

University of Florida

Warrington College of Business Administration Hough Graduate School of Business

Department of Finance, Real Estate & Insurance

Master of Science in Finance Program Spring 2017, Module 4

FIN 6296 Section 07FA Capitalism

SYLLABUS

**Overview**

Welcome. The course examines the concept of “capitalism” as it exists today; touches on its evolution; introduces many of its institutions and examines its role in a modern free market economy, a role currently under intense public scrutiny. The emphasis here is on 1) practical applications found in securities markets, 2) government interaction with society and the business community and 3) business interaction with government and society. Students interested in theory should pursue its study outside this class.

**Textbooks**

While there is no course-specific textbook *per se*, students must purchase a bound copy of the individual class outlines from *Target Copy*, 1412 West University Avenue, Gainesville FL, 352-376-3826, [www.target-copy.com](http://www.target-copy.com).

**Required Reading**

- The Declaration of Independence.
- The Constitution of the United States of America.
- Selected print media news articles, essays, editorials, Op-eds and instructor handouts.
- Background on the Banking Act of 1933 (*a/k/a* Glass-Steagall Act) and the Financial Services Modernization Act of 1999 (*a/k/a* Gramm-Leach-Bliley Act).
- “What Role Should ‘Wall Street’ Occupy in Society?” Commentary by Bruce Foerster, *Daily Business Review*, January 9, 2012.
- “The End of Wall Street as They Knew It” by Gabriel Sherman, *New York* magazine, February 5, 2012.

**Preparation**

Students should come to class having read the appropriate material and prepared to participate actively by questioning the lecturer, debating fellow classmates and airing opposing views. This course is not a series of passive lectures. It relies upon the Socratic

Method to identify, examine and question the fundamental principles and institutions of capitalism.

Now is the time to engage and become a learner...in the MSF Program, in this class and every day for the rest of your business career.

### \*\*\*Initial Assignment\*\*\*

Using any and all reference material you care to access, construct your own one-sentence definition of “Wall Street”, bring it to the first class and be prepared to defend it.

### Reference Books

The material mentioned below will add to the overall experience of this course, but students should know that many of these references are lengthy.

- *The Age of Turbulence* by Alan Greenspan.
- *Atlas Shrugged* by Ayn Rand. An offset to the volume of Op-eds, articles and cable news channel vitriol directed against capitalism over the past five years.
- *An Inquiry into the Nature and Causes of the Wealth of Nations* by Adam Smith.
- *The Big Short* by Michael Lewis.
- *Capitalism and Freedom* and *A Monetary History of the United States, 1867-1960* by Milton Friedman.
- *Capital Markets Handbook*, Sixth Edition, 2015 Supplement, edited by John C. Burch, Jr. and Bruce S. Foerster.
- *Capitalism, Socialism and Democracy* by Joseph A. Schumpeter.
- *Corporate Finance and the Securities Laws*, Fourth Edition, 2013 Supplement, by Charles J. Johnson, Jr. and Joseph McLaughlin.
- Dodd-Frank Wall Street Reform and Consumer Protection Act, Public Law 111-203-July 21, 2010.
- *Extraordinary Popular Delusions and the Madness of Crowds* by Charles Mackay, LL.D.
- The Financial Crisis Inquiry Report, U.S. Government Printing Office, January 2011.
- *General Theory of Employment, Interest and Money* by John Maynard Keynes.
- “Greed and fear.” *The Economist*. Special report. January 24, 2009.
- “Inequality: The rich and the rest.” *The Economist*, Special report. January 20, 2011.
- *Investment Banking in America - A History* by Vincent P. Carosso.

The virtual museum and archive of the Securities and Exchange Historical Society offers additional background and perspective, particularly with regard to financial regulation; home page: [www.sechistorical.org](http://www.sechistorical.org).

The Museum of American Finance offers a robust and growing collection of historical financial information; home page: [www.moaf.org](http://www.moaf.org). If you are interviewing in New York City and have some down time, it is well worth a visit to 48 Wall Street in the heart of the old “Wall Street”.

## *Capitalism Watchwords*

### **Most Overused**

- I and me.
- Ex-items (as in accounting)
- Like
- Kinda
- Sorta
- Unique
- We are really “Excited” about this deal/opportunity.
- World Class

### **Most Dangerous**

- Clearly
- Always
- It is different this time.
- This idea is a slam dunk...it can't miss.
- Never
- “FOMO” - Fear of missing out.

### **Most Helpful**

- The emperor has no clothes.
- Fear and greed drive markets.
- Leverage is a two-edged sword.
- “Money has value over time” (Mathew J. Stephens, Jr., accounting professor emeritus, University of Pennsylvania Wharton School - thanks to power of compound interest – also Benjamin Franklin and Jack Bogle, founder of Vanguard).
- Never attempt to catch a falling knife.
- Do “...not let the urgent drive out the important.” Karen Dillon
- Never confuse brains with a bull market.
- Return of capital is more important than return on capital.
- A rising tide lifts all boats.
- Risk and rate of return go hand in hand (Benjamin Graham on reaching for a little extra).
- Your first loss is your best loss.
- ‘Now’ is always the most difficult time to invest.
- Purchasing a security is almost always much easier than selling the same security (and vice versa when dealing with a short sale).
- “Always do right. This will gratify some people and astonish the rest.” (Mark Twain, in *Note to Young People's Society*, 1901).

### **Truisms / Maxims**

- “When someone tells you it's not about the money, it's about the money.” Attributed to H. L. Mencken (20<sup>th</sup> century American journalist, satirist and critic).

- “Never confuse ‘full disclosure’ or ‘transparency’ with issuer ‘spin.’” Bruce Foerster
- “There is no corporate treasurer who doesn’t bet all the time, either by acting or by not acting.” Eugene Rotberg (when Vice President and Treasurer of the World Bank)
- “Good judgment comes from experience, and often experience comes from bad judgment.” Rita Mae Brown (one-time UF student; 20<sup>th</sup> century writer/political activist)
- “When the tide goes out, you find out who is naked.” Warren Buffett (Chairman and CEO of Berkshire Hathaway)
- “Too much trading is a bad idea. ‘Nervous energy is a great destroyer of wealth.’” Faye Sarofim (Houston-based asset manager)
- “The best traders are not right more than they are wrong. They are better at getting right when they are wrong. Lloyd Blankfein (CEO Goldman, Sachs)
- Definition of ‘Fair’: “A place where you take children to see animals.” Bruce Foerster
- “Fairness is about equality of opportunity, not equality of outcomes.” Kellyanne Conway
- “When doing the ‘chair dance,’ ensure you have secured a seat before the conductor lays down his/her baton.” Bruce Foerster
- “You cannot help men permanently by doing for them what they could and should do for themselves.” Reverend William John Henry Boetcker (20<sup>th</sup> century Presbyterian minister and author of “The Ten Cannots.”)
- “Laws and sausages are two things you do not want to see being made.” John Godfrey Saxe (19<sup>th</sup> century American poet). Often misattributed to Otto von Bismarck (19<sup>th</sup> century German statesman)
- “Equity is the soul of a corporation.” Bruce Foerster
- “Expecting Congress to cut deficits is akin to leaving a porch light on for Jimmy Hoffa.”
- “The strongest of all warriors are these two – Time and Patience.” Leo Tolstoy (19<sup>th</sup> century Russian writer)
- “How did I make my fortune? By always selling too soon...sell early...regret...grow rich.” Nathan Rothschild (19<sup>th</sup> century London financier and merchant banker)
- “Great investment opportunities are rarely identifiable when the opportunity to invest presents itself. Conversely, when a great opportunity is easy to identify, the opportunity to invest rarely presents itself.” Bruce Foerster
- “Do not let the ‘perfect’ be the enemy of the ‘good.’” Most often attributed to Voltaire
- “Good work ain’t cheap, and cheap work ain’t good.” Norman ‘Sailor Jerry’ Collins
- “We cannot solve our problems with the same thinking we used when we created them.” Albert Einstein
- “20-20 hindsight almost always bestows the gift of clarity.”
- “If something cannot go on forever, it will stop.” Herbert Stein (economist and one-time chair of the Council of Economic Advisers)
- “Definition of ‘speculation’: when someone else is making money and you are not.” Lawrence J. Haverty (mutual fund portfolio manager)
- “It takes a foreign-born person to appreciate the United States, and the ability of the American people.” Faye Sarofim (Houston-based asset manager)
- “The only things certain in life are death and taxes.” Benjamin Franklin
- Definition of ‘optimist’: “someone who sets aside two hours to do his own income tax return.”
- “Investing is simple but not easy.” Warren Buffett
- “Almost all living Americans struggle to understand why gold is the world-wide store of value because none of them have ever had some other nation’s army walk through their backyard.” Bruce Foerster

- "...the distinction between the two sorts of truths - profound truths recognized by the fact that the opposite is also a profound truth, in contrast to trivialities where opposites are obviously absurd." Niels Bohr as told by his son Henrik
- When asked by a PaineWebber corporate finance calling officer on June 30<sup>th</sup>, 1990 how the second quarter looked (nine months before an anticipated IPO), Atmel's then CFO Chris Chellam responded without hesitation: "I don't know. It was still on the loading dock when I left the shop to make this dinner!" Bruce Foerster was at the restaurant dinner table where this conversation took place.
- "History does not repeat itself, but it does rhyme." Joseph Anthony Wittreich but most often attributed to Mark Twain.
- "When the phone don't ring, you'll know it's me." Warren Buffett's adaptation of the title of a country and western song written by George Jones and used to indicate his lack of interest in most M&A pitches.
- "Investors want to beat the S&P in an up market and have positive returns in a down market. You're bound to be disappointed if you have that goal." Keith Black, CAIA Association.
- "The market can stay irrational longer than you can stay solvent." John Maynard Keynes
- "Education is never expensive once attained."
- "Blessed is the man, who, having nothing to say, abstains from giving us wordy evidence of the fact." George Eliot, English writer of Victorian Era in *Impressions of Theophrastus Such*.

#### **Most Disingenuous**

- "This merger is a 'win-win' for both companies because of their compatible cultures."
- "I am resigning to spend more time with my family." The default quote attributed to a departing senior executive who has been fired.
- "This deal is truly a merger of equals."
- "This 'bolt on' acquisition is a 'great fit'".
- "There is a lot of synergy in this merger."
- "Two plus two equals five."

## Course Outline

### *Introduction. Overview, Course Objectives and Historical Perspective.*

#### **Week 1**

**Friday**

**03 March**

#### *Essential Elements of Capitalism and Regulatory Oversight*

Basic Definitions. The Declaration of Independence and the Constitution of the United States of America. The Rule of Law: Respect for Property Rights and Contracts. Securities Law and Financial Regulation. Black Tuesday - October 29, 1929. U.S. Securities and Exchange Commission. Financial Industry Regulatory Authority. Rules-based and Principles-based Accounting Conventions, Transparency, Full Disclosure. Banking Act of 1933. Financial Services Modernization Act of 1999. Financial Bubbles. Lehman Brothers Bankruptcy and the Panic of September 2008. Dodd-Frank Wall Street Reform and Consumer Protection Act. Financial Crisis Inquiry Commission.

#### **Week 2**

**Friday**

**17 March**

#### *Providers of Capital*

Primary Capital Markets. Venture Capital. Public Sector. Private Sector. Mutual Funds and Exchange-traded Funds. Financial Advisors. “Alphabet Soup” Advisors. Trust Companies. Custodians. Consultants. Pensions. Social Security System. Taxation, Trust and Estate Planning. Asset Management.

#### *Liquidity*

Secondary Capital Markets. Clearing and Settlement. Private *v.* Public Ownership and the Sarbanes-Oxley Act of 2002. Initial Public Offerings. Private Equity. Federal Reserve System. Comptroller of the Currency. Foreclosure, Bankruptcy and Restructuring. Perceived Value, Price discovery, Transparency and the Law of Supply and Demand.

#### **Week 3**

**Friday**

**24 March**

#### *Users of Capital*

The Corporation and Corporate America. Corporate Governance. The Board of Directors. Senior Management. Annual Meeting. Sarbanes-Oxley Act of 2002. Executive Compensation. Investment Bank and Commercial Bank Relationship Management. Credit Ratings Agencies and Credit Enhancement Insurance. Financial Public Relations. Municipalities. Individual Borrowers.

**Week 4**  
**Friday**  
**31 March**

*Transaction Facilitators ... Conflicts of Interest ... Risk Management*

Financial Laboratories of New Idea Generation

Investment Banking - Corporate and Tax Exempt. Major Lines of Business: Corporate Finance and Municipal Finance. Due Diligence. Support Businesses. Taxable Fixed Income Sales and Trading. Equity Sales and Trading. Primary Capital Markets. Mergers and Acquisitions. Securities Research. Broker-Dealer Supervision and Regulation. Tying. Macro Issues.

**Week 5**  
**Friday**  
**07 April**

*Transaction Facilitators ... Conflicts of Interest ... Risk Management*

Financial Laboratories of New Idea Generation (continued)

Commercial Banking and Thrift Institutions. Shadow Banking System. Government Sponsored Enterprises. Depository Institution Supervision and Regulation. The Congress and Housing Policy...Real Estate and the Concept of Home Ownership. The Community Reinvestment Act. Micro- and Sub-Prime Lending. The American Bankers Association. Universal Banks. Financial Services Modernization Act of 1999. Commercial Banking in 1933 and in 2015. The Doctrine of “Too Big to Fail.”

**Week 6**  
**Friday**  
**14 April**

*Public Policy and Social Implications of “Capitalism” and “Globalization”*

Congressional Oversight/Interaction with Capital Markets. Public Policy and Income Taxation at the Federal, State and Local Level. The Underground Economy. U.S. Federal Budget, the Deficit and the National Debt. Remittance. Honesty, Integrity and Business Ethics. Socially Responsible Investing. The Concept of “Retirement.” The U.S. Social Security System and Medicare. Executive Compensation: Cash, Incentive Pay and other Emoluments. The Minimum Wage. Charitable Giving and Not-For-Profit Entities. Print and Broadcast Media Coverage of Finance and Capital Markets. Financial Academe. Actions at Law. Free Trade and Globalization.

*Course Review, Wrap-up and Student Critique*

**Week 7**  
**Friday**  
**21 April**

*Case Study*

*Wealth / Income Inequality: What is it? Why is it important? What can or should society do about it?*

Issues to consider include but are not limited to:

- Federal, state and city income tax codes
- Estate tax at federal and state levels
- Income redistribution
- Minimum hourly wage and overtime
- Social Security
- Home ownership
- The family unit
- Defined benefit and defined contribution pension plans
- Individual retirement accounts
- “Fairness”
- Dignity

Matthew (“Matt”) Winkler, a celebrated American journalist, Editor-in-Chief Emeritus of Bloomberg News since 2015 and a Director of Bloomberg L.P., will lead a panel discussion on this topic that found new visibility during the presidential campaign of 2016. Mr. Winkler is the News Founder of Bloomberg L.P. and was its Editor-in-Chief 1995-2014.

**Week 8**  
**Friday**  
**28 April**

*Final Exam*

**Schedule and Course Requirements**

- FIN 6296 Section 07FA. “Capitalism.” Spring 2017 Module 4.
- Class meets on Fridays - 2nd period, 8:30 a.m. to 12:35 p.m. EDT, in Hough 140 except for Week 7, the case study, which meets in Hough 150.
- First class is Friday 03 March 2017. There is no class on Friday 10 March due to Spring Break.
- Instructor’s office hours - Thursdays, 2:00 p.m. to 3:30 p.m. EDT, in Hough 202 conference room.
- Two students, selected by lottery during Week 1, will prepare the Case for presentation to the class and are exempt from the research paper requirement. The Case must be complete and ready to distribute to our visiting executives no later than Tuesday 18



April 2017. If the Case meets the expectations of the Instructor and his Teaching Assistant (TA), these two students will be exempt from the final exam as well.

- The balance of the class will write a research paper addressing the same topic as the Case. The course outline gives more detail on the requirements for the Case and the Paper.
- Students who do not win the case study “Lottery” must write a research paper (“Paper”) (40% of the course grade). The Paper must address, at a minimum, the core issues of the case study. While there is no minimum page length, brevity should not trump intellectual effort and original thought; the maximum length, however, is 15 pages, and the Paper must include a one-page executive summary.
- The paper is due no later than 5:00 pm EDT Monday 17 April 2017. Students must deliver it to the TA and the Instructor via Email in order to participate in the case study and sit for the final exam.
- Because two students will be preparing a formal, written presentation of the Case for the Week 7 class, all other students must not speak to either of the students preparing the Case about any aspect of the Case itself or about any aspect of their own individual term papers with any of their fellow students. Discovery of failure to adhere to these requirements will bring immediate expulsion from the course and a failing grade.
- Students will sit for the final exam (“Exam”) (25% of the course grade) in Week 8 at 8:30 a.m. on Friday 28 April 2017 in Hough 140. Students will have three hours to complete the Exam. Since it is “open laptop” (*f/k/a* “open book”), students may bring any materials they wish to class and may access any and all on-line sources. The Exam will contain at least two questions and perhaps more; students are to answer only one question of their choosing.
- The Instructor and the TA will separately read each Paper and Exam.
- The remaining 35% of the course grade will be an evaluation of a student’s participation in class discussions and a review of that student’s attendance record. The TA has significant input here.

## Final Word

Wall Street writ large has been subjected to criticism far beyond what its own culpabilities relating to the Panic of 2008 deserve. Do not be dismayed by rhetoric from politicians in Washington DC that demeans the financial services industry. Investment banking is an honorable profession and is essential to the pursuit of commerce.

Investment banking can be demanding. Take full advantage of the MSF curriculum. This Instructor can state with certainty that you will be as well prepared as anyone with whom you compete at your first job. Just be ready to work hard and, when under stress, remember:

**“It is not the critic who counts; not the man who points out how the strong man stumbles, or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood; who strives valiantly; who errs, who comes short again and again, because there is no effort without error and shortcoming; but who does actually strive to do the deeds; who knows great enthusiasms, the great devotions; who spends himself in a worthy cause; who at the best knows in the end the triumph of high achievement, and who at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who neither know victory nor defeat.”<sup>1</sup>**

### **Instructor**

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<sup>1</sup> Spoken by Theodore “TR” Roosevelt, 26<sup>th</sup> President of the United States, at the *Sorbonne* in Paris, April 1910.