



Carleton
University

Sprett
School of Business

BUSI 3502
INVESTMENTS
FALL '22

Section B

Instructor: Silvia Aguirre Cruz

Office Hours: Monday noon-1pm on zoom or by appointment

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TA: TBA

Office Hours:

Email:

Section A: Thursday 6:05pm – 8:55pm

Location: Nicol Building 4030

Modality: In person, departmental permission required for online.

Prerequisites

BUSI 2505 with a grade of C+ or higher, STAT 2601 or STAT 2606 (with a grade of C- or higher in each).

Course Calendar description:

Procedures and methods of investment analysis. Stock and bond markets. Government regulation of securities markets. Valuation of common stocks and fixed income securities. Options, warrants, convertibles, and commodities.

Course Description:

A rigorous quantitative and qualitative analysis of the money and capital markets is offered, with the primary focus on the North American markets. This course focuses primarily on an examination of the equity markets in North America. A detailed examination of the trading process and the function of securities markets are presented. This is followed by exposure to the concepts of risk and return, specifically analyzing the role played in security valuation and in portfolio diversification.

Learning Outcomes:

The objective of this course is to provide students with the tools necessary to become successful investors or portfolio/money managers. There is a detailed examination of how and where securities are traded and how they are valued, providing insight into how investors appropriately allocate funds across different investment vehicles. It is expected that students will have a firm understanding of the different financial instruments available, and how they interact within a portfolio context. This skill is essential for success in BUSI 4502 and beyond.

Required Text:

Bodie et al., **Investments**, 9th Canadian Edition, McGraw-Hill, Ryerson, 2019.

Suggested Texts/Readings:

Malkiel, B., **A Random Walk Down Wall Street**, Norton.

Graham, B., **The Intelligent Investor**

Graham, B., **Security Analysis**

Newspapers/Magazines: **Globe and Mail – ROB, Financial Post, Wall Street Journal, Barrons, The Economist**

Handouts and lectures will be placed on Brightspace on a regular basis. It is expected that all students complete the readings beforehand to be adequately prepared. All course information, handouts, grades, announcements, and other deliverables will be placed on BrightSpace. It is your responsibility to ensure that you have access. In order to log on to the course page, you need to firstly be formally registered in 3502. Please check it regularly.

Note: There is a required enrollment in Stocktrak for \$31.95USD per team (**no more than two students per team**). Registration info below.

Contribution to Learning Goals of the Program:

| Program Learning Goal | Competencies Not Covered | Competencies Introduced (only) | Competencies Taught But Not Assessed | Competencies Taught and Assessed |
|--|--------------------------|--------------------------------|--------------------------------------|----------------------------------|
| CHECK (X) ONE PER ROW | | | | |
| BC1 Knowledge Graduates will be skilled in applying foundational business knowledge to appropriate business contexts. | | | | x |
| BC2 Collaboration Graduates will be collaborative and effective contributors in team environments that respect the experience, expertise and interest of all members. | | | x | |

| | | | | |
|--|---|--|---|--|
| BC3 Critical Thinking Graduates will be discerning critical thinkers, able to discuss different viewpoints, challenge biases and assumptions, and draw conclusions based on analysis and evaluation. | | | x | |
| BC4 Communication Graduates will be effective and persuasive in their communications. | x | | | |
| BI5 Global Awareness (BIB ONLY) Graduates will be globally-minded. | | | | |

Grading:

| | Weighting |
|--|------------------|
| In class quizzes (online) (6 in total, dates below) | 40% |
| Trading project (see below) | 15% |
| Final exam (Date TBD, online) | <u>45%</u> |
| Total | 100% |

Note that you must have an individual passing grade on your final exam (22.5/45 or greater), and an overall grade of 50% or better in order to pass the course.

Quiz schedule:

| Quiz #1 (4 marks) | Quiz #2 (5 marks) | Quiz #3 (5 marks) | Quiz #4 (6 marks) | Quiz #5 (10 marks) | Quiz #6 (10 marks) |
|----------------------|----------------------|----------------------|----------------------|-----------------------|-----------------------|
| Sep 22 | Oct 6 | Oct 20 | Nov 10 | Nov 24 | Dec 1 |

As a bonus, your raw total score across all 6 quizzes will be divided by 35, not 40. Quizzes commence at the start of class on the date listed, will be through BrightSpace, and will be approximately 20-30 minutes in length. They are fully open book and online. There are no make-ups for quizzes.

The **Final Exam** will be a comprehensive exam, covering material from the entire course, and will be fully open book and online, details will be provided later in the semester.

Deferred Final Examinations

Students unable to write a final examination because of illness or other circumstances beyond their control may apply within 3 days of the final examination to the Registrar's Office (RO) to request to write a deferred examination. Permission may be granted by the RO when the absence is supported by a medical certificate or other document. However, deferred examinations are not granted to students who make travel plans that conflict with the examination period.

Student Responsibilities:

Students are responsible for reading each chapter listed in the course outline and knowing the material in those chapters whether specific mention of certain topics is made in class and regardless of whether topics are addressed in class. Because of time constraints, it is not possible to cover all the chapter material in class. Class time will be spent on the most important topics and on the topics from which students receive the most benefit from explanation in class.

Course Outline

| Topic | Chapter of the Required Text |
|--|------------------------------|
| Investment Environment | 1 |
| Financial Markets and Instruments <ul style="list-style-type: none"> • Money Market • Fixed Income • Equities • Derivatives | 2 |
| Trading and Securities markets <ul style="list-style-type: none"> • Issuing Securities • Trading and Market Orders • Regulations | 3 |
| Return and Risk <ul style="list-style-type: none"> • Utility Theory, Risk Aversion, and Portfolio Mathematics • Hedging and Insurance • Probability Theory Capital Allocation to Risky Assets | 5, 6 |
| Risky Portfolios <ul style="list-style-type: none"> • Risky Portfolios and the Risk-Free Asset • Efficient Allocation • Excel | 7 |
| CAPM | 9 |
| Index Models & APT | 8, 10 |
| Market Efficiency <ul style="list-style-type: none"> • Technical/Fundamental analysis Behavioural Finance | 11, 12 |
| Bonds <ul style="list-style-type: none"> • Prices and Yields • Term Structure • Duration/convexity, portfolios | 14, 15, 16 |
| Derivative Assets (time permitting) | 20, 21, 22 |

| | |
|---|-------------|
| • Futures • Options • Valuation | |
| Portfolio Optimization Techniques/Active Management (time permitting) | 24 |
| UNPRI - ESG | BrightSpace |

Trading Project – StockTrak (15% of your final grade)

Suppose you inherited \$1,000,000. In order to keep the money, you must create a portfolio that is appropriate for your age in terms of asset allocation (Canadian and international equities (US and ADRs ONLY), cash, etc., **no crypto, no funds and not ETFs**), is invested according to the required schedule below (temporary cash is ok if opportunities are being explored), and is worth more than \$1,000,000 by the end of the semester. You can trade on the North American exchanges only, you cannot trade on margin but you can short sell, and you will venture into options and futures trading toward the end of the semester to properly hedge (although we will not be covering options or futures until possibly the end of the semester – read chapters 20, 21, 22 to gain additional insights). As well, please read chapters 12, 17 & 18, and *Security Analysis* to get a better understanding of valuations. Your grade will be based on your total portfolio return and Sharpe ratio calculated at the end of the semester (see grid below). To fully understand the Sharpe Ratio, please read chapter 24. You can attempt this project alone, or you can team up with one other classmate – no more than **TWO** students per account, no exceptions.

To Help You Register and Get Started Successfully:

- BUSI 3502 unique class registration link, which you will use to join your class:

<https://www.stocktrak.com:443/members/register?session=BUSI3502BF22>

and follow the instructions, note the class name is ‘BUSI3502BF22’. You will need to ensure your (or both) student name(s) is (are) listed fully in the registration, or the missing name will not receive marks at the end of the semester. Make sure that ‘BUSI3502BF22’ is listed in the class name. I believe there is a discount code attached to the new Bodie/Kane book, but it may only be for the US edition. The rules and instructions for trading are located on the right hand margin of that page, and on the pull down menus at the top.

Please see the following:

"StockTrak Student User Guide" to help you get familiarized with StockTrak before trading begins: <https://content.stocktrak.com/stocktrak-student-user-guide/>

Important notes:

- Registration opens on September 9th; trading begins on September 13th at 9:30AM and ends on December 2nd at 4:00PM.

- Failure to register by September 22nd will result in the deletion of your account and a zero on the project – no exceptions.
- Please read the trading restrictions on the website carefully.
 - 300 trade limit through the period
 - \$3 minimum stock price for trading
 - No day trading
 - Cash trading only, no margin
 - Liquidity restriction for trade requires fill order to be no more than 25% of daily volume
- (12 marks) The marking matrix for trading is below – note that, as in real market conditions, your performance is relative to the other participants.

| | Top Value Third | 2 nd Value Third | 3 rd Value Third |
|------------------------------|-----------------|-----------------------------|-----------------------------|
| Top Sharpe Ratio Third | 12 | 10.5 | 9 |
| 2 nd Sharpe Third | 10.5 | 9 | 7.5 |
| 3 rd Sharpe Third | 9 | 7.5 | 6 |

- (3 marks) Further, 3 marks are available based on your portfolio **ESG Score** at the end of the semester, submitted to me no later than 11:59PM EDT on December 5th, via Brightspace. Late submissions will not be accepted. (ESG score detail below)
- (Bonus 3 marks) If you so choose, you can provide rationale for your final portfolio. To be eligible for extra marks, you will need to provide me with a detailed defence of your trades and your portfolio at the end of the trading period, worth a possible 3 additional marks, submitted no later than 11:59PM EDT on December 8th, via Brightspace – specifics on the grading rubric will be provided later in the semester. Late submissions will not be accepted.
 - As your client, provide me with a 2 page summary outlining exactly how your final portfolio is positioned to perform over the next 12 months, and why you bought/sold to get to that position.

Please read the trading schedule below carefully. Any deviations will result in a grade penalty.

ESG Score: At the completion of the StockTrak assignment on December 2nd at 4:00PM, you will assess and provide the overall ESG score of your portfolio no later than Monday December 5th at 11:59PM EDT, computed as follows:

Navigate to the MSCI ratings page (<https://www.msci.com/esg-ratings>) and obtain the ESG score for each of the stocks in your portfolio (exclude options and/or futures if still holding). There are 7 available scores; AAA, AA, A, BBB, BB, B and CCC.

- Example: Suppose AAPL, for example, is presently rated as an “A”, BAM is rated as an “A”, HAL is rated as “BBB”, and MO is rated as a “BB”. For each company’s rating, assign the following values;

AAA=1
 AA=2
 A=4
 BBB=5
 BB=6
 B=8
 CCC=10

- Compute a weighted score for your portfolio. So, supposing my portfolio is presently valued at \$1.2MM, and consists of AAPL (\$440k), MO (\$375k), BAM (\$260k) and HAL (\$125k). My portfolio ESG would be calculated as follows:

$$(.440/1.2)*4 + (.375/1.2)*6 + (.260/1.2)*4 + (.125/1.2)*5 = 4.425$$

The top third ESG portfolios will receive an additional 3 marks, the second third will receive 2 marks and the bottom third will receive 1 mark.

NOTE: if a company you own is not listed in the MSCI ESG ratings database (which is very rare as it is quite comprehensive), assign it “CCC”.

Any team not providing an ESG score (or providing an inaccurate score) by December 2nd at 11:59PM EDT will not receive any of the 3 marks.

Trading Schedule (by market close each day):

By Sep. 23rd: Invest (long only) at least 40% of your portfolio (\$400,000) in at least 8 different securities (\$3.00 or higher) across at least 3 different sectors as defined by the S&P500. The stocks chosen do not have to be within the S&P500, just use the sector/industry guides. You can certainly invest more than this, and across different countries through ADRs, but all transactions must be long equity purchases only.

By Oct. 7th: While continuing to manage your long investments, increase equity stake to at least 70% of your total available cash. Continue to maintain exposure to at least 8 different securities over at least 3 different sectors. As well, you must now short at least 2 securities for sale amounts of at least \$20,000 each. Note that you are able to cover your short positions at any time after Oct. 14th (they must be held until close on Oct. 14th).

By Oct. 20th: keeping at least 70% long (you must maintain a 70% long exposure - 8 diff securities, 3 sectors min.), you can continue to hold your two (at least) short positions and you must now start to hedge with options (You need to trade options on two different stocks). You do not need to maintain your shorts if you choose. The only available options strategy(s) you can attempt at this point are as follows:

A minimum of \$5k worth of the underlying, and no more than your total market value of the underlying placed into a protective put and/or a covered call. Note that options contracts trade on 100 share increments. AAPL at the end of December traded for approximately \$126 per share.

Call options with an April expiry of \$127.50 traded for approximately \$11, for \$1,100, tied to 100 shares at \$126 (or \$12,600). If I own 200 shares of AAPL, worth \$25,200, I can write a maximum of two call options contracts at \$11 each.

A **protective put** is purchasing a put option contract on a stock (or index) that you presently own. It will protect against downside. If the stock (or index) rises, the put is worthless, but you've made money on the stock (or index). This will mitigate much risk. Similar to above with calls, you cannot purchase a put that exposes you to more than the total quantity of shares you own. Recall that contracts are (usually) written on 100 shares of the underlying – make sure you are not overexposed - make sure that you are mindful of how many shares your contracts are tied to. As in the AAPL example above, I would only be able to purchase a maximum of 2 put contracts.

A **covered call** is selling (writing) a call on a stock (or index) that you own. It will generate a premium since you sold it, and it can help defer losses should the stock price fall. If the stock price rises, you deliver for a profit.

Protective puts and covered calls are far cheaper than shorting, and can give you much added leverage to reduce exposure far more efficiently. Note that if you choose to keep your shorts, you still need to invest in at least two separate options on two different securities (2 covered calls, 2 protective puts, or 1 of each).

By Nov. 4th: Keeping the previous 3 assignments in tune, maintaining at least a 70% long equity stake, and maintaining your shorts (if you choose to keep them), your protective puts and/or your covered calls, you must now enter into two options trades independent of your holdings. Choose any strategies you like, buying, writing, spreads, combos, etc., trading no less than \$5,000 and no more than \$20,000 worth of the underlying asset in each strategy (absolute values if you choose to write). This does not mean \$20,000 worth of options, rather \$20,000 worth of the underlying!!. If you wish to trim down your shorts, protective puts or covered calls, you can as well, as long as you maintain at least \$5,000 invested in some form of insurance (short, covered call, protective put).

By Nov. 18th: Again, keeping all previous entries in check, enter into at least 2 futures contract transactions on any two commodities (only commodities), with a notional value not to exceed \$50,000 each (i.e., not the margin amount, but the underlying amount). At this point, your portfolio will consist of at least 70% long equity exposure across sectors, at least two forms of a hedge worth at least \$5,000 each, and futures exposure on no more than \$50,000 notional.

By Dec. 2nd: Window-dressing time now. Your trading assignment for this last installment is to package your portfolio so that the market sees what you're holding. In the real world, you would typically modify your holdings for your quarterly report so that it reflects what you want people to see, not necessarily what you have done. Use this as an opportunity to modify or liquidate so that you can solidify your ranking, and perhaps increase your ESG score...but be careful...excessively volatile investments at this point may certainly give you an opportunity to increase your returns, but they will also decrease your Sharpe ratio. Further, be mindful of your ending portfolio as it pertains to your defense/rationale.

NOTE: If, at any time, your portfolio does not satisfy the required parameters for the trading date, you will be penalized 1 mark per offense per trading period. In other words, if you do not trade in 2 futures contracts by Nov. 18th, you will be docked 1 mark. Or, for example, if you do not have 70% of your portfolio invested long in equity in any given trading period, you will also be docked 1 mark, etc. Note that if you do not correct your error prior to the next trading date, you will be docked an additional mark for that infraction.

ADDITIONAL INFORMATION

Course Sharing Websites

Materials created for this course (including presentations and posted notes, labs, case studies, assignments and exams) remain the intellectual property of the author(s). They are intended for personal use and may not be reproduced or redistributed without prior written consent of the author(s).

Required calculator in BUSI course examinations

If you are purchasing a calculator, we recommend any one of the following options: Texas Instruments BA II Plus (including Pro Model), Hewlett Packard HP 12C (including Platinum model), Staples Financial Calculator, Sharp EL-738C & Hewlett Packard HP 10bII

Group work

The Sprott School of Business encourages group assignments in the school for several reasons. They provide you with opportunities to develop and enhance interpersonal, communication, leadership, follower-ship and other group skills. Group assignments are also good for learning integrative skills for putting together a complex task. Your professor may assign one or more group tasks/assignments/projects in this course. Before embarking on a specific problem as a group, it is your responsibility to ensure that the problem is meant to be a group assignment and not an individual one.

In accordance with the Carleton University Undergraduate Calendar (p 34), the letter grades assigned in this course will have the following percentage equivalents:

| | | | |
|--------------|-------------|-------------|-------------|
| A+ = 90-100 | B+ = 77-79 | C+ = 67-69 | D+ = 57-59 |
| A = 85-89 | B = 73-76 | C = 63-66 | D = 53-56 |
| A - = 80-84 | B - = 70-72 | C - = 60-62 | D - = 50-52 |
| F = Below 50 | | | |

Grades entered by Registrar:

WDN = Withdrawn from the course

DEF = Deferred

Academic Regulations

University rules regarding registration, withdrawal, appealing marks, and most anything else you might need to know can be found on the university's website, here:

<http://calendar.carleton.ca/undergrad/regulations/academicregulationsoftheuniversity/>

Requests for Academic Accommodation

You may need special arrangements to meet your academic obligations during the term. For an accommodation request, the processes are as follows:

Pregnancy Accommodation

Please contact your instructor with any requests for academic accommodation during the first two weeks of class, or as soon as possible after the need for accommodation is known to exist. For more details, visit the Equity Services website: carleton.ca/equity/wp-content/uploads/Student-Guide-to-AcademicAccommodation.pdf

Religious obligation

Please contact your instructor with any requests for academic accommodation during the first two weeks of class, or as soon as possible after the need for accommodation is known to exist. For more details, visit the Equity Services website: carleton.ca/equity/wp-content/uploads/Student-Guide-to-AcademicAccommodation.pdf

Academic Accommodations for Students with Disabilities

If you have a documented disability requiring academic accommodations in this course, please contact the Paul Menton Centre for Students with Disabilities (PMC) at 613-520- 6608 or pmc@carleton.ca for a formal evaluation or contact your PMC coordinator to send your instructor your Letter of Accommodation at the beginning of the term. You must also contact the PMC no later than two weeks before the first in-class scheduled test or exam requiring accommodation (if applicable). After requesting accommodation from PMC, meet with your instructor as soon as possible to ensure accommodation arrangements are made. carleton.ca/pmc

Survivors of Sexual Violence

As a community, Carleton University is committed to maintaining a positive learning, working and living environment where sexual violence will not be tolerated, and its survivors are supported through academic accommodations as per Carleton's Sexual Violence Policy. For more information about the services available at the university and to obtain information about sexual violence and/or support, visit: carleton.ca/sexualviolence-support

Accommodation for Student Activities

Carleton University recognizes the substantial benefits, both to the individual student and for the university, that result from a student participating in activities beyond the classroom experience. Reasonable accommodation must be provided to students who compete or perform at the national or international level. Please contact your instructor with any requests for academic accommodation during the first two weeks of class, or as soon as possible after the need for accommodation is known to exist. <https://carleton.ca/senate/wp-content/uploads/Accommodation-for-StudentActivities-1.pdf>

For more information on academic accommodation, please contact the departmental administrator or visit: students.carleton.ca/course-outline

Academic Integrity

Violations of academic integrity are a serious academic offence. Violations of academic integrity – presenting another’s ideas, arguments, words or images as your own, using unauthorized material, misrepresentation, fabricating or misrepresenting research data, unauthorized co-operation or collaboration or completing work for another student – weaken the quality of the degree and will not be tolerated.

Process: If an alleged violation occurs, all relevant documentation will be forwarded to the Dean. If the allegation proves true, the penalties may include; a grade of Failure on the submitted work and/or course; academic probation; a refusal of permission to continue or to register in a specific degree program; suspension from full-time studies; suspension from all studies at Carleton; expulsion from Carleton, amongst others. **For a first offence, at a minimum, the penalty assigned will normally be a zero on the submitted work and at least a minimum full grade reduction of the final course grade. For a second offence, at a minimum, the penalty assigned will normally lead to a suspension from studies.**

Students are expected to familiarize themselves with and follow the Carleton University Student Academic Integrity Policy which is available, along with resources for compliance at: <https://carleton.ca/registrar/academic-integrity/>.

Sprott Student Services

The Sprott Undergraduate Student Services Office offers program advising and overall student success support. Our team is available to discuss your academic goals and your program progression plans. We can also work with you to develop strategies for success, including study skills for Business. If you experience any difficulty this term or if you would like to access support, please contact our team at bcom@sprott.carleton.ca or at bib@sprott.carleton.ca.

Centre for Student Academic Support

The Centre for Student Academic Support (CSAS) is a centralized collection of learning support services designed to help students achieve their goals and improve their learning both inside and outside the classroom. CSAS offers academic assistance with course content, academic writing and skills development. Visit CSAS on the 4th floor of MacOdrum Library or online at: carleton.ca/csas.

Important Information:

- Students must always retain a copy of all work that is submitted.
- All final grades are subject to the Dean’s approval.
- For us to respond to your emails, we need to see your full name, CU ID, and the email must be written from your valid CARLETON address. Therefore, in order to respond to your inquiries, please send all email from your Carleton CMail account. If you do not have or have yet to activate this account, you may wish to do so by visiting <https://carleton.ca/its/get-started/new-students-2/>

Covid-19 Information:

It is important to remember that COVID is still present in Ottawa. The situation can change at any time and the risks of new variants and outbreaks are very real. There are [a number of actions you can take](#) to lower your risk and the risk you pose to those around you including being vaccinated, wearing a mask, staying home when you're sick, washing your hands and maintaining proper respiratory and cough etiquette.

Feeling sick? Remaining vigilant and not attending work or school when sick or with symptoms is critically important. If you feel ill or exhibit COVID-19 symptoms do not come to class or campus. If you feel ill or exhibit symptoms while on campus or in class, please leave campus immediately. In all situations, you must follow Carleton's [symptom reporting protocols](#).

Masks: Carleton has paused the [COVID-19 Mask Policy](#), but continues to strongly recommend masking when indoors, particularly if physical distancing cannot be maintained. It may become necessary to quickly reinstate the mask requirement if pandemic circumstances were to change.

Vaccines: Further, while proof of vaccination is no longer required as of May 1 to attend campus or in-person activity, it may become necessary for the University to bring back proof of vaccination requirements on short notice if the situation and public health advice changes. Students are strongly encouraged to get a full course of vaccination, including booster doses as soon as they are eligible, and submit their booster dose information in [cuScreen](#) as soon as possible. Please note that Carleton cannot guarantee that it will be able to offer virtual or hybrid learning options for those who are unable to attend the campus.

All members of the Carleton community are required to follow requirements and guidelines regarding health and safety which may change from time to time. For the most recent information about Carleton's COVID-19 response and health and safety requirements please see the [University's COVID-19 website](#) and review the [Frequently Asked Questions \(FAQs\)](#). Should you have additional questions after reviewing, please contact covidinfo@carleton.ca.
