MGT 544: Investment Management

Prof. Antti Petajisto
Yale School of Management
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Contact Information

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Class Hours

Section 1:	Monday and Wednesday, 10:00-11:20am, room A46
Section 2:	Monday and Wednesday, 1:00-2:20pm, room A46

Office Hours

Instructor:	Drop by anytime or send email to set up an appointment
TA:	Send email to ask questions or set up an appointment

Course Content

The course provides a broad overview of investment management, focusing on the application of finance theory to the issues faced by portfolio managers and investors in general. Topics include general tools of active portfolio management such as portfolio optimization, performance evaluation, style and attribution analysis, and metrics to quantify different dimensions of active management, especially as applied to mutual funds and hedge funds, as well as issues relevant to various passive strategies such as fundamental indexing. Topics also cover the subject areas of asset allocation, equity investing in both efficient and inefficient markets, fixed income, derivatives, and alternative investments with a focus on hedge funds. The course includes lectures, guest speakers, cases, problem sets, and a final project on portfolio management. The course builds upon the material and analytical skills developed in the Investor module of the first-year core curriculum.

Relative to other investments-related elective courses at SOM, this course will have three main differences:

- It provides a broad overview of the entire field of investments, as opposed to focusing exclusively on a particular subfield such as derivatives or security analysis.

- It develops general portfolio management tools which are applicable when managing portfolios with any or all asset classes.
- It takes a somewhat closer look at the equity market which is not covered separately in other electives.

Prerequisites

- Investor module of MBA core (introductory finance)
- Data and decision analysis (basic statistics and probability)
- Spreadsheet proficiency (Excel)

Readings

Required:
- Bodie, Kane, and Marcus, 2009, Investments, McGraw-Hill Irwin, 8th edition [BKM]
- Wall Street Journal [WSJ] and Institutional Investor [II] articles posted on Classes*v2

Recommended:
- Academic journal articles (Journal of Finance, etc.) posted on Classes*v2
- Francis and Ibbotson, 2002, Investments: A Global Perspective, Prentice-Hall
- Swensen, 2009, Pioneering Portfolio Management, Free Press, 2nd edition
- Siegel, 2007, Stocks for the Long Run, McGraw-Hill, 4th edition

Course Web Site

The course web site is accessible on Classes*v2. It will contain class announcements, assignments, readings, etc.

Course Requirements and Grading

The final course grade will be determined by:
- 40% on group assignments (cases and problem sets)
- 30% on individual assignments (mispricing case and portfolio management project)
- 30% on class participation

Classroom Behavior

I expect everyone to behave professionally in class and to arrive on time. Furthermore:
- If you have a reason to be late or leave early, please let me know in advance.
- Always close your laptop when the class begins.
- Make sure you have a name card and you keep it visible in each class.

Schedule (updated: 1/25)

Date	Content	Readings
1/26 Monday	Class overview	
	Investment management industry	BKM 4
	Asset classes and their returns	BKM 2, 5, 13.6
		JF: The equity premium
		WSJ: Social security overhaul
1/28 Wednesday	Portfolio optimization	BKM 6-8
		WSJ: Emory's exposure to Coke
	Security markets and trading mechanisms	BKM 3
2/2 Monday	CAPM and APT	BKM 9-11
		JFE: Common risk factors
		JB: Economic forces and the stock market
2/4 Wednesday	CAPM and APT	BKM 9-11
2/9 Monday	**Case: Rivermore College**	
2/11 Wednesday	Index investing	BKM 2.4
2/16 Monday	Alphas and optimal portfolios	BKM 27
		WSJ: Fundamental indexing (Siegel)
		WSJ: Fundamental indexing (Bogle, Malkiel)
		FAJ: Fundamental indexing (Arnott et al.)
2/18 Wednesday	**Case: Dimensional Fund Advisors**	WSJ: Dimensions of a pioneering strategy
2/23 Monday	Guest: Gregor Andrade, AQR Capital (11:20-12:50pm in A48)	JPM: Alternative future, part I JPM: Alternative future, part II NYT: The quantitative road to riches
2/25 Wednesday	Equity market anomalies and trading strategies	BKM 12-13
		II: Value seeker
3/2 Monday	**Case: Fast Forward Forecasting**	
3/3 Tuesday	Guest: Adam Benowitz, Vision Capital (11:20-12:50pm in A60)	
3/4 Wednesday	Canceled	
3/9 Monday	Fixed income: Term structure, synthetic replication	BKM 14-15
	Due: Problem Set 1 (Equities)	WSJ: Two economists debate markets

Spring break

Date	Content	Readings
3/30 Monday	Fixed income: Duration, immunization, LDI	BKM 16 WSJ: Housing bears
4/1 Wednesday	Options and exotic derivatives	BKM 20-21
4/6 Monday	**Case: Mispricings and anomalies**	
4/8 Wednesday	Venture capital, private equity, real estate, commodities **Due: Problem Set 2 (Fixed income)**	FAJ: Commodity futures
4/13 Monday	Hedge funds	BKM 26
4/15 Wednesday	**Case: Exploiting options market mispricings**	
4/20 Monday	Performance evaluation and attribution	BKM 24
4/22 Wednesday	Guest: David Swensen, Yale Investments Office (11:20-12:50pm in A60) **Case: Yale Investments Office**	
4/27 Monday	Portfolio risk management Quantifying active portfolio management Empirical evidence on fund manager performance	FAJ: Risk management for hedge funds RFS: How active is your fund manager? BKM 4.7, 11.5
4/29 Wednesday	**Case: Gravlox**	
5/4 Monday	Guest: Roger Fenningdorf, Rocaton Advisors (11:20-12:50pm in A60)	
5/6 Wednesday	**Case: Tuck family trust**	
5/11 Monday	Review	
5/18 Monday	**Due: Portfolio management project**	