

**GOODMAN INSTITUTE OF INVESTMENT MANAGEMENT**  
**John Molson School of Business**

**GIIM 614**  
**Security Valuation in the Domestic & International Environment**  
**Winter 2008**

**Instructor: Ian Rakita, CFA<sup>®</sup>**

**Office:** GM 1001-19

**Tel.:** 514-848-2424, X2786

**E-mail:** rakita@jmsb.concordia.ca

**Please contact professor to confirm appointments.**

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**Course Objectives:**

A thorough knowledge of the material covered in this course will critically influence the probability of your successfully completing CFA Level I. Approximately 30% of the CFA Level I body of knowledge will be reviewed over the next 13 weeks. The general focus of this course is the valuation of financial securities. We can subdivide the course into four parts according to security type. The first part is concerned with the valuation of equity. The initial session will be devoted to different aspects of industry and company factors that can affect the value of a company's stock. We conclude this section with a review of various price multiples.

The second segment of the course will deal with derivative securities. The basic definition of a financial derivative is a security whose value depends on the value of another security. The market for derivative securities has grown exponentially over the past thirty-five years as many companies and portfolio managers have become actively involved in an effort to hedge different types of risk. In this segment, we will examine the main derivative categories, namely futures, forwards, options and swaps. You will also be introduced to the topic of risk management. Last year I decided to cover this topic earlier in the course than I had in the past since the performance of students on CFA exams had been mediocre and I thought it might make a difference to examine this material earlier in the course (no harm in trying). For some reason that is not clear to me, the performance on derivatives improved significantly and I am therefore adopting the same approach this year.

The third part of the course will deal with fixed income securities. This market dwarfs the stock market in terms of total value although it seems to receive considerably less attention in the financial press. Among other things, we will investigate types and measures of bond risk. We will also look at various categories of fixed income securities and consider several classes of fixed income securities that contain embedded options. A clear understanding of different yield calculations will be essential as will be your ability to successfully determine the value of various types of bonds.

The final part of the course examines alternative investments. This topic is becoming increasingly important and deals with the analysis of investments that do not fall within the initial three more typical security categories mentioned above. We will briefly examine various types of funds, real estate investment, venture capital and commodity related securities.

Topics covered in this course will parallel material outlined in the 2008 CFA Level I study guide. Our detailed review will cover sessions 14, 15, 16, 17 and 18. Due to the substantial nature of the material that needs to be covered, we will be forced to review the main highlights of each topic rather quickly. It is therefore highly recommended that students read the material for each lecture in advance in order to keep up with the pace of the discussion.

While a review of the material in this course should help you significantly increase your knowledge of financial securities, your ultimate success in June 2008 will critically depend upon your own determination as well as on your thorough independent study.

## Required Textbooks:

CFA Institute Volumes 5 and 6 covering Equity, Fixed Income, Derivatives and Alternative Investments.

## Evaluation:

	<u>Number</u>	<u>Total Weight</u>	<u>Session</u>
In Class Quizzes	4	40%	4, 7, 9, 12
Assignment	1	10%	12
Final exam	1	50%	14

- ◇ Class quizzes are short, timed (40 minute), multiple-choice tests. Each test will be comprised of 25 questions. These tests are meant to simulate a CFA exam in miniature form (try to adhere to a time constraint that is less than or equal to 1.5 minutes per question).
- ◇ The assignment can be done in groups of two or three.
- ◇ The final exam will be cumulative, 2 ½ hours long, and at least 70% multiple choice.

## Note:

As you no doubt know by now, calculators used during CFA exams must be either one of two basic types: The TI BA II Plus Student or Professional (less expensive, faster, more features, familiar logic) or the HP 12C or 12C Platinum (sturdier, more expensive, slower, weird logic for the 12C). It wouldn't hurt to have two calculators with you during the course exams and the CFA exam.

## Other:

You should have full access to FirstClass. My definition of "full" is that you have downloaded and installed the software (also known as the "client"). If necessary, go to the address: [jmsb.concordia.ca](http://jmsb.concordia.ca) (note no www) and follow the directions to download and install the FirstClass client.

**Session Plan:**

**Note:** You are responsible for all relevant problems/questions listed in the 2008 CFA Institute Level I Study Guide

**Primary Textbooks (contained in the two CFA Institute Volumes)**

**R&B =** Investment Analysis and Portfolio Management 8<sup>th</sup> ed, Reilly And Brown

**S&M =** International Investments, 5<sup>th</sup> ed, Solnik and McLeavey

**SRPM =** Analysis of Equity Investments: Valuation, Stowe, Robinson, Pinto and McLeavey

**FAB =** Fixed Income Analysis for the CFA<sup>®</sup> Program, 2<sup>nd</sup> ed, Fabozzi

**CHAN =** Analysis of Derivatives for the CFA<sup>®</sup> Program, Chance

<b>LOCATION Of Professor</b>	<b>DATE</b>	<b>READING ASSIGNMENTS</b>	<b>TOPIC</b>
#1 Montreal	January 5	56. An Introduction to Security Valuation: Part I, R&B 11  57. Industry Analysis, R&B 14	SS14: Security Valuation Overview and Stock Market Analysis
#2 Toronto	January 12	58. Equity: Concepts and Techniques, S&M 6  59. Company Analysis and Stock Valuation, R&B 15	SS14: Fundamental Analysis of Industries and Companies
#3 Montreal	January 19	60. An Introduction to Security Valuation: Part II, R&B 11  61. Introduction to Price Multiples, SRPM	SS14: Security Valuation II and Price Multiples

#4 Toronto	January 26	<b>Class Test I</b>  70. Derivative Markets and Instruments, CHAN 1  71. Forwards Markets/Contracts, CHAN 2  72. Futures Markets/Contracts, CHAN 3	SS17: Introduction to Derivatives and to Forwards and Futures
#5 Montreal	February 2	73. Option Markets/Contracts, CHAN 4  74. Swap Markets/Contracts, CHAN 5	SS17: Introduction to Option Markets and Swap Markets
#6 Toronto	February 9	75. Risk Management Applications of Option Strategies, CHAN 6  62. Features of Debt Securities, FAB 1  63. Risks Associated with Investing in Bonds, FAB 2	SS17: Introduction to Risk Management  SS15: Introduction to Fixed Income Features and Bond Risk
#7 Montreal	February 16	<b>Class Test II</b> <b>Note class will end after the test at around 1:15. A couple of classes will be extended to make up for lost time if necessary.</b>	
	February 23	<b>MID-TERM BREAK</b> <b>NO CLASS</b>	
#8 Toronto	March 1	64. Overview of Bond Sectors and Instruments, FAB 3	SS15: Bond Sectors and Yields Spreads

#8 continued	March 1	65. Understanding Yield Spreads, FAB 4	
#9 Montreal	March 8	<b>Class Test III</b> 66. Monetary Policy in an Environment of Global Financial Markets, CFA Institute Reading 67. Introduction to the Valuation of Debt Securities, FAB 5	SS15: The Influence of Monetary Policy SS16: Introduction to Debt Valuation
#10 Toronto	March 15	68. Yield Measures, Spot Rates, and Forward Rates, FAB 6	SS16: Yield Measures and Rates
	March 22	<b>Easter weekend No class</b>	
#11 Montreal	March 29	69. Introduction to the Measurement of Interest Rate Risk, FAB 7	SS16: Introduction to Interest Rate Risk Measurement
#12 Toronto	April 5	<b>Class Test IV</b> 76. Alternative Investments, S&M 8	SS18: Alternative Investments
#13 Montreal	April 12	76. Alternative Investments, S&M 8	SS18: Alternative Investments
#14 Toronto	April 19	<b>Final exam</b>	

**DISCLAIMER:**

The professor reserves the right to change or update this outline, and any other course related materials, at any time. The student will be informed in a timely manner through First Class and/or announcements during class.

## **ACADEMIC INTEGRITY:**

*The Code of Conduct (Academic) at Concordia University states that, "The integrity of University academic life and of the degrees, diplomas and certificates the University confers is dependent upon the honesty and soundness of the instructor-student learning relationship and, in particular, that of the evaluation process. As such, all students are expected to be honest in all of their academic endeavours and relationships with the University."*

For more details please see:

[http://web2.concordia.ca/Legal\\_Counsel/policies/english/AC/Code.html](http://web2.concordia.ca/Legal_Counsel/policies/english/AC/Code.html)

## **ATTENDANCE:**

*Students are expected to attend all classes. Failure to attend class will result in a written warning. At the discretion of the instructor, continued absence may result in additional course work being assigned in accordance with the class time missed.*