



# AFCP801

## Portfolio Management and Valuation

AFC Term 3 City 2019

*Department of Applied Finance*

### Contents

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<a href="#"><u>General Information</u></a>	2
<a href="#"><u>Learning Outcomes</u></a>	3
<a href="#"><u>General Assessment Information</u></a>	3
<a href="#"><u>Assessment Tasks</u></a>	3
<a href="#"><u>Delivery and Resources</u></a>	7
<a href="#"><u>Unit Schedule</u></a>	9
<a href="#"><u>Learning and Teaching Activities</u></a>	11
<a href="#"><u>Policies and Procedures</u></a>	11
<a href="#"><u>Graduate Capabilities</u></a>	13
<a href="#"><u>Important Notice</u></a>	15

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#### **Disclaimer**

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## General Information

Unit convenor and teaching staff

Unit Convenor / Lecturer

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Credit points

4

Prerequisites

(Admission to MAppFin or MAppFin(Adv) or GradDipAppFin) and (AFCP810 and AFCP811 and AFCP812 and AFCP813)

Corequisites

Co-badged status

Unit description

This unit equips students to apply an advanced body of finance knowledge to a range of contexts. The unit commences with an individual investor's perspective and then progresses to the viewpoint of a professional funds manager. This enables the student to develop the ideas of portfolio theory, asset pricing and behavioural finance. The unit continues with a security analysts' perspective to address the broad question of how to value enterprises and then drills down to security valuation, financial statement and cash flow analysis. Lastly we shift the focus to that of a derivatives trader to explore the pricing of forwards and options and employing these derivatives to achieve desired asset allocation exposures. The unit emphasises an applied orientation for the major techniques and themes to be further extended and developed across the Masters program. It represents the essential pre-requisite knowledge for all other core units and elective streams.

## Important Academic Dates

Information about important academic dates including deadlines for withdrawing from units are available at <https://www.mq.edu.au/study/calendar-of-dates>

## Learning Outcomes

On successful completion of this unit, you will be able to:

Explain and apply the key theories, concepts, and models relevant to portfolio management, derivatives, financial analysis and valuation.

Critically evaluate the key theories, concepts, and models relevant to portfolio management, derivatives, financial analysis and valuation.

Apply research methods to evaluate investment portfolio construction principles and asset pricing theory.

Solve problems, through the use of applications, relevant to portfolio management, derivatives, financial analysis and valuation.

## General Assessment Information

To pass this unit the student needs to (1) Achieve an aggregate mark of 50 or more, and; (2) Pass the Mid-term and Final Exam.

## Assessment Tasks

Name	Weighting	Hurdle	Due
<a href="#">Online Quizzes</a>	5%	No	Refer to iLearn
<a href="#">Mid Term Exam</a>	20%	Yes	Refer to Timetable
<a href="#">Assignment</a>	35%	No	Refer to iLearn
<a href="#">Final Exam</a>	40%	Yes	Refer to Timetable

### Online Quizzes

Due: **Refer to iLearn**

Weighting: **5%**

#### Summary of Assessment Task

**Individual / Group:** Individual.

**Due Date:** Refer to the unit's iLearn site.

**Submission Method:** In iLearn.

**Duration:** Refer to online quiz instructions.

#### Extension Requests:

- You are expected to make yourself available for assessment during the relevant quiz

window.

- Students who do not submit this task by the due date and time receive a result of zero. This penalty does not apply when an application for Special Consideration has been made and approved.
- Students who do not attempt the quiz receive a mark of zero. This penalty does not apply in cases where an application for Special Consideration has been made and approved.
- Note: Applications for Special Consideration must be made within 5 (five) business days of the due date and time.
- Refer to MAFC Program Rules at <https://mafstudents.mq.edu.au/> for information on the University's [Special Consideration Policy](#).

On successful completion you will be able to:

- Explain and apply the key theories, concepts, and models relevant to portfolio management, derivatives, financial analysis and valuation.
- Critically evaluate the key theories, concepts, and models relevant to portfolio management, derivatives, financial analysis and valuation.
- Solve problems, through the use of applications, relevant to portfolio management, derivatives, financial analysis and valuation.

## Mid Term Exam

Due: **Refer to Timetable**

Weighting: **20%**

**This is a hurdle assessment task (see [assessment policy](#) for more information on hurdle assessment tasks)**

### Summary of Assessment Task

**Individual / Group:** Individual.

**Due Date:** Refer to Timetable at <https://www.mq.edu.au/about/about-the-university/faculties-and-departments/business/study-with-us/macquarie-applied-finance-centre/timetables>.

Different Class Groups have different deadlines. Students should find the timetable and dates relevant to their group at <https://www.mq.edu.au/about/about-the-university/faculties-and-departments/business/study-with-us/macquarie-applied-finance-centre/timetables>.

**Submission Method:** As per MAFC Program Rules at <https://mafstudents.mq.edu.au/>.

**Duration:** 2 hours plus 10 minutes reading time.

### Examination Conditions:

- All examinations are closed book. However, permitted materials and aids are:

- A study sheet, prepared by the student (typically one double-sided A4 page).
- Calculators. Permitted calculators are noted under 'Calculators' below.
- Exam times and locations are noted in the unit timetable at <https://www.mq.edu.au/about/about-the-university/faculties-and-departments/business/study-with-us/macquarie-applied-finance-centre/timetables>.
- Refer to MAFC Program Rules at <https://mafcstudents.mq.edu.au/>.

### **Extension Requests:**

- You are expected to present yourself for examination at the time and place designated in the relevant MAFC Timetable at <https://www.mq.edu.au/about/about-the-university/faculties-and-departments/business/study-with-us/macquarie-applied-finance-centre/timetables>.
- Deferral of an examination is not permitted unless an application for Special Consideration is made and approved.
- Students who do not attend receive a mark of zero. This penalty does not apply in cases where an application for Special Consideration has been made and approved.
- Note: Applications for Special Consideration must be made within 5 (five) business days of the due date and time.
- Refer to MAFC Program Rules at <https://mafcstudents.mq.edu.au/> for information on the University's [Special Consideration Policy](#) or non-attendance at an examination.

On successful completion you will be able to:

- Explain and apply the key theories, concepts, and models relevant to portfolio management, derivatives, financial analysis and valuation.
- Critically evaluate the key theories, concepts, and models relevant to portfolio management, derivatives, financial analysis and valuation.
- Solve problems, through the use of applications, relevant to portfolio management, derivatives, financial analysis and valuation.

## **Assignment**

Due: **Refer to iLearn**

Weighting: **35%**

### **Summary of Assessment Task**

**Individual / Group:** A combination of individual and group work (refer to Assignment coversheet).

**Due Date:** Refer to the unit's iLearn site.

**Submission Method:** Via Turnitin on iLearn.

**Duration:** Refer to Assignment coversheet.

**Extension Requests:**

- No extensions will be granted. There will be a deduction of 10% of the total available marks made from the total awarded mark for each 24 hour period or part thereof that the submission is late (for example, 25 hours late in submission incurs a 20% penalty). This penalty does not apply for cases in which an application for Special Consideration is made and approved.
- Late submissions will be accepted up to 96 hours after the due date and time.
- Note: Applications for Special Consideration must be made within 5 (five) business days of the due date and time.
- Refer to MAFC Program Rules at <https://mafstudents.mq.edu.au/> for information on the University's [Special Consideration Policy](#).

On successful completion you will be able to:

- Critically evaluate the key theories, concepts, and models relevant to portfolio management, derivatives, financial analysis and valuation.
- Apply research methods to evaluate investment portfolio construction principles and asset pricing theory.
- Solve problems, through the use of applications, relevant to portfolio management, derivatives, financial analysis and valuation.

## Final Exam

**Due:** Refer to Timetable

**Weighting:** 40%

**This is a hurdle assessment task (see [assessment policy](#) for more information on hurdle assessment tasks)**

**Summary of Assessment Task**

**Individual / Group:** Individual.

**Due Date:** Refer to Timetable at <https://www.mq.edu.au/about/about-the-university/faculties-and-departments/business/study-with-us/macquarie-applied-finance-centre/timetables>.

Different Class Groups have different deadlines. Students should find the timetable and dates relevant to their group at <https://www.mq.edu.au/about/about-the-university/faculties-and-departments/business/study-with-us/macquarie-applied-finance-centre/timetables>.

**Submission Method:** As per MAFC Program Rules at <https://mafstudents.mq.edu.au/>.

**Duration:** 2 hours plus 10 minutes reading time.

### Examination Conditions:

- All examinations are closed book. However, permitted materials and aids are:
  - A study sheet, prepared by the student (typically one double-sided A4 page).
  - Calculators. Permitted calculators are noted under 'Calculators' below.
- Exam times and locations are noted in the unit timetable at <https://www.mq.edu.au/about/about-the-university/faculties-and-departments/business/study-with-us/macquarie-applied-finance-centre/timetables>.
- Refer to MAFC Program Rules at <https://mafstudents.mq.edu.au/>.

### Extension Requests:

- You are expected to present yourself for examination at the time and place designated in the relevant MAFC Timetable at <https://www.mq.edu.au/about/about-the-university/faculties-and-departments/business/study-with-us/macquarie-applied-finance-centre/timetables>.
- Deferral of an examination is not permitted unless an application for Special Consideration is made and approved.
- Students who do not attend receive a mark of zero. This penalty does not apply in cases where an application for Special Consideration has been made and approved.
- Note: Applications for Special Consideration must be made within 5 (five) business days of the due date and time.
- Refer to MAFC Program Rules at <https://mafstudents.mq.edu.au/> for information on the University's [Special Consideration Policy](#) or non-attendance at an examination.

On successful completion you will be able to:

- Explain and apply the key theories, concepts, and models relevant to portfolio management, derivatives, financial analysis and valuation.
- Critically evaluate the key theories, concepts, and models relevant to portfolio management, derivatives, financial analysis and valuation.
- Solve problems, through the use of applications, relevant to portfolio management, derivatives, financial analysis and valuation.

## Delivery and Resources

### CLASSES

**Face-to-Face Teaching:** Generally 36 hours.

**Timetable:** Detailed timetable for classes are on the Centre's website at <https://www.mq.edu.au/about/about-the-university/faculties-and-departments/business/study-with-us/macquarie-applied-f>

[inance-centre/timetables.](#)

### Consultation Times:

Students who wish to contact any of the teaching staff may do so through:

- iLearn, in relation to general queries (so that all students may benefit); or
- Individual consultation with the lecturer by email in the first instance, if necessary.

## **REQUIRED AND RECOMMENDED TEXTS AND/OR MATERIALS**

**Text:** Bodie, Kane and Marcus, *Investments*, McGraw Hill, 11<sup>TH</sup> edition, 2014, ISBN 978-1-259-27717-7 (BKM).

### Additional Readings:

- Additional readings are included in the unit notes and/or on iLearn.
- **Students should assume these readings are examinable unless otherwise advised.**

**Lecture Notes:** Available in printed form and electronically via iLearn.

### Study Problems:

- Students are required to work systematically through end of chapter problem sets. These problems will not be collected but they will help you prepare for the exams. Answers, but not worked solutions, to set problems are provided in the lecture notes.
- Please refer to the Bodie, Kane and Marcus, *Investments Solutions Manual* for worked solutions.

**Pre-course Knowledge:** The Gateway units of the Graduate Certificate in Finance represent the pre-course knowledge required to successfully study the advanced applied finance units of the Masters of Applied Finance and the Graduate Diploma of Applied Finance. Please refer to the following page for instructions on reviewing the unit guides for the gateway units: <http://mafcstudents.mq.edu.au/new-to-mafc/pre-course-materials/>

### Useful References:

- McDonald, *Derivatives Markets*, Pearson
- Ross, Westerfield and Jaffe, *Corporate Finance*, McGraw Hill
- Bodie, Kane and Marcus, *Investments Solutions Manual*, McGraw Hill
- Damodaran, *Investment Valuation*, Wiley
- Elton, Gruber, Brown & Goetzmann, *Modern Portfolio Theory and Investment Analysis*, Wiley.

### Calculators:

- A financial calculator that can handle time value of money calculations, logs and power



functions is required.

- The Hewlett Packard calculator hp17bII+ is recommended.
- In examinations, hand held calculators are permitted. Mobile phones and computers are not permitted.

**Assumed Access:**

- Access to a computer with word processing and spreadsheet capability is assumed, as is general student computer literacy.
- Also assumed is access to a Web browser (e.g. Internet Explorer or Firefox), email software and student's own connection to an internet service provider.

## **TECHNOLOGY USED AND REQUIRED**

**Unit iLearn Site:**

- Found by logging on to iLearn [ilearn.mq.edu.au](http://ilearn.mq.edu.au), then clicking on ***AFCP801 Portfolio Management and Valuation***.
- This is where you will find a link to forums, downloadable resources and other important pages.
- Forums allow you to communicate with other students and lecturer(s) and may provide supplementary material.
- You are requested to post questions to forums at least 24 hours prior to an assignment submission date or examination date. Questions posted after that time may not be answered. **Please try to not leave your questions to the last few days.**

**Important Notice:**

- It is important that you familiarise yourself with iLearn.
- Students should check iLearn regularly (minimum twice a week and prior to all lectures) and look for updates and distribution of materials (including case studies) related to the unit or assessments and, if relevant, participate in forum discussions.

## **Unit Schedule**

### **1. Asset Allocation (2 sessions)**

- Introduction to the individual's investment problem
- Asset markets
- Investment valuation basics
- Forecast risk and return
- Risk attitude – risk aversion and utility

- Asset Allocation

## **2. Asset Pricing Model (2 sessions)**

- Review research methods
- Active and passive management
- Risk adjusted discounting rates
- Multi factor portfolio management

## **3. Portfolio Optimization (1 session)**

- Review of Markowitz model
- MSCI Barra portfolio optimization platform
- Topic case study: the argument for international diversification and currency management

## **4. Behavioural Finance Overview, Market Efficiency and Anomalies (1 session)**

- Review of market efficiency
- Anomalies
- Behavioural finance
- Empirical testing

## **5. Fundamental Stock Analysis (3 sessions)**

- Financial statement analysis
  - The role of financial analysis
  - The Financial Analysis Toolkit
  - Financial ratio analysis
  - Applying the du Pont system of ratio analysis
  - Segmental financial analysis
  - Residual Income Valuation
- Cash flow analysis and financial modelling
  - The importance of cash flows in investment analysis and corporate finance applications
  - Cash flows statements for reporting and analysis purposes
  - Applying a cash flow analysis framework
  - Principles of forecasting and financial modelling
- Valuation principles
  - Key valuation concepts and methods
  - Discounted Cash Flow approach and WACC

- Expected cash flows
- Inflation and valuation
- Terminal values
- Multiples and relative valuation

## 6. Derivatives (3 sessions)

- Derivatives Overview
- Futures and Forwards - Hedging and Speculation Strategies
- Derivative Overlays and Asset Allocation Strategies
- Option Introduction
- Option Strategies
- Put-Call Parity
- Black-Scholes Valuation
- Portfolio Insurance

## Learning and Teaching Activities

### Strategy

The Master of Applied Finance degree adopts a deep teaching and learning strategy, in which students acquire and retain knowledge and also are able to make sense of the issues and concepts and apply them in the “real world”. The degree relies heavily on student engagement and participation by: (a) Continuous learning throughout the term. This is encouraged through a combination of students undertaking prescribed reading throughout the units and/or completion of practice problems, case studies, assignments, class presentations etc and interaction via forums in the unit’s iLearn site; and (b) Assessments, which enable the student to demonstrate his/her understanding of the learning objectives achieved through the continuous learning.

### Student Participation

Students participate in this unit by: (a) Attending lectures and participating in class discussion; (b) Before each class, completing the recommended readings of notes and text, and working systematically through suggested problem sets; (c) Interacting on the unit’s iLearn site; and (d) Completing all assessment tasks and exams. On average, the unit will require students to complete, for every hour of class time, approximately 3 hours private study.

## Policies and Procedures

Macquarie University policies and procedures are accessible from [Policy Central \(https://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central\)](https://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central). Students should be aware of the following policies in particular with regard to Learning and Teaching:

- [Academic Appeals Policy](#)

- [Academic Integrity Policy](#)
- [Academic Progression Policy](#)
- [Assessment Policy](#)
- [Fitness to Practice Procedure](#)
- [Grade Appeal Policy](#)
- [Complaint Management Procedure for Students and Members of the Public](#)
- [Special Consideration Policy](#) (**Note:** *The Special Consideration Policy is effective from 4 December 2017 and replaces the Disruption to Studies Policy.*)

Undergraduate students seeking more policy resources can visit the [Student Policy Gateway](https://students.mq.edu.au/support/study/student-policy-gateway) (<https://students.mq.edu.au/support/study/student-policy-gateway>). It is your one-stop-shop for the key policies you need to know about throughout your undergraduate student journey.

If you would like to see all the policies relevant to Learning and Teaching visit [Policy Central](http://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central) (<http://staff.mq.edu.au/work/strategy-planning-and-governance/university-policies-and-procedures/policy-central>).

## Student Code of Conduct

Macquarie University students have a responsibility to be familiar with the Student Code of Conduct: <https://students.mq.edu.au/study/getting-started/student-conduct>

## Results

Results published on platform other than [eStudent](#), (eg. iLearn, Coursera etc.) or released directly by your Unit Convenor, are not confirmed as they are subject to final approval by the University. Once approved, final results will be sent to your student email address and will be made available in [eStudent](#). For more information visit [ask.mq.edu.au](http://ask.mq.edu.au) or if you are a Global MBA student contact [globalmba.support@mq.edu.au](mailto:globalmba.support@mq.edu.au)

Students should also consult the MAFC Program Rules found at <https://mafcstudents.mq.edu.au/>.

## Student Support

Macquarie University provides a range of support services for students. For details, visit <http://students.mq.edu.au/support/>

## Learning Skills

Learning Skills ([mq.edu.au/learningskills](http://mq.edu.au/learningskills)) provides academic writing resources and study strategies to improve your marks and take control of your study.

- [Workshops](#)
- [StudyWise](#)
- [Academic Integrity Module for Students](#)
- [Ask a Learning Adviser](#)

## Student enquiry service (MAFC-specific)

For all student enquiries, please contact [studentsupport@mafc.mq.edu.au](mailto:studentsupport@mafc.mq.edu.au)

## Student Services and Support

Students with a disability are encouraged to contact the [Disability Service](#) who can provide appropriate help with any issues that arise during their studies.

## Learning Skills

Learning Skills ([http://www.students.mq.edu.au/support/learning\\_skills/](http://www.students.mq.edu.au/support/learning_skills/)) provides academic writing resources and study strategies to improve your marks and take control of your study.

- Workshops
- StudyWise
- Academic Integrity Module for Students
- Ask a Learning Adviser

## Student Enquiries

For all student enquiries, visit Student Connect at [ask.mq.edu.au](http://ask.mq.edu.au)

If you are a Global MBA student contact [globalmba.support@mq.edu.au](mailto:globalmba.support@mq.edu.au)

## IT Help

For help with University computer systems and technology, visit [http://www.mq.edu.au/about\\_us/offices\\_and\\_units/information\\_technology/help/](http://www.mq.edu.au/about_us/offices_and_units/information_technology/help/).

When using the University's IT, you must adhere to the [Acceptable Use of IT Resources Policy](#). The policy applies to all who connect to the MQ network including students.

## Graduate Capabilities

### PG - Capable of Professional and Personal Judgment and Initiative

Our postgraduates will demonstrate a high standard of discernment and common sense in their professional and personal judgment. They will have the ability to make informed choices and decisions that reflect both the nature of their professional work and their personal perspectives.

This graduate capability is supported by:

### Assessment task

- Assignment

## PG - Discipline Knowledge and Skills

Our postgraduates will be able to demonstrate a significantly enhanced depth and breadth of knowledge, scholarly understanding, and specific subject content knowledge in their chosen fields.

This graduate capability is supported by:

### Learning outcome

- Explain and apply the key theories, concepts, and models relevant to portfolio management, derivatives, financial analysis and valuation.

### Assessment tasks

- Online Quizzes
- Mid Term Exam
- Assignment
- Final Exam

## PG - Critical, Analytical and Integrative Thinking

Our postgraduates will be capable of utilising and reflecting on prior knowledge and experience, of applying higher level critical thinking skills, and of integrating and synthesising learning and knowledge from a range of sources and environments. A characteristic of this form of thinking is the generation of new, professionally oriented knowledge through personal or group-based critique of practice and theory.

This graduate capability is supported by:

### Learning outcome

- Critically evaluate the key theories, concepts, and models relevant to portfolio management, derivatives, financial analysis and valuation.

### Assessment tasks

- Online Quizzes
- Mid Term Exam
- Assignment
- Final Exam

## PG - Research and Problem Solving Capability

Our postgraduates will be capable of systematic enquiry; able to use research skills to create new knowledge that can be applied to real world issues, or contribute to a field of study or practice to enhance society. They will be capable of creative questioning, problem finding and problem solving.

This graduate capability is supported by:

## **Learning outcomes**

- Apply research methods to evaluate investment portfolio construction principles and asset pricing theory.
- Solve problems, through the use of applications, relevant to portfolio management, derivatives, financial analysis and valuation.

## **Assessment tasks**

- Online Quizzes
- Mid Term Exam
- Assignment
- Final Exam

## **Important Notice**

This Unit Guide may be subject to change. Students will be advised, via an "Announcement" on iLearn, if the Unit Guide is changed.

The latest version is available at <https://unitguides.mq.edu.au/>.

Students should read the Unit Guide carefully at the start of term. It contains important information about the unit. If anything is unclear, please consult one of the unit lecturers.