

**Commerce 3FB3
Security Analysis
Spring 2020 Course Outline**

**Finance and Business Economics Area
DeGroote School of Business
McMaster University**

COURSE OBJECTIVE

This course aims to introduce the prominent facts of security markets, the fundamental theories of modern finance, as well as the necessary tools of investment analysis. The students should obtain a broad knowledge of equities, bonds, and derivatives markets. The ability to apply and interpret security valuation and pricing models will be particularly emphasized.

INSTRUCTOR AND CONTACT INFORMATION

Mon/Wed 18:30 – 21:30 Class Location: Online (Virtual & Online Classrooms)

Instructor: Laite Guo
guol12@mcmaster.ca
Office Hours: TBA
Office Hours Location: TBA

Student TA: TBA
stid@mcmaster.ca
Office: TBA
Office Hours Location: TBA

COURSE ELEMENTS

Credit Value: 3	Leadership: No	IT skills: Yes	Global view: Yes
Avenue to Learn: Yes	Ethics: No	Numeracy: Yes	Written skills: No
Participation: Yes	Innovation: Yes	Group work: No	Oral skills: No
Evidence-based: Yes	Experiential: No	Final Exam: Yes	Guest speaker(s): No

COURSE DESCRIPTION

This course emphasizes both facts and theories. It will start with an overview of the investment environment, instruments, and trading on financial markets. Then the fundamentals of return and risk will be introduced as a necessary preparation. After that, modern portfolio theory will be explained in detail to enhance the understanding of risk-return trade-off and risk diversification. Asset pricing theories of equities, bonds, derivatives will be introduced in sequence, including but not limited to capital asset pricing model, arbitrage pricing theory, term structure of interest rate, as well as pricing theories of bonds and derivatives. In the meantime, macroeconomic analysis and financial statement analysis of equities will be covered. The course will end with market efficiency, behavioral finance, as well as active portfolio management to promote critical thinking about the above-mentioned theories.

LEARNING OUTCOMES

Upon completion of this course, students should be able to:

- Obtain an overall understanding of equities, bonds and derivatives markets;
 - Understand the basic principles of risk-return trade-off, portfolio selection, and security valuation;
 - Grasp the fundamental theories and applications of portfolio optimization and asset pricing models;
 - Understand the key procedures of equity analysis;
 - Understand the underlying logic of market efficiency, behavioral finance, and the general practice of active portfolio management.
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COURSE MATERIALS AND READINGS

Required:

Lecture Notes: Will be posted on Avenue to Learn

- <http://avenue.mcmaster.ca/>

Textbook:

Investments: Ninth Canadian Edition,

by Z. Bodie, A. Kane, A.J. Marcus, L.N. Switzer, D. Boyko, C. Panasian, M. Stapleton; McGraw-Hill Ryerson, 2019.

Textbook purchase options:

- Purchase a hard copy at the bookstore, or
- Purchase an electronic version:

https://campusstore.mcmaster.ca/cgi-mcm/ws/txsub.pl?wsTERMG1=202&wsTERMDESC1=Spring%2FSummer+2020&wsDEPTG1=COMMERCE&wsDEPTDESC1=COMMERCE&wsCOURSEG1=3FB3&wsSECTIONG1=DAY+C01&crit_cnt=1

EVALUATION

Learning evaluation is based on a combination of exams and assignments. Students are expected to come to class on time and be prepared for the class, i.e., to have read and completed the assigned readings and assignments. Your performance will be calculated as follows:

Components and Weights

Assignment	Submit Online	20%
Mid-Term Exam	Online	35%
Final Exam	Online (Cumulative)	45%
Total		100%

NOTE: The use of a McMaster standard calculator is allowed during examinations in this course. See McMaster calculator policy at the following URL:

www.mcmaster.ca/policy/Students-AcademicStudies/UndergraduateExaminationsPolicy.pdf

Grade Conversion

At the end of the course your overall percentage grade will be converted to your letter grade in accordance with the following conversion scheme:

LETTER GRADE	PERCENT	LETTER GRADE	PERCENT
A+	90-100	C+	67-69
A	85-89	C	63-66
A-	80-84	C-	60-62
B+	77-79	D+	57-59
B	73-76	D	53-56
B-	70-72	D-	50-52
		F	00-49

Communication and Feedback

Students who wish to correspond with instructors or TAs directly via email must send messages that originate from their official McMaster University email account. This protects the confidentiality and sensitivity of information as well as confirms the identity of the student. Emails regarding course issues should NOT be sent to the Area Administrative Assistants. Instructors are required to provide evaluation feedback for at least 10% of the final grade to students prior to Week #4 in the term. Instructors may solicit feedback via an informal course review with students by Week #2 to allow time for modifications in curriculum delivery.

Course Deliverables

Assignment

The assignment will be a single project or divided into several quizzes. It will be an individual assignment during this social-distancing period and group discussion of essential contents is not allowed. The assignment is designed to help the preparation for exams but also to promote a better understanding of course materials. Late submission will have 10% deducted per day late.

Mid-Term Exam

The exam is closed-book and will be completed individually in an online format. The students will be required to sign a statement to confirm that they will follow the university rule for academic integrity. As such, any academic misconduct will not be tolerated. The mid-term exam will cover all the materials delivered before it. The primary reference material is the lecture notes, and the textbook serves as a helpful supplementary reference. Self-made formula sheets are not allowed to be used. If the exam were missed, the weight of the mid-term would be transferred to the final exam, in which case the final will worth 80%, and no make-up exam will be offered.

Final Exam

The final exam will be comprehensive, while the materials after the midterm will carry higher weights. The references and requirements are the same as those of the Mid-Term Exam.

ACADEMIC INTEGRITY

You are expected to exhibit honesty and use ethical behavior in all aspects of the learning process. Academic credentials you earn are rooted in principles of honesty and academic integrity.

Academic dishonesty is to knowingly act or fail to act in a way that result or could result in unearned academic credit or advantage. This behavior can result in serious consequences, e.g. the grade of zero on an assignment, loss of credit with a notation on the transcript (notation reads: “Grade of F assigned for academic dishonesty”), and/or suspension or expulsion from the university.

It is your responsibility to understand what constitutes academic dishonesty. For information on the various types of academic dishonesty please refer to the *Academic Integrity Policy*, located at:

www.mcmaster.ca/academicintegrity

The following illustrates only three forms of academic dishonesty:

1. Plagiarism, e.g. the submission of work that is not one's own or for which other credit has been obtained.
2. Improper collaboration in group work.
3. Copying or using unauthorized aids in tests and examinations

AUTHENTICITY/PLAGIARISM DETECTION

In this course we will be using a web-based service (Turnitin.com) to reveal authenticity and ownership of student submitted work. Students will be expected to submit their work electronically either directly to Turnitin.com or via Avenue to Learn (A2L) plagiarism detection (a service supported by Turnitin.com) so can be checked for academic dishonesty. Students who do not wish to submit their work through A2L and/or Turnitin.com must still submit an electronic and/or hardcopy to the instructor. No penalty will be assigned to a student who does not submit work to Turnitin.com or A2L. All submitted work is subject to normal verification that standards of academic integrity have been upheld (e.g., on-line search, other software, etc.). To see the Turnitin.com Policy, please go to:

www.mcmaster.ca/academicintegrity.

REQUESTING RELIEF FOR MISSED ACADEMIC WORK

Students may request relief from a regularly scheduled midterm, test, assignment or other course components. Please refer to the policy and procedure on the DeGroot website at the link below:

<http://ug.degroot.mcmaster.ca/forms-and-resources/misled-course-work-policy/>

STUDENT ACCESSIBILITY SERVICES

Students who require academic accommodation must contact Student Accessibility Services (SAS) to make arrangements with a Program Coordinator. Academic accommodations must be arranged for each term of study. Student Accessibility Services can be contacted by phone 905-525-9140 ext. 28652 or e-mail: sas@mcmaster.ca.

For further information, consult McMaster University's Policy for Academic Accommodation of Students with Disabilities:

<http://www.mcmaster.ca/policy/Students-AcademicStudies/AcademicAccommodation-StudentsWithDisabilities.pdf>

ACADEMIC ACCOMMODATION FOR RELIGIOUS, INDIGENOUS OR SPIRITUAL OBSERVANCES (RISO)

Students requiring academic accommodation based on religious, indigenous or spiritual observances should follow the procedures set out in the RISO policy. Students requiring a RISO accommodation should submit their request, including the dates/times needing to be accommodated and the courses which will be impacted, to their Faculty Office normally within 10 days of the beginning of term or to the Registrar's Office prior to their examinations. Students should also contact their instructors as soon as possible to make alternative arrangements for classes, assignments, and tests.

POTENTIAL MODIFICATION TO THE COURSE

The instructor reserves the right to modify elements of the course during the term. There may be changes to the dates and deadlines for any or all courses in extreme circumstances. If either type of modification becomes necessary, reasonable notice and communication with the students will be given with explanation and the opportunity to comment on changes. It is the responsibility of the student to check their McMaster email and course websites weekly during the term and to note any changes.

ACKNOWLEDGEMENT OF COURSE POLICIES

Your enrolment in Commerce 3FB3 will be considered to be an implicit acknowledgement of the course policies outlined above or of any other that may be announced during lecture and/or on A2L. **It is your responsibility to read this course outline, to familiarize yourself with the course policies and to act accordingly.**

Lack of awareness of the course policies **cannot be invoked** at any point during this course for failure to meet them. It is your responsibility to ask for clarification on any policies that you do not understand.

COURSE SCHEDULE

Week	Date	Topic
1.1	May 4 th (Mon)	Overview of Financial Markets The Investment Environment, Instruments, Trading and Key Players in Financial Markets Reference Chapters in the Textbook: Ch1-4 & Ch26
1.2	May 6 th (Wed)	Return and Risk Fundamentals of Risk and Return Reference Chapters in the Textbook: Ch5
2.1	May 11 th (Mon)	Modern Portfolio Theory Capital Allocation The Markowitz Portfolio Optimization Model Reference Chapters in the Textbook: Ch6, 7
2.2	May 13 th (Wed)	Asset Pricing Models The Capital Asset Pricing Model OLS Regression (Tentative) Reference Chapters in the Textbook: Ch9, 8
3.1	May 18 th (Mon)	Victoria Day (NO CLASS)
3.2	May 20 th (Wed)	Midterm Exam (In-Class Online)
4.1	May 25 th (Mon)	Asset Pricing Models Arbitrage Pricing Theory Basic Facts about Security Returns Reference Chapters in the Textbook: Ch10, 13
4.2	May 27 th (Wed)	Equity Analysis Macroeconomic Analysis Financial Statement Analysis Reference Chapters in the Textbook: Ch17, 18, 19
5.1	Jun 1 st (Mon)	Bond Market Bond Prices and Yields Reference Chapters in the Textbook: Ch14, 15
5.2	Jun 3 rd (Wed)	Bond Market Term Structure of Interest Rates Reference Chapters in the Textbook: Ch14, 15
6.1	Jun 8 th (Mon)	Derivative Markets Options Reference Chapters in the Textbook: Ch20, 21, 22, 23
6.2	Jun 10 th (Wed)	Derivative Markets Futures, Forwards and Swap Markets Reference Chapters in the Textbook: Ch20, 21, 22, 23
7.1	Jun 15 th (Mon)	Efficient Market and Behavioral Finance Market Efficiency, Behavioral Finance, and Active Management Reference Chapters in the Textbook: Ch11, 12, 27
7.2	Jun 17 th (Wed)	Final Exam (In-Class Online)