The purpose of this unit is to develop a greater understanding of investment analysis and capital markets from the viewpoint of an investor/fund manager. Topics covered include an analysis of the operations of capital markets; risk, return and equilibrium; bond valuation; the temporal behaviour of security prices including the efficient market hypothesis and the evidence relating to it; informational cues which trigger security price movements; security analysis and portfolio management; investment performance measurement and evaluation; and the capital asset pricing model.

Prerequisites: Accounting 502 and Managerial Finance 530 or equivalents and Statistics
Contact details

<table>
<thead>
<tr>
<th>Unit web site URL</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Lecturer's</td>
<td>Pardi Sudradjat</td>
</tr>
<tr>
<td>e-mail:</td>
<td><a href="mailto:psudra@bankmandiri.co.id">psudra@bankmandiri.co.id</a></td>
</tr>
<tr>
<td>address:</td>
<td>Taman Aries C4 – 17 Jakarta Barat. 11620</td>
</tr>
<tr>
<td>Telephone</td>
<td>585 9274 Mobile: 0812 10 71658</td>
</tr>
<tr>
<td>office address:</td>
<td>Group Head, Market Risk, Plaza Mandiri 14 Floor</td>
</tr>
<tr>
<td></td>
<td>Jl. Gatot Subroto – Jakarta. 12190</td>
</tr>
<tr>
<td></td>
<td>62-21-524 5905</td>
</tr>
</tbody>
</table>

Consultation hours: Saturday after Class
Room: 2nd Floor
Lecture times: Saturday, 09:00 – 16:00
Lecture venue: Untar Campus

Your lecturer

Ir. Pardi Sudradjat SE, MBA.

Pardi is a structural Engineer from the faculty of Technology University of Indonesia (1981), and completed a Bachelor of Economics degree from Faculty of Economic extension, University of Indonesia (1986). He was awarded a certificate in Foundations of Management and Administration from The Economic Institute, Boulder, Colorado, USA (1992), and an MBA in Finance and International Business from the Leonard N. Stern School of Business – New York University (1994). He holds a license as an investment manager representative from the Committee for Capital Market Professional Standards.

Has spent six years as a structural engineer, and 13 years in a large commercial bank. His banking career includes positions in the following areas: loan analyst, branch manager, international banking business, and risk management.

He is currently Secretary of the Risk and Capital Committee which deals with the determination of Bank operational policies and assets & liability Management.

He lectures in the "Investment Analysis and Risk Management" course in the Magister Management program at Tarumanegara University Graduate Studies. He is a visiting lecturer in the Graduate School of Management University of Indonesia, Risk Management division. He regularly conducts seminars on topics that cover traditional and modern approaches to credit analysis methodology, credit risk management, risk analysis and diversification, credit rating, treasury trading, market risk, assets & liability management.

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Introduction

Welcome to the capstone unit on your MBA! Whether you are an upcoming portfolio manager, or just a company financial manager, this is a very important unit and it is important that you gain as much benefit from this unit as possible.

The goal of the unit

The most important outcome is that you are able to perform either as a good portfolio manager or as a financial manager in a company to get a maximum profit in managing money, given the risk constraint set by your supervisor or by your customer.

Broad learning outcomes

Investment Analysis for Portfolio Management aims to develop in students an ability to:

✓ Understand the cycles of a portfolio management activities
✓ Understand the behavior of your customer or your manager regarding risk appetite and desired return
✓ Knowledge of financial instruments, and understand how the financial market operate.
✓ Do the capital allocation and determine securities selection.
✓ Understand the portfolio concept and the benefit of diversification.
✓ Determine the fundamental value of Equities and the technical analysis
✓ Understand the Bond valuation methodology.
✓ Understand the risk identification, measurement and management in a portfolio.
✓ Understand the benefit of international diversification
✓ Understand the concept of active and passive portfolio management
✓ Understand the portfolio performance evaluation

On completion of this unit, you should be able to:

✓ Assess clients investment needs
✓ Determine the capital allocation and securities selection in portfolio
✓ Analyze the market securities
✓ Manage risk in line with the desired return
✓ Manage portfolio (implementing active and passive strategy)
✓ Evaluate the portfolio performance

Prerequisites

This unit assumes that students have an operational competency in basic quantitative analysis (especially time value of money), basic statistics, accounting fundamental, financial statement analysis (cash flow concept), and basic financial management.

If you are not well prepared in any of the above areas you should make every effort to remedy the situation through undertaking additional refresher courses and/or practice. Do not hesitate to ask for advice from your tutor.

Software requirements

1. Microsoft Excel, Internet explorer
2. option models.
3. Option ! (by Robert Kolb)
Textbook(s)

Recommended/required text(s)


2. Presentation Slides and reading Handout

Additional/Suggested/Alternate text(s)


# Course Topics

<table>
<thead>
<tr>
<th>Week</th>
<th>Date</th>
<th>Topic</th>
<th>Slide page</th>
<th>FRB 7ed</th>
<th>BKM 6ed</th>
<th>Aux Read</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2 April 05</td>
<td><strong>Investment environment and Investment Process</strong>&lt;br&gt;The big picture of investment process, assets allocation, market structures, role of financial institution, financial markets and Instruments (Fixed income, equity, indexes, derivatives, trading practices, buying on margin, short selling.)</td>
<td>1</td>
<td>1-5</td>
<td>1-3</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>16 April 05</td>
<td><strong>Risk and Risk measurement – Portfolio Theory and management</strong>&lt;br&gt;Risk and return measurement, Markowitz portfolio theory, diversification (two securities, Three and many securities), risk return trade off, efficient frontiers, risk free securities, Capital Market Line.</td>
<td>63</td>
<td>7</td>
<td>6-8</td>
<td>1-2</td>
</tr>
<tr>
<td>3</td>
<td>23 April 05</td>
<td><strong>Assets Pricing Models</strong>&lt;br&gt;Security Market Line and The Capital assets Pricing model (CAPM), Relaxing the assumptions, Beta measures, empirical evidence, Arbitrage Pricing Theory.</td>
<td>121</td>
<td>2</td>
<td>9-11</td>
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<tr>
<td>4</td>
<td>30 April 05</td>
<td><strong>Security Analysis– Market efficiency</strong>&lt;br&gt;Economic and industry analysis, business cycles, industry life cycles, company analysis, Measuring financial performance, equity valuation models (DDM, DCF, multiple), Technical Analysis</td>
<td>155</td>
<td>6,14</td>
<td>12-13</td>
<td>3-4</td>
</tr>
<tr>
<td>5</td>
<td>7 May 05</td>
<td><strong>Mid-term Exam (Lecture 1 – 4)</strong>&lt;br&gt;<strong>Fixed Income Portfolio</strong>&lt;br&gt;Bonds Fundamentals, bond prices, Interest rate risk measurement using duration and convexity, bond investment strategy, term Structure of Interest rates</td>
<td>239</td>
<td>10-12</td>
<td>14-16</td>
<td>5-7</td>
</tr>
<tr>
<td>6</td>
<td>21 May 05</td>
<td><strong>Derivatives – Forward and Futures - Options</strong>&lt;br&gt;Pricing and valuing Forwards and futures contract, hedging techniques, applications, options fundamental and strategy.</td>
<td>308</td>
<td>21-23</td>
<td>20-23</td>
<td>7</td>
</tr>
<tr>
<td>7</td>
<td>28 May 05</td>
<td><strong>Derivatives – Options (valuation and strategy), Swaps</strong>&lt;br&gt;Option valuation (Binomial, Black Scholes), Securities with embedded Option, swaps concept and valuation (interest rate Swaps, Currency swaps).</td>
<td>329</td>
<td>23-24</td>
<td>20-23</td>
<td>8</td>
</tr>
<tr>
<td>8</td>
<td>4 June 05</td>
<td><strong>Portfolio Strategy - Performance measurement</strong>&lt;br&gt;Identifying Customer’s risk preferences, mutual funds strategy, Active/passive strategy, International diversification, portfolio performance measurement.</td>
<td>403</td>
<td>20</td>
<td>24-27</td>
<td></td>
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<tr>
<td>Exam</td>
<td>11 June 05</td>
<td><strong>Final Examination</strong></td>
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**Attendance**

Participation in class, whether it be listening to a lecture or getting involved in other activities, is an important part of the learning process. For this reason the GSM has decided not to move to on-line teaching. It is, therefore, important that you attend classes (and be on time).

More formally, the University regulations state that ‘to complete a course or unit a student shall attend prescribed classes, lectures seminars and tutorials. Students whose attendance at MBA units has been unsatisfactory will not be granted a pass grade. Two or more missed classes without prior permission from the lecturer is classified as unsatisfactory. Students should not expect to obtain approval to miss more than two classes per unit, unless there are exceptional circumstances.

**Assessment**

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
<th>Due date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class Participation and Quizzes</td>
<td>10%</td>
<td>TBA</td>
</tr>
<tr>
<td>Cases/ Group Project – 1 and 2</td>
<td>15%</td>
<td>TBA</td>
</tr>
<tr>
<td>Midterm Examination</td>
<td>25%</td>
<td>TBA</td>
</tr>
<tr>
<td>Final Examination</td>
<td>50%</td>
<td>TBA</td>
</tr>
</tbody>
</table>

**The purpose of assessment**

There are a number of reasons for having assessable tasks as part of an academic program. The assessable tasks are designed to encourage you to explore and understand the subject more fully. The fact that we grade your work then gives you an indication of how much you have achieved. Providing feedback on your work also serves as part of the learning process.

**Midterm exam**

The mid-term Examination will cover material presented in the first half of the unit.

MBA Administration will advise you as to the date / time of the 3-hour examination

**Final exam**

The final examination will cover the entire course. The exam will test your ability to apply what you have learned during the course to management problems such as (but not limited to) those in the text, as well as your ability to identify and discriminate between financial concepts and tools. A large portion of the examination will require you to perform calculations on financial data provided.

MBA Administration will advise you as to the date / time of the 3-hour examination
The standard of assessment

The Graduate School must ensure that the processes of assessment are fair and are designed to maintain the standards of the School and its students. The School follows the University of Western Australia’s grading system:

- **HD (Higher Distinction)**: 80-100%
- **D (Distinction)**: 70-79%
- **CR (Credit Pass)**: 60-69%
- **P (Pass)**: 50-59%
- **N+ (Fail)**: 45-49%
- **N (Fail)**: 0-44%

The School awards marks leading to these grades by using the following general criteria which are represented here as an indication of the School’s expectations.

These general criteria may be supplemented by specific standards provided with regard to a particular assignment.

- **HD**: The student has a clear understanding of theory, concepts and issues relating to the subject and is able to adopt a critical perspective. The student is able to clearly identify the most critical aspects of the task and is able to offer a logically consistent and well articulated analysis within the analytic framework presented in the course. The student is able to draw widely from the academic literature and elsewhere but maintains relevance.

- **D**: The student has a clear understanding of theory, concepts and issues relating to the subject. The student is able to develop an analysis of an issue using the analytic framework presented in the course and is able to identify and evaluate the critical issues. The student is able to draw upon relevant academic and other material.

- **CR**: The student demonstrates an understanding of the analytic framework developed in the course and a partial understanding of concepts and issues. The student is able to identify some key issues and is able to present a logical discussion, but with some conceptual errors or gaps between analysis and conclusions. The student is able to draw upon an adequate range of references and other materials.

- **P**: The student generally takes a descriptive rather than analytic approach to the subject. The student is able to demonstrate some understanding of the issues involved but does demonstrate the ability to apply the analytical framework which had been developed in the course. Draws primarily upon course materials for referencing.

- **N+**: The student is unable to demonstrate that he or she understands the core elements of the subject matter. The student is able to provide some insight into issues but misapplies analytic framework developed in course, omitting key factors and, for example, drawing conclusions which are not related to the preceding discussion.

- **N**: The student is unable to demonstrate any understanding of the subject matter. Material presented for assessment is unrelated to course framework and shows no effort to identify or address critical aspects of the topic.

The scaling of marks to ensure comparability between classes in an acceptable academic practice. The GSM and Board of Examiners has the right to scale marks where it is considered necessary to maintain consistency and fairness.

Submission of assignments

Assignments should be submitted in class on the due date. Assignments should be handed in to the office; Late assignments will accepted only in exceptional circumstances. No marks will be awarded to assignments submitted after other students in the class have had their assignments returned.

Assignments will be returned in class /through the student drop files.

It is the intention that the marked assignments will be returned within two weeks of submission.
**Appeals against assessment marks**

In the first instance, students are strongly advised to talk informally to the lecturer about the grade awarded.

The University provides the opportunity for students to lodge an appeal against any mark which he or she feels is unfair. Any student making an appeal is under an obligation to establish a prima facie case by providing particular and substantial reasons for the appeal.

There is a 10 day time limit for making any such appeal. An appeal against academic assessment may result, as appropriate, in an increase or decrease in the mark originally awarded. The University regulations relating to appeals and the form on which the appeal should be lodged can be found in the GSM website.

**Acknowledgments and plagiarism**

In the course of your individual and group work assignments, you will encounter ideas from many sources. These will include journal and newspaper articles, commentaries, books, web sites and other electronic sources, original case sources, lecture materials. All MBA assignments that you submit **must** acknowledge all the different sources you have used.

Not to acknowledge your sources is plagiarism, a form of dishonesty. Plagiarism is the misappropriation of the work or ideas of others and presenting them as your own. This is reprehensible from both an ethical and legal viewpoint. Neither the School nor the University accepts ignorance or the fact that a student’s previous acts of plagiarism had been undetected as a defense.

In order to avoid engaging in plagiarism it is **your** responsibility to acknowledge all of your sources in any work submitted for assessment and it is essential that you reference the work of others correctly. Where you quote directly from a source, you must ensure that any direct quotations are placed in quotation marks and are fully referenced. Even when you do not quote directly and are just referring to or expanding on the work of others, you must still acknowledge the sources of your information and ideas. Close paraphrasing in which you change a few phrases around, leave a clause out of a long sentence or put the original sentences in a different order is still plagiarism.

Advice on proper referencing is given below. If you have any doubts concerning appropriate referencing formats or how to acknowledge the work of others correctly, you should seek the advice of your lecturer.

It is GSM policy that no student will profit from plagiarism. Generally, a mark of ‘Fail’ will be recorded for the assignment in which this has occurred, regardless of its other merits or qualities. Serious cases shall be referred to the University’s Board of Discipline. All students should note that cases of copying are automatically reported to the Sub-Dean and documentary evidence along with associated correspondence is placed on the student’s permanent record.

**Referencing**

It is important that the referencing of any sources used in your written work is done properly, if only to substantiate the points you are making in your assignment or project. The Harvard style is the preferred and there are some notes for guidance which have been prepared by the library staff: ‘Citing your sources Harvard Style’ [http://www.library.uwa.edu.au/guides/citingsources/harvard.html](http://www.library.uwa.edu.au/guides/citingsources/harvard.html)

Endnote is a really good system for building up a database of references. Not everyone will want to invest the time in using this system but you should consider it if you intend to build up resource materials or plan to undertake extensive research in a particular area. The library staff have also developed a tutoring package: ‘A Quick Guide to Using Endnote’ which provides the basics for using Endnote with an essay [http://www.library.uwa.edu.au/guides/endnote/tutorial_manual.html](http://www.library.uwa.edu.au/guides/endnote/tutorial_manual.html) This is linked to from the How to Use Endnote page [http://www.library.uwa.edu.au/guides/endnote/](http://www.library.uwa.edu.au/guides/endnote/) which provides more comprehensive information.
Additional resources and reading material


Damodaran, Aswath. *Investment Valuation*, John Wiley and Sons, New York, 1996 (a good resource for deeper understanding on equity valuation and market efficiency concepts)


Handa, Puneet., *The Electronic Text book on Topics in Financial Valuation*, University of IOWA, IOWA City. (good in portfolio topics)


Mc Leavey, *Quantitative Methods for Investment Analysis*, AIMR, 2000, USA (A good review for tools needed for investment analysis).


Solnik, Bruno., *International Investment 3 ed.*, Addison Wesley, NY, 1996., (A good source to learn the important factors to consider in international investing).


Closed reserve

Solution manual to the text “Investment” (Bodie, Kane, Markus) 3ed is available in the library for students review. Students can make adjustment to the problem numbering, as most of the problems are similar to the latest edition.
Websites

http://www.swcollege.com/finance/reilly/iapm7e/iapm7e.html (IAPM site Reilly Brown)

http://www.mhhe.com/business/finance/bkm/investments/ (Investment site 4 edition by Bodie, Kane, Marcus)

http://highered.mcgraw-hill.com/sites/0072339160/student_view0/ (Investment site 5 edition by Bodie, Kane, Marcus)

http://www.numa.com (Options Strategy Exercises)

http://invest-faq.com/ (Investment Topics)

http://www.stern.nyu.edu/~adamodar/ (Equity Valuation and market efficiency topics)

http://www.stern.nyu.edu/~dbackus/ (Fixed Income Topics)

http://www.e-samuel.com/ (Learn investment basics from the Local Capital Markets)


http://www.jsx.co.id/ (The Jakarta Stock Exchange)

Website stated in the FRB book throughout the chapters