

Commerce 3FB3 Security Analysis Spring 2023 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

Mon 18:30-21:30 & Wed 18:30-21:30

Room: ABB B118

Instructor

Julie Dong

dongz35@mcmaster.ca

Office Hours: by appointment

TA

Hamidreza Masoumi

masoumih@mcmaster.ca

Office Hours: by appointment

Course website: <http://avenue.mcmaster.ca>

COURSE ELEMENTS

Credit Value: 3	Leadership: Yes	IT skills: No	Global view: Yes
A2L: Yes	Ethics: No	Numeracy: Yes	Written skills: Yes
Participation: Yes	Innovation: Yes	Group work: Yes	Oral skills: Yes
Evidence-based: Yes	Experiential: No	Final Exam: No	Guest speaker(s): No

Course Description

This course is taught primarily through lectures, readings, an investment challenge, an equity research project, problem assignments 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.
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COURSE MATERIALS AND READINGS

Avenue registration for course content, reading materials and slides

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

Investments: Tenth Canadian Edition, by Z. Bodie, A. Kane, A.J. Marcus, L.N. Switzer, B. Boyko, C. Panasian and M. Stapleton; McGraw-Hill Ryerson, 2022.

Campus Store Link for the textbook:

https://campusstore.mcmaster.ca/cgi-mcm/ws/txsub.pl?wsTERMG1=232&wsDEPTG1=COMMERCE&wsCOURSEG1=3FB3&wsSECTIONG1=DAY%20C01&crit_cnt=1

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 Equity Research project will also comprise two team reports. The problem sets will be done individually. There will be no exams.

Your final grade will be calculated as follows:

In-class Discussion & Participation			10%
Individual Assignments (Five)	10% each		50%
Equity Research Project	Presentation	10%	40%
	Written Report	30%	
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

COURSE DELIVERABLES

Individual Assignments

Questions will be posted on Avenue. Students will have one week to complete each assignment. The deadlines are **strict** since the answers will be revealed immediately following the deadline. **Students are encouraged to start and submit the assignments early. Waiting until one day or two before the deadline to start is ill-advised. To ensure fairness, students who cannot submit their answers on time due to uncontrollable reasons will be reassigned a different problem set instead (possibly of a higher difficulty level).**

Please provide all the detailed steps in solving the questions. Answers that only include the results without the necessary details of calculation and/or reasoning will lead to **ZERO point**.

Team Equity Research Project

Presentation in the last week: 10 min/team

Written Report (tentative) Due June 21 at 23:59

Each team will include **two** students. Please form your own team and sign up on Avenue before May 17 at 23:59, otherwise you will be assigned to a team at random by TA on May 18.

The main objective of the project is to give students an opportunity to gain some experience with equity research in a real-world setting. The final report should serve the purpose of providing 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 (no preferred shares please) of the students' choosing. The stock must be listed on a Canadian or US stock exchange. Listed investment trusts (e.g., REITs) and American Depositary Receipts (ADRs) for individual offshore companies are permitted as well. Securities based on a portfolio of stocks (e.g. ETFs or closed-end investment companies) are not eligible for this project as the purpose is to analyze a particular industry and stock.

The project report should comprise (at least) two parts: industry analysis and stock analysis. Industry analysis typically involves investigating industry trends and competition. You should ensure that all 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, etc. Stock analysis should involve the company's prospects, the past performances of the stock, and anything else that you consider worth noting when making investment decisions. For example, the quality of the management team (e.g., look at its track record in creating value for investors); recent years' financial data for the company which 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 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 (identify the date chosen in your report) to arrive at your conclusion. A recommendation as to the whether the stock is a buy, sell or hold should be given explicitly, together with 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)).

All written material must be your own original work. Evidence of copying from other sources (e.g., 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.

Both members of each team will be assumed to be eligible for the same grade. Thus, it is important for team members to ensure that each of you 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 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. All students must receive feedback regarding their progress prior to the final date by which a student may cancel the course without failure by default.

For Level 3 courses and above, this feedback must equal a minimum of 10% of the final grade.

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/>

Please note that since students will be able to work on the various course activities well in advance of when they are due, MSAFs will NOT be accepted for missed work

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 or will be obtained in another course.
- improper collaboration on individual assignments.
- copying (e.g., 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, usernames for 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 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 protects 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 is 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
Spring 2023 Course Schedule**

CLASS	CLASS DATE	ACTIVITIES
1	May 01	Overview of Financial Markets and Securities Reference Chapters in the Textbook: Ch1-4 & Ch26
2	May 03	Overview of Financial Markets and Securities Reference Chapters in the Textbook: Ch1-4 & Ch26
3	May 08	Return and Risk Fundamentals of Risk and Return Reference Chapters in the Textbook: Ch 5
4	May 10	Modern Portfolio Theory Capital Allocation The Markowitz Portfolio Optimization Model Reference Chapters in the Textbook: Ch 6, Ch 7
5	May 15	Asset Pricing Models The Capital Asset Pricing Model Reference Chapters in the Textbook: Ch 8, Ch 9
6	May 17	Asset Pricing Models Arbitrage Pricing Theory Reference Chapters in the Textbook: Ch 10 Assignment 1 due at 18:30 (before class)
	May 22	Victoria Day – no class
7	May 24	Security Analysis Macroeconomic & Industry Analysis; Equity Valuation Reference Chapters in the Textbook: Ch 17, 18 Assignment 2 due at 18:30 (before class)
8	May 29	Bond Market Bond Prices and Yields Reference Chapters in the Textbook: Ch 14
9	May 31	Bond Market Term Structure of Interest Rates Duration Reference Chapters in the Textbook: Ch 15, 16 Assignment 3 due at 18:30 (before class)
10	June 5	Derivative Markets Options Reference Chapters in the Textbook: Ch 20, 21

CLASS	CLASS DATE	ACTIVITIES
11	June 7	Derivative Markets Forwards and Futures Reference Chapters in the Textbook: Ch 22, 23 Assignment 4 due at 18:30 (before class)
12	June 12	Team Project Presentation
13	June 14	Team Project Presentation Assignment 5 due at 18:30 (before class)

The instructor reserves the right to adjust the content of each lecture.