

# EQUITY AND CAPITAL MARKETS

<b>Course:</b>	FIN 4504
<b>Classrooms:</b>	HVNR 250 (9:35 AM & 11:45 AM Sessions) and HVNR 230 (1:55 PM Session)
<b>Textbook:</b>	Bodie, Kane, and Marcus (BKM), <i>Essentials of Investments</i> 12 <sup>th</sup> Edition, McGraw-Hill/Irwin, 2022 (ISBN: 126-0772160)
<b>Instructor:</b>	Gustavo S. Cortes
<b>Office Location:</b>	306 Stuzin Hall
<b>Office Hours:</b>	Tuesday & Thursday, 4:00 PM – 5:00 PM (or by appointment)
<b>Email:</b>	<a href="mailto:gustavo.cortes@warrington.ufl.edu">gustavo.cortes@warrington.ufl.edu</a>

## 1. Course Overview and Objectives

This course focuses on applications of financial theory to investments and asset pricing. It provides an in-depth discussion of fundamental principles related to equity securities and options for both institutional and individual investors. Objectives of this class include understanding:

- (a) How security markets work
- (b) Trade-off between risk and return and the Capital Asset Pricing Model (CAPM)
- (c) Efficient market hypothesis
- (d) Behavioral Finance
- (e) Macroeconomic and industry analysis
- (f) Stock market volatility

## 2. Course Prerequisites

You are officially required to have taken and passed FIN 3403. You should already know:

- (a) Basic structure of financial statements (assets, liabilities, etc.)
- (b) Basic statistics concepts (mean, variance, standard deviation, correlation, covariance, etc.)
- (c) MS Excel (or equivalent spreadsheet software)

## 3. Textbook

The recommended text is Bodie, Kane, and Marcus (BKM), *Essentials of Investments*, 12<sup>th</sup> Edition, McGraw-Hill/Irwin, 2022. I will be using the text as a rough guide for the lectures, thus the 11<sup>th</sup> or even the 10<sup>th</sup> edition probably work fine. However, there may be material in the 12<sup>th</sup> edition which is not covered in earlier editions. We may cover some of this material in class. It is your responsibility to check if the older edition covers the material that we will see in class before purchasing an older edition. The range of chapters that we will cover is in Section 12 of the Syllabus (“Lectures”) and should be your guide before making this decision. A much cheaper option is to get the eBook version of the textbook through the UF All Access program (<https://www.bsd.ufl.edu/AllAccess>).

#### **4. Class Notes (Slides)**

I will make class notes (slides) available via the course E-Learning website. However, the notes will not be comprehensive. My intent is to provide you with something that will help you follow the lecture and focus on the important material of this class. I may use the whiteboard too, especially for lengthier mathematical problems, so there will be things discussed in class that will not show up on the class notes but can still be tested in the exam. There may also be material on the notes that I will not cover in class.

#### **5. Attendance**

Attendance is encouraged, but not mandatory. Materials presented in class are a blend of the topics covered in the textbook, lecture notes, and other sources; replicating what has been covered in class will be very difficult without regular attendance. Regular presence in class will have a significant impact on your chances to succeed in this course. If you miss a lecture, you need to be in contact with a colleague and ask for a copy of the class notes and inquire about what happened in class.

#### **6. Calculator**

You will want to have a basic calculator with you during lectures and especially for exams. Calculators with text storage capability such as those with graphing features are **NOT** approved for exams. There is no need to purchase a fancy calculator. A basic calculator should be fine. You can also use Excel to do basic calculations in your computer (except on exams).

#### **7. Student Accommodations**

Students requesting classroom accommodation must first register with the Dean of Students Office. The Dean of Students Office will provide documentation to the student who must then provide this documentation to the Instructor when requesting accommodation.

#### **8. Expectations and Grading**

Presumably, you are taking this course because you are majoring in Finance and/or you have a keen interest in the subject. As a result, I have high expectations for your effort. Everyone will benefit from engaging in classroom discussion and your participation will be noticed. Everyone will be more efficient if the appropriate materials have been read prior to the lecture. Simply put, the stronger the participation level, the more you will get out of this class.

As a courtesy, please silence your phones and keep your computers closed in class, unless the class material being discussed entails usage of a computer (e.g., an Excel spreadsheet). Using phones and surfing the internet distract the instructor and your fellow students.

*General Policies:* For specific information regarding University of Florida grading policies, please refer to: [www.registrar.ufl.edu/catalog/policies/regulationgrades.html](http://www.registrar.ufl.edu/catalog/policies/regulationgrades.html)

*Quizzes:* There will be quizzes assigned throughout the semester. They will be accessible through the course website and will automatically close for submissions after the deadline has passed. Once the deadline has passed, there is **NO** possibility to extend it for students who missed the original time window. If you missed the quiz because of a very legitimate reason, please email me with proof (e.g., a doctor's letter) and I will evaluate the possibility of you submitting your quiz after the deadline.

*Exams:* There will be two in-class exams. The final exam will be during the last week of classes. There will be **NO** make-up exams. If you have a very legitimate conflict with scheduled exam times, please let me know as soon as possible and it may be possible to schedule an early test date. Exams will likely be a combination of multiple-choice, short answer, and written problems. In-class examples, practice problems, and quizzes are your best tools to prepare for exams.

*Re-Grading Policy:* If you disagree with an exam/quiz grade, you can write a 1-page explanation/justification of your concern. If you present me with the exam/quiz assignment and your explanation during the seven *calendar* days following the day I return the material in class, I will re-grade the entire submission taking your comments into consideration. Please understand, **I will re-grade the entire exam** in question and the resulting grade may increase, stay the same, or even decrease. The result of the re-grade is the final grade and will be accepted as such by the student as part of our agreement to the re-grade in the first place. Under no circumstance will re-grading be considered outside the seven-day window.

*Investment Report:* There will be a course project in which students will work on an investment analysis task that simulates real-life equity research. More details will be provided in class.

*Grade Breakdown:*

Item	Weight	Comment
Exam 1	25%	Units 1-6
Exam 2	50%	Units 7-13
Course Project	10%	
Quizzes	15%	Each quiz will be weighted equally

Letter Grade Cutoffs:

Course Grade Points	Course Grade
Total $\geq$ 95%	A
90% $\leq$ Total $<$ 95%	A-
85% $\leq$ Total $<$ 90%	B+
80% $\leq$ Total $<$ 85%	B
75% $\leq$ Total $<$ 80%	B-
70% $\leq$ Total $<$ 75%	C+
65% $\leq$ Total $<$ 70%	C
60% $\leq$ Total $<$ 65%	C-
Total $<$ 60%	D+ ~ F

Final course **scores are not rounded**. Thus, a 79.999 **will not** be rounded up and will be a B- grade.

### 9. Course Website

The course's E-Learning website will be the primary tool for course communication outside of the classroom. The website will contain important reference information such as schedules, practice problems, lecture notes, and announcements.

### 10. Contacting the Instructor

The best time to get a quick answer to a course related question is to catch me immediately before or after class, or during a break. If that doesn't work for you, or if you have a question that you feel will take more time to discuss, please try to attend my regular office hours. If you are unable to attend my office hours, we can arrange an appointment by email. Email is the best way to contact me and I try to check my email often, even when not in the office. If I do not reply you within 48 hours, it is OK to send me another email with a kind reminder.

### 11. University of Florida Honesty Policy: Cheating and Use of Copyrighted Materials

*Academic Honesty.* As a result of completing the registration form at the University of Florida, every student has signed the following statement: "I understand that the University of Florida expects its students to be honest in all their academic work. I agree to adhere to this commitment to academic honesty and understand that my failure to comply with this commitment may result in disciplinary action up to and including expulsion from the University."

*Copyrighted Materials and Software Use.* All students are required to obey the laws and legal agreements governing copyrighted material and software use. Failure to do so can lead to monetary damages and/or criminal penalties for the individual violator. Such violations are also against University rules and disciplinary action will be taken as appropriate.

## 12. Lectures

The general topics to be covered throughout the course will be broken down into the following units. This is a general outline and the topics discussed may deviate as the course moves through the semester. I will try to incorporate topics that I feel are important for the class to learn while trying to ensure that we hit on topics I feel students are most interested in.

Unit	Description	Reading
Introduction	Course outline, objectives, and syllabus	Syllabus
Unit 1	Investments background	BKM Ch 1
Unit 2	Financial securities	BKM Ch 2
Unit 3	Securities markets	BKM Ch 3
Unit 4	Mutual Funds and other Investment Companies	BKM Ch 4
Unit 5	Risk and Return	BKM Ch 5
Unit 6	Efficient diversification	BKM Ch 6
Unit 7	CAPM	BKM Ch 7
Unit 8	Efficient Market Hypothesis	BKM Ch 8
Unit 9	Behavioral Finance, Investor Biases, and Limits to Arbitrage	BKM Ch 9 + Slides
Unit 10	Macroeconomic and Industry Analysis	BKM Ch 12
Unit 11	Equity Valuation	BKM Ch 13
Unit 12	International Diversification	BKM Ch 19
Unit 13	Stock Market Volatility	Slides

### 13. Tentative Schedule

Below is the expected schedule for this semester. It is simply a **tentative** outline and may change as we progress throughout the schedule.

Week	Date	Day	Agenda	Observations
1	4-Jan	Tue		
	6-Jan	Thu	Introduction + Unit 1 (BKM Ch. 1)	Course Project discussion
2	11-Jan	Tue	Unit 2 (BKM Ch. 2)	
	13-Jan	Thu	Unit 3 (BKM Ch. 3)	
3	18-Jan	Tue	Unit 4 (BKM Ch. 4)	
	20-Jan	Thu	Unit 5 (BKM Ch. 5)	Quiz 1 assigned (Units 1-5)
4	25-Jan	Tue	No Class: Warrington Career Week	Quiz 1 due
	27-Jan	Thu	No Class: Warrington Career Week	
5	1-Feb	Tue	Unit 6 (BKM Ch. 6)	
	3-Feb	Thu	Unit 6 (BKM Ch. 6)	
6	8-Feb	Tue	Unit 7 (BKM Ch. 7)	
	10-Feb	Thu	Unit 7 (BKM Ch. 7)	Quiz 2 assigned (Units 6-7)
7	15-Feb	Tue	<b>Exam 1</b>	Quiz 2 due
	17-Feb	Thu	Unit 8 (BKM Ch. 8)	
8	22-Feb	Tue	Unit 8 (BKM Ch. 8)	
	24-Feb	Thu	Unit 9 (BKM Ch. 9)	
9	1-Mar	Tue	Unit 9 (BKM Ch. 9)	Course Project assigned
	3-Mar	Thu	Unit 9 (BKM Ch. 9)	Quiz 3 assigned (Units 7-8)
10	8-Mar	Tue	Spring Break: No Class	Quiz 3 due
	10-Mar	Thu	Spring Break: No Class	
11	15-Mar	Tue	Unit 9 (BKM Ch. 9)	
	17-Mar	Thu	Unit 10 (BKM Ch. 12)	
12	22-Mar	Tue	Unit 11 (BKM Ch. 13)	
	24-Mar	Thu	Unit 11 (BKM Ch. 13)	
13	29-Mar	Tue	Unit 12 (BKM Ch. 19)	Quiz 4 assigned (Units 9-10)
	31-Mar	Thu	Unit 12 (BKM Ch. 19)	Quiz 4 due
14	5-Apr	Tue	<b>Course Project</b>	
	7-Apr	Thu	<b>Course Project</b>	
15	12-Apr	Tue	Unit 13 (Stock Volatility Slides)	
	14-Apr	Thu	Unit 13 (Stock Volatility Slides)	Quiz 5 assigned (Units 11-12)
16	19-Apr	Tue	<b>Exam 2</b>	Quiz 5 due
	21-Apr	Thu		