

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

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

COURSE OBJECTIVE

The goal of this course is to introduce students to the fundamental elements of security analysis, including financial markets and instruments, investment theory and the valuation of common equity. By the end of the course, students should be able to apply the tools learned in this class to make informed investment decisions and manage portfolios of common stocks and related securities.

INSTRUCTOR AND CONTACT INFORMATION

**Section 1:
Mon 11:30-14:20**

**Section 2:
Mon 14:30-17:20**

**Section 3:
Thu 11:30-14:20**

**Section 4:
Tue 11:30-14:20**

Section 5:
Tues 14:30-17:20

Class Location: VIRTUAL

Dr. Trevor Chamberlain
Instructor
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Teaching Assistant
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Course website: <http://avenue.mcmaster.ca>

Course Description

This course is taught primarily through lectures, tutorials, readings, an investment challenge, a group project, student break-out sessions and in-class discussions. Through taking this course, students will gain a better understanding of both the theory and practice of security analysis and selection. Topics include the investment environment and financial markets, investment management and the evaluation of common stocks and related securities. This course is important for students planning to follow the Chartered Financial Analyst (CFA) curriculum.

LEARNING OUTCOMES

Upon completion of this course, students will be able to complete the following key tasks:

- ✓ Have a sound understanding of financial markets and instruments;
- ✓ Have a basic familiarity with portfolio theory;
- ✓ Be able to conduct basic portfolio analysis and assessment;
- ✓ Have a good understanding of basic valuation techniques and be able to use them to make investment decisions

COURSE MATERIALS AND READINGS

Avenue registration for course content, reading materials and slides

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

Investments: Ninth Canadian Edition, by Z. Bodie, A. Kane, A.J. Marcus, L.N. Switzer, B. Boyko, C. Panasian and M. Stapleton; McGraw-Hill Ryerson, 2019.

COURSE OVERVIEW AND ASSESSMENT

You will be evaluated based on three components according to the weights indicated below. The Investment Challenge will comprise two team reports (one brief). The Investment Analysis project will also comprise two reports. The problem sets will be done individually. There will be no exams.

Your final grade will be calculated as follows:

Problem sets (four)	5 marks each	20%	20%
Investment Challenge	Report 1 (3 pages approx)	5%	30%
	Report 2 (15 pages approx)	25%	
Investment Analysis	Report 1; Industry (15 pages approx)	25%	50%
	Report 2: Stock (15 pages approx)	25%	
Total			100%

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

Problem Sets

Textbook problems and questions will be posted on Avenue at the beginning of Weeks 3, 6, 9 and 12 (#1: Wednesday, September 23; #2: Wednesday, October 14; #3: Wednesday, November 04; and #4: Wednesday, November 25). Each will be due one week later at 5:00 pm: #1. Wednesday, September 30; #2. Wednesday, October 21; #3. Wednesday, November 11; and #4. Wednesday, December 02. Problem sets are to be done individually and submitted on Avenue.

Investment Challenge

The Investment Challenge will be done in teams of four. The teams will be created at the end of the Drop and Add period and posted online. Teams will be section-specific. Students will have individual access prior to the formation of groups in order to familiarize themselves with the FTS Real Time System we will be using for the Investment Challenge. Directions for accessing the site will be posted on A2L if you run into any problems, please contact Kevin Brewer at kbrewer@mcmaster.ca.

Investment Scenario: You and your team members are a portfolio management team at a high net worth investment firm. A client has approached your firm looking for a proposal to invest \$1 million CAD and \$1 million US. She states that she has just won \$20 million CAD in a lottery tax-free. She is forty years old and is agnostic about whether you recommend an income or growth strategy. She states that she realizes that some advisors are simply good stock pickers and that she is fine with a highly focussed stock-picking approach. She says that she has heard that others are highly diversified, asset allocation-focused Investment managers. She says she is fine with that too. She is open to any approach that you believe will help her.

As she plans to continue working for the foreseeable future, she is not looking to her portfolio for near-term income needs. Her stated objectives are:

1. to grow her capital on an inflation-adjusted basis,
2. to be mindful of taxes and expenses,
3. to use a prudent approach to investing,
4. to be able to understand how her portfolio manager adds value,
5. in order to have liquid investment holdings and to stay away from esoteric investments, she has asked that strategies be limited to investments in medium to large Canadian and US companies and a select number of ETFs (these will be provided to students). However, she is also willing to have her capital invested in a margin account and to engage in short selling, if deemed consistent with goal #3.

You have a sense that this client is testing your firm as she has just won \$20 million CAD and is allocating only \$1 million US and \$1 million CAD to your firm. In fact, she has decided to test out several potential money managers. She does not want them to know this as she fears that they might try to take on extra risk in order to have strong performance in the early months of the mandate. Her plan is

to have eight different investment firms each put the same amounts to work according to her objectives stated above. This way she will see eight different plans and potentially eight different approaches.

At the end of two months, she plans to consolidate all of her recent winnings among the four firms that she feels most comfortable with. Performance is always important, but it will not be the only factor as she realizes that two months is too short a time frame to judge returns. Each of the four winning firms will be given \$5 million CAD to invest. She will close her account at the four firms that did not reach the top half of her pecking order. Will your firm win or lose in this process?

Your team's **Investment Challenge** is to:

1. Create a portfolio that invests \$1 million US and \$1 million CAD. All initial portfolios should be set up no later than Wednesday, September 30. The instructions for setting up the portfolio and accessing the Investment Challenge website will be provided on Avenue.
2. Write a **brief** review (approx 3 pages double-spaced) for the client that discusses your recommended investments and strategy. You should also disclose your approach fees. This is Report 1 of the Investment Challenge. It must be submitted on Avenue no later than Wednesday, October 07 at 5:00 pm. Only one submission per team is required.
3. You can make trades in your client's portfolio as you see fit during the Investment Challenge. All initial and subsequent trades incur a fee of \$9.95 in addition to the overall investment management fee that you charge the client. The initial portfolio must be established by Week 4 and at least one trade per week must be made in subsequent weeks up to and including Week 12. Buy-and-hold purchases of index funds do not provide an interesting learning experience, the possible merit of such a strategy notwithstanding.
4. Write a (12-15 pages double-spaced) review of what went well and what did not go well during the Investment Challenge. Discuss why you made any trades or why you did not. Compare your performance to a relevant benchmark, which you must decide. What might you have done differently in retrospect? Was there anything that you learned that might alter your investment approach in the future? This is Report 2 of the Investment Challenge. It must be submitted on Avenue no later than Wednesday, December 09 at 5:00 pm. Only one submission per team is required.

Team Investment Project

The team investment project comprises two exercises, The exercises will be undertaken by the same teams as those assigned for the Investment Game. The purpose of the project is to give students an opportunity to gain some experience with equity research in a real world setting. The main purpose of equity research is to provide investors with detailed financial analysis and recommendations on whether to buy, hold or sell a particular investment. There is a wealth of information available online about public companies, but you will have to do some digging.

The investment will be a common stock of the students' choosing. The stock must be listed on a Canadian or US stock exchange. Listed investment trusts (eg. REITs) and American Depositary Receipts (ADRs) for individual offshore companies are permitted as well. Securities based on a portfolio of stocks (eg. ETFs) are not eligible for this project as the purpose is to analyze a particular industry and stock.

Student teams will choose an industry and, then, the common stock of a company within the industry (no preferred shares please). The first step will be to analyze the industry. This will involve investigating industry trends and competition. You should ensure that all of the dynamics of the industry have been investigated, including the impact of political factors, the state and future of the economy, social trends and technological change. Short to medium-term factors, such as the current Covid-19 crisis, should be considered as well. The industry report (approx. 15 pages plus any supporting tables, graphs, computations and projections, etc in appendices) is to be submitted via Avenue no later than Wednesday, November 04 at 5:00 pm. All writing must be your own original work. Tables and figures from other sources may be included in the appendices, but the sources should be acknowledged. Do avoid the temptation to cut and paste or otherwise incorporate material from other sources as any evidence of having done so will result in a grade of zero on the assignment. All references used should be cited in a bibliography.

The second part of the project will involve choosing a company within the industry chosen for the first part and prepare a report for individual investors on the company's prospects, including a recommendation as to the whether the stock is a buy, sell or hold; the type of portfolio for which it is appropriate (income, growth, value, speculative, etc); and the investment horizon of the investor for whom it is recommended (day-trader, short-term (up to one year), medium-term (up to five years) or long-term (forever if your client is Warren Buffett)). In this part you should consider the quality of the management team (e.g look at its track record in creating value for investors), You should also look at recent years' financial data for the company. These can be obtained for the companies' annual reports, 10-K reports, etc (look at the SEDAR website for Canadian companies and the EDGAR website for US companies). The various sources of information you consult can then be used to make forecasts about the company's future prospects and arrive at an estimate of the value of the company's common stock (using valuation tools introduced in the course; you should consider multiple (at least two) valuation methods). Your consensus estimate (or, more likely, range of estimates) should then be compared with the current price (the current price should be the closing stock price on any date between November 15 and December 15; identify the date chosen in your report) in order to arrive at your recommendation. The company report (15 pages approx with supporting analysis, tables, figures, etc) is due Wednesday, December 16 at 5:00 pm. Once again, all written material must be your own original work. Evidence of copying from other sources (eg cut and paste of commercial stock reports) will result in a grade of zero on the assignment. Charts and tables from other sources can be included in the appendix providing the source is acknowledged. All material referenced should be cited in a bibliography.

Weekly Activities

The classes will comprise three components; lecture and discussion (approx. 1.5 hours), followed by a tutorial focusing on problem solving (approx 45 minutes) , followed by break-out groups on Zoom in which the investment teams can discuss the construction and management of their investment portfolios (the Investment Challenge) as well as their Investment Analysis projects. The team members will work together in managing their Investment Challenge portfolios as well as their Investment Analysis projects. All members of each team will be awarded the same grade. Thus, it is important for team members to ensure that everyone on the team is pulling their weight. The instructor reserves the right to lower the grade of any student if it becomes apparent that they are not doing their share of the work. (usually because other students complain).

COMMUNICATION

Students who wish to correspond with the instructor 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.

REQUESTING RELIEF FOR MISSED ACADEMIC WORK

In the event of an absence for medical or other reasons, students should review and follow the Academic Regulation in the Undergraduate Calendar “Requests for Relief for Missed Academic Term Work” and the link below;

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

ACADEMIC INTEGRITY

You are expected to exhibit honesty and use ethical behaviour in all aspects of the learning process. Academic credentials you earn are rooted in principles of honesty and academic integrity. **It is your responsibility to understand what constitutes academic dishonesty.**

Academic dishonesty is to knowingly act or fail to act in a way that results or could result in unearned academic credit or advantage. This behaviour 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.

For information on the various types of academic dishonesty please refer to the [Academic Integrity Policy](https://secretariat.mcmaster.ca/university-policies-procedures-guidelines/), located at <https://secretariat.mcmaster.ca/university-policies-procedures-guidelines/>

The following illustrates three forms of academic dishonesty:

- plagiarism, e.g. the submission of work that is not one’s own or for which other credit has been

- obtained.
- improper collaboration on individual assignments.
 - copying (eg. cut and paste).

AUTHENTICITY/PLAGIARISM DETECTION

Some courses may use a web-based service (Turnitin.com) to reveal authenticity and ownership of student submitted work. For courses using such software, students will be expected to submit their work electronically either directly to Turnitin.com or via an online learning platform (e.g. A2L, etc.) using plagiarism detection (a service supported by Turnitin.com) so it can be checked for academic dishonesty.

Students who do not wish their work to be submitted through the plagiarism detection software must inform the Instructor before the assignment is due. No penalty will be assigned to a student who does not submit work to the plagiarism detection software.

All submitted work is subject to normal verification that standards of academic integrity have been upheld (e.g., on-line search, other software, etc.). For more details about McMaster's use of Turnitin.com please go to www.mcmaster.ca/academicintegrity.

COURSES WITH AN ON-LINE ELEMENT

Some courses may use on-line elements (e.g. e-mail, Avenue to Learn (A2L), Zoom). Students should be aware that, when they access the electronic components of a course using these elements, private information such as first and last names, user names for the McMaster e-mail accounts, and program affiliation may become apparent to all other students in the same course.

The available information is dependent on the technology used. Continuation in a course that uses on-line elements will be deemed consent to this disclosure. If you have any questions or concerns about such disclosure please discuss this with the course instructor.

CONDUCT EXPECTATIONS

As a McMaster student, you have the right to experience, and the responsibility to demonstrate, respectful and dignified interactions within all of our living, learning and working communities. These expectations are described in the [Code of Student Rights & Responsibilities](#) (the "Code"). All students share the responsibility of maintaining a positive environment for the academic and personal growth of all McMaster community members, **whether in person or online**.

It is essential that students be mindful of their interactions online, as the Code remains in effect in virtual learning environments. The Code applies to any interactions that adversely affect, disrupt, or interfere with reasonable participation in University activities. Student disruptions or behaviours that interfere with university functions on online platforms (e.g. use of Avenue 2 Learn, WebEx or Zoom for delivery), will be taken very seriously and will be investigated. Outcomes may include restriction or removal of the involved students' access to these platforms.

ACADEMIC ACCOMMODATION OF STUDENTS WITH DISABILITIES

Students with disabilities who require academic accommodation must contact [Student Accessibility Services](#) (SAS) at 905-525-9140 ext. 28652 or sas@mcmaster.ca to make arrangements with a Program Coordinator. For further information, consult McMaster University's [Academic Accommodation of Students with Disabilities](#) policy.

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 should submit their request to their Faculty Office *normally within 10 working days* of the beginning of term in which they anticipate a need for accommodation 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.

COPYRIGHT AND RECORDING

Students are advised that lectures, demonstrations, performances, and any other course material provided by an instructor include copyright protected works. The Copyright Act and copyright law protect every original literary, dramatic, musical and artistic work, **including lectures** by University instructors.

The recording of lectures, tutorials, or other methods of instruction may occur during a course. Recording may be done by either the instructor for the purpose of authorized distribution, or by a student for the purpose of personal study. Students should be aware that their voice and/or image may be recorded by others during the class. Please speak with the instructor if this is a concern for you.

EXTREME CIRCUMSTANCES

The University reserves the right to change the dates and deadlines for any or all courses in extreme circumstances (e.g., severe weather, labour disruptions, etc.). Changes will be communicated through regular McMaster communication channels, such as McMaster Daily News, A2L and/or McMaster email.

ACKNOWLEDGEMENT OF COURSE POLICIES

Your enrolment in Commerce 3FB3 will be considered to be an implicit acknowledgement of the University and course policies outlined above, or of any other that may be announced during lectures 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.

**Commerce 3FB3
Security Analysis
Fall 2020 Course Schedule**

WEEK	WEEK BEGINNING (WEEKS BEGIN ON THURSDAYS)	ACTIVITIES
1	Sept 10	Pre-Read: Chapter 1 Discuss: Class Outline, Evaluation, Investment Challenge, Investment Analysis project) Lecture: Investment Environment
2	Sept 17	Pre-Read: Chapter 2 Lecture: Financial Markets and Securities Tutorial Assignment 1 posted on A2L (September 23)
3	Sept 24	Pre-Read: Chapter 3 Lecture: Securities Trading Tutorial Break-out rooms Assignment 1 due September 30 at 5:00 pm Eastern Time
4	Oct 01	Pre-Read: Chapter 17 Lecture: Macroeconomics and Industry Analysis Tutorial Break-out rooms Report 1 of Investment Challenge due October 07 at 5:00 pm Eastern Time
5	Oct 08 (continues Oct 19 and 20)	Pre-Read: Chapter 18 Lecture: Equity Valuation Models Tutorial Break-out rooms Assignment 2 posted on A2L (October 14)
6	Oct 12-16	No Classes: Reading Week Assignment 2 due on October 21 at 5:00 pm Eastern Time
7	Oct 22	Pre-read Chapter 19 Lecture: Financial Statement Analysis Tutorial Break-out rooms

WEEK	WEEK BEGINNING (WEEKS BEGIN ON THURSDAYS)	ACTIVITIES
8	Oct 29	Pre-read Chapter 11 Lecture: Efficient Markets Hypothesis Tutorial Break-out Rooms Report 1 of Investment Analysis project due November 04 at 5:00 pm Eastern Time Assignment 3 posted on A2L (November 04)
9	Nov 5	Pre-Read: Chapters 12 Lecture; Behavioural Finance and Technical Analysis Tutorial Break-out Rooms Assignment 3 due on November 11 at 5:00 pm Eastern Time
10	Nov 12	Pre-Read: Chapter 4 Lecture: Mutual Funds and Other Investment Companies Tutorial Break-out Rooms
11	Nov 19	Pre-Read: Chapter 5 Lecture; Risk and Return Tutorial Break-out Rooms Assignment 4 posted on A2L (November 25)
12	Nov 26	Pre-Read: Chapter 6 Lecture: Capital Allocation Tutorial Break-out Rooms Assignment 4 due on December 02 at 5:00 pm Eastern Time
13-plus	Dec 03	Pre-read Chapter 7 Lecture; Optimal Portfolio Selection Tutorial Break-out Rooms Report 2 of Investment Challenge due on December 09 at 5:00 pm Eastern Time Report 2 of Investment Analysis project due December 16 at 5:00 pm Eastern Time