

FAR WESTERN UNIVERSITY

Faculty of Management

Course Title: **Investment and Portfolio Management**

Total Marks: 100

Course Code: **FIN 381**

Pass Marks: 45

Nature of course: Theory

Time per period: 1 hr.

Semester: Eighth

Total periods: 45

Level: BBA

Credit hours: 3

1. Course Description

Investment and Portfolio Management is a three credit course for BBA 8th semester students at this university with specialization in Finance. This course helps students understand the key concepts and principles of investment and portfolio management, which build a solid foundation for further study or career pursuit. The topics covered are: The investment environment, Securities markets and market indices, Assets allocation, Trading of securities, Portfolio theories, Capital assets pricing model, Arbitrage pricing theory, Efficient market hypothesis, Analysis of common stocks and fixed income securities and Portfolio performance evaluation.

2. Course Objective

The main objective of this course is to familiarize students with financial investment environment and it's dynamics.

The other objectives are as follows:

- Understand the concepts used in investment analysis
- Introduce various securities and the markets they trade in
- Understand and apply the theories and techniques of analyzing securities in isolation and in the context of portfolio.
- Gain confidence in applying the concepts and tools in managing a portfolio.
- Explain risk and return relationship in terms of the Capital Asset Pricing Model (CAPM) and the Arbitrage Pricing Theory (APT)
- Evaluate bonds and stocks with discounted cash flow and other models
- Compute and interpret various portfolio performance measures

Contents in detail

Learning Objectives	Units and contents
<ul style="list-style-type: none">• Define investment and understand the investment environment.• Outline the steps investment decision process.• Discuss key factors that affect the investment decision process.• Discuss the role of asset allocation in investment planning.• Understand the process of asset allocation in portfolio management• Describe the individual investor's life cycle and their investment objective at	UNIT-I: INTRODUCTION-----LH 3 1.1. Defining Investment 1.2. The Investment Environment 1.3. The Investment Process 1.4. Security Investment Alternatives 1.5. Factors to be Considered in Choosing Among Investment Alternatives 1.6. Career Opportunities in Investment and Portfolio Management 1.7. Asset Allocation: Steps in Portfolio Management Process 1.8. Individual Investor's life Cycle

different stages.	1.9. Role of Asset Allocation in Investment Planning.
<ul style="list-style-type: none"> • Distinguish between primary and secondary markets. • Describe how the equity markets are organized and how they operate. • Define third and fourth markets. • Describe, briefly, the Regulation of security Market in Nepal • Explain the role of brokerage firms and stockbrokers. • Describe the operation of brokerage firms . • Outline the process of buying and selling securities and execution of order. • Explain the importance of margin trading and short selling to investors. • Analyze the HPR, Margin call and investor's financial position under margin purchase and short sale. • Understand different types of market index and their computation 	<p>UNIT-II: SECURITIES MARKET AND MARKET INDEXES----- LH 8</p> <p>2.1. Security Markets:</p> <p>2.1.1. Primary Markets & Secondary Markets</p> <p>2.1.2. Third and Fourth Market</p> <p>2.1.3. Organized Securities Exchanges</p> <p>2.1.4. Over-the Counter Markets (OTC).</p> <p>2.1.5. Securities Market in Nepal</p> <p>2.1.6. Regulation of Security Market in Nepal (Clearing Procedures, Commissions, Transaction Costs).</p> <p>2.2. Buying and Selling Securities:</p> <p>2.2.1. Order Size; Time Limit; Types of Orders;</p> <p>2.2.2. Margin Accounts; Margin Purchase; Short Sales</p> <p>2.2.3. Trading Mechanism in Nepal</p> <p>2.3. Market Indexes:</p> <p>2.3.1. Types and Construction of Market Index: Price Weighted Index; Value Weighted Index; Equal Weighted Index.</p>
<ul style="list-style-type: none"> • Explain investor's attitude towards risk • Understand risk aversion and utility maximizing choice • Understand risk free assets • Analyze the opportunity set of the portfolio of one risky and one risk free asset. • Determine the tolerance level of investors and asset allocation decision. • Describe the concept of passive investment strategy and CML. 	<p>UNIT- III: RISK AVERSION AND CAPITAL ALLOCATION----- LH 4</p> <p>3.1. Risk and Risk Aversion</p> <p>3.1.1. Risk, Speculation and Gambling</p> <p>3.1.2. Risk Aversion and Utility Value</p> <p>3.2. Capital Allocation Across Risky and Risk Free Portfolios</p> <p>3.3. Risk Free Asset</p> <p>3.4. Portfolio of One Risky and a Risk- Free Asset</p> <p>3.5. Risk Tolerance and Asset Allocation</p> <p>3.6. The Capital Market Line</p>
<ul style="list-style-type: none"> • Explain how diversification reduces risk. • Explain how expected return and risk for securities are determined. • Explain how expected return and risk for portfolios are determined. • Understand the concept of efficient portfolios. • Describe the Markowitz diversification model for calculating portfolio risk. • Understand the importance of covariance between returns on assets to determine the 	<p>UNIT- IV: OPTIMAL RISKY PORTFOLI--LH 6</p> <p>4.1. Diversification and Portfolio Risk</p> <p>4.2. Portfolio of two Risky Assets</p> <p>4.2.1. Expected Return and Risk of Individual Asset</p> <p>4.2.2. Expected Return and Risk of Portfolio</p> <p>4.2.3. Impact of Correlation on Portfolio risk</p> <p>4.3. The Markowitz Portfolio Selection Model</p> <p>4.4. Risk Free Lending and Borrowing.</p> <p>4.5. Effect of Risk Free Borrowing and Lending on</p>

<p>risk of a portfolio.</p> <ul style="list-style-type: none"> Describe the effect of risk-free borrowing and lending on the efficient frontier. Explain the difference between systematic and unsystematic risk. 	<p>Portfolio Selection.</p> <p>4.6. Portfolio Total Risk, Portfolio Market Risk and Unique Risk</p>
<ul style="list-style-type: none"> Understand the CAPM and its underlying assumptions Explain the relationship between returns and risk proposed by the CAPM. Describe two important relationships in CAPM as represented by the SML and the CML. Understand the market equilibrium and investment decision. Discuss the APT as an alternative to the CAPM Understand the concept and forms of EMH. 	<p>UNIT- V: CAPITAL ASSET PRICING MODEL AND ARBITRAGE PRICING THEORY..LH 6</p> <p>5.1. Capital Asset Pricing Model</p> <p>5.1.1. CAPM and its Basic Assumptions</p> <p>5.1.2. CAPM Equation</p> <p>5.1.3. Security Market Line (SML)</p> <p>5.1.4. Capital Market Line (CML)</p> <p>5.1.5. Investment Decision</p> <p>5.2. Arbitrage Pricing Theory</p> <p>5.3. Efficient Market Hypotheses:</p> <p>5.3.1. Weak Form EMH</p> <p>5.3.2. Semi-Strong Form EMH</p> <p>5.3.3. Strong Form EMH.</p>
<ul style="list-style-type: none"> Understand the concept of portfolio performance measure. Evaluate the portfolio performance using four conventional measures (appraisal ratios). 	<p>UNIT-VI: PORTFOLIO PERFORMANCE EVALUATION -----LH 2</p> <p>6.1. Composite Portfolio Performance Measures:</p> <p>6.1.1. Treynor, Sharpe, Jensen's Performance Measure.</p> <p>6.1.2. M^2 and the Information Ratio Performance Measure.</p> <p>6.2. Application of Portfolio Performance Measures.</p>
<ul style="list-style-type: none"> Name two approaches to the valuation of common stocks used in fundamental security analysis. Use the dividend discount model to estimate stock prices. Explain the P/E ratio approach. Understand the approaches of security analysis Differentiate between technical and fundamental analysis. 	<p>UNIT VII: ANALYSIS OF COMMON STOCK LH -----5</p> <p>7.1. Equity Valuation Models:</p> <p>7.1.1. Balance Sheet Valuation Model</p> <p>7.1.2. Dividend Discounted Model</p> <p>7.1.3. Valuation Based on Finite Holding Period</p> <p>7.1.4. Models Based on Prices-Earnings Ratios</p> <p>7.1.5. Present value of Growth Opportunity</p> <p>7.2. Financial Analysis of Common Stock:</p> <p>7.2.1. Reasons for Financial Analysis</p> <p>7.2.2. Fundamental Analysis</p> <p>7.2.3. Technical Analysis</p> <p>7.2.4. Technical vs. Fundamental Analysis.</p>

<ul style="list-style-type: none"> • Calculate the price of a bond. • Calculate major bond yield measures, including yield to maturity, yield to call, and horizon return. • Account for changes in bond prices • Explain and apply the concept of duration. • Discuss major considerations in managing a bond portfolio. • Differentiate between passive and active strategies for managing a bond portfolio. • Explain the performance evaluation of mutual fund. 	<p>UNIT- VIII: ANALYSIS OF FIXED INCOME SECURITIES----- LH 5</p> <p>8.1. Bond Price and Yields</p> <p>8.2. Interest Rate Risk</p> <p>8.3. Interest Rate and Bond Price Relationship</p> <p>8.4. Macaulay’s Duration; Modified Duration</p> <p>8.5. Duration versus Maturity Period</p> <p>8.6. Immunizing Interest Rate Risk</p> <p>8.7. Bond Portfolio Management Strategies:</p> <p>8.7.1. Passive Portfolio Strategies and Active Portfolio Strategies;</p> <p>8.8. Portfolio Performance Evaluation</p>
<ul style="list-style-type: none"> • Distinguish between direct and indirect investing. • Understand the functions of investment companies • Compute the NAV of fund. • Define open-end and closed-end investment funds. • State the major types of mutual funds and give their features. • Identify the cost of investing in mutual funds. • Compute the rate of returns of mutual fund. • Describe the present status of mutual fund in Nepal. 	<p>UNIT- IX: INVESTMENT COMPANIES--- LH 4</p> <p>9.1. Defining investment Companies</p> <p>9.2. Benefits of Investment Companies</p> <p>9.3. Types of Investment Companies</p> <p>9.4. Mutual Funds and Their Investment Policies</p> <p>9.5. Cost of investing in Mutual Funds</p> <p>9.7. Mutual Fund Returns</p> <p>9.8. Taxation of Mutual Fund Income.</p> <p>9.9. Closed-end fund premiums and Discounts</p> <p>9.10. Mutual Funds in Nepal</p>

Books:

1. Bodie, Zvi, Alex Kane, and Alan J. Markus, Investments, McGraw Hill, 2005 (Sixth Edition) - short: BKM
2. Rielly, F. K., and Brown, K. C. *Analysis of Investments & Management of Portfolio*. 10th eds. Delhi: Cengage Learning India Pvt. Ltd.
3. Sharpe, William F., Gordon J. Alexander, and Jeffery V. Bailey, *Investments*, New Delhi: Prentice Hall Ltd.
4. Elton, Edwin J., Martin J. Gruber, Stephen J. Brown, and William N. Goetzmann, *Modern Portfolio Theory and Investment Analysis*, John Wiley, 2007 (Seventh Edition) - short: EG
5. Bhalla V. K: *Investment Management, Portfolio Analysis*- S Chand, New Delhi.
6. Barua, Raghunathan and Verma : *Portfolio Management* , Tata McGraw Hill, Delhi.