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**Course Number: Brokerage and portfolio management**

**Semester: Spring, 2011/2012**

**Instructor: Simon Miloseski**

**Credits: 4 credit hours/ 8 ECTS**

**Contact hours: 20 hours**

**Learning hours: 100 hours**

**Class Hours: Thu, Fri, 18-21; Sat, 09-13**

**Meeting hours: by appointment**

**Prerequisite: Principles of finance**

**Required Text:**

1. Bodie, Z., Kane, A., Marcus, A. (2008), *Investments*, 8<sup>th</sup>ed., McGraw-Hill/Irwin.
2. Cowles, A., 1934, Can stock market forecasters forecast?, *Econometrica*, 1 (3), 309-324.
3. Fama, E. and French, K., (1992), The cross-section of expected stock returns, *Journal of Finance*, 47(2) 427-465.
4. Markowitz, H., 1952, Portfolio selection, *Journal of finance*, Vol. 7, No.1, pp. 77-91.
5. Narasimhan, J. and Titman, S., (1993), Returns to buying winners and selling losers: implications for stock market efficiency, *Journal of Finance*, 48(1) March 65-91.
6. Sharpe, W.F., 1966, Mutual fund performance, *Journal of Business*, Vol. 39, No. 1, Part 2: Supplement on Security Prices. (Jan.,1966), pp. 119-138.
7. Course slides and lecture notes.

**Additional reading:**

1. Brooks, C., (2008), *Introductory econometrics for finance*, Cambridge University Press.
2. Taylor, S.J., (2005), *Asset price dynamics, volatility and prediction*, Princeton University Press.
3. Campbell, J, Lo, A., MacKinlay C., (1996), *The econometrics of financial markets*, Princeton University Press.
4. Hull, J., (2009), *Options, futures and other derivatives*, 7<sup>th</sup>ed., Pearson education Inc.
5. Shiller, R., (2006), *Irrational Exuberance*, Crown Publishing Group.
6. Siegel, J. (2007), *Stocks for the long run*, McGraw-Hill.
7. Other material provided by instructor during course.

**Course description:**

This course provides outlook of key topics in portfolio management. The course gives a general overview of financial markets, financial instruments and how they are traded. Furthermore, it outlines the main concepts of portfolio construction, capital allocation. Fundamental asset pricing models will be examined throughout the course as well as market efficiency. A brief introduction of behavioural finance theories shall be given. Next bond pricing and the term structure of interest rates will be examined and finally the course will conclude with performance evaluation methods.

### Learning objectives:

- Learn the key concepts of portfolio management;
- Learn the key concepts and mechanisms of functioning of financial markets and existence of various kinds of financial instruments;
- Learn the concepts of capital allocation and portfolio construction;
- Learn the application of asset pricing models to securities;
- Learn the how to analyze the performances of different portfolios and make an investment decision.

### Learning outcomes:

Following this course the students should:

LO1. Obtain broad knowledge of the financial markets and instruments;

LO2. Master how to analyze investments in securities;

LO3. Develop skills in asset pricing and performance analysis;

LO4. Show understanding of the portfolio management process;

LO5. Show detailed understanding of the most used asset pricing model.

### Course delivery:

Lectures at the beginning of each class will review the main concepts, followed by an in-depth discussion of the topics, as well as practical examples using Excel and Eviews.

### Instructor's expectations from students:

- Attend class regularly and prepare the chapters before coming to class.
- Contribute to the interactive classes.
- Closely follow the course schedule for home reading.
- Think critically on the issues presented in the classroom.
- Avoid anti-social behavior in College and anti-academic behavior in the classroom (i.e. plagiarism, cheating, etc.)
- Try to interconnect the material taught on related subjects, etc.
- Relate the course material with real-life problems.
- Impose a self – discipline regarding Colleges rules and procedures.

### Examinations structure:

- *Class attendance and participation:* Preparation and active participation by students is required. Absence from classes and/or non-participation will be considered as negative aspect. Total 20%.
- *Homework 1:* At the end of the course there will be a comprehensive **individual homework** assignment. Through the homework students will have to show understanding of the concepts discussed in class. Assignment is due 24<sup>th</sup> of June 2012. Total 35%.
- *Academic Research Paper:* **Students in groups of two** will have to write a 3000 word “literature review” paper on one of the topics discussed in class. Total 35%.
- *MarketWatch game:* **Each student** will register into a stock exchange game designed for the course. The game starts on the 8<sup>th</sup> of June and ends on the 22<sup>nd</sup> of June. More details will be provided in class. Total 10%.

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07.06.2012

#### **PART I – Brokerage**

- The investment environment
- Asset classes and financial instruments
- How securities are traded

#### **Studying material:**

BKM: Chapters 1, 2, 3

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**08.06.2012      PART II – Portfolio theory**

- Introduction to risk and return
- Risk aversion and capital allocation
- Optimal risky portfolios
- Index models

**Studying material:**

BKM: Chapters: 5, 6, 7, 8

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**09.06.2012      PART III – Equilibrium in capital markets**

- The Capital Assets Pricing Model
- APT and multifactor models
- The Efficient Market Hypothesis

**Studying material:**

BKM Chapters: 9, 10, 11

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**14.06.2012      PART III – Equilibrium in capital markets**

- Introduction to behavioral finance
- Some empirical evidence

**Studying material:**

BKM Chapters: 12, 13

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**15.06.2012      PART IV – Fixed-Income securities**

- Bond prices and yields
- Term structure of interest rates

**Studying material:**

BKM Chapters: 14, 15

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**16.06.2012      PART V – Applied portfolio management**

- Portfolio performance evaluation
- The theory of active portfolio management

**Studying material:**

BKM Chapters: 24, 27

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**CPC Coverage in terms of hours**

- 1) Functional area
  - A Marketing – 0 hour
  - B Business finance – 4 hours
  - C Accounting – 0 hours
  - D Management – 0 hours
- 2) The Business environment
  - A) Legal environment of Business – 4 hours
  - B) Economics – 6 hours
  - C) Business ethics – 0 hour
  - D) Global dimensions of Business – 0 hours
- 3) Technical skills
  - A) MIS/IT computing – 0 hour
  - B) Statistics/Quantitative techniques – 6 hours
- 4) Integrative areas
  - A) Business policy – 0 hours
  - B) Internship – 0 hours

### Assessment:

**Mobile phones are strictly not tolerated in the class for any use (including computations).** Active participation is meant as the effort and the interest that a student shows in the class, including homework.

After each session students are expected to study all the relevant material, read all the associated exercises, prepare assignment for the next class (if given), identify the difficult points and pose their questions in the next session either directly to me or in the class.

### **Make-up tests are given in exceptional circumstances.**

Cheating and plagiarism in any form will result immediately in the grade F. I assign a grade of (incomplete) only when a student misses the Final exam due to a **College-excused absence**, and is unable to make up before final grades are due to the Record's Office. Please, consider seriously that there will be no exceptions concerning the above policy.

### Grading Criteria

Grading points	%	Quality
A	96-100	4.00
A-	90-95	3.67
B+	87-89	3.33
B	83-86	3.00
B-	80-82	2.67
C+	77-79	2.33
C	73-76	2.00
C-	70-72	1.67
D+	67-69	1.33
D	63-66	1.00
D-	60-62	0.67

**Class Conduct:** You are responsible for everything that is announced, presented or discussed in class. The way to avoid any misunderstanding associated with this course is to attend class. You are expected to attend class and I do keep attendance records. **The class starts promptly at the scheduled time.** I find late arrivals distracting, which cause a decline in the quality of my lecture.

Importantly, it is also disruptive to your colleagues. I accept students **only up to five minutes late for the first class in a day.** Please, refrain from talking during class, it is disruptive to your colleagues and the lecture. I expect the best behavior from all of you. This is what education is all about. If you have a question about the material, please don't hesitate to ask me; answering questions is part of my job. If you are lost or confused, your question may help clarify the topic. Please, consider that **the language of instruction is English, so all our conversation into the class must be in this language.**

Class participation and an active intellectual engagement are not only expected but required. Students will deliver their class presentations on the discussion topics. As a final examination students will complete a comprehensive written test. The written test will discuss the material covered in the course readings, reading questions and case studies.

### Keep in mind the following:

C- or better is required to use a course either as a prerequisite or as a major requirement.

G.P.A. (Grade Point Average): is computed for each student using the quality points earned for each course taken. A G.P.A of at least 2.0 is required for transfer and to graduate from ACS.

I wish you an interesting and creative academic semester.

### Academic Honesty

The American College Skopje has its personal integrity which is presumed to be sufficient assurance in academic matters one's work is performed honestly and without unauthorized assistance. Undergraduate students, by registration, acknowledge the jurisdiction of the Honour System.

Plagiarism and cheating are serious offences and may be punished by failure on the exam, paper or project; failure in the course; and/or expulsion from the faculty. Individuals are prohibited from selling or being paid for taking notes in any form (written, electronic, or otherwise) during this course to or by any person or commercial firm without the express written permission of the professor teaching this course.

### Late Work:

Many reasons are given for late work (e.g., flat tires, printer problems, illness, oversleeping, etc.). No matter what the reason, the bottom line is that either (a) the work was completed and turned in when required or (b) the assignment was not completed and turned in when required.

As specified earlier, assignments are due in class at the beginning of class on the specified due date. There is **NO PROVISION** for late work on any assignment (i.e., late work is not accepted). I also strongly

recommend having backup systems in place so that you can have all work completed on schedule. Having your work completed on schedule is a key to early success in your business career.  
NOTE: Late submissions are not accepted. Partial credit will NOT be given for late work.

**Approved by: Marjan Petreski, PhD.**  
**Date: 06/2012**