



**SAINT LOUIS UNIVERSITY – MADRID CAMPUS**  
**Faculty of Business Administration & Economics**

## **1 Course Information**

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Course Title	: Equity Securities and Markets
Course Number	: FIN-3630
Semester	: Spring 2017
Meeting Time	: 2:30 PM - 3:45 PM
Meeting Days	: M-W, San Ignacio Hall A
Prerequisite	: FIN 3010 (for visiting students)
Credits hours	: 3
Curriculum	: Business core requirement

## **2 Instructor Information**

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Name	: Paolo Saona Hoffmann, Ph.D.
Office Location	: Padre Arrupe Hall, attic
Contact Telephone	: +34915545858 (ext. 254)
E-mail	: <a href="mailto:psaonaho@slu.edu">psaonaho@slu.edu</a> (please use the prefix “FIN-3630” to start the subject line in all e-mails pertaining to this class. For example: “FIN-3630 – I will be absent on Monday”)
Office hours	: M-W from 11:00 AM to 1:00 PM
Contacting me	: First, ask questions in class (it helps and others will likely have the same questions). Second, come see me during my office hours as listed above. Third, if neither of these options is possible, please send me an e-mail and alternative arrangements can be decided on

## **3 Course Description**

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The field of finance may be approached from one of three related perspectives: (1) How firms raise and invest capital; (2) How individuals allocate their savings among different investment alternatives; and (3) How the capital markets function to equate the demand for capital by firms and the supply of capital by investors.

This course focuses on (2) and (3). We examine how individuals and their agents make choices among investment alternatives that have risky payoffs over multiple time periods. An understanding of risk and return for individual securities as well as portfolios of securities is used to characterize these decisions. We then evaluate financial decision-making in the market as a whole to describe the process of valuation for different securities. These fundamental “building blocks” are then applied to different investments, focusing on

common stocks and mutual funds.

As a required course for a finance specialization, its primary objective is to offer a broad overview of current investment issues. The course is designed to combine some basic principles with practical applications in the form of a stock valuation exercise.

Briefly, this course covers the principles of investing in equity securities; types of investments; analysis of securities markets and the mechanics of trading; principles of diversification and portfolio analysis; and security analysis and equity valuation, including economy, industry and company analysis.

#### **4 Learning objectives (desired student achievements) for FIN-3630**

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- While some of you will become producers and sellers of investment information (e.g. stock analysts or brokers), all of you need to be intelligent consumers of investment information, because you will all be responsible for managing your own retirement portfolios. This course is designed to provide a basic understanding of the investment process and to develop a set of tools for making investment decisions. After taking this course you should have a thorough understanding of why people invest, what they invest in, the mechanics of investing, how investments are valued, and an overview of trading strategies. After taking this course, you should not have to pay someone to make investment decisions for you, and you may even be able to get people to pay you to make investment decisions for them!

#### **5 Course Required Material**

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- Required text book: Management for Practical Investing by R. Strong, 4<sup>th</sup> Ed. Thomson South-Western (ISBN: 0-324-35936-5)
- Additional text books:
  - Investments: An Introduction by Herbert B. Mayo
  - Investments and portfolio performance by Edwin J. Elton and Martin J. Gruber
  - Fundamentals of Investments by Gordon J. Alexander, William F. Sharpe, and Jeffery V. Bailey
  - Fundamentals of Investments: Valuation and Management by Bradford D. Jordan and Thomas W. Miller
- A subscription to the investment portfolio simulation conducted by Stock-Trak ([www.stocktrak.com](http://www.stocktrak.com)). Details are shown below
- PowerPoint presentations and notes posted on Blackboard
- E-lectures at <http://www.swlearning.com/finance/mayo/electures/sw/index.htm>
- Access to the Wall Street Journal

- A financial calculator: *HP-10B* or *HP-17B* are recommended. Nevertheless, any financial calculator is good for this course. Tutorials are on Blackboard.

## 6 General Information

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This course will be taught with a combination of lectures, interactive discussion sessions and the solution of different examples and exercises. Lecture sessions will cover key aspects of conceptual and difficult sections of the chapter. Tests will be based on lectures, the study of the chapters, and assigned readings.

## 7 Course Requirements

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### Grade Components and dates:

Mid Term Test (20%) –February 22–

Final Examination (35%) –May 10 at 3:30 PM–

Quizzes (15%) –Quiz I February 15 and Quiz II April 24–

StockTrak Trading Game (10%)

Valuation Project Presentations (20%) April 17 and 19 and May 03.

### Grade Scale:

A mark of  $x$  on an examination or assignment will result in a(n):

$$90.0 \leq x < 95 = A-$$

$$80.0 \leq x < 83 = B-$$

$$70.0 \leq x < 73 = C-$$

$$95.0 \leq x \leq 100 = A$$

$$83.0 \leq x < 87 = B$$

$$73.0 \leq x < 77 = C$$

$$60.0 \leq x < 70 = D$$

$$x < 60 = F$$

$$87.0 \leq x < 90 = B+$$

$$77.0 \leq x < 80 = C+$$

### Grading Methodology:

*Term Test (20%)*: There will be a test in February 22<sup>nd</sup>, based on Parts I to IV.

*2 Quizzes (7.5%+7.5%)*: Previously to the mid-term test and the final exam the students will take a quiz in order to be better prepared for the mid-term and the final exam, respectively. The first quiz will be in February the 15<sup>th</sup> and the second in April the 24<sup>th</sup>.

*Stock-Trak Trading Game (10%)*: It will be evaluated on the reports sent out to the professor, informing about your trading during the trading week.

*Valuation Project (10%+10%)*: It is a project where the groups have to value a company of your choice. The main objectives of the project are to assess the financial health of the company and to estimate the company's intrinsic stock price. Presentations will be scheduled the same day as the delivery of the written project.

*Final exam (35%)*: The final exam is in May the 10<sup>th</sup> on Parts V to IX (not cumulative).

For participation in classes, students will be called upon randomly throughout the semester to give answers or comments on questions and issues. It is expected that the student attend

the classes and follow the chapters with a high critical thinking behaviour. Recall that class participation is not graded.

### **Specifications about the Valuation Project:**

Groups of two-three students will be required to perform a complete analysis of a company from an investment perspective and present the main results in class. Groups of more than two are strictly prohibited.

The goals of the project are to calculate and justify:

- (1) Whether the company of your choice is weak or strong relative to its competitors with regard to solvency, efficiency, and profitability.
- (2) The fundamental price/share of equity in the firm. In this case, you should attempt to make a “case” for your valuation project (financial healthy and price/share estimation). Recall when a lawyer makes a case, he/she is trying to justify a certain position.

The first goal can be reached with the Ratio Analysis. Ratios can be used as diagnostic tools in evaluating the “health” of a firm. Note that such analysis would typically include comparisons of your firm’s financial ratios to the industry standards (or averages). Ratio analysis by itself is not very useful in terms of valuation. It provides a diagnostic view of the company which may be helpful in terms of analyzing the better and poorer practices of a company. In order to make ratio analysis relevant for this project, it must be tied directly to the firm's valuation.

For the second goal, the estimation of the intrinsic value of the price/share, groups are encouraged to use (i) the Dividend Discount Model (DDM), (ii) the method of Multiples of Comparable Firms or the Free Cash Flow to Equity (FCFE).

This price/share is your estimate of the fundamental value of the firm, which you would then use to argue that the firm is either currently over/under/fairly valued according to the market, i.e., by comparing your price/share to the current market price/share. Remember that you may consider the efficient market hypothesis in relation to your price estimate. The Dividend Discount Model is sometimes used to get an idea of how risky the market thinks a particular stock is at the moment.

The method of multiples of comparable firms for the price/share estimation is relatively easy and provides some useful valuations that often set the ranges for the stock price. In this case, groups may use either a direct competitor or industry averages. For instance, if a group is analyzing Ford Motor Corp. it would be appropriate to use GM as a comparable firm (and/or the auto industry). Many different financial ratios can be used, although the Price-Earning ration and Price-Cash Flow ratio are common. Another alternative is to create your own "industry" averages from a diverse group of firms within the industry. You are limited only by your creativity; and a great deal of information is available on the Internet. The goal should be to calculate fundamental values by yourself!!!

### *General Guidelines for the Valuation Project*

The major focus of the project is to analyze the current financial situation of the company of

your choice and to calculate and justify your estimate of the price/share. Many other elements of the project are necessary in order to complete a satisfactory project. Minimally, these include, the introduction (1 page), the ratio analysis considering at least 5 years of financial information (no more than 5 pages), the estimation of the intrinsic or fundamental stock price (no more than 5 pages), the conclusions, summarizing the financial health and the recommendation to buy or sell the stock (2 or 3 pages), and appendix with the main tables and calculations –financial statements, formulas, graphs, regression results, economic data, etc.–. The number of pages is just a recommendation and not a rule.

### *Improving the Quality of your Project*

Other elements are left up to your group, in terms of how complete and/or creative you want your project to be. Some of these elements must be completed in order to earn a higher than average or satisfactory evaluation for the project. You may/should include these other elements if you believe that they will improve your valuation project. For example, (i) the EIC Analysis (Chapter 7) can be used. The EIC analysis stands for economy, industry, and company, and it considers conditions in the overall economy, then determines which industries are most attractive in light of economic conditions, and finally identifies the most attractive companies within the attractive industries; (ii) the SWOT Analysis (strengths, weaknesses, opportunities, and threats) is often used in business; (iii) the Porter's Five Forces Analysis (supplier power, buyer power, threat of substitutes, barriers to entry, and rivalry).

### **Stock-Trak Trading Game (STG):**

The same group as the one of the valuation project will participate in a portfolio simulation exercise managing an initial wealth of \$1,000,000 over the semester. The project will be managed by Stock-Trak Portfolio Simulations of Atlanta, GA. The trading game is played throughout the semester. You can use the following link to register for this tournament:

<http://www.stocktrak.com:80/members/registerstudent?className=FIN-3630-2017>

Upon registering you will be asked to choose a password, and then you will be asked to proceed to a secure credit card screen to make the payment. The payment fee is US\$31.95.

Remember that you must have the ticker symbols to trade stocks, options, and mutual funds. Stock ticker symbols can be obtained from the Stock-Trak web page at the "Symbol Lookup" link in the right hand side the home page. Ticker symbols are not needed to trade futures, bonds, spot contracts, and international stocks, as a pre-selected list of each is listed in their respective trading pits.

### *Work to Be Done*

Suppose you inherited \$1,000,000 and in order to keep the money you must do the following transactions over the next 12 weeks trading period, starting on Monday 16<sup>th</sup>:

**Week 2:** Each group has to design an asset allocation mix that is appropriate for your age (if you are a 20 year old student you can keep 60% stocks, 10% bonds, 10% international stocks

and 20% cash). Write down a report supporting your choice.

**Week 3:** By the end of the second week the group has to invest at least half of their money following its asset allocation mix. Write down a report.

**Week 4:** Groups can start buying on margin (to buy securities by putting up only a part, or a margin, of the purchase price and borrowing the remainder), selling short (a traded in which the investor borrows a security and sells it to another investor in market). However, it is recommended to continue trading domestic and international stocks. Write down a report.

**Week 6:** Groups can start learning about options. Once the groups make money on a stock they can buy a protective put and lock in the profit. If groups have not made money in their stocks they can write a covered call in order to bring more income to the account to help increase the position. Also, for the stocks they bought they can trade index options to hedge their stock positions. Write down a report.

**Week 7:** Groups should show a more active trading in stocks. Write down a report.

**Week 8:** The groups are encouraged to start buying futures options to hedge investments. Write down a report.

**Week 11:** Liquidate your positions. Write down a report.

Stock-Trak sends out statements and professor summaries on Mondays. Statements will be mailed only to professor and not each individual group. These statements are for the professors to review their groups trading activity, and then to be passed out to the students. Students can also always print out their own statements 24/7 off of the webpage.

Groups will be graded based on their reports of their trades made. The groups must send out to the professor in a weekly base a report (1 page) explaining:

1. What the group traded
2. Why you traded it
3. What you learned from the trade

#### *Trading Information*

Service Level:	Gold
Class Name:	FIN-3630-2017
Description:	Equity Securities and Markets
Author of Textbook:	Strong
Number of students in class:	up to 10
Payment Method:	Students will pay individually during student registration
Currency of Portfolio:	United States Dollar
Initial Cash Balance:	\$1,000,000
Position Limit on a Security:	25
Minimum Stock Price for Buying:	\$0.25
Minimum Stock Price for Shorting:	\$3.00
Trading Start/End Dates:	01/11/2017 to 03/05/2017
Commission:	\$10.00
Allow Short Selling:	Yes

Day of Class:	Monday and Wednesday
Time of Class:	2:00 PM to 3:15 PM
Not Allowed Trading On Margin:	No
Security Types	BONDS, EQ, FOPTIONS, FUTURES, MF, OPTIONS, SPOTS
Exchanges	US, T, BR, MX, BA, EU, FF, LN, MI, VX, BO, HK, KL, NZ, SS, SI, AX, TW

#### *Recommendations Before Trading*

For avoiding mistakes made while trading, groups are highly encouraged to read carefully the following PDF files (but not execute the orders given in the files):

- Trading Rules on Stock-Trak
- Portfolio Trading Simulations with Stock-Trak
- Trading Common Stocks with Stock-Trak
- Trading Corporate Bonds with Stock-Trak
- Trading Mutual Funds with Stock-Trak

#### **Classroom Philosophy, Policy of Missing Exams & Late Submission:**

- You are required to attend each class session prepared to participate and think critically during lecture and discussion sessions. You will be required to prepare in advance each class according to the instructions of the professor. As responsible adults, I trust you will be able to sustain a mutually respectful classroom atmosphere by treating all classmates as equals.
- Tests and case studies due dates are scheduled well in advance, so you can plan around these dates. I feel that exams/assignments are fair to everyone if and only if everyone completes them at the same time. It is not only impossible to come up with an alternative which is fair to everyone but it also imposes a significant cost on other students and me. Therefore, I have strict policy on late assignments/exams.
- Any consideration for missing a test will be taken into account only under truly exceptional circumstances. I will require, at a minimum, a signed formal note and a phone number of the physician or other relevant person. Be aware that a mere note indicating that you visited a physician around the date of the exam will not be sufficient. The burden of the proof will be on the student. [Missing exams or late submission of assignments without a formal note justifying the fact will be graded with 0.0%.](#)
- No late submissions for the study cases will be accepted. All required assignments are to be submitted on time. Students are expected to be working on the assignments throughout the term and not just on the last few days. Hardware failure or inaccessibility is not an excuse reason.
- There will be NO makeup exam/test. In order to be excused from an exam/test, the student must contact me before the exam. In most cases I will require students to provide me with additional documentation to justify why the student is unable to take the exam. Please note that a simple note indicating that you were seen at the health center the day of the exam does not, in and of itself provide sufficient documentation. Excuses will be granted if the student is unable to take the exam because of serious illness or injury, or a significant personal or professional commitment.
- Tardiness is at best a rude disruption to your fellow classmates who are punctual, and

except for legitimate reasons (doctor's letter certifying illness for example), you are expected to attend all class sessions.

- Although there are no credits for attendance, ALL the students are expected to attend every single session. Absence will for sure be detrimental in the student's individual performance.

### **Early Warning:**

If you want to receive a good grade it is vital that you attend class and stay current with the material. If you miss a class for any reason it is up to you to obtain notes through someone else. I am more than happy to discuss finance (topics discussed either in class or ones that have special interest to you). However, do not expect me to repeat or summarize any lectures that you have missed. Average midterm and final examination grades typically fall into the "C-" range. To preemptively answer a question that you may have – *yes, this class is extremely difficult*. But hard continual work and dedication can ensure that you are well prepared for examinations when the time comes.

## **8 Course Outline<sup>1</sup>**

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### *Part I: The Concept of Investing (Chapter 1)*

- Introduction
- Investing defined
- Investing alternatives
- Three reasons for investing
- The academic study of investments

### *Part II: Understanding Risk and Return (Chapter 2)*

- Return
- Risk
- Time value of money
- Risk v/s uncertainty
- Risk, return, and dominance
- Diversification and portfolio risk

### *Part III: Bond Fundamentals (Chapter 4)*

- Bond principles
- Classification of bonds
- Bond pricing and returns
- Valuation equations
- Yield to maturity
- Current yield
- Accrued interest

### *Part IV: Common Stocks & Fundamental Stock Analysis (Chapter 5 & 7)*

- Corporation, shares, and shareholders

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<sup>1</sup> This schedule is subject to change. Eventual variations will be announced in class.

- The mystique of dividends
- Type of dividends
- Stock splits
- Stock splits v/s stock dividends
- Categories of stocks
- Valuation philosophies
- Value v/s growth investing
- The price-to-book ratio
- Analytical factors
- Dividend discount model
- Ratio analysis
- DuPont analysis

*Part V: Valuation Tools (Chapter 8)*

- Market analysis
- Company analysis

*Part VI: Why Diversify? (Chapter 16)*

- More than one basket for your eggs
- Preliminary steps in forming a portfolio
- The role of uncorrelated securities
- The efficiency frontier
- The effect of risk free rate
- The single index model

*Part VII: The Role of Derivative Assets (Chapter 17)*

- Background
- The options market
- Option terminology
- The futures market
- Stock index futures
- Foreign currency futures
- Listed v/s over-the-counter derivatives

*Part VIII: Managing the Equity & Fixed Income Portfolios (Chapters 18 & 19)*

- Structuring a stock portfolio
- Portfolio rebalancing
- Portfolio protection
- Fixed income security risk
- Duration

*Part IX: Performance Measurement and Presentation (Chapter 22)*

- Relating risk and return
- Performance measurement

- Performance presentation standards

## **9 Important Dates**

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January 24 – Last Day to Drop a Class Without a Grade of W and/or Add a Class

January 24 – Last day to choose audit (AU) or Pass/No Pass (P/NP) options

January 27 – Application Deadline for Spring Semester Degree Candidates

February 15 – Registration for Summer 2017 sessions begins

March 10 – Last Day to Drop a Class and Receive a Grade of W

March 29 – Registration for Fall 2017 semester begins

## **10 Academic Accommodations and Learning Resources Statement**

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In recognition that people learn in a variety of ways and that learning is influenced by multiple factors (e.g., prior experience, study skills, learning disability), resources to support student success are available on campus. Students who think they might benefit from these resources can find out more about:

- Course-level support (e.g., faculty member, departmental resources, etc.) by asking your course instructor.
- University-level support (e.g., tutoring/writing services, Disability Services) by visiting the Academic Dean's Office (San Ignacio Hall) or by going to <http://www.slu.edu/madrid/learning-resources>.

Students with a documented disability who wish to request academic accommodations must contact Disability Services to discuss accommodation requests and eligibility requirements. Once successfully registered, the student also must notify the course instructor that they wish to access accommodations in the course. Please contact Disability Services at [disabilityservices-madrid@slu.edu](mailto:disabilityservices-madrid@slu.edu) or +915 54 58 58, ext. 230 for an appointment. Confidentiality will be observed in all inquiries. Once approved, information about the student's eligibility for academic accommodations will be shared with course instructors via email from Disability Services. For more information about academic accommodations, see "Student Resources" on the SLU-Madrid webpage.

Note: Students who do not have a documented disability but who think they may have one are encouraged to contact Disability Services.

## **11 University's Academic Integrity Statement**

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Academic integrity is honest, truthful and responsible conduct in all academic endeavors. The mission of Saint Louis University is "the pursuit of truth for the greater glory of God and for the service of humanity." Accordingly, all acts of falsehood demean and compromise the corporate endeavors of teaching, research, health care and community service via which SLU embodies its mission. The University strives to prepare students for lives of personal and professional integrity, and therefore regards all breaches of academic integrity as matters of serious concern.

The governing University-level Academic Integrity Policy can be accessed on the Provost's Office website at: [http://www.slu.edu/Documents/provost/academic\\_affairs/University-](http://www.slu.edu/Documents/provost/academic_affairs/University-)

wide%20Academic%20Integrity%20Policy%20FINAL%20%2006-26-15.pdf. Additionally, SLU-Madrid has posted its academic integrity policy online: <http://www.slu.edu/madrid/academics>. As a member of the University community, you are expected to know and abide by these policies, which detail definitions of violations, processes for reporting violations, sanctions and appeals.

The professor will review these matters during the first weeks of the term. Please direct questions about any facet of academic integrity to your faculty, the chair of the department of your academic program or the Academic Dean of the Madrid Campus.

## **12 Collection of Student Work for Assessment**

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In order to maintain quality academic offerings and to conform to accreditation requirements, SLU-Madrid regularly assesses its teaching, services and programs for evidence of student learning. For this purpose, SLU-Madrid keeps representative examples of student work from all courses and programs on file, including assignments, papers, exams, portfolios and results from student surveys, focus groups and reflective exercises. Copies of your work for this course may be kept on file for institutional research, assessment and accreditation purposes. If you prefer SLU-Madrid not to retain your work for this purpose, you must communicate this decision in writing to your professor.

## **13 Title IX Statement**

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Saint Louis University and its faculty are committed to supporting our students and seeking an environment that is free of bias, discrimination, and harassment. If you have encountered any form of sexual misconduct (e.g. sexual assault, sexual harassment, stalking, domestic or dating violence), we encourage you to report this to the University. If you speak with a faculty member about an incident of misconduct, that faculty member must notify SLU's Title IX deputy coordinator, Marta Maruri, whose office is located on the ground floor of Padre Rubio Hall, Avenida del Valle, 28 ([mmaruri@slu.edu](mailto:mmaruri@slu.edu); 915-54-5858, ext. 213) and share the basic fact of your experience with her. The Title IX deputy coordinator will then be available to assist you in understanding all of your options and in connecting you with all possible resources on and off campus.

If you wish to speak with a confidential source, you may contact the counselors at the SLU-Madrid's Counseling Services on the third floor of San Ignacio Hall ([counselingcenter-madrid@slu.edu](mailto:counselingcenter-madrid@slu.edu); 915-54-5858, ext. 230) or Sinews Multipletherapy Institute, the off-campus provider of counseling services for SLU-Madrid ([www.sinews.es](http://www.sinews.es); 917-00-1979). To view SLU-Madrid's sexual misconduct policy and for resources, please visit the following web address:<http://www.slu.edu/Documents/Madrid/campus-life/SLUMadridSexualMisconductPolicy.pdf>.