

UNIVERSITY OF NORTH FLORIDA
COGGIN College of Business

Advanced Financial Management

FIN 6406-50611

Summer, 2007

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Class Meetings:	TR 6:10pm - 7:50pm	Email:	rlamb@unf.edu
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PREREQUISITES

All required 5000 level foundation courses, ACG 6305 or equivalent and ECO 6930AB.

COURSE OBJECTIVE

Catalogue Description: An examination of theory and practice in financial management. Case analysis is used as a focus for class discussion.

Written Communication Requirement:

Written communication involves the written assignments described below.

Oral Communication Requirement:

Oral communication skills are demonstrated through class participation and through the presentation of an anomaly project measuring the efficiency of the stock market.

Computer Applications:

Specific computer applications involve the preparation of a PowerPoint presentation of an anomaly study. In addition, most of the homework assignments involve calculations that can be performed on a financial calculator or a computer.

International Coverage:

International applications and issues throughout the text represent the international coverage.

Environmental Issues Covered:

None

Ethical Issues Covered:

Ethics are discussed as it pertains to managerial decisions and the corresponding impact on the firm. A case assignment involving the movie *Wall Street* also involves ethical issues.

REQUIRED RESOURCES

- Financial Management - Theory and Practice, 11th ed. by Eugene F. Brigham and Michael C. Ehrhardt (*Thomson/South-Western*, 2005).
- Preferred Financial Calculator - *Texas Instruments BAI Plus*
- Access to and familiarity with the internet, spreadsheet calculations and regression analysis.

CCB is a Wall Street Journal Partner School

Each student enrolling in one or more Coggin College of Business (CCB) courses numbered 3000 or higher is assessed a \$13 fee during each fall and spring semester. The fee is just \$13 regardless of how many CCB courses the student takes. The fee is assessed at the same time and in the same manner as all other UNF fees, and the student pays this fee when he/she pays his other tuition and fees. In return, each student is able to pick up a copy of *The Wall Street Journal* (WSJ) from locations within the College.

Moreover, each student will receive access to all of the *WSJ*'s on-line editions (e.g., European, Asian), as well as the *WSJ Employment Edition* and *Barron's*. Access to these publications is free during summer terms for students enrolled in these courses. Students who already have personal subscriptions can have the *WSJ* refund those dues. For information on that process, as well as more about CCB's partnership with the *WSJ*, please visit <http://www.unf.edu/ccb/wsj.htm>.

CODES OF CONDUCT

All students are required to be familiar with the violations of Academic Integrity described in the *Graduate Catalog* and to conduct themselves according to the standards set forth.

EXAM SCHEDULE

EXAM 1	Tuesday	June 5	Chapters 1, 2, 6, 15
EXAM 2	Thursday	June 28	Chapters 4, 5, 7, 19
EXAM 3	Tuesday	August 7	Chapters 3, 9, 10, 13, Anomalies

RESPONSIBILITIES AND MAINTENANCE

Exam scores comprise **60%** of the final course grade [3 * 50 = 150 points]. Since the exam dates are provided, you are expected to arrange your schedule accordingly. A missed exam is a zero score! There are no special exam times or make up exams. Exams are closed books and closed notes and are comprised of questions that are representative of the examples presented in class and in the assigned homework. All questions are short answer essay and quantitative problems. Calculators are necessary, but the use of calculator instruction books and the sharing of calculators are not permitted.

The remaining **40%** [100 points] of the grade is determined by six assignments which are due at the beginning of class on the respective date. **Emailed submissions will not be accepted.** Assignments submitted late receive a grade of zero. Each assignment is described below. All assignments must include the student name at the top right corner of the first page and a staple at the top left corner of the first page (if there are multiple pages). **Do not include a cover page or a folder.** Errors of grammar, spelling, punctuation and sentence structure will result in a lower grade. Failure to follow these instructions will result in a grade penalty of 10%.

1. Initial Public Offerings [4%, 10 points]

Each student will select a company that went public after November 30, 2006 and trace the events around the IPO. Information that must be included in the one-page paper is: (i) filing and public dates; (ii) projected and actual offering prices (including 1st day opening price); (iii) daily aftermarket performance (closing prices) during the first three weeks of public life; (iv) your conclusions concerning underpricing, overpricing, or fair pricing of the IPO; (v) size (shares, dollars) of offering and use of proceeds; (vi) firm commitment or best efforts; (vii) insider ownership retention; (viii) copy of the cover page of the S-1, S-1A or similar filing; (ix) ticker symbol and exchange; and (x) any other information that is necessary to chronicle the early life of the IPO. Also include a graph showing the daily %return performance of your firm during only the first three weeks of public life compared to the DJIA, the S&P 500 Index and the NASDAQ Composite Index. You must generate this graph yourself and it is part of the one-page page limit. Useful sites for this assignment are **ipohome.com** (link to *marketwatch* and *pricing*), **123jump.com** (link to IPO), **biz.yahoo.com/ipo**, **nasdaq.com** (link to IPO), and **sec.gov** (link to Filings and Forms). Each student will have a unique company selected through a sign-up sheet circulated at the beginning of each class. Papers exceeding one-page will be penalized 4 points per excess page (the copy of the S-1 filing page does not count as a page in the one-page limit).

Due Date: beginning of class on Thursday, June 21

2. **Bloomberg DDM Valuation [4%, 10 points]**

For this assignment, use the same firm as you will for the beta calculation below (#3). The valuation requires work on *Bloomberg* in the *State Farm Companies Foundation Center for Financial Research*. Students must reserve a time via a sign-up sheet distributed in class, which will be the only time available to work on *Bloomberg*. Students missing their reserved time will be unable to complete the valuation and will receive a grade of zero. Only one student is permitted in the *Center* at a time, and will not be able to enter early or stay late. *Center* activity is monitored by COBATech. No food or drink is permitted in the *Center*.

Log onto *Bloomberg* (step-by-step instructions and password will be provided at the *Bloomberg* tutorial on June 14). Estimate the intrinsic value for your firm using the Dividend Discount Model method based on the default settings. Change the variable settings to match your expectations and calculate the intrinsic value. Compare the two values with the current market price and determine if the stock is underpriced, overpriced or fairly priced. Provide a detailed justification for the values you changed from the default settings. Include a copy of each *Bloomberg*-generated DDM intrinsic value calculation.

Due Date for Completed Paper: beginning of class on Tuesday, June 26

3. **Beta Calculation and Interpretation [4%, 10 points]**

- Select a publicly traded company (*NYSE*, *ASE*, or *NASDAQ*) whose name begins with the first initial of your last name and has a published beta at **reuters.com** and **smartmoney.com**. If your company is one covered by **Thomson One BSC**, which is included in the textbook for the course, also obtain the published beta from that source. Record the two (or three) published betas for your company.
- Using historical quotes at **yahoo.com**, download the weekly stock price data (closing prices or adjusted closing prices via **yahoo.finance**), and calculate the weekly % returns for your firm for the most recent 30 weeks (31 weeks of prices generate 30 weeks of returns).
- Using the same website, calculate the weekly % return for the DJIA, the S&P 500 Index and the NASDAQ Composite Index for the same period as in 'c'.
- Enter the data in a spreadsheet in the following format:

<u>Date</u>	<u>Stock Firm</u>		<u>DJIA</u>		<u>S&P500</u>		<u>NASDAQ</u>	
	<u>Close</u>	<u>Return</u>	<u>Close</u>	<u>Return</u>	<u>Close</u>	<u>Return</u>	<u>Close</u>	<u>Return</u>
- Calculate beta for your firm based on each of the three market indices. If using Excel, you can simply go to the 'function wizard' in the menu, then 'statistical', then 'slope'. The beta calculation is generated by SLOPE(Dependent, Independent). The Dependent Variable is the return column for your firm; the Independent Variable is the return column for each of your market representatives. You will perform three separate regressions and will obtain three different betas. You can also calculate beta from the Regression function in the Data Analysis section of Excel.
- Present one graph showing the relative %return behavior (weekly) of your firm against the three market indexes during your sample period. You must generate this graph and it must match your data. The graph should have four weekly return % lines: your firm, DJIA, S&P 500 Index, NASDAQ Composite.
- Compare the five (or six) betas for your firm (two published and three calculated). Explain possible reasons for the differences. Attach all of your data and calculations.

Due Date: beginning of class on Thursday, June 28

4. **Annual Report No Spin Zone [4%, 10 points]**

Read the Letter to Shareholders from the Chairman, President and/or CEO at the beginning of the Annual Report you receive/select. List five measurable conclusions described in the Letter and then find financial evidence challenging the claim or supporting the claim. Provide a convincing explanation of your opinion concerning management's interpretation of the measurable conclusion (agree or disagree). In preparing your evaluation of the statements, provide a fair evaluation of each issue. Consider the information (the five items you select) in the Letter as a "No Spin Zone."

Due Date for Completed Paper: beginning of class on Thursday, July 19

5. Anomaly Paper and Presentation [18%, 45 points]

Several groups of four students will be formed after the fourth week of the semester. Each group is responsible for preparing a 1-page summary of an assigned journal article describing a specific anomaly challenging the efficiency of the stock market. Members of each group will be required to participate in a 15-20 minute presentation of the article. Each group must bring enough copies of the one-page article summary for every student in the class to compile a handbook of anomalies. The grade will be based on three equal measures of performance: the quality of the one-page summary in describing the anomaly, the quality of each student's individual share of the presentation, and the overall quality of the group presentation. The format of the presentation should be (i) what was studied; (ii) why it was studied (motivation); (iii) description of the data; (iv) how the data was tested; (v) presentation of the findings; and (vi) conclusions and implications for market efficiency.

Presentations: July 24, July 26, July 31, August 1; Paper due at beginning of class.

6. Ethics and Wall Street [6%, 15 points]

Students may form their own groups for this assignment, ranging from three to five students. The responsibility of the group is to view the movie *Wall Street* at some time during the semester and then prepare a paper involving several ethical questions presented in the movie. Specific questions to be addressed in the paper are attached to the syllabus. An article providing background information about SEC regulations and insider trading is provided at www.unf.edu/~rlamb. The format of the paper must be question and answer, rather than paragraph form. There is some profanity in this movie. If that is objectionable, the use of a filtering device (eg. *TV Guardian*) does not detract from the movie or the ability to complete this assignment.

Due Date: beginning of class on Tuesday, August 7

SUMMARY OF COURSE ASSIGNMENTS

Tuesday	June 5	Exam 1	50 points
Thursday	June 21	IPO Project (Assignment #1)	10 points
Tuesday	June 26	Bloomberg Project (Assignment #2)	10 points
Thursday	June 28	Beta Project (Assignment #3)	10 points
Thursday	June 28	Exam 2	50 points
Thursday	July 19	No Spin Zone Project (Assignment #4)	10 points
Tuesday	July 24	Anomalies Presentations (Assignment #5)	
Thursday	July 26	Anomalies Presentations (Assignment #5)	
Tuesday	July 31	Anomalies Presentations (Assignment #5)	45 points
Thursday	Aug 2	Anomalies Presentations (Assignment #5)	
Tuesday	Aug 7	Wall Street Ethics Case (Assignment #6)	15 points
Tuesday	Aug 7	Exam 3	<u>50 points</u>
			250 points

MEASUREMENT OF COURSE PERFORMANCE
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<u>Final Grade</u>	<u>Required Points</u>
A	> 235
A-	225 - 235
B+	220 - 224
B	210 - 219
B-	200 - 209
C+	190 - 199
C	175 - 189
F	< 175

ADVANCED FINANCIAL MANAGEMENT
FIN 6406

Tentative Course Outline for Summer, 2007

- May15Tue Introduction to the Course
- May17Thur Chapter 1: The Firm and the Financial Manager
Q. 1(a, c, d, k, l, n, o)
P. 2
Chapter 15: Corporate Valuation, Value-Based Management, and ... (pp. 525-534)
Q. 4
- May22Tue Chapter 2: Value of Money
Q. 1 (a, b, d, l, k), 4, 5
P. 1, 3, 7, 8, 9, 13
- May24Thur Chapter 2: continued
P. 4, 5, 6, 11, 12, 15, 17, 19, 22
- May29Tue Chapter 6: Bonds and Their Valuation
Q. 1 (b, d, f, g, i), 2, 3, 4
P. 1, 2, 4
- May31Thur Chapter 6 - continued
P. 3, 5, 7, 8, 9
- Jun5Tue Exam 1: Chapters 1, 2, 6, 15**
- Jun7Thur Chapter 19: Initial Public Offerings, Investment Banking, and ... (pp. 648-668)
Q. 1 (a, b, c, d, e, g), 5
- Jun12Tue Chapter 7: Stocks and Their Valuation
Q. 1 (d, e, f, g, i), 2, 3
P. 1, 2, 3, 5, 6, 12, 13, 14, 15
- Jun14Thur *Bloomberg Tutorial (State Farm Companies Foundation Center for Financial Research)***
The Tutorial will be given in two 45 minute segments with half the class in each one.
- Jun19Tue Chapter 4: Risk and Return - The Basics
Q. 1 (a, b, d, e, f)
P. 1, 5
- Jun21Thur** Chapter 4 - continued
Q. 1 (g, h, l, j, k, l), 3, 6
P. 2, 3, 4, 8, 9, 12
Initial Public Offerings (IPO) Assignment #1 is due at the beginning of class
- Jun26Tue** Chapter 5: Risk and Return - Portfolio Theory and Asset Pricing Models
Q. 1 (c, d), 2
P. 1 (a, b), 2 (a, b), 4(a)
Bloomberg DDM Assignment #2 is due at the beginning of class

- Jun28Thur** **Exam 2: Chapters 4, 5, 7, 19**
Beta Assignment #3 is due at the beginning of class
- Jul3Tue Chapter 3: Financial Statements, Cash Flow, and Taxes
Q. 1 (a, b), 2, 4
- Jul5Thur Chapter 13: Analysis of Financial Statements
Q. 1 (a, b, c, d, e), 2, 4, 5, 6
P. 1, 2, 9 (a, c)
- Jul10Tue Chapter 10: The Basics of Capital Budgeting: Evaluation of Cash Flows
Q. 1 (a, b)
P. 1 (a, b), 13 (a, b)
- Jul12Thur Chapter 10: continued
Q. 1 (c, e)
P. 1 (c, d), 2, 3, 5, 13 (c, d, e)
- July17Tue Chapter 9: The Cost of Capital
Q. 1, 2, 3, 5
- Jul19Thur** Chapter 9: continued
P. 1, 2, 3, 4, 5, 6, 11
No Spin Zone Assignment # 4 is due at the beginning of class
- Jul24Tue** **Anomalies Presentations Assignment #5 and corresponding paper summary**
- Jul26Thur** **Anomalies Presentations Assignment #5 and corresponding paper summary**
- Jul31Tue** **Anomalies Presentations Assignment #5 and corresponding paper summary**
- Aug2Thur** **Anomalies Presentations Assignment #5 and corresponding paper summary**
- Aug7Tue** **Wall Street Ethics Assignment #6 is due**
Exam 3: Chapters 3, 9, 10, 13, Anomalies

The movie *Wall Street*, set in 1985-1986, presents some of the ethical issues in finance that dominated the headlines in the 1980's. Such issues include insider trading and the use of non-public information, and the costs and benefits to society of takeovers and corporate restructurings. Although the moviemakers have exercised some dramatic license, they have created a film that realistically portrays big business with a wealth of detail that is seldom found in movies on this topic. Investment banker Kenneth Lipper of Salomon Brothers served as technical advisor for the film, and the trading room in *Wall Street* is a realistic depiction of the atmosphere in trading rooms at Salomon Brothers and other firms. Some of the scenes were shot on the floor of the New York Stock Exchange during trading hours. In preparing the script, director Oliver Stone interviewed numerous Wall Streeters, including Carl Icahn, Michael Milken, John Gutfreund, and SEC enforcement chief Gary Lynch.

The movie is divided into two parts. The first 70 minutes of the film deal with insider trading and related issues. The remaining 56 minutes are primarily concerned with takeovers, corporate restructuring, and SEC enforcement. The following link to a speech from an SEC official may be helpful to you in obtaining a basic background in insider trading, securities law, and legal precedents.

<http://www.sec.gov/news/speech/speecharchive/1998/spch221.htm>

The ultimate purpose of this assignment is for you to form an opinion about what constitutes ethical and socially acceptable behavior in business. Below is a sequence summary of the important ethical issues facing the characters in *Wall Street*. During the viewing of the film with your group, consider each ethical situation and present a convincing answer supporting your position. Stop the film as each issue occurs and discuss among your group the corresponding question(s). Many of the issues involve gray areas. Formulate a group opinion about each issue and present your results to the questions below in a 3-5 page group paper due at the beginning of the last formal class meeting (April 24). All pages should be stapled together at the top left corner. No folders or other covers should be included. There is some profanity in this movie. If that is objectionable, the use of a filtering device (eg. *TV Guardian*) does not detract from the movie or the ability to complete this assignment.

ETHICAL QUESTIONS PRESENTED IN *WALL STREET*

1. *[Stop the tape when the picture of the bridge appears.] (14 min)*
 - Is the FAA announcement inside information at this point?
 - Was it unethical and/or illegal for Bud Fox's father to tell him about the ruling by the FAA?

2. *[Stop the tape after Bud goes out the door.] (20 min)*
 - Has Bud Fox done something illegal by mentioning Blue Star to Gekko?

3. *[Stop tape when picture of Statue of Liberty appears] (24 min)*
 - Has Gekko done something that is unethical? Illegal? Is there a difference?

4. *[Stop the tape as the limousine is pulling away] (35 min)*
 - What, if anything, is the matter with Gekko's proposal that Bud should keep track of Wildman's activities? Why is Bud concerned about this?
 - Would you consider Gekko's proposal? Why or why not?

5. *[Stop the tape after Gekko says, "...use the offshore accounts and keep it quiet."] (41 min)*
 - Is Gekko doing something illegal in buying up shares of Anacott Steel?
 - Why did he tell Bud to call *The Wall Street Chronicle*?

6. *[Stop the tape after Gekko's comment to Bud] (52 min)*
 - What is the purpose of these negotiations?
 - Why would Wildman be willing to pay a form of "greenmail" to Gekko in this case? Are there any ethical issues in this transaction?

7. *[Stop the tape while Bud is copying the contents of the file] (58 min)*
 - Are there any legal or ethical issues here?
 - What would be the legal and ethical situation if Bud had really been a janitor and had seen the paper lying on a desk? What's the difference?

8. *[Stop the tape at the end of Gekko's speech] (76 min)*
 - The Teldar Paper annual meeting. Does Gekko have a point? To what extent is "greed good?"

9. *[Stop the tape at the end of the meeting with the bankers] (91 min)*
 - What are the pros and cons of the liquidation of Blue Star?
 - What are the ethical issues here?

10. *[Stop the tape after they say "You did the right thing, Bud."] (116 min)*
 - What are the ethical issues of the SEC's recording of the conversation between Bud and Gekko?

11. · Should Bud Fox be sent to jail for his transgressions? Do you think he will?

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