

Syllabus
INVESTMENTS
BEM 104
Spring Quarter 2020
Tuesday & Thursday 1:00-2:25 p.m.
Baxter TBA

Text

Investments, 11th Edition, by
Zvi Bodie, Alex Kane and Alan J. Marcus,
(BKM)

Instructor:

Richard Roll
Baxter 235, rroll@caltech.edu
Office hours:
Thursday 3:00-5:00 p.m.

This course introduces the foundations required for becoming a Chartered Financial Analyst (or CFA), which is the internationally recognized professional certification for security analysts, portfolio managers and financial advisors. There are 154,000 CFA charter holders in 165 countries and about 151 local member societies. A CFA charter holder candidate must pass three successive exams and have at least four years of professional finance experience. The topics in this course and in the assigned text are linked to questions on the exams.

The focus of BEM 104 is on investments in organized and highly competitive financial markets. It does not cover topics such as psychology (behavioral finance), corporate financial decisions, venture capital, risk management and other important areas for which Caltech offers specialized courses. Caltech offers more intensive courses on some topics that will be only touched on here, such as options, futures, and international financial markets.

If you know nothing about financial markets and investments, read chapters 1-4 of BKM before the quarter begins.

Grading: Will be determined after the class starts with the consent of the registered students.

Supplemental Texts:

Fabozzi, Frank J., Sergio M. Focardi, and Petter N. Kolm, 2010. *Quantitative Equity Investing: Techniques and Strategies*, (QEI)

Levinson, M., 2010. *Guide to Financial Markets*, (GFM)

Grinold, R.C. & R.N. Kahn, 1999. *Active Portfolio Management*, (APM)

Practice problems:

Corresponding to the topics each week, there are two types of problems which provide practice in learning about and using the concepts. The first type consists of actual questions from previous CFA exams and are given at the end of each chapter of the text. The best of these have been selected and are listed on the schedule below. In addition, more detailed problems, usually intensive with real data from financial markets, are posted on Moodle as “exercises.” Depending on the time available and the wishes of enrolled students, some of these problems will be discussed in class. Solutions will be posted (on Moodle) during the week after the problems are assigned.

Schedule

Dates	Topics	BKM Chapters	CFA Problems (BKM pages)
March 31 & April 2	Facts about Risk and Return; Portfolio Choice	5 & 6	3-6 (155) 8-9 (183)
April 7 & 9	Portfolio Optimization: General and with Indexes	7 & 8	12 (228) 1-3 (275)
April 14 & 16	Introduction to The CAPM and the APT	9 & 10	8-9,12 (306) 1-8 (330-1)
April 21 & 23	Efficient Markets: Theory and CAPM Evidence	11 & 13	8,10 (370) 1-3 (424)
April 28 & 30	Bonds: Yields, Duration and the Term Structure of Interest Rates	14-16	1-3 (464-5) 9-10 (492-3) 5 (530)
May 5 & 7	Security Analysis	18 & 19	2 (605-6) 5-8 (650-4)
May 12 & 14	Options	20 & 21	1 (693) 5 (743-4)
May 19 & 21	Futures and Swaps	22 & 23	4 (773) 4-5 (806-7)
May 26 & 28	Portfolio Performance Evaluation; International Investing	24 & 25	14 (849-50) 6 (878)