

NEW YORK UNIVERSITY
STERN SCHOOL OF BUSINESS

Investment Banking
B40.2334.01, Fall 2000

Professor Kenneth C. Froewiss
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Office Hours: Mondays and Wednesdays, 2:30PM-4:30PM

Goals of the Course

The principal goal of this course is to provide a broad overview of investment banking and of the forces that are changing it worldwide. The focus is on the major activities of investment banks: (1) raising capital for clients; (2) making markets and providing brokerage services; (3) advising on and executing mergers and acquisitions; (4) trading and investing for the bank's own account; and (5) managing third-party assets. The final section of the course will examine the challenges of managing a global investment bank.

Throughout the course, attention will be given to the perspective of the client as well as to that of the investment bank, and to the inherent tensions between the two. The international aspects of investment banking and the evolving impact of the internet will be explored in each part of the course rather than treated as separate sections, since both of these issues are inextricably a part of every aspect of investment banking today.

By the end of the semester, each student should be well prepared for either an entry-level position in an investment bank or for a comparable position in a client firm in which he or she needs to interact with investment banks. Upon completion of the course, all students, whether they choose to work in one of these capacities or not, should be able to read the financial press through new eyes. **To that end, students are expected to keep up with the financial news and stay on top of current developments as a part of this course.**

Required Readings

Students should purchase the course packet, available at the bookstore. Other required readings--mainly articles from the financial press--will be distributed in class.

Blackboard

We will be using a web-based software package called "Blackboard" in this course. It can be accessed through your web-browser at: <http://class.stern.nyu.edu>. (Note that you omit "www".) The same username and password that you use for your Stern e-mail will allow you to log onto the system. You will be able to download handouts from this site, check for announcements, and post questions or comments. **Blackboard is an integral part of the course, and you are responsible for any information posted there.**

Grading

There will both be a midterm and a (non-cumulative) final exam, each counting 50%. **It goes without saying that students are expected strictly to abide by the NYU Stern Honor Code.**

Teaching Assistant

The TA for this course is Brian Shaltakoff. His e-mail address is bds218@stern.nyu.edu.

Schedule of Classes

September 7 & 12—Overview of the Financial Services Industry and the Role of Investment Banks

The role of financial intermediation and where investment banks (IBs) fit in that context; the principal IB activities and the concept of “trusted advisor”; the forces transforming investment banking; the latest “league tables” and their significance.

Readings: Course Packet (CP), Articles #1-#5

September 14 & 19—Introduction to Some of the Major Players; the Legal and Regulatory Setting

Snapshots of some of the major IBs—both here and abroad—and how they have evolved; the Securities Acts of 1933 and 1934; Glass-Steagall vs. Gramm-Leach; the Investment Company Act of 1940; the roles of the SEC, the Fed, the Treasury, the NASD, the exchanges; “Series 7”.

Readings: CP #6-#15

September 21, 26 & 28—Raising Capital: Publicly Traded Equity

Initial public offerings; getting the mandate; origination; underwriting; distribution and after-market support; allocation of the fees; the changing role of sell-side equity research; privatizations; tracking stocks; seasoned and secondary offerings; rights issues; impact of the internet

Readings: CP #16-#22

October 3—The Private Equity Market

Size and significance of the private equity market; angel financing vs. venture capital; the principal investors; the range of issuers; relationship to investment banking.

Readings: CP #23 & #24

October 5 & 10—Publicly Traded Investment Grade Debt; Private Placements

Role of the rating agencies; fixed-income research; from shelf-registration to offerings over the internet; competitive vs. negotiated deals; the impact of the euro; the “other” bond market; Rule 144A.

Readings: CP #25-#30

October 12 & 17—High-Yield Issues, Converts, and Preferreds

The high-yield market’s rise, fall, rise,...(?); hybrid securities; the trick of convincing the rating agencies that a security is equity and the tax authorities, that it is debt.

Readings: CP #31-#34

October 19 & 24—Securitizations and Derivatives

Mortgages and other asset-backed issues; tailoring risk and return to individual tastes; forwards, futures, swaps, and options; their importance for raising capital.

Readings: CP #35-#39

October 26—Midterm Exam

October 31, November 2 & 7—The “Sales and Trading” Function

Market-making vs. brokerage; institutional vs. retail clients; issuer vs. investor clients; the skills of traders and of salespeople; the dual loyalties of the sales force; financing dealer positions; the evolution of the exchanges and the new world of electronic trading.

Readings: CP #40-#46

November 9 & 14—Mergers and Acquisitions

Recent trends in M&A activity; motivations for acquisitions and divestitures; winners and losers; hostile deals and defensive tactics; legal considerations and duties of directors; the Telecom Italia case.

Readings: CP #47-#49

November 16 & 21—Third-Party Asset Management and Proprietary Trading and Investing

Institutional money management; private banking and its evolution; proprietary trading and merchant banking; risk arbitrage; hedge funds and their links to investment banking;.

Readings: CP #50-#56

November 28 & 30—Managing the Global Investment Banking Firm: Fundamental Organizational Issues, Technology and Operations

Client focus vs. product focus; regional management vs. product management; the natural tensions within the firm; the technology infrastructure for sales and trading; the clearing function, both as cost center and as profit center

Readings: CP #57-#59

December 5 & 7—Risk Management; Professional Standards and Ethics

The varieties of risks faced by an IB; measuring and managing market risk; people risk and the rogue trader; firm values, firm culture and their importance for success.

Readings: CP #60-#62

December 12—Career Paths within Investment Banking

December 14—Review Session