

# FINANCIAL MARKETS

## [MSFA 712-01]

### FALL 2012

**Instructor:** Professor Ludwig Chincarini, CFA, Ph.D.

**Phone:** 703-585-0336 (Cell)

**Email:** [chincarini@hotmail.com](mailto:chincarini@hotmail.com) [preferred email – subject line: Financial Markets]

**Website:** [www.ludwigbc.com](http://www.ludwigbc.com)

**Office Hours:** Howard (Saturday 5:15 – 6:15 PM or by request).

**Class Hours & Location:** Saturday, 1:00 P.M., Howard Building, Room TBA

**Course Description:** *This course emphasizes the needs and processes that underlie financial markets and institutions as the main drivers of how and why financial markets and institutions are in a constant state of innovation and evolution. We examine how existing institutional structures are, or are not, responsive to forces affecting these markets and the consequences for continuing financial innovation.*

*The goal is to develop an understanding of the critical aspects of a financial system and the forces acting to change it. In the spirit of our CFA partnership, the course will provide an introduction to students of the important financial instruments, markets, and institutions in the world's major economies. This will provide the broad framework with which to pursue your studies in the Masters program.*

#### **Industry Licenses:**

Some of you may wish to enroll in the CFA program ([www.cfainstitute.org](http://www.cfainstitute.org)) or in the MTA program ([www.mta.org](http://www.mta.org)). The first program is the Certified Financial Analyst pedigree, while the second is a Chartered Market Technician's pedigree. These are credentials that are increasingly being attained by people in the financial industry. Much of the material in this course will overlap with the study guide of the CFA.

**Required Text:**

Reilly, Frank K. and Keith C. Brown. *Investment Analysis and Portfolio Management*, 10<sup>th</sup> Edition or 11<sup>th</sup> Edition, Thomson South Western.

Chincarini, Ludwig B. *The Crisis of Crowding. Quant Copycats, Ugly Models, and the New Crash Normal*, Wiley, 2012.

**Suggested Companion Texts (not-required):**

Chincarini, Ludwig B. and Daehwan Kim. *Quantitative Equity Portfolio Management*. New York, McGraw-Hill, 2006.

**Handouts & Readings:** Additional readings will be given by instructor.

**Newspapers:** Students are **strongly encouraged** to read the Wall St. Journal on a daily basis. Discount order forms available from instructor.

**The Honor Code:** As a Jesuit institution committed to cura personalis- the care and education of the whole person- USF has an obligation to embody and foster the values of honesty and integrity. USF upholds the standards of honesty and integrity from all members of the academic community. The Honor Code can be found at: <http://www.usfca.edu/fogcutter>. Plagiarism on group projects or cheating on quizzes or exams will result in deferral to the appropriate disciplinary authority. The CFA code of conduct can be found: <http://www.cfainstitute.org/ethics/codes/ethics/Pages/index.aspx>.

**Disability:** Students are encouraged to inform the instructor of any disabilities that may impair their ability to learn.

**Lateness and Attendance:** Missed exams, late papers, and absenteeism can reduce a student's grade up to the discretion of instructor.

**Course Requirements and Grading:**

Group Project:	20%	(if applicable)
Final Exam:	50%	
Quizzes:	20%	
Participation:	10%	

### Course Outline

Meeting Date	Topics	Readings	Important Events
August 18, 2012	Intro. to Financial Markets & Institutions <ul style="list-style-type: none"> <li>● Role of financial markets &amp; institutions</li> <li>● Attributes of financial assets</li> </ul> Risk, Return and Probability <ul style="list-style-type: none"> <li>● Behavioral finance</li> <li>● Expected Risk and return for assets</li> </ul>	Reilly & Brown Chapter 1-4.	Problem Set #1 A.
August 25, 2012	Structure of Financial Markets <ul style="list-style-type: none"> <li>● Primary vs. secondary asset markets</li> <li>● Market-makers, Efficient Markets</li> </ul> Structure of Risk & Return <ul style="list-style-type: none"> <li>● Expected Risk and Return for portfolios of assets</li> <li>● Capital Asset Pricing Model (CAPM)</li> </ul>	Reilly & Brown Chapter 4,7, and 8. <i>Quantitative Equity Portfolio Management</i> , Chapters 1-3,6, 15. Crowding, Chapter 8.	Problem Set #1 R. Problem Set 2 A. Quiz #1
September 8, 2012	Financial Intermediaries I <ul style="list-style-type: none"> <li>● Attributes of the financial intermediaries</li> <li>● Government regulation</li> <li>● Sources of financial innovation</li> </ul> Financial Intermediaries II <ul style="list-style-type: none"> <li>● Types of assets and structure of the deal</li> <li>● Insurance, investment, and pension firms</li> </ul>	Reilly & Brown Chapter TBA <i>Crisis of Crowding</i> , Appendix I. Liaw, Chapters 1- 21. Crowding Chapter 9.	Problem Set #2 R. Problem Set 3 A. Quiz #2
September 15, 2012	Pricing Fixed Income Assets <ul style="list-style-type: none"> <li>● Cash flows and correct discount rate</li> <li>● Term structure of interest rates</li> </ul> Equity Valuation <ul style="list-style-type: none"> <li>● Basic Accounting</li> <li>● Cash flows &amp; Discount rate</li> <li>● Valuation and growth</li> </ul>	Reilly & Brown Chapter 18 and 19 (Bonds) Chapter 11 & 14 (Equity Valuation) Chapter 2 & 3 (RWJ). Crowding Chapter 10.	Problem Set #3 R. Problem Set 4 A. Quiz #3
September 22, 2012	Equity Valuation <ul style="list-style-type: none"> <li>● Cash flows</li> <li>● Appropriate discount rate</li> <li>● Relative Valuation</li> <li>● Industry Analysis</li> </ul>	Reilly & Brown Chapter 11, 13, 14, and 15. Crowding Chapter 11.	Problem Set #4 R. Problem Set 5 A. Quiz #4
September 29, 2012	Alternative Investments <ul style="list-style-type: none"> <li>● REIT's, Venture Capital</li> <li>● Hedge Funds, Distressed Debt</li> </ul>	Reilly & Brown Chapter 3, Chincarini, Hedge Funds. An Introduction (2012). Crowding, Chapter 17.	Problem Set #5 R. Problem Set 6 A. Quiz #5
October 4, 2012	Final Exam		