

ASSET ALLOCATION AND INVESTMENT STRATEGY FIN 6528 Section 1039

Warrington College of Business Administration
University of Florida

Spring 2017

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Class meetings: TTH 9:35 – 11:30 in HGS 240

This course will provide an introduction to investment strategy as practiced by fund managers. It will review the analytical tools and models typically used in asset allocation and will provide an appraisal of the successes and failures of the most common investment strategies. The main focus will be on strategies involving allocation across broad asset classes: Stocks, bonds, cash, and alternative investments, and on sector allocation within equities.

Prerequisites: This course requires that students either be in the Master of Science in Finance program or have completed FIN 5437 and FIN 5439. The category of instruction is graduate/intermediate.

Reading materials:

The main text for this class is Andrew Ang, *Asset Management*, Oxford University Press, 2014, ISBN 978-0-19-995932-7, referred to as “AM” below.

A second text is Sugata Ray, *Principles of Quantitative Equity Investing*, FT Press, 2015, ISBN-13: 978-0-13-419279-6. This book comes with a 20-week free subscription to Equity Lab, the trading strategy software that will be used for the class’s model portfolio and problem sets. www.equitieslab.com

Articles for the course will be in a course packet available at Target Copy. Most are also available through the UF Business Library. Power point presentations used in the lectures will be available on the course’s e-learning site.

Grading: Mid-term examination (30%), final examination (40%), model portfolio (15%), problem sets (10%), and class participation (5%). Grading will be in accord with Graduate School policy: <http://www.registrar.ufl.edu>

The model portfolio: The model portfolio should be a team effort. Each team will create and manage a virtual portfolio during the module, and make a presentation on the results at the end of the course, explaining what worked or did not work, and why. The objective is to create a portfolio of equities that will outperform a passive index, the S&P 500. The teams will be graded on the reasoning behind their strategy and the quality of their analysis.

Students with disabilities will be accommodated. University policy is that such students must first register with the Dean of Students Office. The Dean of Students Office will provide documentation to the student who must then provide this documentation to the Instructor when requesting accommodation. <http://www.dso.ufl.edu/drc/>

Class attendance: Required. Arrangements can be made to make up assignments and exams missed because of unforeseen events such as job interviews, illnesses, accidents, or family emergencies *provided the make-ups are arranged beforehand*. Any make-up exams for the mid-term and the final will each be offered to students on a single date only.

Final exam date: April 25, 9:35-11:30 in HGS240.

Laptop policy: Laptops and any devices that can read text (including Smartphones) must be closed during exams. There is no closed laptop policy during the lectures, but students overly absorbed in their laptops are unlikely to do well on the class participation portion of their grades.

Office hours: 3:00 – 4:00 on Wednesdays, or by appointment. I am in my office (308 STZ) most weekdays and respond to all e-mails, usually on the same day.

Course content:

1. Overview: Investment objectives

AM, Chapter 1, Asset Owners
Chapter 2, Preferences.

2. Portfolio returns and risk.

AM Chapter 3 Mean-Variance Investing.

Peter L. Bernstein, "Points of Inflection: Investment Management Tomorrow," *Financial Analysts Journal* (July/August 2003).

Thomas H. Goodwin, "The Information Ratio," *Financial Analysts Journal*, (July/August 1998).

3. Approaches to asset allocation

Gary Brinson, L. Randolph Hood, and Gilbert Beebower, "The Determinants of Portfolio Performance," *Financial Analysts Journal* (July/August 1986, reprinted in January/February 1995).

Gary Brinson, Brian Singer, and Gilbert Beebower, "Determinants of Portfolio Performance II: An Update," *Financial Analysts Journal* (May-June 1991).

4. Factor investing

AM, Chapter 7, Factors
Chapter 14, Factor Investing.

Andrei Shleifer and Lawrence Summers, "The Noise Trader Approach to Finance," *Journal of Economic Perspectives* (Spring 1990).

Magnus Dahlquist and Campbell Harvey, "Global Tactical Asset Allocation," *Emerging Markets Quarterly* (Spring 2001).

Brian Gendreau, "Why Do Country Allocation Strategies Work?" Salomon Smith Barney, June 15, 2001.

Heckman Global Advisors, *All-Country Equity Allocator*, Leberthal Asset Management, (March 2016). Available on the course e-learning site.

5. Rational behavior and behavioral finance

John S. Hammond, Ralph L. Keeney, and Howard Raiffa, "The Hidden Traps in Decision Making," *Harvard Business Review* (September/October 1998).

Optional: James Montier, "Seven Sins of Fund Management," Dresdner Kleinwort Wasserstein (November 18, 2005). Available on Sakai course site.

6. Equity and bond risk premia.

AM, Chapter 8, Equities
Chapter 9, Bonds
Chapter 13 Illiquid Assets

Robert Arnott and Peter Bernstein, "What Risk Premium is 'Normal'?" *Financial Analysts Journal* (March/April 2002).

Cliff Asness, "Fight the Fed Model," *Journal of Portfolio Management* (Fall 2003).

James K. Glassman and Clive Crook, "The Stock Market" Slate June 24, 1998
http://www.slate.com/articles/news_and_politics/dialogues/features/1998/the_stock_market/3.html Entries 1-8

Jeremy Siegel, "The Rise in Stock Valuations and Future Equity Returns," *Journal of Investment Consulting* (June/July 2002).

Jacob K. Thomas and James Claus, "Equity Premia as Low as Three Percent? Evidence from Analysts' Forecasts for Domestic and International Stock Markets," *Journal of Finance* (October 2001).

7. Alternatives.

AM Chapter 11 Real Assets
Chapter 17 Hedge Funds
Chapter 18 Private Equity

8 Managing a portfolio.

Christophe Faugere, Hany A. Shawky, and David M. Smith, "Sell Discipline and Institutional Money Management," *Journal of Portfolio Management* (Spring 2004).

Edward Kung and Larry Pohlman, "Portable Alpha: Philosophy, Process, and Performance," *Journal of Portfolio Management* (Spring 2004).