COURSE DESCRIPTION

This course covers the principals of investment analysis in a generic sense and applies them to specific investments. Topics covered include analysis of country, economy, industry, and firm-specific information, financial statement analysis, market efficiency, technical analysis, hedging, risk management, bonds, stocks, options, and futures.

CAREER FOCUS

This course provides the basics for the student to become a junior member of an investment company. Investment companies include banking, mutual fund, insurance, brokerage, investment banking and other companies that typically intermediate between investors with cash and companies or other investors with securities. The course is useful for students planning to apply for a manager position with the Student Managed Fund. The basic concepts can also be usefully applied to some areas of personal investing although the level of presentation is geared toward institutional investing.

COURSE OBJECTIVES

At the close of the course the student should be able to analyze any type of investment alternative and have specific knowledge of the more common investment vehicles. The basic tools and concepts learned in corporate finance are applied here to a much wider field. In particular, you will be able to:

- Apply simple economic models, including international economic models, to economic data and determine the implications for your investments.
- Analyze a particular industry and its companies.
- Find data necessary to perform investment analyses using the Web.
- Measure the prospective risk and return of an investment.
- Analyze the full range of company financial statements including 10Q’s, 10K’s, SC 13’s and SC 14’s, prospectuses, proxies, etc.
- Read and understand brokerage reports.
- Understand Technical Analysis.
• Use various models to price stocks, bonds, options and futures.
• How to manage risk using options and futures.

CLASS MATERIALS

ON MY WEBSITE: users.business.uconn.edu/jgolec/~jgolec.html
See my Power Point class notes along with homework problems, old exam problems and discussion articles (after covering the homework problems, I will give you a password to access answers to all the old exam problems).
NEWSPAPER: Wall Street Journal – pick up at library - use in portfolio reports.
INTERNET GUIDE: See my website for financial links for data analysis.
BROKERAGE REPORTS: From a computer on the UCONN campus, go to www.lib.uconn.edu, in the middle of the page click “Articles and Databases”, click “Databases by Name”, click “I”, then click “Investext Plus” then click “Research”, then click “Conduct Research Report Search”, input a ticker and click “search” and all the brokerage reports for the company should come up.
CLASS JOURNAL: Get a notebook or print out the notes. Record your questions.

STEMPS TO PREPARE FOR EACH CLASS

1. Complete the homework problems and the short articles questions assigned for the material covered in the previous week’s lecture. Perhaps meet with your team to work together but try to do them on your own first. The problems are selected from my old exams and are on my website (answers are available afterward). Be prepared to present your homework problem answers and short article question answers to the class if called upon.

2. On one sheet of paper, write (or preferably type) an answer to one of the homework problems and answers to questions from one of the short articles and hand it in.

3. To prepare for the coming week’s lecture, read my class notes and make sure you understand each question or problem presented in the notes. Record any questions or observations you have on the material and be prepared to present them in class.

4. The class notes are not detailed. For detailed explanations, read the corresponding text chapter(s) assigned in the syllabus and pay attention to the problems worked out there.

5. Construct your portfolio report if one is due and be prepared to present one or two interesting issues or recommendations from your report.
## GRADING

1. **CLASS PARTICIPATION**  
   - Includes your responses to questions and problems from the notes, homework problems, and portfolio reports. You will receive a grade each class from the following scale:
   - -1 (incomprehensible or disruptive)
   - 0 (unprepared or no response)
   - 1 (attempted to participate - raised hand)
   - 2 (asked or answered one question)
   - 3 (asked or answered one question correctly)
   - 4 (asked or answered more than one question correctly or gave one particularly interesting response).
   - You get 2 points for simply handing in answers to one homework problem and one short article’s questions. Note that a “2” is still only half of a day’s possible participation points – to get more points you need to also ask or answer a question in class.

2. **TESTS** - Many exam problems will resemble the homework problems. Others will look somewhat different but still require the same solution methods of the problems covered in class or at the end of the chapters. These problems test whether you have learned the concepts well enough to identify when to use them in a slightly different situation. This approach tests your knowledge of the finance models (i.e., solution rules) as well as your ability to discern when to use them. The exams are in-class, noncumulative, and must be taken with the class at the specified times. **ABSOLUTELY NO TALKING OR WHISPERING DURING EXAMS.** The first exam date depends upon how fast we cover the material and the second exam is in finals week.

   For exams, you are allowed up to two 8.5 x 11 one sided pages of notes on solution methods and formulas along with a calculator and any relevant tables. Do not copy whole problems or write excessively long notes that require small writing. This is counter-productive because trying to make out what you have written will distract you from solving the exam problems. **Good exam and assignment answers will be brief, clear, and pertinent.**

3. **PORTFOLIO REPORTS** - Graded on a scale from 0 (not handed in or very poorly done) to 5 (follows guidelines and makes interesting points). You are allowed one late report, otherwise, late work is not accepted. Follow a portfolio of companies in a particular industry, reporting on them every other class in writing and verbally to the class. Guidelines and rules are attached. The purpose of the assignments is to give you practice in applying the concepts covered in class to a portfolio of your own as if you were an investment analyst at an investment company or brokerage firm.

4. **REPORT TO THE CLASS ON YOUR PORTFOLIO** – This is part of your class participation.

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<td><strong>PORTFOLIO REPORTS</strong></td>
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grade. You should prepare a short “sound bite” in which you inform the class about an interesting or significant issue regarding your industry or a particular company in your industry. **REFINE AND PRACTICE IT BEFORE CLASS.** Put yourself in the position of an analyst appearing on CNBC or similar business program (Fox Business News etc.) where you must be brief (less than a minute) and informative. This exercise gives you experience in organizing your thoughts, focusing on the most important issue and delivering a sharp, convincing argument. You will succeed in business meetings when you can do this well.

5. **STATEMENT OF ACADEMIC INTEGRITY** – Cheating of any sort will not be tolerated and will result in a failure of the exam or assignment, deduction in the class participation grading component, and potential failure of the course. A student who knowingly assists another student in committing an act of academic misconduct shall be equally accountable for the violation, and shall be subject to the sanctions and other remedies described in The Student Code. For details refer to [http://www.dos.uconn.edu/student_code.html](http://www.dos.uconn.edu/student_code.html), Appendix A.

**STRUCTURE OF A TYPICAL CLASS**

**BEFORE CLASS** - students see the material for the first time and can think about the material without being inhibited by other students or the professor. Students are encouraged to think of innovative solutions to questions and problems posed in the notes, text, and on my website.

**BEGINNING** - students are asked to present their answers to homework problems for the previous week’s topic. Students then answer questions about short articles from major financial news sources. This tests whether the student can apply the concepts covered in lecture to the types of issues that appear regularly in the financial press. This is the third time students see the material which reinforces their pre-class reading and in-class coverage.

**MIDDLE** - lecture covers the issues and techniques that students commonly find confusing for the particular topic. Students are prodded to show whether they clearly understand by answering questions and solving problems from the notes.

**END** - Students listen to a video that illustrates a real-word example of the topic covered that day. Alternatively, students present their portfolio reports and support their stock purchases or sales with data or pricing models.
The materials overlap somewhat by design, although for most, the materials are complementary. The combination of lectures, homework problems, short articles, class discussion and video is meant to accommodate an array of learning styles. Ultimately, you will have to decide which materials work best for you and perhaps focus more closely on some and less on others. This learning approach is reflected in the grading which is distributed over assignments, class participation and exams. Exams are more highly weighted because they measure your performance under more controlled circumstances (fixed time and individual effort) and thus may be a more accurate gauge of your learning.

Note that for many students, it is important to participate in a group for homework problems and questions about the assigned articles. As in many business tasks, a group economizes each individual’s time by splitting up the work and then working to combine the results into a better final product than any one individual is likely to produce. Each individual learns how to complete the full task but is not involved in every part of the task. To perform well, I expect that the typical student will work seven hours each week outside of class. Without group participation, the time required is likely to be considerably longer.

As Don Quixote said, “...learning is purchased by time, watching, hunger, nakedness, vertigo, indigestion, and many other conveniences ...” (Charles Jarvis, 1866 translation, page 245). Don tended to overstate things, but suffice it to say that you should expect to expend significant effort to perform well in this class.

HINTS

1. **The work in this course is heavier in the first few weeks** because you must choose an industry for your portfolio, learn about it, and hand in the portfolio assignments. Read up on your industry quickly and gather as much information as possible early. Then use the material for your subsequent reports. This approach reduces the time required to do portfolio reports in later weeks when you may not have as much time to spend finding new information.

2. The crucial rule to good performance in this class is to understand the material covered in class. My lectures and the homework problems show you which concepts I feel are most important. My class notes will be provided to you along with past exam problems. Try to think and ask questions during the lecture. If you miss writing something down during the lecture you can go back to my notes. The notes are in shorthand form so I will be embellishing them during class. My notes also should help you in the unfortunate and unlikely event that you miss a class.

3. Read the old exam problems and think of how to answer them **before** you look at the answers. Old exam problems should help you with your assignments and on the exams. For additional problems, try the end-of-chapter problems or the concept checks that appear throughout the text.

4. You can use this course as a way to prepare for taking the **Chartered Financial Analyst (CFA)** exam(s). You can get an idea of the level of knowledge required to pass the first CFA exam by taking note of the appropriately-marked problems at the end of the text chapters. Better yet, you can do the problems as extra preparation for my exams and the CFA exam.
The CFA is analogous to the CPA in accounting. It is a globally recognized credential that is now nearly a requirement for a long-term career in finance. To become a CFA, you must pass three exams with the first covering basic concepts, most of which will be covered in this class. You can take the first exam or apply to take it while you are in your final year in college. The exam fees are several hundred dollars so you need to be serious and prepare well. Prospective employers often look favorably on students who are pursuing a CFA and many will pay for the exams once they hire you. Some student aid is available from the Hartford Society of Financial Analysts.
For more details, see http://cfainstitute.org/cfaprog/index.html

5. If you are struggling on the homework problems, seek help either by phone, email or after class.
COURSE OUTLINE

The first reading for each week is the notes for the relevant topic. The notes and homework problems on my website follow the order of the outline below. The outline gives the section name and the problem numbers for each homework assignment. Additional reading and problems can be found in the text chapters noted below for each class. Dates given below are approximate. They assume that no class will be cancelled and that we will cover the material at the usual pace. Chapter numbers are for the 7th edition of the text – if you have another edition some chapter numbers could differ.

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<tr>
<td>1/20</td>
<td>Introduction - review syllabus and investment types, explanation of portfolio report and homework, discuss library information sources.</td>
<td>1 - 4</td>
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|       | • Set up teams of four students each – get photos  
|       | • Primer on where to find investment data on the Web  
|       | • Videos - Feshbach Brothers, PBS: Marketplace Whiteboard  
|       | • Web sites with Finance Jobs |
| 1/27  | Economic and Industry Analysis - International factors (choosing a financially promising country), Economy-wide factors (GNP, inflation, interest rates, demographics), Industry-wide factors (competition, regulation, capacity). | 12 |
| 2/1   | • Lecture and answer questions from notes  
|       | • Discuss short articles on Introductory material  
|       | • DUE: Portfolio report - first try at portfolio report – ungraded  
|       | • Videos – Steering the Course, PBS: Inside the Meltdown |
| 2/3   | Measuring Returns and Risk - arithmetic vs. geometric, variance, beta. | 5,6 |
| 2/8   | • Cover Economic Analysis homework - Economic section - 1, 2, 3, 4, 14.  
| 2/10  | • Discuss short articles on Economic section  
|       | • Lecture and answer questions from notes  
|       | • DUE: Answers to one problem and one short article’s questions – Economic section  
|       | • DUE: Portfolio report – 2nd Report -graded.  
|       | • Video – Brinson on International Diversification Soros. |
Company Analysis - management, leverage, and reading financial statements.

2/17
- Cover Risk homework - Risk and Return section - 1, 3, 4, 9, 10
- Discuss short articles on Risk
- Lecture and answer questions from notes
- **DUE:** Answers to one problem and one short article’s questions – Risk section
- Videos - How to Steal $500 million, Mobius on Emerging Markets, PBS: Madoff

Common Stock Pricing - DCF, P/E, P/B, P/S, MVA, EVA

2/22
- Cover Company Analysis homework - Company section - 1, 2, 10, 12
- Discuss short articles on Company Analysis
- Lecture and answer questions from notes
- **DUE:** Answers to one problem and one short article’s questions – Company section
- **DUE:** Portfolio report – 3rd Report
- Videos - Warren Buffet, Dot Con, Peter Lynch, Take the Money and Run

3/3 Complex Stock Pricing – pricing Amazon.com

- Cover Pricing homework - Common Stock section - 1, 2, 7, 9, 11, 15
- Discuss short articles on Stock Pricing
- **DUE:** Answers to one problem and one short article’s questions – Common Stock section
- **Reading Assignment** – (1) go to pages.stern.nyu.edu/~adamodar/, (2) click on “Valuation”, (3) scroll down to “Valuation Examples” and click on Amazon.com in January 2001 and save the Excel file, (4) go up to “Readings” and click on “Equity Readings”, (5) scroll down to “Other Valuation Issues”, (6) Click on “The Dark Side of Valuation” and save the file, then print and read it. Play around with the Amazon Excel file to see how it works.

3/8 – 3/12 Semester Break

3/15 Technical Analysis vs. Fundamental Analysis - efficient markets theory
- past information is useless for predicting stock prices, beanjar experiment
• Lecture and answer questions from notes
• Videos - Financial analysts discuss their methods (Wall Street Week), Mind Over Markets

3/17
FIRST EXAM - up to, but not including, Technical and Fundamental Analysis

3/22
Bonds I - pricing, zeros, junk, ratings, indenture provisions.

3/24
• Cover Technical homework - Technical Analysis section - 1, 2, 11
• Discuss short articles on Technical Analysis
• Lecture and answer questions from notes
• DUE: Answers to one problem and one short article’s questions – Technical Analysis section
• DUE: Portfolio report – 4th Report
• Videos - William Gross- Bond Trading

3/29
Bonds II - term structure, duration, immunization.

3/31
• Cover Bonds I homework - Bonds section - 3, 4, 16, 29, 37
• Discuss short articles on Bonds I
• Lecture and answer questions from notes
• DUE: Answers to one problem and one short article’s questions – Bonds I section
• Videos – Bond Buccaneers, PBS: Frontline-Ten Trillion and Counting

4/5
Options - puts, calls, valuation, Black-Scholes model, put-call parity

4/7
4/12
• Cover Bonds II homework - Bonds section - 8, 10, 12, 14, 21
• Discuss short articles on Bonds II
• Lecture and answer questions from notes
• DUE: Answers to one problem and one short article’s questions – Bonds II section
• DUE: Portfolio report – 5th Report
• Videos – CBOE on Options, Trillion Dollar Bet
4/14 **Futures I - Hedging and Risk Management**

4/19
- Cover Options homework - Options section - 2, 4, 9, 11, 22
- Discuss short articles on Options
- Lecture and answer questions from notes
- **DUE:** Answers to one problem and one short article’s questions – Options section
- Videos - Financing the Ag Hedger

4/21 **Futures II - pricing**

4/26
- Cover Futures I homework - Futures section - 1, 3, 6, 15
- Discuss short articles on Futures I
- Lecture and answer questions from notes
- **DUE:** Answers to one problem and one short article’s questions – Futures I section
- **DUE:** Portfolio reports – 6th Report
- Videos - Portfolio Insurance – Commodity traders and pool managers

4/28 **International Investments and Real Estate** - diversification, investing in a home, metals, jewels, etc.

- Cover Futures II homework - Futures section - 2, 5, 9, 17, 18, 22
- Discuss short articles on Futures II
- Lecture and answer questions from notes
- **DUE:** Answers to one problem and one short article’s questions – Futures II section
- Videos - Buying real estate -
  - Investing in Japan
  - International Investing

**Final Exam** – covers everything covered in class since first exam
TERM PROJECT RULES

You will be required to choose an industry and select a portfolio of investments from that industry. Assume you are an Assistant Investment Officer at an investment firm in charge of analyzing an industry and reporting to the Chief Investment Officer. Every other week you will submit a **one or two page typed report** of your industry consisting of economy-wide factors, industry-wide factors and company recommendations. Also attach a **one page portfolio report** listing the securities bought and sold and the content of your portfolio at the date of the report. An example of the **minimum** report requirements and the report format is given below. Specific project rules are the following:

1. **You start with $200,000 to invest. You should keep $100,000 invested in companies’ stocks (or other assets) in your industry that you favor and $100,000 to cover short sales in companies in your industry that you don’t like. Therefore, your net investment is zero, i.e., you operate like a market-neutral hedge fund.**

   The standard approach for most is to buy a few companies’ shares and sell a few others’ short. For example, suppose you choose to invest in mortgage companies. For various strategic reasons, you think Fannie Mae will perform well while Freddie Mac will do poorly. You buy shares of Fannie and sell short Freddie. Then add other buys and shorts as you learn about your industry.

2. **You must invest in assets for which there are regular means of obtaining price information.**

3. **Your first two reports should explain why you chose the particular industry. This section called "Qualification" shows up only on the first two reports, not on the following reports.**

4. **Keep information segregated by type. The section "Economy-Wide Factors" should provide economic information crucial to your industry. These should be factors that affect many industries like interest rates, money supply, consumer spending index, exchange rates, economic growth rate and so on. Watch the news for stories about the ones that are important factors for your industry and report on them in your report. Good sources of economic information include the Wall Street Journal (WSJ), business periodicals and websites under Financial Links from my website under Macroeconomic Information or Financial News. For example, go to CNN’s [money.cnn.com](http://money.cnn.com), at the top of the page click “Business News” and then “Economy”, and a list of the last month’s economic news articles appears. The same process works at [www.bloomberg.com](http://www.bloomberg.com).**

5. **The section "Industry-Wide Factors" should provide industry specific information like trends, technology, etc. This is information that affects most companies in your industry and few companies in other industries. Furthermore, try to tie the information to your investment decision. Good sources of industry information include those on my website’s Financial Links. The best industry information can be found at the library website. First, enter [www.lib.uconn.edu](http://www.lib.uconn.edu), then click “Articles and Databases”, click “Database by Name”, click “S” and then click “Standard and Poor’s NetAdvantage”, and click “Industries” at the top of the
page, and then select an industry and click the arrow in the small orange box. Also, some brokerage firms produce industry reports: – do the same as before but instead click “I” and then click “Investext Plus”. At the Thomson One website, click “Research”, then click “Conduct Research Report Search”, then under “report Type” select “Industry” and type in an industry name or click on the magnifying glass to search for an industry, input an industry name or part of the name and select one. Another good library database for industry information is “Valueline Investment Survey” and click on “Lookup Industry”. There is good basic industry information in the library’s “Business & Company Resource Center” database, click on the industry icon in the middle of the page, then click “Browse NAICS Codes” and keep clicking on the codes closest to your industry until you get to one that is your industry. You can search the library’s “Factiva” database for news articles on a particular industry. At the Factiva site, click “Industry” and select one. Then input words to search for in the Free Text box to narrow the search. Another good library database for industry information is “IBISWorld” At the top of the page click on any heading with “Industry” in it and select the industry closest to yours. Another website with industry information is www.reuters.com where you will find industry information and data after clicking “Sectors & Industries” at the top of the page, and scroll down.

6. **In the section "Company Recommendations"** you should report information on the companies you have analyzed since your last report including any new information that you found on companies that you have previously reported on. This is information that affects only a specific company. Furthermore, explain how the information influences your investment decision. Report what you find even if you decide not to purchase or sell short a company’s shares. Good sources of information include the Wall Street Journal, and on my website Financial Links under “Company specific …”, “Financial News” and “Stock Information”. Also, brokerage reports on companies can be found using the library’s databases as noted above – use the “Investext Plus” database, after you input a company name or symbol in the Companies box and select “Research” and then click “Go”. Another good source for company information is “Valueline Investment Survey” - click on “Lookup Company”. You can search the library’s “Factiva” database for news articles on a particular company. The www.reuters.com website has a lot of good company data. On the top, click on “News & Markets” then click “Stocks”. You can also try either finance.yahoo.com or Morningstar.com and input a ticker symbol. Another source is library database “Mergent Online” - click “Enter Mergent Online” and then search for company information by name. Another library database for company information is “IBISWorld” At the top of the page click on “Company Research” and select the industry closest to yours and a list of companies appears.

7. **How to find the companies in your industry and sort them by characteristics.** You may not know which companies are in your industry or you may want to sort them according to some characteristic. Go to quote.yahoo.com and on the left under the “Investing” tab, click on “Stocks,” then under “Research Tools” click “Stock Screener”. Then click “Launch HTML Screener” and select an industry. You can also put in criteria such as a minimum and maximum profit margin to limit the number of firms. You can also click on “Launch Yahoo! Finance Stock Screener” but it is more complex.

8. The price at which a security is purchased or sold is the closing price on the day it is purchased or sold. If you decide on a stock during the day, use the real-time price at finance.yahoo.com or
9. Follow the report format of the attached example. **Always note your information sources.** Be brief whenever possible; concentrate on the basic pieces of information required to support your arguments and include only those that have a direct bearing on your industry or companies.

10. **Use at least three different information sources in each report.**

11. Your reports may include more or less information in some sections depending upon what you find and how important you think various pieces of information are to your investment decision.

12. **The schedule of reports below specifies the additional information that you should include in a given report besides the usual economy, industry and company information.**

- **First Report** - a first try - ungraded - find information sources on the Web. (1) You should at least check out [www.sec.gov/edgar/searchedgar/webusers.htm](http://www.sec.gov/edgar/searchedgar/webusers.htm) and click “Company or fund name, ticker symbol”. Type a company name, part of the name, or ticker symbol. Use something from a financial report of one of your companies in the report. For example, click on a 10Q or 10K filing and read through the “Management Discussion.” (2) Go to Vcall.com and on the right under “Corporate Earnings Calls” click on “Visit Investor Calendar”, on the left click “Advanced Search”, and select an industry or type in a ticker symbol, and then click on one of the speaker icons to the right of the company names. Listen to a part of a company’s webcast analysts conference – any company will do but if you see one in your industry listen to that one. Note which company’s conference you listened to in your report. You can sometimes find conference recordings at the company websites as well.

- **Second Report** – (1) fix problems with first try but keep the parts that were correct such as material from a financial report from Edgar and Vcall report. (2) Use an indirect information source: Try products of the companies or call or visit retailers to get information, or call at least one company for investor information (find Investor Relations phone number at company website), or visit one company’s website and look for useful information. Include what you find in the report.

- **Third Report** – (1) Compare at least 3 stocks based upon risk measures, beta at least. Betas can be found at [www.reuters.com](http://www.reuters.com), on the top of the page click “News & Markets”, then click “Stocks” type in ticker symbol, click “Search” and then click on “Financials”. Return standard deviations (Historical or Implied Volatility) can be found at [www.ivolatility.com](http://www.ivolatility.com), (after free registration) type in ticker symbol and click “Go” next to “Basic Options” (2) Do a ratio analysis for at least 3 stocks. Ratios and risk measures can be found at [www.reuters.com](http://www.reuters.com). You can also try either finance.yahoo.com or Morningstar.com and input a ticker symbol. A good ratio analysis for each company includes reporting one ratio from each of the four basic groups discussed in class (if the 1-year ratio looks unusual use a 5-year average) along with the industry average for each. Then compare your company’s ratios to the industry average and to the other companies for which you decide to report ratios. For banks try [www.ffiec.gov](http://www.ffiec.gov) for special bank ratios or other websites under my Financial Links. For banks and insurance companies, you can
find specialized ratios using the library’s online databases as described above, and select “Thomson Research”. At the website in the left corner, click “Ticker”, input a ticker symbol, and click “Go”. Then click “Fundamental Ratios”. (3) Find one example of possible aggressive or questionable accounting issue for one of your companies – use the SEC’s Edgar database at www.sec.gov/edgar/searchedgar/webusers.htm and find financial statements such as 10Qs or 10Ks.

- **Fourth Report** – Price at least 3 stocks using four methods for each stock. Use P/E, P/B, P/S and a discounted cash flow model such as P = D/(k - g) or the 2-stage growth model. You can get industry average P/E, P/B, P/S, earnings per share, dividends, betas and growth rates at www.reuters.com. On the top of the page, click “News & Markets” then click “Stocks”, type in a company’s ticker symbol, click “Search” and then click on “Financials”. For book value per share, sales per share, and earnings per share, you can go to www.sec.gov/edgar/searchedgar/webusers.htm and look at a firm’s recent 10K or 10Q, get sales, book value, and number of shares outstanding from income and balance sheet statements and compute per share figures.

- **Fifth Report** – (1) Use technical analysis to analyze at least 3 stocks. At a minimum, describe support and resistance levels and trends for each stock and suggest the prices at which you would buy or sell the stock. Good charts are available at www.bigcharts.com, type in ticker symbol and click “Basic Chart”. Or at www.prophet.net, click on “JavaCharts” at the bottom of the page and then type in a ticker symbol. (2) Examine insider and institutional trading in at least 3 stocks. A good website for insider and institutional trading is quote.yahoo.com. Type in a ticker and click “Get Quotes” and then click “Insider Transactions” on the left side of the page. Report on the “Insider Purchases – Last 6 Months” and “Net Institutional Purchases”. You can see who is trading under “Insider Transactions Reported”. The same data in somewhat less convenient form is at www.reuters.com. (3) Examine short sales in at least 3 stocks. Data is available at www.shortsqueeze.com, just input a ticker symbol. Report the “% short of float” and “short % Increase/Decrease” for each stock.

- **Sixth Report** – (1) Describe some options (puts or calls) on at least one stock in your industry. Buy some if you wish. At a minimum note the premium (market price), exercise price, and expiration month and year. A good website for options quotes is www.bigcharts.com. Type in the stock ticker symbol, click on “Basic Chart” and just below the company name click on “options chain”. (2) Select at least one company in your industry and report on one of its bonds (buy some if you wish). A good website for bond information is www.investinginbonds.com. To find a company’s bonds, in the upper middle of the page under “Bond Markets and Prices” click on “Corporate Market”. Then type the company’s name in the box under “Search by Issuers” and click “Continue”. To get prices and other information on a bond, click on one of the orange numbers next to a bond for some information. Then click on “run calculations” for other information. Report the coupon, yield, price, maturity date, bond rating, duration and convexity for the bond. (3) Analyze your portfolio performance versus the market in general and your industry. You should report the percent return of your portfolio on the $200,000 invested. Also report the percent return for the market and for your industry. You can find this data at
www.morningstar.com. At the top of the page, type in a ticker symbol for one of your companies and click “Go”. Then under the company name click “Performance” and figure your industry and SP500 returns for 3 months. To do this, under “Trailing Total Returns” take the 3 months return number for “Stock” and subtract +/- Industry for the industry return. For the S&P500 return, again take the 3 month return number for “Stock” and subtract +/- SP500.
OTHER SOURCES OF INFORMATION THAT MAY HELP IN YOUR REPORTS.

**The Valueline Investment Survey** - The printed reports are available a Index Table 2 on Level 1 in Babbidge Library.

A government source of industry analysis at the library in paper form.

**U.S. Industry and Trade Outlook**
Ref. HC101 .U543 located on the Index Table 2 in the Reference area.

Other stuff at the library.

For statistics by SIC industry code try:

- Manufacturing USA Ref. HD9721 M364 Index table 2 in Reference area.
- Service Industries USA Ref. HD9981.3 S47 - same location.
- Finance, Insurance and Real Estate USA Ref. HG181 F56 - same location.

The January issue of Forbes has an "Annual Report on American Industry".

INVESTMENT INFORMATION AVAILABLE AT UCONN AND LOCAL LIBRARIES

Abstracts of Recent Business Articles - search for articles that mention specific companies or industries on **ABI Inform** and **Info-Trac Expanded Academic Index**.


**REFERENCE SOURCES**

- The Outlook (S & P)
- Robert Morris Associates (RMA) Annual Statement Studies
- U.S. Industry and Trade Outlook
- Standard & Poor's Stock Guide
- S&P's Stock Market Encyclopedia
- Trendlines Current Market Perspective

- Moody's Bond Record
- Moody's Bond Survey
- Moody's Handbook - major stocks
- Moody's Handbook - OTC stocks
- Moody's Industry Review
- Disclosure Worldscope - Company information by industry
Hoover's Handbooks - 3 types (World, American and Emerging Companies)

PARTICULARLY USEFUL REFERENCE SOURCES

Value Line Ratings & Reports
Moody's Manuals: Bank & Finance
Standard & Poor's Industrial Survey
Standard & Poor's Industry Handbook

Substitutes for most of the sources can now be found on the web.

SEE MY WEBSITE - For Links to various sources.

FOR THE COUCH POTATO

A. Watch FOX Business

B. Watch CNBC

HOW TO USE THE LIBRARY WEBSITE DATABASES FROM A HOME PC

You can access the library’s databases at school directly, but if you are off-campus, you need to set up your browser to use the school’s proxy server. This is a way to identify yourself as a UCONN student so that you can gain access to databases that the school pays for.

Here are the steps to follow.

1. You need your NETID and password
2. Go to vpn.uconn.edu
3. Put in your NETID and Password
4. Click on Uconn-Library
5. [If these steps didn’t work, you may have to go to the following website to get the procedure to set up access to the proxy server. http://helpdesk.uconn.edu/trouble/proxy/proxyconfig.html].
HERE IS A LIST OF CLASSIC INVESTMENTS/FINANCE NOVELS – most are based upon real life cases but are written to be entertaining.

1. The Preditors Ball
By Connie Bruck
Simon & Schuster, 1988
Connie Bruck does an excellent job of explaining how the small investment-banking firm of Drexel Burnham Lambert came from off the radar screen in the late 1970s to the pinnacle of Wall Street power in a few short years. How Drexel basically created an entire market of junk-bond-fueled leveraged buyouts and how its senior executives made more in annual income than the GDP of some countries. And how they assembled a core group of investors (insurance companies and funds, primarily) who were willing to buy long-term debt obligations of below-investment-grade companies -- and became so addicted to high returns that they were oblivious to looming debt disasters. The book's title comes from the all-too-evocative nickname for Drexel's annual junk-bond conference.

2. Barbarians at the Gate
By Bryan Burrough and John Helyar
Harper & Row, 1990
This is the story of the biggest leveraged buyout of them all: Kohlberg Kravis Roberts & Co.'s $25 billion takeover of RJR Nabisco in 1988. Huge money, huge egos, billion-dollar mistakes and, in the end, not a great return for the people who bought RJR. "Barbarians at the Gate" reads like a novel. Its array of characters -- including KKR's Henry Kravis, RJR chairman F. Ross Johnson and Shearson Lehman Hutton chairman Peter Cohen -- can become a bit confusing, but the story is thoroughly entertaining. Bryan Burrough and John Helyar, who were Journal reporters at the time, are superb in their detailing of the frenzied bidding war touched off by Johnson's surprise move to take RJR private by paying $75 a share (the price was $109 by the time KKR won out). Leveraged buyouts are still a common financial strategy, but the era of mega-leverage and of guppies swallowing whales ended with this deal.

3. Bonfire of the Vanities
By Tom Wolfe
Farrar, Straus & Giroux, 1987
A fateful wrong turn taken by bond salesman Sherman McCoy in his Mercedes-Benz begins a cascade of errors in "Bonfire of the Vanities," but Tom Wolfe himself never puts a foot wrong in his wonderfully satirical first novel. Countless woes are visited upon McCoy after he blunders into the Bronx and accidentally touches off a racial incident that soon has New York City in an uproar and his life in epic turmoil. Though Wolfe skewers the "Masters of the Universe" culture of Wall Street in the 1980s, his true target is the city itself during a decade of big money, big
crime and big-mouths like the Rev. Al Sharpton and Mayor Ed Koch. Sherman McCoy's life, chronicled with Wolfe's acid wit, comes undone speedily -- exactly what happened to several top financial executives in that era.

4. Liar's Poker
By Michael Lewis
Norton, 1989

Michael Lewis went on to write other best sellers, such as "Next" and "Moneyball," but "Liar's Poker" remains his most personal work -- and his funniest. He labored for Salomon Brothers as a bond trader for four years, from 1984 through the crash of October 1987, apparently taking copious notes along the way. The result is a first-rate account of how the bond-trading side of the investment-banking business works, but the reporting is spiked with wicked asides and telling observations. The book's title comes from a game that Salomon traders played involving the serial numbers of dollar bills instead of playing cards. A story that helped make "Liar's Poker" so memorable recounted how Salomon chairman John Gutfreund once challenged the company's top trader to one hand for $1 million -- and then backed down when the trader upped the stakes to $10 million.

5. Anatomy of Greed
By Bryan Cruver
Carroll &Graf, 2002

Bryan Cruver was a 30-year-old MBA when he arrived at Enron in March 2001; nine months later, he and thousands of other Enron employees were out of work as the energy giant imploded. "Anatomy of Greed" is a prime lesson in the ways that even the best and the brightest can be fooled. Accountants, lawyers, rating-agency analysts and investment bankers who are constantly on the lookout for financial shenanigans sometimes don't see them until it's too late. The story of the "crooked E" -- as Enron came to be known, thanks to its logo and its infamous shell-game business practices -- is one more reminder to investors of why it's so, so good to diversify.

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Memorandum
To: Chief Investment Officer
From: (Student's name)
Date:

RE: Report # 1 - Securities Brokers

Qualification (appears on first and second report only)

The internet is forcing the brokerage industry to change rapidly. For many years I have had full-service and discount brokerage accounts to get different services, but the industry seems to be converging. I plan to evaluate which firms will survive based upon their strategic advantages. The new, mostly discount brokers, spend large amounts on marketing and account acquisition. I am interested in investigating how their stock prices reflect these costs versus the value of the customers they capture.

Economy-Wide Factors

Last week the Fed raised the Fed Funds rate from 6% to 6.5% (WSJ 5/17/00, p.1). Banks followed the Fed by raising their prime rates and broker call rates by .5%. Brokers, in turn, will be raising their margin rates by .5% and this could discourage trading. On the other hand, the 45-64 year age-group is set to grow by about 3 percent each year for the next 10 years (www.yardini.com). This group has the highest earning and saving rates and is the prime customer group of brokerage firms.

Industry-Wide Factors

Margin debt at brokerage firms was at an all-time high above $280 billion in March 2000, from only $150 billion at the end of 1998 (WSJ 5/16/00, p.2). In addition to boosting trading income, margin growth boosts margin interest. Margin interest has been the fastest growing (29% annually) income source for brokers during the last 8 years (U.S. Industry and Trade Outlook 2000, p. 48-5). But the increase in margin rates along with the 40% drop in the NASDAQ and 10% drop in the S&P from their highs could cause investors to trade less and cut back on margin. Indeed, combined average daily trading volume has fallen from about 3 billion shares to 2.2 billion shares over the last month.

The long-term demographics and income growth both favor financial investments and trading as workers save for retirement. Online trading is projected to increase from $120 billion in 1997 to $700 – 1500 billion in 2002 (Standard & Poor’s Industry Survey - Investment Services 10/28/99, p.10). The sharp decline in trading technology costs bodes well for the future. In addition, firms that offer customers the best transactions technology for trading along with bill paying and online account access will improve customer service while reducing their costs.

Company-Specific Factors

In April, margin debt fell for the first time this year by 10% at E*Trade and 20% at Ameritrade (WSJ 5/16/00, p.2). The relative weakness at Ameritrade may indicate that its customers’ trading is
more volatile and more sensitive to market conditions than that of other brokers. To get an idea of how much margin interest subsidizes Ameritrade’s other operations, net interest income (interest income – interest expense) was about $39 million in the first quarter while income before taxes was only $5 million. Much of Ameritrade’s money is going into trading infrastructure and advertising which are fixed costs that will be lost if future trading volume declines (Valueline 3/3/2000). Compare this to Merrill Lynch, which had $684 million in net interest income and $1575 million in earnings before taxes in the first quarter. Furthermore, Merrill recently established two FDIC insured banks, which could substantially increase its interest income (S&P Reports, 3/4/2000).

In December 1999, Merrill Lynch started offering online trading ($29.95 trades, $1500 yearly maximum). Its strong brand name, image of stability and topflight personnel are competitive advantages for attracting new online traders as well as traders from less established brokers such as E*Trade and Ameritrade. Merrill’s draw from other brokers may be particularly strong in the event of an extended market decline. Merrill’s recent large investment in Japan and other international operations along with its wide product offerings give it a much more stable financial position than the pure online brokers. Their online account access offers excellent customer service.

Unlike E*Trade, which recently bought an online bank, the new CEO is focusing Ameritrade on low-cost trading with no diversification into other services (WSJ 5/24/2000, p. C19). Although Ameritrade’s first quarter trading volume was up 88%, considerably more than competitors, earnings and cash flow from operations were negative and large (5/15/2000 10Q Edgar filing). Ameritrade recently replaced its CEO and its Chairman announced that he plans to sell 20 million shares during the next year; both negative signals.

Given what I have discovered so far, I am buying Merrill Lynch and selling Ameritrade short at end-of-day prices on 5/25/2000. It appears to me that even Ameritrade’s spokesman Stuart (‘‘Let’s light this candle!’’) may not be enough to keep Ameritrade competitive.

Portfolio Changes this Report

Bought

1061 shares Merrill Common Stock@ $94.25 $100,000

Sold

None

Sold Short

9091 shares Ameritrade Common Stock@ $11 -$100,000

Portfolio Holdings

1061 shares Merrill Common Stock@ $94.25 $100,000
9091 shares Ameritrade Common Stock@ $11 -$100,000

Net Value of the portfolio in this report: 0
Net Value of the portfolio in the last report: 0
Change in portfolio value 0
Tracking Your Portfolio Using the Web

To track your portfolio you can use any site that allows you to input a portfolio of stocks, both short and long. I give an outline of how to do this for Yahoo. **I recommend Yahoo** because it keeps a historical account of all of your trades so that you can track profit and loss. To use most websites, you need the ticker symbols of the companies that you want to buy or sell short. A ticker symbol is one, two, three, or four letters that represent a company’s stock. You can get the ticker symbols from most websites by clicking “Find Symbol” and then type the company’s name. Many sites don’t allow you to enter negative shares for a short sale so use the following site if you don’t have another one you like better that allows short sales.

1. Go to finance.yahoo.com
2. If you don’t have a Yahoo account, click the top right corner “New User”. Once you have an account go to the finance.yahoo.com homepage.
3. On the top right click on “My Portfolios”, and click “sign in to Create Portfolio”.
4. Next click “Create New Portfolio”
5. Next click “Track your Transaction History”.
6. Name the portfolio and click “Continue”.
7. Click on “Cash” and under Cash in, type in $200,000.
8. Then click “save”.
9. When the portfolio view comes up, it will have $200,000 in cash.
10. Whenever you change the portfolio (buy, sell, sell short, buy to cover) you need to click to the right on “Transactions” and then “Create Transaction”
11. To buy a stock, make sure the Type is “Buy” and enter the stock symbol, number of shares and the price of the stock at the time of the trade (check for a quote) and click “Save”.
12. Your cash amount automatically decreases by the cost of the stock.
13. To sell, just make sure Type is “Sell” and enter stock symbol, number of shares and price and click “Save”.
14. Your cash amount automatically increases by the value of the stock you sold.
15. To sell short, make sure Type is “Sell Short” and enter the stock symbol, number of shares and the price at the time of the trade) and click “Save”. When you sell short, Yahoo adds the value of the shares to your cash amount but do not spend the extra cash to buy other shares. Only spend a total of $200,000. When you reverse (or cover) the short, the cash will fall by the amount of the value of the stock covered.
16. To reverse a short sale, make sure Type is “Buy to Cover” and enter the stock symbol, number of shares and price) and click “Save”.
