

FIN 253: Fundamentals of Investment

Lecture Hours: 150

Full Marks: 100
Pass Marks: 35

Course Objective

The objective of this course is to provide students with basic understanding of fundamental concepts and principles of investing and equip them with the tools and techniques for analyzing individual securities and portfolios. By the end of this course, the student will be familiar with the investment environment and be able to analyze securities and make correct investment decisions from the view point of individual investors.

Course Description

This course deals with investment environment, principles and process of investing in securities. It also provides students opportunities to learn techniques of analyzing securities and forming portfolios. The topics covered in this course are: investment environment, securities markets and transactions, risk and return, modern portfolio, investment in common stocks, bonds, and mutual funds, and derivative securities.

Course Details

Unit 1: Investment Environment

LH 10

Meaning and types of investment; Types of investors; Investment process; Investment vehicles; Making investment plan: steps in investing, considering personal taxes, investing over the life cycle, investing in different economic environment; Meeting liquidity needs: investing in short-term vehicles; Investment environment in Nepal; and Ethics in investing.

Unit 2: Markets and Transactions

LH 15

Meaning of securities markets; Types of securities markets: primary market and secondary market, broker and dealer market, alternative trading system, general market conditions; Globalization of securities markets: importance, investing in foreign securities, risk in international investing; Trading hours and regulations of securities markets: trading hours, regulations; and Types of securities transactions: long purchase, margin trading and short-selling.

Unit 3: Investment Information and Securities Transactions

LH 15

Introduction to online investing; Pros and cons of using internet as an investment tool; Types and sources of investment information: types of information, sources of information; Market averages and indexes: Dow Jones averages, S & P indexes, Npse indexes; Bond market indicators; Making securities transactions – the role of the stock brokers; Types of orders; Online transactions; Transaction costs; and Investor protection.

Unit 4: Return and Risk

LH 10

The concept of return: components of return, importance of return, level of return, historical return, time value of money and return; Measuring return: real, risk-free and required returns, holding period return, the internal rate of return; Finding growth rates; The meaning of risk; Sources of risk; risk of a single asset: standard deviation, coefficient of variation; Assessing risk; and Combining risk and return.

Unit 5: Modern Portfolio**LH 15**

Concept of portfolio; Portfolio objectives; Portfolio return and standard deviation; Correlation and diversification; International diversification; The Capital Assets Pricing Model (CAPM): components of risk, beta, estimating return using CAPM, the Security Market Line; Traditional approach of portfolio management; Modern portfolio theory: the efficient frontier, portfolio beta, the risk return tradeoff; and Reconciling traditional approach and modern portfolio theory.

Unit 6: Common Stock Fundamentals**LH 8**

Pros and cons of stock ownership; Buying and selling of common stocks: reading the quotes, transaction costs, common stock values; Types of stocks and stock dividends; and Investment strategies.

Unit 7: Common Stock Analysis and Valuation**LH 15**

Concept of fundamental analysis and technical analysis; Security analysis – principles and approaches; Economic analysis: economic analysis and business cycle, key economic factors, developing an economic outlook; Industry analysis: key issues, industry growth cycle, developing an industry outlook; Financial ratios – liquidity ratios, activity ratios, leverage ratios, profitability ratios, ROA-ROE interaction, common stock ratios; The valuation process; Stock valuation models: the dividend valuation model, other approaches to valuation – dividend-and-earnings approach, price/earnings approaches; Concept of market efficiency and behavioral finance.

Unit 8: Fixed Income Securities**LH 10**

Meaning and types of fixed income securities; Features of a bond; Bond market performance; Bond's exposure to risk; Bond ratings; The market for debt securities: Treasury bonds, agency bonds, municipal bonds, corporate bonds; Specialty issues: convertible securities, zero coupon bonds, mortgage-backed securities, assets-backed securities, junk bonds; Global bond market; and Nepalese bond market.

Unit 9: Bond Valuation**LH 12**

The behavior of market interest rates; The term structure of interest rates and yield curve; The pricing of bonds; Measures of yield and return: current yield, yield to maturity, yield to call, expected return; Duration and immunization: the concept of duration – measuring duration, bond duration and price volatility; Uses of bond duration measures; and bond investment strategies.

Unit 10: Mutual Fund**LH 10**

The mutual fund concept; Advantages and drawbacks of mutual fund ownership; Organization and functioning of mutual funds; Open-end and closed-end funds; Exchange-traded funds; Important considerations in investing mutual funds; Other types of investment companies; Types of funds and services: types of funds, investors services; Investing in mutual funds; Investing in closed-end funds; Measuring performance; and Mutual funds in Nepal.

Unit 11: Managing Portfolios**LH 10**

Constructing a portfolio; Evaluating the performance of individual investments; and Measuring the performance of investment vehicles; Assessing portfolio performance; Comparison of return with overall market measures: Sharpe's measure; Treynor's measure, Jensen's measure; Portfolio revision and Timing transactions.

Unit 12: Derivative Securities**LH 10**

Basic features of put and call options; Advantages and disadvantages of puts and calls; Option markets; Stock option provisions; Put and call transactions; Other types of options: stock-index option, option in exchange-traded funds, interest rate options, currency options; Future market; Market structure; Trading in future market; Trading commodities; and Financial Futures.

Project Work**LH 10**

After the completion of fourth year concentration classes the students shall have to prepare and submit a project work in the area they have specialized. The subject teachers have to discuss with students on possible topics of the project work, availability and sources of literature, availability of data, data collection methods, appropriate tools of data analysis, etc relevant to the subject within 10 lecture hours.

Text and Reference Books

Gitman, L. J. & Joehnk, M. D. *Fundamentals of investing*. New Delhi: Dorling Kindersley India.

Bodie, Z., Kane, A. & Marcus, A. J. *Essentials of Investment*. New York: Irwin McGraw-Hill.

Alexander, G. J., Sharpe, W. F. & Jeffery V. B. *Fundamentals of Investments*. Delhi: Pearson Education.

Reilly, F. K. *Investment analysis and portfolio management*. Singapore: South-Western/ Cengage Learning.