Goals of the Course

This course attempts to provide a broad overview of investment banking and of the forces that are continuing to change it worldwide. We will examine in some detail each of the principal businesses in which the major investment banks are involved, including raising capital, advising on mergers and acquisitions, serving as a broker/dealer, trading and investing the bank’s own capital, and managing the assets of others. Along the way, we will ask which of these activities fit well within a bank’s overall portfolio of businesses, and which ones might not. We will see how different investment banks are pursuing different models in terms of the relative emphasis that they place on these various activities. We will also see how a bank might draw on a combination of these activities in providing solutions to client problems, and we will analyze some of the potential conflicts that could arise in the process.

Throughout, we will stress a number of overarching themes. Among these are: the interplay of regulation, globalization, and technology; the emergence of private equity funds and hedge funds as the most important clients for many banks; the constant search for new, high-margin products; and the changing relationships among the different groups within a bank, of which “the bankers” are only one.

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. All students should find that they are able to read the financial press through new eyes. With that goal in mind, students are expected to keep up with the financial news throughout the course.

Required Readings

Students should purchase the “access key” to the digital course packet at the Professional Bookstore. Other required readings will be distributed in class.

Blackboard

“Blackboard”, which can be accessed through your browser at http://sternclasses.nyu.edu, is an integral part of this course, and you are responsible for
any information posted there. Be sure to read the “Assignments” found there in preparing for each class.

Teaching Assistants

The Teaching Assistants for the course are Colleen Chang, peichen.chang@stern.nyu.edu, and Phyllis Tsoi, phyllis.tsoi@stern.nyu.edu.

Grading

There will be a mini-exam of 45 minutes on March 8, a written case analysis due on April 5, and a (non-cumulative) final exam during the last half of the final class on May 3. These will be weighted 25%, 25%, and 50%, respectively. The grade distribution will follow the guidelines of the Finance Department, i.e., about 35% of the grades B+ and above; 50%-55%, B; and 10%, B- and below. It goes without saying that students are expected strictly to abide by the NYU Stern Honor Code.

Schedule of Classes

February 8—Overview of the Financial Services Industry and the Role of Investment Banks
- Investment banks (“IBs”) in the context of “financial intermediation”
- The concept of “trusted advisor”
- The transformation of investment banking over the past few decades
- The legal/regulatory framework of investment banking in the U.S.

Readings: Course Packet (“CP”), Articles #1-#4

February 15—Private Equity and Hedge Funds
- The private equity market: size, principal investors, and the range of issuers
- Specialized intermediaries, merchant banking, and the role of investment banks
- Hedge funds and their multiple relationships with investment banks

Readings: CP, Articles #5-#8

February 22—Raising Public Equity: Initial Public Offerings
- The decision to go public
- Getting the mandate to lead an IPO
- The league tables and their significance
- Origination, underwriting, distribution, and after-market support
- The allocation and justification of the fees

Readings: CP, Articles #9 & #10
March 1—Other Aspects of Raising Publicly Traded Equity
• Privatizations, seasoned and secondary offerings, and rights issues
• The impact of the internet on equity underwriting
• The changing role of “sell-side” research

Readings: CP, Articles #11-#13

March 8—First Mini Exam and Publicly Traded Investment Grade Debt
• The role of the rating agencies vs. that of fixed-income research
• From shelf-registration to offerings over the internet
• Competitive vs. negotiated deals

Readings: CP, Articles #14-#16

March 15—No Class; Spring Break

March 22—Private Placements, Bank Loans, and High Yield Debt
• Private placements and Rule 144A issues
• Syndicated lending and “leveraged loans”
• The evolution of the high-yield market

Readings: CP, Articles #17-#19

March 29—Convertible Securities and Securitizations
• Hybrids of debt and equity
• The logic of convertible securities and the changing nature of that market
• The mechanics of mortgage-backed and asset-backed issues
• How securitization can lower the all-in-cost of financing
• “Financial engineering”: tailoring risk and return to individual tastes

Readings: CP, Articles #20-#22

April 5—Derivatives and Introduction to Mergers and Acquisitions
• Forwards, futures, swaps, and options, and their importance for raising capital
• Recent trends in M&A activity
• Winners and losers, and the elements of a successful deal

Readings: CP, Articles #23-#27

April 12—Mergers, Acquisitions, and Strategic Advisory
• The Mittal/Arcelor case and the mechanics of M&A

Readings: Case to be distributed
April 19—Secondary Market Sales & Trading and Proprietary Trading
- The importance of sales and trading to capital raising
- Market-making vs. brokerage; institutional vs. retail clients
- The skills of traders and salespeople
- The evolution of the exchanges and the new world of electronic trading
- Proprietary trading vs. market-making
- Risk-arbitrage at investment banks

Readings: CP, Articles #28-#32

April 26—Asset Management and Private Banking
- Institutional asset management and its relationship with investment banking
- Private banking and its evolution
- Synergies vs. conflicts

Readings: CP, Article #33

May 3—Managing Risks: Market Risk and People Risk; Final Exam
- The variety of risks faced by an IB
- Measuring and managing market risk and the concept of “VAR”
- The “people risks” at investment banks
- Firm values and firm culture: their importance for success
- The lessons from recent years and the challenges ahead

Readings: CP, Articles #34 & #35

(Note: the second half of the evening will be devoted to the final exam.)