Professor Robert Korajczyk
Asset Management Practicum III
Finance 935/935C
Winter 2008

Syllabus

Information about the course is available on the course **Blackboard** site with the title "Kellogg Asset Management Practicum." On the Blackboard site I will post reading assignments (under “Assignments”) some required and optional readings and informational links (under “Course Documents”), and miscellaneous information (under “Announcements,” “Course Information,” or “Staff Information.”

Office hours: I will be available by appointment. If you would like to set up an appointment, please contact my assistant, Ms. Deborah Brauer at d-brauer@kellogg.northwestern.edu or 847-491-2752.

Teaching Assistants: The course teaching assistants are:
Joseph Engelberg, j-engelberg@kellogg.northwestern.edu
Fritz Burkhardt, f-burkhardt@kellogg.northwestern.edu

They are available to help you with data and software issues.

AMP III (935C) is the third of a four-quarter sequence in asset management. The focus of this course is to give the students both a theoretical foundation and practical experience in the management of investment portfolios. Students in the Asset Management Practicum are responsible for managing a portion of the University’s endowment portfolio. The equity portion of the fund will follow an investing strategy based on the fundamental security analyses of students in the class. The fund will allow short positions as well as long positions. The fund will also allow the use of quantitative and some derivative strategies as an overlay to the fundamental analyses. We may be able to add a hedge fund component over the course of the year

While some classes will consist of lectures by the instructor, others will be lectures by visiting practitioners and presentations of analyses by students in the class. In fact, the primary component of the course will be student presentations of stock analyses, research reports, and reviews of fund performance

Students will also report evaluations of the fund’s performance to a board of advisors for the Asset Management Practicum no less than on a quarterly basis. The board consists of the instructor, a representative of the Northwestern University Investment Office, and prominent practitioners. Most advisory board members have made substantial donations to the Asset Management fund.

Since the first three quarters of the course are meant to be taken as an integrated whole, students will receive course grades for FINC 933C, 934C, and 935C at the completion of the sequence.

Prerequisites/Co-requisites:

Asset Management Practicum III

Prerequisites: FINC 934C

Co-requisites: Over the three-quarter sequence students must take four quarter credits in additional asset management-related courses from the following list: FINC 447 Financial Strategy and Tax Planning, FINC 451 Money Markets and the Fed, FINC 460 Investments, FINC 463 Security Analysis, FINC 464 Fixed Income Securities, FINC 465 Derivative Markets I, FINC 467 Derivative Markets II, FINC 925 Advanced Topics in Finance, ACCT 451 Financial Reporting and Analysis, ACCT 452 Financial Reporting and Analysis II.

Course Structure:

Approximately half of the students in Asset Management Practicum III will focus on developing fundamental security analyses and half will serve as the investment committee responsible for managing the positions of the fund, given the fundamental analyses and other strategies developed by the Practicum students.

In addition to their duties on the investment committee, students will specialize in one of several areas: risk evaluation and performance reporting; trading strategies; derivatives strategies; quantitative strategies; asset allocation strategies.

The investment committee members are responsible for decisions about the positions taken in the portfolio, based on the analyses provided by the various analysts. Additionally, investment committee members may present equity analyses of their own.

Members involved in risk evaluation and performance reporting will monitor the portfolio to insure that the portfolio meets its investment guidelines and risk parameters, monitor and report portfolio performance to the class and advisory board, and monitor analyst performance.

Traders are responsible for determining the optimal trading strategies in order to minimize the implementation shortfall due to order execution, advising portfolio managers on the appropriate execution strategies, and devising pre-trade estimates and post-trade evaluation of execution costs.

Derivative, quantitative, and asset allocation analyst responsibilities are to advise the investment committee on strategies related to derivative and quantitative strategies designed to complement the fundamental equity analyses and to advise on tactical asset allocation.

Classes:

We will meet on Monday evenings for most, but not all, weeks of the quarter. Each class meeting will include an update by the portfolio managers of the positions in the portfolio, the performance and risk profile of the portfolio, and trades made since the last class. Analysts whose recommended stocks are in the portfolio will have an opportunity to update those recommendations. We will then either have a lecture by the instructor, by a visiting practitioner, by a data/software vendor, or by students. Students are expected to attend all class sessions.

On dates when there is a visiting practitioner we may have a pre-class dinner with the visiting speaker for a subset of the class.

"Review" Sessions:

Occasionally, we will have extra sessions which will take place on Wednesday afternoons at 3:30 PM.

January 16: 3:30-5:30 PM Bloomberg Training – room G36.

Grading:

Analysts

AMP III analysts will maintain their Fund affiliations from the fall quarter.

Students serving as analysts are required to present analyses for one at least one stock. This is the primary deliverable.

Individual Stock Analysis (due 3:00PM the Thursday before presentation):	65%
Portfolio News Assignments	10%
Class Participation:	25%

The stock analyses will comprise two components. The first will be a set of power point slides for the presentation to the class. The second will be a written report, the equivalent of a sell-side analyst's report, supporting the presentation. All students will have read the written report prior to the presentation so the purpose of the presentation is not to educate the audience of potential investors but rather to emphasize the main points and the recommendation from the written report. You may want to look at some sample student reports at Cornell's Parker Center at

http://www.johnson.cornell.edu/parkercenter/studentresearch.html

The presenting student will have ten minutes to make the pitch followed by questions from the class. Because all students will have read the detailed report prior to the class, their point of view in asking questions will be that of an investment committee analyzing the potential investment.

Analyses and all supporting documents (including the presentation) should be handed in by 3:00 PM on the Thursday before an in-class presentation in order to give the class time to read the valuation. Presentations handed in after this time will receive a penalty (a 5% penalty for assignments handed in between 3:00 PM on Thursday and 3:00 PM on Friday and a 10% penalty for assignments handed in after 3:00 PM on Friday).

The student presenting the stock analysis will be graded both on the quality of the underlying report and the quality of the answers to questions posed during the pitch. The rest of the class will be graded on the quality of the questions directed to the student making the pitch. In addition, each student will complete a written evaluation (form to be provided) of the stock pitch assessing its quality, its effectiveness, and whether the student would support the recommendation made in the stock pitch for the funds.

DCF valuations presented in class have typically relied on constant growth perpetuities for terminal value. Analysts should also include a multi-stage growth model in which there is an explicit assumption about the length of time the firm will be able to sustain competitive advantage.

Investment Committee

Investment Committee members, in addition to their duties of managing the portfolio and reporting to the instructor and advisory board, are required to write and present a research paper on a topic assigned by the instructor. The topics are designed to improve our implementation of our portfolio strategies.

Research papers (due March 17, 2008):	65%
Portfolio News Assignments	10%
Class Participation:	25%

Student Assignments – Investment Committee

Kenney Fund	**AMP III**
Risk Assessment/Performance Analysis	Kemp
Trading	Brusznicki
Derivative/Quant Strategies	Roberts Yefremov
Asset Allocation	Della Maria

Commingled Fund	**AMP III**
Risk Assessment/Performance Analysis	Lemos
Trading	
Derivative/Quant Strategies	Pai
Asset Allocation	Waynee

Crown/Nash Funds	**AMP III**
Risk Assessment/Performance Analysis	Lagrotteria
Trading	Rangaswami
Derivative/Quant Strategies	Brumand Buehler
Asset Allocation	

You may work in groups of up to three people for the research paper.

1) Work with AMP II investment committee members to refine and implement risk assessment tools to monitor the portfolios' market/sector exposure and tracking error. The tools should be used to monitor the portfolios on a daily basis to insure the portfolios are in compliance of the IPS. Implement performance reporting template for the quarterly and annual reports for the advisory board.
   Kemp, Lagrotteria, Lemos.

2) Work with AMP II investment committee members to refine tools to assess the performance of our trading. How should we measure the cost of trades, including opportunity costs? What types of trades should be used in what circumstances. Summarize all of the destinations/trading algorithms available through the executing broker, ITG.
   Brusznicki, Rangaswami.

3) Develop derivative/quantitative strategies that can be utilized by the portfolios. Strategies could include security screens that would give the analysts a long list and a short list from which to choose assets to analyze. Other strategies could include specific trade recommendations. Proposed strategies should be backtested.
   Brumand, Buehler, Pai, Roberts, Yefremov

4) Develop models to track performance of analyst recommendations, both on the entry and exit of positions.
   Della Maria, Waynee.

Class participation: The class participation component of the grade is based on attendance, contributions to the class discussion, and participation in peer evaluations and speaker evaluations. After each class, you will receive an e-mail directing you to an online survey for the class presentations. You will have one week to complete the survey. For analyst presentations you will be asked to provide a numerical evaluation as well as written feedback that will be given to the analyst (without attribution). Thoughtful written comments are more valuable than providing the numerical score. Therefore, the comments will receive more weight in the participation part of the grade. Comments lacking substantive feedback (e.g., "Good presentation!") will receive the same grade as no comment.

Portfolio News Assignments

Each week a fund team (both investment committee members and analysts) will have the task of alerting the entire class of any relevant news about any of the assets in the portfolio. The news events could be press releases, relevant industry or competitor news, upcoming filing dates, upcoming conference calls, etc.

Week of:	**Fund Team**
January 14:	Commingled
January 21:	Crown/Nash
January 28:	Kenney
February 4:	Commingled
February 11:	Crown/Nash
February 18:	Kenney
February 25:	Commingled
March 3:	Crown/Nash
March 10:	Kenney

Textbooks:

Finance 935 Required Texts:
Maginn, John L., Donald L. Tuttle, Jerald F. Pinto, and Dennis W. McLeavey, Managing Investment Portfolios: A Dynamic Process, 3rd edition. Hoboken: Wiley, 2007.

Finance 935C Recommended Texts:

Rappaport, Alfred, and Michael J. Mauboussin, *Expectations Investing*. Boston: Harvard Business School Press, 2001.

Bodie, Zvi, Alex Kane, and Alan J. Marcus, *Investments*, 7th edition. New York: McGraw-Hill, 2008.

Damodaran, Aswath, Investment Fables: Exposing the Myths of "Can't Miss" Investment Strategies. Upper Saddle River: Prentice-Hall, 2004.

Litterman, Bob, *Modern Investment Management: An Equilibrium Approach*. New York: Wiley, 2003.

Tentative Schedule (external speakers' schedules can change without much notice we may need to be flexible):

January 7:	Carlson/Qiao paper presentation. Risk, Performance Evaluation, and Benchmarking.

January 14:	Guest Speaker, Robin Yoshimura ('94) Sr. VP, Lehman Brothers: "Understanding Client Objectives - Taxable Investors."
January 21:	No Class.
January 28:	Guest Speaker, Joel Tillinghast ('83), Portfolio Manager: Fidelity Low Priced Stock Fund, Fidelity Mgmt & Research Company: "Analyzing Low Priced Stocks." Lalanne and Rich stock pitch presentations.
February 4:	Guest Speakers, James Ware, founder, and Jamie Ziegler, Principal, Focus Consulting Group, Inc.: "High Performing Investment Teams."
February 11:	Carlson and Hockenberg stock pitch presentations. Lalanne/Shibata Paper presentation.
February 18:	Seifert and Shibata stock pitch presentations. Hockenberg/Smith paper presentation.
February 25:	Guest Speaker, Adam Waldo ('96), Managing Director, Silver Oak Services Partners, LLC: "Convergence of Public and Private Markets."
March 3:	Sacha and Smith stock pitch presentations (be prepared to present on 2-25-08 in case Adam Waldo's presentation is rescheduled). Paper presentations.
March 10:	Qiao and Viswanathan stock pitch presentations (be prepared to present on 3-3-08 in case Adam Waldo's presentation is rescheduled). Paper presentations.
March 17:	If needed.

Please send your presentation materials to Deborah Brauer.

Speaker Dinners:

I will invite visiting speakers to dinner before class 5:15-6:15. If you do not have a class ending at 5:00, try to be there at 5:00, otherwise be there by 5:15. For each speaker, up to 10 students may attend the dinner. These dinners are totally optional and attending dinners has no effect on your grade. However, if you sign up for a dinner, you need to be there. Not attending after signing up will adversely affect your class participation grade and access to future speaker dinners. If you wish to attend any of these dinners, contact Deborah Brauer at d-brauer@kellogg.northwestern.edu.

Laptop Policy:

Laptops are not allowed to be used in class, unless I specifically make an exception.

Honor Code/Code of Ethics:

All students attending the Asset Management Practicum must abide by the Kellogg Honor Code. If you are unsure of what this means, read the honor code:

http://www.kellogg.northwestern.edu/stu_aff/policies/honorcode.htm

In addition, all students attending the Practicum must familiarize themselves with the CFA Institute Code of Ethics and Standards of Professional Conduct and the Practicum Code of Ethics.

Students associated with the Practicum must agree to abide by the Practicum Code of Ethics and must attest to that agreement by giving me a signed copy of the Code.

If you are in doubt about whether something is acceptable under the honor code/ code of ethics, you should not hesitate to ask me.

Other courses:

There are a number of other courses that are relevant for people going into asset management, in addition to the courses on the list of co-requisites. Here are some courses that I would encourage you to consider. DECS 452 Strategic Decision Making, FINC 442 Financial Decisions, FINC 445 Venture Capital and Private Equity Investing, FINC 448 Corporate Restructuring, FINC 931 Wall Street, Hedge Funds and Private Equity (LBO) Funds, FINC 932 Case Studies in Venture Investment and Management, MORS 460 Leading and Managing Teams, MORS 470 Negotiations, MECN 441 Competitive Strategy and Industrial Structure, MECN 450 Macroeconomic Analysis For Management, OPNS 450 Spreadsheet Modeling for Managerial Decisions, and ENTR 902 Entrepreneurial Selling: Skills and Strategies.

Miscellaneous:

I have asked the University Library to place on reserve a number of textbooks related to the course material. Those of you who are interviewing at more quantitative shops might want to take a look at *Heard on The Street: Quantitative Questions from Wall Street Job Interviews* by Timothy Crack.