

PORTFOLIO MANAGEMENT (COURSE OUTLINE)

Course objectives:

One of the major advances in the investment field during the past few decades has been the recognition that the creation of an optimum investment portfolio is not simply a matter of combining numerous unique individual securities that have desirable risk-return characteristics. It has been shown that an investor must consider the relationship among the investments to build an optimum portfolio that will meet investment objectives. This was demonstrated in the derivation of Portfolio Theory. One basic assumption of this theory is that as an investor you want to maximize the returns from your total set of investments for a given level of risk.

This course is concerned with a specialized area dealing only with the investments in different securities so as to maximize the return while managing the risk at a minimum possible level. Its importance is increasing with the time and so the number and variety of financial instruments has grown at a rapid pace. Broadly speaking every individual and organization with what ever the available finances may participate in such types of investments directly and indirectly.

The contents of this course have been designed keeping the above facts in mind. This course has the following objectives:

- To delineate the steps to be followed to formulate an appropriate investment policy for making a portfolio.
- To describe the methods/models which can measure the performance of existing portfolios undertaken by different security dealers and portfolio fund managers,
- To acquaint the students about various financial markets, investment companies, securities traded in the markets and different market indices.
- To make the students understand how market analysis, industry analysis, company analysis and technical analysis are carried out with a view to valuation of securities.

TOPIC 1	<p>Portfolio Management</p> <ul style="list-style-type: none"> • Portfolio Management as a Process • Formulate an Appropriate Investment Policy • Determine and Quantify Capital Market Expectations • Constructing the Portfolio • Monitor Market Conditions and Investor Circumstances • Portfolio Adjustments • Performance Measurement <p>Portfolio Selection</p> <ul style="list-style-type: none"> • Use the Markowitz Portfolio Selection Model • Consider Borrowing and Lending Possibilities • Choose the Final Portfolio Based on Preferences • Implication of Portfolio Selection <p>Capital Market</p> <ul style="list-style-type: none"> • The Assumption of CAPM • The Market Portfolio • Equilibrium Risk-Return Trade Off • Estimating the SML • Arbitrage Pricing Theory 	<p>Book 1</p> <p>Book 3</p>
TOPIC 2	<p>Background for Understanding Portfolio Investment</p> <ul style="list-style-type: none"> • The nature of Investment • Understanding the Investment Process 	

	<ul style="list-style-type: none"> • External Factors Affecting the Decision Process <p>Types of Securities</p> <ul style="list-style-type: none"> • Organizing Financial Assets • Non-Marketable Financial Assets • Money Market Securities • Capital Market Securities • Other Types of Securities 	
TOPIC 3	<p>PORTFOLIO INVESTMENT ALTERNATIVES</p> <p>Investment Companies</p> <ul style="list-style-type: none"> • Investing Indirectly through Investment Companies • Major Types of Mutual Funds • Investing Indirectly • Investment Company Performance • The Future Prospects of Indirect Investing in Pakistan. <p>Financial Markets</p> <ul style="list-style-type: none"> • The Importance & significance of Financial Markets • The Primary Markets • Secondary Markets • Bond Markets • The Changing Securities Markets • Globalization of Securities Market 	Book1 Book2
TOPIC 4	<p>TRADING OF SECURITIES AND RISK CONCEPTS</p> <p>How Securities are Traded</p> <ul style="list-style-type: none"> • Brokerage Transactions • Mechanism /operations of security markets • Investor Protection in the Securities Markets • Short Sales <p>Return and Risk Concepts</p> <ul style="list-style-type: none"> • Return • Measuring Returns and Risk • Portfolio risk & return • The Return-Risk Relationship 	Book 2 Book3
TOPIC 5	<p>FIXED INCOME SECURITIES: ANALYSIS, VALUATION AND MANAGEMET</p> <p>The Basics of Bonds</p> <ul style="list-style-type: none"> • Understanding Bonds • The Bond Market • Bond Returns and Risks <p>Bond Prices and Yields</p> <ul style="list-style-type: none"> • Bond Prices • Bond Yields, spreads • The Level of Market Interest Rates & bond valuation <p>Bond: Analysis and Strategy</p> <ul style="list-style-type: none"> • Important Consideration in Managing a Bond Portfolio • Bond Strategies and Management 	
TOPIC 6	<p>DERIVATIVE SECURITIES</p> <p>Options</p> <ul style="list-style-type: none"> • Introduction 	Book1

	<ul style="list-style-type: none"> • Understanding Options • Payoffs and Profits from Basic Option Position • Some Basic Option Strategies • Option Valuation • An Investors Perspective on Puts and Calls • Stock Index Options and Interest Rate Options <p>Futures</p> <ul style="list-style-type: none"> • Understanding Futures Market • The Structure of Future Markets • The Mechanics of Trading • Using Future Contracts • Financial Futures 	
TOPIC 7	<p>ADDITIONAL INVESTMENT OPPURTUNITIES & EFFICIENT MARKET</p> <p>Warrants and Convertible Securities</p> <ul style="list-style-type: none"> • Warrants • Valuing Warrants • Speculative Value of a Warrant • Convertible Securities: bonds, preferred stock • Risk and Return on Convertibles • Why Buy Convertible Bonds? • Convertible Preferred Stock • Analyzing Convertible Preferred stock <p>Market Efficiency</p> <ul style="list-style-type: none"> • Concept of Efficient Market • Why the Market can be Expected to be efficient? • Evidence on Market Efficiency • Implication of Efficient Market Hypothesis • Evidence of Market Anomalies 	Book 1 Book 2
TOPIC 8	<p>SECURITY ANALYSIS</p> <p>Market Analysis</p> <ul style="list-style-type: none"> • Understanding the Stock Market • Forecasting Changes in the Market/Economy <p>Industry Analysis</p> <ul style="list-style-type: none"> • Performance of Industries Over Time • Analyzing Industries <p>Company Analysis</p> <ul style="list-style-type: none"> • Fundamental Analysis • Understanding Earnings • Determinant of Earning • Which Earnings are Important? • Analyzing and Forecasting Earning Growth • Fundamental Security Analysis in Practice • The P/E Ratio • Syntax's P/E Ratio • Additional Company Analysis <p>Technical Analysis</p> <ul style="list-style-type: none"> • What is Technical Analysis? • Aggregate Market Analysis • Individual Stock Analysis • Testing Technical Analysis Strategies 	Book 1 Book 2

	<ul style="list-style-type: none">• Conclusions about Technical Analysis	
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Recommended Books:

1. Investments: Analysis and Management by Charles P. Jones (9th edition).
2. Security Analysis and Portfolio Management by Donald E. Fischer, Ronald J. Jordan (6th Edition).
3. Investment analysis and portfolio management (latest edition) by Frank A. Reilly, Keith C. Brown