

BNK 204: Investment Analysis

Credits: 3
Lecture Hours: 48

Course Objectives

The aim of this course is to provide students the fundamental knowledge on investing in securities. Specifically, it aims at enabling students to understand financial markets, estimate risk and return from the securities, appraise them to form portfolio for investment, and analyze the economy and the industry in which they make an investment.

Course Description

This course begins with a broad overview of investment environment and describes financial instruments and their markets. Then it deals with the risk and return of an individual asset as well as that of portfolios, and the selection of optimal portfolio. It discusses how assets are priced by using capital assets pricing model. It also deals with how debt and equity securities are valued for investment decision making purpose, and finally presents the framework of analyzing the economy and the industry in which investments are made.

Course Details

Unit 1: Investment Environment

LH 4

Meaning of investment; Types of assets: real assets and financial assets; Financial markets and the economy; The investment process; The risk-return trade-off; Efficient markets; Major players in the financial markets; Ethical issues in investing; and Nepalese investment environment.

Unit 2: Assets Classes and Financial Instruments

LH 8

The money market: Treasury bills, certificates of deposit, commercial paper, bankers' acceptance, Eurodollars, yield on money market instruments; The bond market: treasury notes and bonds, inflation-protected treasury bonds, federal agency bonds, international bonds, municipal bonds, corporate bonds, mortgages and mortgage-backed securities; Equity securities: common stock – characteristics and listing, preferred stock, depository receipts; Stock and bond market indexes: stock market indexes – price-weighted index, value-weighted index, equally-weighted index; Nepal Stock Exchange index, bond market indicators; and Derivative markets.

Unit 3: Securities Markets

LH 6

Concept of securities markets; Issue of securities; Privately held firms and publicly traded companies; Shelf registration; Initial public offerings; Trading of securities; Types of markets; Types of orders; Trading mechanisms; The rise of electronic trading; ECNs; New trading strategies; Globalization of stock markets; Trading costs; Buying on margin; Short sales; Functions of Nepal Stock Exchange; and Role of Nepal Securities Board.

Unit 4: Mutual Funds

LH 4

Concept and functions of investment companies; Types of investment companies: unit trusts, managed investment companies – open-end and closed-end; Mutual funds: investment policies, fee structure, mutual fund returns; Concept of exchange-traded funds; and Mutual funds in Nepal.

Unit 5: Risk and Return**LH 6**

Concepts of risk and return; Measuring investment returns: holding period return, returns over multiple periods, annualizing rates of return, expected return, time series of return; Inflation and real rates of return; Measuring risk: variance, standard deviation, coefficient of variation; and Portfolio return and risk of a portfolio of risky and risk-free assets.

Unit 6: Efficient Diversification and CAPM**LH 8**

Diversification and portfolio risk; Asset allocation with two risky assets; Covariance and correlation; The risk-return trade-off with two-risky-assets; The mean-variance criterion; The optimal risky portfolio with a risk-free asset; Efficient diversification with many risky assets; The efficient frontier of risky assets; Choosing the optimal risky portfolio; The Capital Asset Pricing Model: the model, assumptions, implications, and the security market line.

Unit 7: Bond Prices and Yields**LH 4**

Bond pricing; Bond pricing between coupon dates; Bond pricing in excel; Bond yields: yield to maturity, yield to call, realized compound return versus yield to maturity; Bond prices over time; and Yield to maturity versus holding-period return.

Unit 8: Equity Valuation**LH 4**

Valuation by comparables; Limitations of book value; Intrinsic value versus market price; Dividend discount models: the constant-growth and multistage growth models; Price–earnings ratios; and pitfalls in P/E analysis.

Unit 9: Macroeconomic and Industry Analysis**LH 4**

Domestic macro economy; Government policy: fiscal policy and monetary policy; business cycles; Economic indicators; Industry analysis: defining an industry, sensitivity to business cycle, sector rotation, industry lifecycles, and industry structure and performance.

Basic Text

Bodie, Z., Kane, A., & Alan, J. M. *Essentials of investments*. New York: McGraw Hill.

References

Alexander, G. J., Sharpe, W. F. & Bailey, J. V. *Fundamentals of investments*. New Delhi: Prentice Hall of India Ltd.

Reilly, F. K. & Keith, C. B. *Investment analysis and portfolio management*. New Delhi: Cengage Learning.