

University of Alabama

FI 414 (514) Investments
Spring 2020
aagrawal.people.ua.edu/courses.htm

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Office hours: MW 10:30 –11:30

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*, Eleventh Edition, 2019, Irwin McGraw Hill (with *Solutions Manual*). Available on Blackboard via Access Granted program.

Financial Calculator TI BAI Plus

Required Wall Street Journal. Subscription (digital only, or print + digital): 15 weeks: \$1. 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.

| | | |
|----------------|----------------------|-----|
| Grading | 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 taking your own notes, will be handed out periodically in the class. If you miss a set of notes, you can print them from the class website.

Practice Problems Page 7 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. A sample test or quiz will be available via the class website prior to each test.

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 page 7). 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.

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) 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 at 348-4285. Make initial arrangements with that office, then contact me.

Syllabus/ Reading Assignment

| <u>Topic</u> | <u>Chapter</u> |
|---|----------------|
| Background and Issues | 1* |
| Asset Classes and Financial Instruments | 2 |
| Security Markets | 3 |
| Mutual Funds and Other Investment Companies | 4 |
| Quiz 1 | |
| Risk and Return | 5 |
| Efficient Diversification | 6 |
| CAPM | 7 |
| Test 1 | |
| Database Orientation (for Investment Project) | |
| Efficient Markets Hypothesis | 8 |
| Bond Prices and Yields | 10 |
| Managing Bond Portfolios | 11 |
| Equity Valuation | 13 |
| Quiz 2 | |
| Option Markets | 15 |
| Option Valuation | 16 |
| Portfolio Performance Evaluation | 18 |
| Test 2 | |
| Investment Project Presentations | |

*Read on your own.

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. Choose specific 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 page 7 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*

Practice Problems

| Chapter | Problem sets |
|----------------|-------------------------|
| 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 |
| 16 | 1-5, 7, 10-12, 14-20 |
| 18 | 1-5, 8-10 |

December 4, 2015

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SCREENS

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

17.9

| | | |
|---------------------|-------------------|--------------------|
| 26 Weeks Ago | Market Low | Market High |
| 19.0 | 3-9-09 10.3 | 5-21-15 19.3 |

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

2.2%

| | | |
|---------------------|-------------------|--------------------|
| 26 Weeks Ago | Market Low | Market High |
| 2.1% | 3-9-09 4.0% | 5-21-15 2.0% |

The Estimated Median Price
APPRECIATION POTENTIAL
of all 1700 stocks in the Value Line universe in the hypothesized economic environment 3 to 5 years hence

45%

| | | |
|---------------------|-------------------|--------------------|
| 26 Weeks Ago | Market Low | Market High |
| 35% | 3-9-09 185% | 5-21-15 35% |

ANALYSES OF INDUSTRIES IN ALPHABETICAL ORDER WITH PAGE NUMBER

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

| | PAGE | | PAGE | | PAGE | | PAGE |
|-------------------------------------|-------------|------------------------------------|-------------|------------------------------------|-------------|----------------------------------|-------------|
| Advertising (18) | 2386 | Electric Utility (West) (47) | 2227 | Investment Co.(Foreign) (-) | 425 | Railroad (59) | 338 |
| Aerospace/Defense (46) | 701 | Electronics (65) | 1317 | Machinery (33) | 1701 | R.E.I.T. (32) | 1513 |
| Air Transport (15) | 301 | Engineering & Const (82) | 1235 | Maritime (79) | 329 | Recreation (19) | 2301 |
| Apparel (38) | 2101 | Entertainment (56) | 2326 | Medical Services (14) | 457, 795 | Reinsurance (62) | 2017 |
| Automotive (67) | 101 | Entertainment Tech (69) | 2001 | Med Supp Invasive (11) | 172 | Restaurant (13) | 350 |
| Auto Parts (44) | 974 | Environmental (55) | 415 | Med Supp Non-Invasive (20) | 197 | Retail Automotive (1) | 2118 |
| Bank (49) | 2501 | Financial Svcs. (Div.) (36) | 2531 | Metal Fabricating (87) | 729 | Retail Building Supply (2) | 1138 |
| Bank (Midwest) (50) | 776 | Food Processing (26) | 1901 | Metals & Mining (Div.) (97) | 1579 | Retail (Hardlines) (64) | 457, 2162 |
| Beverage (10) | 1961 | Foreign Electronics (81) | 1978 | *Natural Gas Utility (41) | 541 | Retail (Softlines) (77) | 457, 2201 |
| Biotechnology (34) | 1647, 830 | Funeral Services (21) | 1824 | *Natural Gas (Div.) (92) | 520 | Retail Store (42) | 457, 2132 |
| Brokers & Exchanges (9) | 1790 | Furn/Home Furnishings (4) | 1147 | Newspaper (74) | 2380 | Retail/Wholesale Food (51) | 1942 |
| Building Materials (17) | 1101 | Healthcare Information (25) | 821 | Office Equip/Supplies (84) | 1415 | Semiconductor (54) | 1348 |
| Cable TV (35) | 1017 | Heavy Truck & Equip (86) | 155 | *Oil/Gas Distribution (76) | 600 | Semiconductor Equip (63) | 1386 |
| Chemical (Basic) (85) | 1593 | Homebuilding (37) | 1122 | Oilfield Svcs/Equip. (93) | 2409 | Shoe (8) | 2153 |
| Chemical (Diversified) (58) | 2437 | Hotel/Gaming (39) | 2350 | Packaging & Container (68) | 1174 | Steel (91) | 739 |
| *Chemical (Specialty) (40) | 554 | Household Products (16) | 1188 | Paper/Forest Products (75) | 1162 | Telecom. Equipment (80) | 939 |
| Computers/Peripherals (70) | 1396 | Human Resources (22) | 1635 | *Petroleum (Integrated) (90) | 501 | Telecom. Services (28) | 920 |
| Computer Software (31) | 2578 | Industrial Services (30) | 380 | Petroleum (Producing) (96) | 2395 | Telecom. Utility (88) | 1026 |
| Diversified Co. (57) | 1736 | Information Services (5) | 440 | Pharmacy Services (6) | 965 | Thrift (23) | 1501 |
| Drug (29) | 1605 | IT Services (3) | 2600 | *Pipeline MLPs (83) | 611 | Tobacco (24) | 1986 |
| E-Commerce (12) | 1808 | Insurance (Life) (52) | 1551 | Power (89) | 1217 | Toiletries/Cosmetics (60) | 1006 |
| Educational Services (94) | 1993 | Insurance (Prop/Cas.) (27) | 754 | Precious Metals (95) | 1563 | Trucking (45) | 318 |
| Electrical Equipment (73) | 1301 | Internet (7) | 2619 | Precision Instrument (61) | 111 | Water Utility (43) | 1780 |
| Electric Util. (Central) (72) | 901 | Investment Banking (78) | 1801 | Public/Private Equity (71) | 2646 | *Wireless Networking (48) | 582 |
| Electric Utility (East) (66) | 140 | Investment Co. (-) | 1204 | Publishing (53) | 2371 | | |

*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 LXXI, No. 16.

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