

**University of Alabama  
Culverhouse College of Business**

**FI 414 (514) Investments  
Spring 2023**

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**Office hours: M 11:00-12:00; W 1:30 – 2:00**

**Course Objectives**      The purpose of this course is to learn analytical tools for making investment decisions. These tools facilitate portfolio selection and the relating of risk with return. The application of these tools leads to an understanding of stocks, bonds, options and mutual funds.

**Course Description**      The material covered is about two-thirds quantitative and the rest institutional and descriptive. Fluency with college algebra and some calculus is required.

**Pre-requisites**              FI 301 and FI 302

**Required Text**              Bodie, Kane and Marcus, *Essentials of Investments*, 12<sup>th</sup> edition, 2022, Irwin McGraw Hill (with *Solutions Manual*). Available via Blackboard (Access Granted - RedShelf).

**Financial Calculator**      TI BAII Plus

**Required**                      Wall Street Journal. Subscription (digital pack): \$24/year. Order online at: <https://r.wsj.com/PROFru26>

**Attendance**                  Required at all the sessions, including the project presentations. More than three absences can lead to the grade being withheld.

<b>Grading</b>	Quiz 1	10%
	Test 1	20%
	Quiz 2	10%
	Test 2	20%
	WSJ Quizzes (online)	10%
	Project Presentation	10%
	Project Report	10%
	Class Participation	10%

No make-ups, unless pre-arranged.

**WSJ Quizzes**                  These will be based on stories in the Wall Street Journal. You will receive an e-mail inviting you to register for WSJ Assessment Tool. There will be 10 quizzes over the semester. For each quiz, you will receive an e-mail with a link to the online quiz. Each quiz will have about 10 questions. Each question will be based on a WSJ story, the link to which will be provided with the question.

**Course Notes**                  Course notes on each chapter, with space for adding your own notes, will be provided in class and available on BB.

**Practice Problems** Page 5 shows a list of selected practice problems from the end of each chapter (labeled *Problem Sets* in the text). This is a quantitative course and solving these problems as we go over each chapter is the key to grasping the material. Try to work out each problem yourself, then compare your solution with the *Solutions Manual*. Also work on the *Concept Check* problems in each chapter; the solutions to these are available at the end of the chapter.

**Tests** The tests consist of two parts: problem solving and multiple-choice problems. Problems on the problem-solving portion of the test will be similar to the practice problems. My tests come with a formula sheet.

**Class Participation** The grade for class participation will be based on my (subjective) assessment of the quantity of your positive participation in the class. Regular attendance is obviously a pre-requisite to class participation. Positive classroom participation consists of asking pertinent questions in class and answering questions posed to the class. Negative classroom participation such as frequent absences, being late, private conversations and any other disruptive activity can lead to a reduction in C.P. points.

**Project** Analyze the performance and potential of an industry of your choice from the attached list of industries covered by *Value Line* (see last page). This is a team project. **Please form teams of three. Choose your partners carefully.** Remember, your grade depends on it. Make sure that your interests, objectives and schedules match. Give me a note with the names of your team members and your **top two industry choices within one week after Test 1**. Detailed guidelines for the project are enclosed. Each team has to make a class presentation and submit a written report.

· **Presentations** These will be after Test 2. Each team has up to 15 minutes to present its analysis and recommendations. The presentations should be professional.

· **Written report** A 10-page typewritten analysis is **due within two days** of your presentation, except that reports of the teams that present on the last day of class are **due that day. Late reports will not be accepted.** Organize the report in a logical fashion. Include a list of references at the end. Each team has to submit one unified report.

**COVID-19**

All University faculty, staff, and students are expected to maintain a commitment to the health and safety of our campus community. Due to the current COVID-19 pandemic, specific health and safety standards are in place to minimize exposure and community spread on campus. In the interest of your health and safety and that of all UA students, faculty and staff, the University reserves the right to change the mode of instruction or schedule of instruction at any time, based upon prevailing public health and other guidance. While the method of delivery may change, educational instruction and opportunities will continue. As such, the University will not provide a refund of tuition, in whole or in-part, based on any such changes. Detailed information on changes in format or schedule can be found at [studentaccounts.ua.edu](http://studentaccounts.ua.edu) and [financialaid.ua.edu](http://financialaid.ua.edu).

UA students, faculty and staff are required to comply with University Spring 2022 Operations (<https://healthinfo.ua.edu/news/university-spring-2022-operations/>) guidance regarding face coverings and other measures.

Getting vaccinated is the best way to Protect Our Herd. COVID-19 vaccines are being administered by the University Medical Center, the Student Health Center and various businesses and healthcare providers.

**Honor Code**

All students at the University are expected to be honorable and to observe standards of conduct appropriate to a community of scholars. The University expects from its students a higher standard of conduct than the minimum required to avoid discipline. Academic misconduct includes all acts of dishonesty in any academically-related matter. The Academic Misconduct Disciplinary Policy will be followed in the event of academic misconduct.

**UAct**

University of Alabama is committed to an ethical, inclusive community defined by respect and civility. The UAct website ([www.ua.edu/uact](http://www.ua.edu/uact)) provides extensive information on how to report or obtain assistance with a variety of issues, including issues related to dating violence, domestic violence, stalking, sexual assault, sexual violence or other Title IX violations, illegal discrimination, harassment, child abuse or neglect, hazing, threat assessment, retaliation, and ethical violations or fraud.

**Disability access**

To request disability accommodations, contact the Office of Disability Services (ODS: 205-348-4285, [ods@ua.edu](mailto:ods@ua.edu), Houser Hall 1000, [www.ods.ua.edu](http://www.ods.ua.edu)). Make initial arrangements with that office, then contact me.

## Syllabus/ Reading Assignment

<u>Topic</u>	<u>Chapter</u>
Background and Issues	1*
<b>Mon., Jan. 16: MLK Holiday</b>	
Asset Classes and Financial Instruments	2
Security Markets	3
Mutual Funds and Other Investment Companies	4
<b>Quiz 1: Wed., Feb. 1</b>	
Risk and Return	5
Efficient Diversification	6
CAPM	7
<b>Test 1: Wed., Feb. 22</b>	
<b>Database orientation for project: Mon., Feb. 27: Paul Brothers</b>	
Efficient Markets Hypothesis	8
Bond Prices and Yields	10
<b>Spring Break: March 13-17</b>	
Managing Bond Portfolios	11
Equity Valuation	13
<b>Quiz 2: Wed., March 29</b>	
Option Markets	15
Option Valuation	16
Portfolio Performance Evaluation	18
<b>Test 2: Mon., April 17</b>	
<b>Investment Project Presentations: Wed., April 19 – Wed., April 26</b>	

\*Read on your own.

## Practice Problems

<b>Chapter</b>	<b>Problem sets</b>
2	1-17, 20, 23, 25-27, 31
3	1-18, 21-24
4	1-24, 26
5	1-19
6	1-14, 16-21, 23
7	1-2, 4-15, 17-22
8	1-24
10	1-22, 25-41
11	1-20, 25, 26
13	2-7, 10-19, 23
15	1-8, 10-13, 18-27
18	1-5, 8-10

## Investment Project

### Assignment

You have to analyze an industry of your choice and the companies in it. Specifically, assess the industry performance over the last five years and assess its expected future performance over the next one, three, and five years. Pick a couple of stocks to buy and/or sell, and provide a detailed analysis of those companies.

### Industry Definition

For purposes of this analysis, pick an industry covered by *Value Line* (see the last page for a list of industries).

### Types of Issues to Consider

1. How well has this industry performed recently, by itself and relative to the market?
2. What are the projected earnings for the industry, by itself and relative to the market?
3. How do tax benefits affect this industry?
4. How do changes in the value of the dollar relative to other currencies affect this industry?
5. What kind of government pressures exist for this industry?
6. What is the outlook for new products?
7. Are there any widely discussed takeover candidates?
8. Is the industry becoming more or less competitive?
9. How do business cycles affect the industry?
10. How do the price/earnings ratios look for the industry, relative to the past and the market?

### Required Parts of the Analysis

1. Some historical analysis of recent performance and activity.
2. A current assessment of where the industry is, by itself and relative to the market.
3. Some estimates of the future for 1, 3, and 5 years.
4. Specific companies within the industry to buy or sell. Explain your reasoning.
5. In item 4, which companies might be better long-term holdings and which short-term holdings?

A systematic, professional approach and appearance is expected. Among other things, this means computer-generated reports, graphs and tables. Original thinking and insights will be valued.

## **Investment Project (cont.)**

### **Some Information Sources**

#### **Computer Databases (Bruno Library)**

Bloomberg: Financial data, news, company and industry information

OneSource: Industry analysis, company profiles, key executives, and financial data

Mergent Online: Company financial information, SEC filings, equity research reports, and industry reports

Wall Street Journal

#### **Internet**

Yahoo! Finance      <http://quote.yahoo.com>

CNN Money      <http://money.cnn.com/>

BigCharts      <http://www.bigcharts.com/>

#### **Print sources**

Value Line

Standard & Poor's (Corporation Records, Industry Surveys, Register of Corporations)

Moody's manuals (Industrial, Transportation, Public Utility, Bank and Finance)

Million Dollar Directory

Industry association publications

*Wall Street Journal*

Magazines: *Barron's, Forbes, Money, Business Week*

## **Guidelines for Project Presentations and Report**

1. The presentation and report should cover all (or most) of the aspects described on p. 6 of the syllabus.
2. Both the presentation and the report should appear as one unified presentation, rather than a collection of parts done by individuals.
3. The report should be user-friendly. Divide it into convenient sections with suitable headings. Length: About 10-12 pages. The report should be concise, to the point and informative. No padding, please!
4. Write in your own words, rather than cutting and pasting.
5. Tables and text should report the units (e.g., Employees ('000): 31; Sales: \$32 billion). "Don't say: Sales = 32397.85 and I don't know what that is, I got it straight from – source." You should know what the numbers mean. E.g., for forecast of sales or earnings growth rate: over how many years?
6. You have to give reasons for your stock recommendations (buy or sell), i.e., why do you expect a stock to do well or not to do well over a given time-frame. You should know what sell-side analysts are saying about this in their reports (accessible via Bloomberg (terminals in Bruno Library) or OneSource database (accessible via Bruno Library website). Then go by what makes most sense to you.
7. You don't need to footnote the sources of information in the report. Just include a sheet at the end indicating your sources.
8. In the class that you are presenting, the first group should log into the podium computer (In the User name box, enter: bcc\your user name) before the class begins and bring up their presentation. That way, you will be ready to start when you are announced. After the presentation, please log off, but don't shut down the computer.
9. The class presentation is for 12-14 minutes. That will allow one minute for transition between groups.
10. Attendance is required at all the presentations, not just your own.
11. For the groups presenting on the last day of class, the written report is due that day; for all other groups, it is due two days after your class presentation via BB.
12. If you have prepared well, you should not have to read from notes. You can have notes as back-up. When presenting, try to face and talk to the class. Make eye-contact with your audience. An effective presentation is 'chatty', i.e., less formal than the written report.



January 14, 2022

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The Median of Estimated  
**PRICE-EARNINGS RATIOS**  
of all stocks with earnings

**19.3**

26 Weeks Ago	Market Low	Market High
20.3	3-23-20	12-29-21
	11.0	19.0

The Median of Estimated  
**DIVIDEND YIELDS**  
(next 12 months) of all dividend  
paying stocks

**1.7%**

26 Weeks Ago	Market Low	Market High
1.7%	3-23-20	12-29-21
	3.7%	1.8%

The Median Estimated  
**THREE-TO-FIVE YEAR PRICE  
APPRECIATION POTENTIAL**  
of all 1700 stocks in the VL Universe

**35%**

26 Weeks Ago	Market Low	Market High
30%	3-23-20	12-29-21
	145%	35%

The Median Estimated  
**18-MONTH APPRECIATION POTENTIAL  
TO TARGET PRICE RANGE**  
of all 1700 stocks in the VL Universe

**13%**

26 Weeks Ago	Market Low	Market High
12%	3-23-20	12-29-21
	72%	12%

## ANALYSES OF INDUSTRIES IN ALPHABETICAL ORDER WITH PAGE NUMBER

Numeral in parenthesis after the industry is rank for probable performance (next 12 months).

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\*Reviewed in this week's issue.

In three parts: This is Part 1, the Summary & Index. Part 2 is Selection & Opinion. Part 3 is Ratings & Reports. Volume LXXVII, No. 23.

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