



Modern Portfolio Theory & Asset Management

B40.3332

Fall 2007

Professor Martin J. Gruber

Office: KMC 9-88

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Class Meets: Monday 6:00 - 9:00 p.m.

Office Hours: Monday 12:00 - 2:00 p. m.

Friday 2:00 - 4:00 p. m.

Teaching Assistant: Sadi Ozelge ext. 80560

Secretary: Anna Palumbo ext. 80346

This is a course in the theory and application of portfolio management techniques. In addition to the lectures on the material below the courses will include 3 or 4 lectures by outstanding professionals in the field of portfolio analysis.

Course Materials

1. Elton, Edwin, Martin Gruber, Stephen Brown, and William Goetzmann, Modern Portfolio Theory and Investment Analysis, John Wiley & Sons, Inc. 7th edition, 2007 and accompanying computer program, "The Investment Portfolio."
2. Reading package available at the bookstore and in the library.
3. Notes available on Blackboard

All chapters are from Elton, Gruber, Brown, and Goetzmann. Readings are from the reading package and are identified by number and author name.

Numbers in parenthesis indicate the approximate number of half classes which will be spent on each topic.

A. Portfolio Analysis

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|-----|------------------------------------|----------------------|
| () | Introduction | Chapter 1 |
| (4) | The Basics of Portfolio Theory | |
| | The Two Security Case | Chapter 4: pp. 44-56 |
| | Generalizing to Multiple Assets | Chapter 4: pp. 56-67 |
| | The Impact of Correlation | Chapter 5: pp. 68-84 |
| | Riskless Lending and Borrowing | Chapter 5: pp. 84-90 |
| | Calculating the Efficient Frontier | Chapter 6 |
| (1) | Selecting from Feasible Portfolios | Chapter 11 |

- (3) Simplifying the Portfolio Management Process
- The Single Index Model Chapter 7
 - Multi-Index Model Chapter 8
 - Recalculating the Efficient Frontier Chapter 9
 - Reading 1 -- Markowitz (Skim)
- B. Model of Relative Prices**
- (3) The Standard Capital Asset Pricing Model Chapter 13
- Non Standard Forms of the Capital Asset Pricing Model Chapter 14
 - Test of Capital Asset Pricing Model Chapter 15
 - Arbitrage Pricing Theory Review Chapter 8, pp. 167-174
 - Read Chapter 16
- C. Performance**
- (4) Open End Mutual Funds
- The Structure of the Industry Lecture Notes
 - Performance
 - Overview Chapter 25
 - Reading 1: Elton, Gruber, Das, and Hlavka
 - Reading 2: Elton, Gruber, and Blake
 - Reading 3: Gruber
 - Reading 4: Sharpe
 - Reading 5: Sharpe
 - Reading 6: Modigliani and Modigliani
 - Reading 13: Elton, Gruber and Blake
 - Reading 7: Statement of Senior Financial Economists Roundtable
- (4) Other Managed Portfolios
- Closed End Mutual Funds
 - Reading 8: Elton, Gruber, and Busse
 - Commodity Funds
 - Reading 9: Elton, Gruber, and Rentzler
 - Reading 10: Elton, Gruber, and Rentzler
 - Hedge Funds
 - Reading 11: Brown
 - Institutional Managers
 - Pension Funds
 - Reading 14: Elton, Gruber and Blake
- (1) Summary and Discussion

Grading

Grades will be based primarily on the homework assignments (10%), midterm (40%) and final (50%). Homework assignments are intended to help you understand the material. While the grading distribution will vary slightly according to the quality of the class in general I follow the Department of Finance Guidelines of

A	20-25%
B	55-70%
C and below	10-20%

In addition to my normal office hours, I will schedule one additional day at the convenience of the class before the final to be available to meet with you as individuals or in groups to discuss the course or answer any questions you have about portfolio management or finance in general.

READINGS

1. Elton, Edwin, Martin Gruber, Sanjiv Das, and Matthew Hlavka, "Efficiency with Costly Information: A Reinterpretation of Evidence from Managed Portfolios," Review of Financial Studies, 1993 pp. 1-22.
2. Elton, Edwin, Martin Gruber, and Christopher Blake, "Survivorship Bias and Mutual Fund Performance," Review of Financial Studies, Winter 1996 pp.1097-1120.
3. Gruber, Martin, "Another Puzzle: The Growth in Actively Managed Mutual Funds," Journal of Finance, July 1996 pp. 783-810.
4. Sharpe, William, "Asset Allocation: Management Style and Performance Measurement," Journal of Portfolio Management, Winter 1992 pp. 1-19.
5. Sharpe, William, "The Sharpe Ratio," Journal of Portfolio Management, Fall 1994 pp. 49-58.
6. Modigliani, Franco, and Leah Modigliani, "Risk-Adjusted Performance," Journal of Portfolio Management, Winter 1995 pp.45-54.
7. "Statement of Financial Economists Roundtable on Risk Disclosure of Mutual Funds," Journal of Financial Engineering, June 1997 pp. 367-373.
8. Elton, Edwin, Martin Gruber, and Jeff Busse, "Do Investors Care About Sentiment?" Journal of Business, October 1998 pp. 1-32.

9. Elton, Edwin, Martin Gruber, and Joel Rentzler, “Professionally Managed, Publicly Traded Commodity Funds, Journal of Business, April 1987 pp. 175-199.
10. Elton, Edwin, Martin Gruber, and Joel Rentzler, “New Public Offerings, Information, and Investor Rationality: The Case of Publicly Offered Commodity Funds, “Journal of Business, 1989 pp. 1-13.
11. Brown, Stephen, William Goetzmann, and Roger Ibbotson, “Offshore Hedge Funds: Survival and Performance 1989-1995, “NYU Department of Finance Working Paper Series 1998, # FIN-98-011, February 1998 pp. 1-37.
12. “Beta Management Company,” Harvard Business School, November 17, 1993 pp. 1-5.
13. Elton, Edwin, Martin Gruber, and Christopher Blake, “Incentive Fees and Mutual Funds,” Journal of Finance, April 2003, pp. 779-804.
14. Elton, Gruber and Blake, “Participant Reaction and the Performance of Funds Offered by 401(k) Plans,” Journal of Financial Intermediation.

Problem Assignments

Problem Set 1

1. Chapter 4 Problems 2 and 3
2. Chapter 5 Problems 3 and 5

Problem Set 2

1. Chapter 7 Problems 1 and 2
2. Chapter 8 Problem 5
3. Chapter 9 Problems 1 and 2
4. Beta Management Company case in reading packet.

Problem Set 3

1. Cherry Hill Investments
2. Chapter 13 Problems 1, 2, 4, and 8
3. Chapter 16 Problem 1

Problem Set 4

1. Chapter 25 Problems 1, 2, 3, and 4
2. Case marked Mutual Fund Evaluation.