

# RUTGERS UNIVERSITY

## INVESTMENT ANALYSIS AND PORTFOLIO THEORY

(22:390:603)

**Summer 2008**

**Professor:** James L. Bicksler  
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**Office Hours:** Tuesday (New Brunswick) and Wednesday (Newark)  
4:30 p.m. – 6:30 p.m. and after class and by appointment

### **Purpose and Focus of the Course:**

This course focuses on the conceptual and empirical issues of related to portfolio choice and investment decision making. Additionally, operational and practical issues of these topics, such as retirement planning, as well as implications for various individual and institutional investors will be discussed.

**Books:** Recommended (one or two) but not required

Bowen, Williams, Board Book: *An Insiders Guide For Directors and Trustees*, W.W. Norton and Company, March, 2007

Malkiel, Burton, G., *A Random Walk Down Wall Street*, W.W. Norton, New York, N.Y., January, 2007

Tanous, Peter J., *Investment Gurus*, New York Institute of Finance, New York, N.Y., 1997

### **Other Reading:**

There are a number of articles and associated materials that will be discussed. They will include the works of Nobel Prize in Economic Science recipients Paul A. Samuelson, Harry Markowitz, Merton Miller, William Sharpe, Joe Stiglitz and James Tobin.

### **Practitioners:**

Ideally, we would like to have, at least, 2 or 3 or more creative, well-informed cutting-edge investment practitioners. We will try to be ingenious and creative with regard to the task of obtaining outside speakers. Your suggestions as to names, topics, background of speakers, etc. will be solicited and your input will be encouraged. Any speaker scheduled for New York City will be approved by the class and students will not

be required to attend. There may be all day conferences/events with many speakers that will be hosted for the business and financial community. You will definitely be invited.

**Topics:**

Some of the topics to be discussed in the class may include:

- Risks Facing Individuals
- Financial Markets Activity: A Functional Perspective
- Multiple Interpretations of Savings
- Markowitz Mean-Variance Theory
- Tobin Portfolio Theory
- Risk Aversion-Utility Theory
- The Integration of Human Capital into the Portfolio Decision Process
- Process of Individuals, Endowments, Foundations, and Pension Funds, etc.  
Asset Allocation
- Key Issues in Funding One's Retirement: Savings, Investment Returns,  
Diversification and Withdrawals
- The Three Major Errors in Investment Portfolio Management
- Innovations in Retirement Finance
- Why are Annuities so Little Used?
- Retirement: A State Dependent Approach
- The Role of History in Making Future Return-Risk Assessments
- Administrative Costs of Public and Private Pension Funds
- Annuity Markets and Adverse Selection
- Ex Post Portfolio Performance Measures Mutual Fund Investment Performance
- The Economics of Mutual Funds
- The Economics of Mutual Fund Fees: ICI vs. Buffett/Bogle
- Mutual Fund Reform
- The ABC's of Pension Funds
- Labor Market and Income Distribution Effects of Pension Systems
- Public and Corporate Defined Pension Plans: Is There a Crisis?
- The Economic of Risk Sharing
- Corporate Governance
- Improving Corporate Governance
- Mis-Governance: The Case of Commerce Bancorp
- Organizational Issues of Corporate Governance: The Corporate Board
- Does Corporate Governance Affect Corporate Valuation?
- Securities Fraud Suits
- The Pros and Cons of Defined Benefit and Defined Contribution Pension Plans
- Indexing and Stock Picking: The Role of Efficient Financial Markets
- Time Diversification
- Public vs. Private Markets for Annuities
- The Prudent Man Rule
- The Economics of Social Security: Investment Returns/Risk, Transaction Costs
- Methodological Approaches to Corporate Valuation

- Investment Incentive Management Contracts

**Topics (continued...)**

- Alternative Investment Approaches to Corporate Pension Fund Management
- Institutional Investors
- Hedge Funds! What Do They Hedge? Do They Hedge? How Do They Hedge?
- Private Equity, Venture Capital and LBO's
- Derivatives and Investment Management
- Alternative Concepts of Liquidity
- Investment Scams
- Sovereign Wealth Funds

Input into the topics to be covered, are strongly encouraged by the students. As long as these topics are core investments and have a rigorous professional, academic literature, your suggestions are welcomed.

**Standard Grading:**

The standard grading format is:

Final Exam	50%
Mini Paper	40%
Class Participation	10%

The points for class participation are obtained by asking questions that lead to fruitful class discussions and making meaningful comments.

An alternative grading option based primarily, but not solely, on a term paper can be substituted for the standard grading format specified above.

**Mini -Paper or Book – Articles Review:**

This task has flexibility in the exact topic though it must be linked tangentially to investment. The length of the paper is give at least 10 pages. All used sources must be appended to the paper and put in a binder. An oral report of 5 to 8 minutes is required. Proper footnote style is required and your paper and sources must be put in a binder. Quality sources, primarily from qualified practitioner or academics, should be used. Alternatively, once again, cites from local newspapers will not suffice

**Alternative Project – Maxi-Paper:**

An optional written project may be chosen. If the project is chosen, a mandatory oral presentation of about 10 minutes is required. The topic, obviously, must focus on some relevant topic on investment. Your professor will be delighted to work with each of you on an individual basis.

The grading schema for this arrangement is:

Maxi Project	70%
Other written assignments	20%

(written reports on guest lecturers)

Class Participation 10%

Format, focus, length and numerous other details pertinent to the project will be discussed in class. The length of the paper/report is, at least, 30 pages or more. All topics must be pre-approved. I will be delighted to take individually or collectively students or/and the class to the library to assist in selecting and researching a topic. All articles, materials etc., that were used must be appended to the final copy of the paper/report. Proper footnote style is required and your paper and sources must be put in a binder. Emphasis is on (1) relevant and topical investment issues, and (2) high quality sources.

### **Some Possible Book Sources for Projects**

Bodie, Zvi, Dennis McLeavey and Lawrence B. Siegel, The Future of Life-Cycle Saving and Investing, CFA Institute Research Foundation, Charlottesville, Virginia, 2007

Bogle, John C. The Little Book of Common Sense Investing, John Wiley & Sons, Inc., Hoboken, N.J., 2007

Fisher, Ken, The Only Three Questions That Count, John Wiley & Sons, Hoboken, N.J., 2007

Goetzmann, William and Roger Ibbotson, The Equity Risk Premium, Oxford University Press, New York, New York, 2006

Pozen, Robert C., The Mutual Fund Business, Houghton Mifflin, New York, N.Y., 2002

Sharpe, William, Investors and Markets: Portfolio Choices, Asset Prices and Investment Advice, Princeton University Press, Princeton, New Jersey, 2006

### **Some Possible Websites for Sources**

Chairman William Bernacke of the Federal Reserve Board of Governors  
The Other Governors of the Federal Reserve Board of Governors  
Presidents of the Federal Reserve regional banks  
Professors James Poterba (MIT), also Steve Ross, Peter Diamond, Dora Costa, etc.  
Martin Gruber (NYU-Stern School), Edith Elton, Stephen Brown, etc.  
William Goetzmann (Yale University), Roger Ibbotson  
Burton Malkiel (Princeton University)  
Zvi Bodie (Boston University)  
Martin Feldstein (Harvard University)  
Investment Company Institute  
Employee Research Benefit Institute  
Henry Paulson, U.S. Secretary of Treasury  
Boston University – Center for Retirement Research

There are however a zillion other websites. Additionally, journals such as Journal of Finance, Journal of Financial Economics, Financial Analysts Journal, Journal of Portfolio Management, etc., are, obviously, of enormous value for any project.

### **Possible Topics**

Retirement Economics (multiple topics)  
Portfolio Asset Allocation  
Pension Fund Investment  
Defined Benefit  
Investment Product Innovation  
Mutual Fund Fees and Performance  
Fundamental Indexing  
The Sub-Prime Mortgage Debacle

### **Parting Note:**

This course is not for everybody. However, this course in particular, is not for individuals who desire (1) get rich overnight schemes, (2) techniques to spot “hot” stocks that double in a matter of days, (3) already know the financial economic contributions of the Nobel Laureates or (4) know more than any Nobel Laureate in Economics, etc. This course, however, can be relevant, challenging, fun and wealth and rolodex enhancing. I personally wish each and every student the best.

# **BON VOYAGE**