

**Villanova University  
Villanova School of Business  
Department of Finance**

**MSF 8640 Portfolio Theory & Applications and MSF 8641 SMF II**

**Dr. David Nawrocki**

**2020 Bartley**

**610-519-4323**

**Fall 2007 – TTh 4:00-5:15**

**Course Objectives:**

- 1. Manage real dollar portfolios for an academic year for 3 credits.**
  - a. George Coleman ETF Fund**
  - b. Haley Group Large Cap Socially Responsible Fund**
- 2. Participate in a Portfolio Theory Seminar for an academic year for 3 credits.**
- 3. Provide the Outcome Assessment for Oral Presentation Skills for MSF Program.**

**Books**

Lacy Hunt, *A Time to be Rich*, Macmillan Publishing, 1987. (required for business cycle, industry, country analysis)

Edwin J. Elton, Martin J. Gruber, Stephen J. Brown, William N. Goetzmann, *Modern Portfolio Theory and Investment Analysis*, Sixth Edition, John Wiley and Sons, 2002.

David Nawrocki, *Portfolio Management Software Package – PMSP*, Computer Handholders, Inc.

Peter Bernstein, *Capital Ideas Evolving*, 2007. Available at Amazon for \$14.38 used to 19.97 new.

Michael Mauboussin, *More Than You Know: finding financial wisdom in unconventional places,(Updated and Expanded)* 2007. Available on Amazon \$15.98 used to \$18.45 new.

Richard Bookstaber, *A Demon of Our Own Design: Markets, Hedge Funds, and the Perils of Financial Innovation*, 2007. Available at Amazon \$14.94 used to \$18.45 new.

**Student Managed Investment Fund**

1. Review and become familiar with the investment policy statement of the two funds.
2. Set up a management structure by which the funds are managed.
3. Manage the investment portfolio.
4. Make a final presentation to a board of advisors that consists of faculty and the IRAFT Advisory Council at the end of each semester.

You will work within various teams that are headed by a team leader. The team leaders represent the middle management of the fund. The team leaders and the teams report to an investment committee that consists of all students and the faculty advisor(s). The faculty advisor(s) has one vote on the investment committee as do all of the students. However, the faculty advisor reserves the right to veto an investment committee decision if he/she feels that the decision is not consistent with the investment policy of the fund. The faculty advisor has to report to the university's chief financial officer (CFO) to ensure that the investment policy statement is upheld. As long as students remain within the organizational structure of the fund, you will find that you have a lot of freedom to choose where you wish to participate.

The fall semester will be hectic with a lot of work up front, but once we complete the investment process in October, you will find that the SMF class becomes more relaxed as we monitor the portfolios. We will also have alums who are investment professionals presenting talks during the semester and you will also have a chance to work with the resources in the new applied finance lab. Our alums are partners or managing directors at major investment firms. The philosophy of the class is to utilize a long-term top-down investment discipline that would be appropriate for endowment and retirement portfolios. The class is not a class in day trading or any type of active trading of stocks such as a hedge fund. With the exception of the George Coleman ETF fund, all funds at Villanova require socially responsible investment.

- I. First Steps (In place by September)**
  - Review of Investment Policy Statement
  - Set up Organizational Design for Class
  - Lecture on Building Teams – Dr. James Klingler
  
- II. Tasks (Traditional Top-Down Management)**
  - Business Cycle Analysis (Lacy Hunt)
  - Industry Analysis (QInsight)
  - Social Responsibility and Corporate Governance Screening (IWFinancial)
  - Security and Country Analysis (Damodaran Analysis Spreadsheets)
  - Portfolio Selection (PMSP Optimization and Heuristics)
  - Technical Analysis (stop loss or profit target)
  - Compliance and Proxy Voting
  - Marketing and Website Design
  - Performance Reporting and Style Analysis
  
- III. Investment Cycle Target Date**
  - Mid to Late October
  
- IV. Internal Reports**
  - Economic, Industry, Security, Portfolio, Performance, Compliance Reports
  - Presentations to Investment Committee

## **V. Final Reports to Board of Directors**

Tuesday December 9, 2008

Tuesday April 29, 2009

## **VII. Websites**

<http://www.library.villanova.edu/vbl/aweb/datab.htm> (S&P Market Insight)  
<http://www.stanford.edu/#top> (Securities Class Action Clearinghouse)  
<http://www.kld.com> (Kinder, Lydenberg, Domini & Co. SRI)  
<http://www.qinsight.com/current.htm> (QInsight Group's Business Cycle Phase)  
<http://www.iwfinancial.com> (SRI Ranking Website)  
<http://www.students.villanova.edu/smf>  
<http://www.quicken.com/investments/portfolio>  
userid: villanovasmf  
pswd: arnone

## **Villanova Student Managed Investment Funds**

Arnone-Lerer Fund – March 25, 2004 Inception - \$98,250 initial investment.

George Coleman Fund – March 3, 2005 Inception - \$101,163.78 initial investment.

Haley Group Large Cap – November 8, 2006 Inception - \$100,265.35 initial investment.

Haley Group Mid Cap – March 14, 2007 Inception - \$99,450.38 initial investment

Whipkey Fund – Fall 2007 Inception - \$100,000 initial investment

## **Advisory Group**

Advisory Group members have additional responsibilities. Members will meet once a week with the instructor to plan and coordinate the teams. Members will meet twice in the fall and six times in the spring with Dr. James Klingler of the management department for a seminar in organizational management. This group is already in place and consists of volunteers.

## **Grading for Each Semester**

### **40% Team Grade**

Two 360 degree evaluations of team members and team leaders (midterm & final)

Reliability

Oral Presentations

Participation

Leadership

### **60% Portfolio Theory Grade**

Midterm Exam

Term Paper Project

## Portfolio Theory Seminar

- I. Business Cycles (Read on your own)  
Hunt Chapters 1-19
- II. Portfolio Theory – Elton, Gruber, Brown and Goetzmann
  - Characteristics of the opportunity set under risk – chapter 4
  - Delineating Efficient Portfolios – chapter 5
  - Techniques for Calculating the Efficient Frontier – chapter 6
  - Simplification – Single Index Model – chapter 7
  - Correlation Structure and Multi-Index Models – chapter 8
  - Simple Techniques (Heuristics) – chapter 9
  - Utility Analysis – chapter 10
  - Other Portfolio Selection Models – chapter 11
    - Inputs and Estimation Error
  - Efficient Markets – chapter 17
  - Evaluation of Portfolio Performance – chapter 24
    - Performance Measures and Statistical Bias
  - Portfolio Management Revisited – chapter 25
  - Interest Rate Theory and Pricing of Bonds – chapter 20
  - Management of Bond Portfolios – chapter 21
  - Use of Options in Portfolio Management – chapter 22
  - Use of Financial Futures in Portfolio Management – chapter 23

### Fall Term Project – Article Replication Study – Due Final Exams Week

Bond, Shaun A. and Stephen E. Satchell, 2002, “Statistical Properties of the Sample Semi-Variance,” *Applied Mathematical Finance*, v9, 219-239.

Hensel, Chris and Andrew Turner (1992). “Making Superior Asset Allocation Decisions: Implications of Recent Research Commentaries,” Russell Position Papers, (December 1992), 1-17. (Frank Russell)

Hensel, Chris and William Ziemba (1996). “Investment Results from Exploiting Turn-of-the-Month Effects,” Journal of Portfolio Management, v22(3), 17-23.

Fabozzi, Frank, Sergio Focardi, and Christopher Ma (2005), “Implementable Quantitative Research,” Journal of Alternative Investments, v8(2), 71-80. (Intertek).

Ang, James S. and Jess H. Chua. "Composite Measures For The Evaluation Of Investment Performance," Journal of Financial and Quantitative Analysis, 1979, v14(2), 361-384.

Reilly, Frank and David Wright (2004). “Analysis of Risk-Adjusted Performance of Global Market Assets,” Journal of Portfolio Management, (Spring 2004), 63-78.

Saunders, Anthony, Charles Ward and Richard Woodward. "Stochastic Dominance And The Performance Of U.K. Unit Trusts," Journal of Financial and Quantitative Analysis, 1980, v15(2), 323-330.

Sharpe, William F. "Asset Allocation: Management Style And Performance Measurement," Journal of Portfolio Management, 1992, v18(2), 7-19.

Surz, Ronald (2006). "A Fresh Look at Investment Performance Evaluation," Journal of Portfolio Management, (Summer 2006), 54-65. (PPCA)

### **Academic Honesty**

**The Code of Academic Integrity of Villanova University addresses cheating, fabrication of submitted work, plagiarism, handing in work completed for another course without the instructor's approval, and other forms of dishonesty. For the first offense, a student who violates the Code of Villanova University will receive 0 points for the assignment. The violation will be reported by the instructor to the Dean's office and recorded in the student's file. In addition, the student will be expected to complete an education program. For the second offense, the student will be dismissed from the University and the reason noted on the student's official transcript.**

### **Disability Statement**

**It is the policy of Villanova to make reasonable academic accommodations for qualified individuals with disabilities. If you are a person with a disability please contact me after class or during office hours and make arrangements to register with the Learning Support Office by contacting 610-519-5636 or at nancy.mott@villanova.edu as soon as possible. Registration with the Learning Support Office is required in order to receive accommodations.**

### **Book Club with Dr. Nawrocki (Meets weekly)**

Peter Bernstein, Michael Mouboussin, and Richard Bookstaber books.