & 10
12/4	PRESENTATION 4***** **FINAL EXAM**	Ch 16, 18 & 19

***** Each group (2 persons per group) will be assigned to a presentation date. There will be approximately 1-2 groups presenting on each presentation date.

INVESTMENT EXPERIENCE & ANALYSIS

Please choose a partner for the investment report assignments. You and your partner will turn in four analysis reports, do a presentation, and turn in one investment summary report. The analyses should be used to create six portfolios and four reports are assigned based on these portfolios (see details below). A *short (10 minutes*) presentation must be made on one of the four report assignments. You and your partner will be assigned/volunteer for one of the presentations. The **final investment summary report** should cover: (1) a short description of portfolio objective (2) the analysis used and results; and (3) critique of results (why it did so well or poorly). It should be a short maximum one page summary for each of the assignments (portfolios) created earlier in the semester.

Analysis Report	**Portfolio**	**Report & Presentation Due Date**
Report 1: Technical Analysis	Portfolio 1	Saturday, October 27
Report 2: Fundamental Analysis (Conduct at least 5 stock analysis. Buy-n-hold portfolio)	Portfolio 2	Tuesday, November 6
Report 3: Diversification Analysis (Buy-n-hold portfolio)	Portfolios 3, 4, & 5	Tuesday, November 20
Report 4: Speculative Portfolio (Trade often)	Portfolio 6	Tuesday, December 4
Investment Summary Report	Summarize the results of all the portfolios – 1 page to summarize each report from above.	Due on or before Friday, December 7

You may turn in the Investment Summary Report on the last day of class, December 4.

MORE ON ANALYSIS REPORTS

All stock transactions can be tracked in any spreadsheet. Add appropriate transactions cost when buying on margin or trading speculative securities. INCLUDE in each report what benchmark will be used to measure performance of each portfolio.

I. Technical Analysis - Portfolio 1.

a. Obtain charts of minimum 4 stocks. Discuss a selection criteria to narrow your choice to 2 stock.

b. Collect daily closing stock prices for two firms over the last two months (August to October 12, 2007). This is the TRIAL period. YAHOO-finance and AOL on the internet are sources to obtain historical prices. Microsoft Explorer also provides historical quotes.

c. Apply three filters on each stock over the trial period. ***Discuss why*** one filter worked better than the others. Give insights and examples as to the effectiveness (or the lack effectiveness) of the filter.

d. Calculate the total holding period return (THPR) to determine which filter works BEST. The “best” filter is the one with the highest THPR. Explain why it is the best filter by contrasting it with the “worst” filter. Were there many differences or just one difference?

e. Determine the allocation of the $1 million between the stocks.

f. Use the BEST filters to apply on the 2 stocks over the ACTUAL investment period of October 15 – November 23.

g. Turn in parts a – e on the due date of Report 1. Groups who have previously “volunteered” for Presentation 1 will present results from parts a-e.

II. Fundamental Analysis - Portfolio 2.

a. Choose at least ten securities and obtain Value Line information. Discuss selection criteria and objective (or performance measure) of the portfolio in report. Use one of the several selection criteria discussed in class or others.

b. Conduct intrinsic valuation analysis for the ten securities.

c. Choose 5 stocks from the 10. Conduct a brief overview of the economy. Briefly discuss the company’s industry (Ch 11), and then conduct an in-depth company analysis (Ch 12-13).

d. Determine which companies are “good” investment based on fundamental analysis.

e. Allocate $1 million between the “good” stock investment.

f. Invest in the “good” stocks on *March 1 and hold until April 12*. This is a Buy-n-Hold portfolio.

g. Turn in parts a - e on the due date of Report 2. Presentation 2 should include results from parts a – e.

III. Diversification Analysis - Portfolios 3, 4 & 5.

a. Choose five stocks (you may use the same stocks from Report 2) and obtain three years of monthly prices and dividends paid during the last 3 year period, or collect price quotes over the most recent 37 months. (**October 31, 2004 to**

October 31, 2007). Calculate monthly holding period returns, HPRs for each stock over the 36 months (you have 37 prices to calculate 36 returns).

Discuss selection criteria in report.

b. Calculate expected returns, standard deviations, and correlations.

c. Calculate 50 portfolio combinations.

d. Plot the five stocks and 50 portfolios on a risk-return graph.

e. Calculate Sharpe measures for all 55 portfolios (50 portfolios + each of the 5 stocks).

f. Choose the most efficient portfolio out of the 55 possibilities.

g. What are the pros and cons for this analysis?

h. Conduct fundamental analyses on the five stocks selected above. How would your analysis determine the weights for these stocks in your portfolio? *Explain in detail*.

i. Create three portfolios:

Portfolio 3: equally weighted portfolio of 5 stocks.

Portfolio 4: Most efficient portfolio via Sharpe measure.

Portfolio 5: Portfolio using your analysis & weights given accordingly.

j. Invest $1 million **each** in portfolios 3, 4, and 5 according to the allocation in part i . Buy the stocks for these portfolios on *March 1 and hold until April 12*.

k. Turn in parts a - i on the due date of Report 3. Presentation 3 should include results from parts a – i.

IV. Speculative Portfolio - Portfolio 6.

a. Start downloading options prices for companies that you are interested in investing starting from *November 1*.

b. Discuss objective and selection criteria for 4 strategies involving options. You can also combine stocks with options in a hedging strategy.

c. Do a profit/loss table (or graph) and give reasons for your investment strategy.

d. Discuss how to evaluate performance.

e. Invest and liquidate at your own discretion. Note that you should buy and sell the options. You do not need to exercise the option. (Generally with options, you should sell and take profits when profits are made).

f. Turn in parts a - d on the due date of Report 4. Presentation 4 should include results from parts a – d. (Include HPR and results if you have liquidated your investment before the date of Presentation 4.)

ALL PORTFOLIOS MAY BE TRADED; HOWEVER, PORTFOLIO 6 MUST BE TRADED AT LEAST ONCE A WEEK.

The Investment Summary Report should summarize each of the portfolio holdings and their results. Discuss how they performed based on your objective and attempt to explain *why* it performed well or poorly. Format the report **into two** sections: In Section 1 discuss your first report and in Section 2 discuss your second report. Each section should be ***maximum*** **one page in length.**