

International Investment Analysis

Prof. Jeff (YuQing) Shen

Goals:

This course delivers the theoretical framework, the quantitative tools and the practical issues that are critical for global investment management. The focus of the course is on strategic asset allocation (beta decision), active portfolio management (alpha decision) and the beta/alpha investment framework. We build a solid foundation in portfolio theory and investment analysis first. Then we focus on the applications to practical issues such as global asset allocation, asset liability management, stock selection investment strategies and the global dynamics of hedge fund investment.

Textbook

I haven't found one good textbook for the class, but the following three books are good references.

1. *Modern Portfolio Theory and Investment Analysis*, by Edwin J. Elton, Martin J. Gruber, Stephen J. Brown, William N. Goetzmann
2. *Strategic Asset Allocation*, by John Y. Campbell, Luis M. Viceira
3. *Active Portfolio Management: A Quantitative Approach for Producing Superior Returns and Selecting Superior Returns and Controlling Risk*, by Richard C. Grinold, Ronald N. Kahn

The Course on the Internet

We will make use of the Internet for lecture notes, resource materials and communication. Look for the class "International Investment Analysis" at your front page after you log into Blackboard. Students who have registered for the class should have automatic access to the class site.

Prerequisites

Corporate Finance. Investment or Portfolio Theory is helpful but not required. Some familiarity with statistics.

Portfolio Management Simulation and Exercises

I will give out practice exercises along the class. In addition, for the portfolio management simulation, each student will need to participate in a group project by constructing a *strategic* portfolio for an institutional client with certain investment profile. We will evaluate and discuss the merit of various different types of portfolio construction.

Grading

The course grade will be determined as following:

Portfolio Management Simulation*40% + Class Participation*10% + Final Examination*50%

Instructor

Jeff (YuQing) Shen, Principal, is the Head of Asia Active Equity Group at Barclays Global Investors, the largest asset manager in the US. Before BGI, Jeff was the global head of macro absolute return products and asset allocation research at JP Morgan Fleming Asset Management in New York. A JP Morgan employee since 1997, he has previously worked for JP Morgan in the portfolio advisory function in London and hedge fund product development and risk management research in New York. Jeff is also an adjunct professor at the Stern School of Business (NYU) teaching MBA classes on international investment. Jeff holds a Ph.D. in Finance from Stern School of Business, NYU.

Email: yshen@stern.nyu.edu

Overview:

1. *Motivation*

- Why Invest?
- Investment objectives
 - Defined benefit pension plan
 - Defined contribution plan and individual
 - Endowment/foundation
- Pension finance
- Current issues of institutional retirement plans
- Multi-faceted objectives

2. *Strategic Asset Allocation (Beta decision)*

- Strategic asset allocation
- Portfolio theory and efficient frontier analysis
- Long-term return forecasting
- Long term risk/correlation forecasting
- Diversification theory and its applications
- Asset liability framework

3. *Active Management (Alpha decision)*

- Active management theory
- Theory of short term return/risk forecasting
- Global macro investment theory and its applications
- Macro risk management: Value at Risk
- Micro investment theory and its applications: international stock picking
- Stock selection risk management

4. *Solving for total return (Alpha/Beta framework)*

- Alpha/Beta framework
- Solving total return problem using Alpha and Beta: case studies
- Hedge fund industry