

# **FIN 689: Investment Management**

Finance Specialization

*Credits: 3  
Lecture Hours: 48*

## **COURSE OBJECTIVES**

The aim of this course is to provide the students with knowledge of principles and theories of investment management. It also aims to develop analytical skills to link theory to practice for appraisal of securities and management of investible funds from the perspective of investors, particularly in the context of Nepal.

## **COURSE DESCRIPTION**

This course provides an overview of the investment environment by describing different types of financial instruments and how they are traded in the financial markets. Then it delves into theoretical perspective on how equilibrium price is set in the capital market, and on how optimal portfolio is chosen in the framework of risk and return. Further, this course also deals with the analysis of fixed income and equity securities. Finally, it covers broad aspects of macroeconomic and industry analysis.

## **COURSE DETAILS**

### **Unit 1: The Investment Environment**

**LH 5**

Real assets versus financial assets; Financial markets and the economy; Investment process; Risk-return trade-off and efficient markets; Players in financial markets; Investment environment in Nepal.

### **Unit 2: Financial Instruments and Trading of Securities**

**LH 8**

Money market and its instruments; Bond market and its instruments; Equity securities; Stock and bond market indexes; Issue of securities; Trading of securities: types of markets, types of orders; Trading mechanism; Globalization of securities markets; Regulations of securities markets in Nepal; Recent developments in securities market in Nepal.

### **Unit 3: Mutual Funds and Other Investment Companies**

**LH 4**

Investment companies; Types of investment companies; Mutual funds; Cost of investing in mutual funds; Exchange traded funds; Mutual funds investment performance; Information on mutual funds; Mutual funds in Nepal.

### **Unit 4: Capital Allocation to Risky Assets and Optimal Risky Portfolios**

**LH 10**

Risk and risk aversion; Capital allocation across risky and risk-free portfolios; the Risk-free asset; Portfolio of one risky asset and a risk-free asset; Passive strategies: the capital market line; Diversification and portfolio risk; Portfolio of two risky assets; Asset allocation with stocks, bonds and bills; the Markowitz portfolio optimization model; Risk pooling; Risk sharing and the risk of long-term investment.

### **Unit 5: Asset Pricing Models**

**LH 8**

The capital assets pricing model; Assumptions and extensions of the CAPM; The CAPM and the academic world; The CAPM and the investment industry; Multifactor model: An overview; Arbitrage pricing theory; The APT and The CAPM; A Multifactor APT; The Fama-French three- factor model; Efficient market hypothesis and behavioral finance.

**Unit 6: Security Analysis and Firm Performance****LH 8**

Bond pricing; Bond yields; Bond prices over time; Default risk and bond pricing; Interest rate risk; Duration and convexity; Passive bond management; Active bond management; Intrinsic value versus market price of common stock; Dividend discount models; Price-earnings ratio; Free cash flow valuation approach; Measuring firm performance; Profitability measures; Ratio analysis; Comparability problems.

**Unit 7: Macroeconomic and Industry Analysis****LH 5**

The global economy; The domestic macro-economy; Demand and supply shocks; Government policy; Business cycle; Industry analysis.

**BASIC READINGS**

1. Bodie, Z., Kane, A., Marcus, A. J. & Mohanty, P. (2015), *Investments*. New Delhi: McGraw Hill Education (India).
2. Reilly, Frank K. & Keith, C.B. (2012), *Analysis of investments and management of portfolios*. Delhi: Cengage Learning.

**REFERENCES**

1. Sharpe, W.F., Gordon J.A., & Jeffery V.B. (2014), *Investments*. New Delhi: Prentice Hall of India Ltd.
2. Securities Acts and Byelaws of the Government of Nepal
3. Annual Reports and publications of Nepal Securities Board
4. Annual Reports and publications of Nepal Stock Exchange