MBA 792A – Syllabus

Capital Markets and Allocation

Module III - Spring 2023

Administrative Information

Instructor: Dr. Gill Segal, Assistant Professor of Finance

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Office: McColl 4113

Phone: (919) 962-3854

Office Hours: Tuesdays 12:30-1:30PM

Exam: March 3rd, 9AM-12:00Noon

Class Sessions

Capital Markets Lab (McColl 2550); Tuesdays and Thursdays; 9:30AM-10:50PM

Overview

Given an investor's specific goals, how should she create an optimal portfolio, made primarily of equities? The class is designed to address this question by bringing students to the frontier of ``factor investing'', described below, which is widely used in the investment world.

The basic take-away from introductory finance classes is that individual stock holding is not efficient: it is always possible to find a well-diversified portfolio that yields the same reward as the individual stock, but with lower risk. Investor should not allocate all of their capital to a specific security – rather, they should engage in portfolio selection. But which portfolios are better? Factor investing provides an answer. Think of factors as representing hard times for investors. Assets that are more sensitive to fluctuations in these risk factors are rewarded with long term premium. The goal is to optimally harvest factor risk premium using well-diversified portfolios.

To gradually introduce factor investing, the class begins with an overview of capital markets, the types of securities traded, and trading techniques. It then introduces workhorse frameworks used to understand how to allocate capital into equities, and how these assets are priced. This includes a deeper review of the

CAPM model, multifactor models, the efficient market hypothesis, anomalies, and event studies.

MBA792A is aimed at students who wish to conceptually understand equity investment strategies, and be able to assess these strategies qualitatively. This is useful for retail investors, or for those who have an interest in an industry job. MBA792A assumes little prior knowledge: it is structured based on sequential topics, and its assignments follow the "traditional" pen-and-paper exercises

Course Materials

Before each class I will upload the lecture notes in PDF format to Canvas. The lecture notes, along with the discussions in class, encompass all materials that you will need to know for the problem sets and final exam. The lecture notes largely track the textbook of this class: Investments, by Zvi Bodie, Alex Kane, and Alan Marcus (McGraw-Hill, 8/9/10/11/12th Edition; henceforth BKM). Specifically, the relevant chapters for this Module are 1-3, 5-11, and 13. Because the lecture notes are self-contained, you are not required to purchase the book. However, it could be a good idea to do so as a source of additional discussion. Importantly, some topics discussed in my lecture notes are not covered by BKM.

Problem Sets

There are three problem sets in this class. Only the best two will count towards the final grade. The tentative due dates of these problem sets are specified in the last page of this Syllabus under `Tentative Schedule'. The actual due dates will be announced in class. Late submissions are not accepted. You may choose to submit only two out of the three problem sets, but in that case, all two submissions will count. I strongly encourage you to submit all three problem sets in preparation for the final exam. You can submit each problem set individually, or in a group of up to three students.

Final Exam

The final exam will cover all lecture notes and problem sets. If any particular topic is not covered in the exam I will explicitly announce that in class. The exam is three-hour long.

Attendance

Attendance is mandatory. If you miss a class for a reason related to an illness, family emergency, religious observance, or civic obligation, please inform me no later than a week from the date of absence. Active participation in class is strongly encouraged.

Grading

The final grade will be computed as follows:

Problem sets (best two of three; 2*20%) 40%

Final Exam 50%

Class participation 10%

Guidance

1. Office hours: Tuesdays 12:30-1:30PM
2. I will do my best to answer questions sent by email: Gill_Segal@kenan-flagler.unc.edu.

Tentative Schedule

Class	Date	Topic	Reference	Due Dates
1	1/10	Introduction; Financial Markets – Part I	BKM 1, 2, 3	
2	1/12	Financial Markets – Part II	BKM 1, 2, 3	
3	1/17	Financial Markets – Part III + Risk and Return – Part I	BKM 5	
4	1/19	Risk and Return – Part II	BKM 5	
5	1/24	Capital Allocation – Part I	BKM 6-7	Submit PS 1
6	1/26	Capital Allocation – Part II	BKM 6-7	
7	1/31	Deeper look into CAPM – Part I	BKM 8, 9	
8	2/2	Deeper look into CAPM – Part II	BKM 9, 13.1	
9	2/7	Factor investing – Part I	BKM 10, 13.1, 13.2, 13.3, 13.4	Submit PS 2
10	2/9	Factor investing – Part II	BKM 10, 13.1, 13.2, 13.3, 13.4	
	2/14	No class- Well-being day		
11	2/16	Market Efficiency and Anomalies – Part I	BKM 11	
12	2/21	Market Efficiency and Anomalies – Part II	BKM 11	
13	2/23	Miscellaneous Topics on Smart Beta		Submit PS 3
14	2/28	Review		