
McGill University
Winter 2011

FINE-665: Investment Strategies & Behavioral Finance

Prof. Sergei Sarkissian

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Class Time:	MON 10:05-12:55
Class Location:	SBB 360
Office Hours:	MON 13:00-13:30 & by appointment
Office Location:	SBB 592
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Intended Audience:

This course is intended for students who are planning to have a career in investment banking or professional money management industry. It is also beneficial for those who are interested in individual investing.

Prerequisites:

- Coursework on Investments
- Good knowledge of statistics and basic database management skills

Course Description:

This course familiarizes students with a range of investment strategies, performance evaluation, and the role of investor behavior in financial markets. It consists of three parts. First, it contrasts the efficient market hypothesis with the “anomalies” observed in the time-series and cross-section of asset returns and relates these “anomalies” to potential investment strategies. The second part is devoted to performance evaluation of professional investors such as mutual fund and hedge fund managers. Finally, we discuss various aspects of investor psychology, such as cognitive and group behavior biases and analyze their impact on investors’ trading and performance.

The main purpose of this course is to help students understand the interrelation of fundamental and behavioral approaches in explaining the financial market dynamics and investment performance. A non-separable part of the course is to learn how to use various financial databases. To succeed in this course, a student must have both good economic intuition and quantitative skills.

Course Materials:

Required:

Readings available from the course web site.

Recommended:

Burton G. Malkiel, 2007, *A Random Walk Down Wall Street: The Time-Tested Strategy for Successful Investing*, W. W. North & Company.

Hersh Shefrin, 2002, *Beyond Greed and Fear: Understanding Behavioral Finance and the Psychology of Investing*, Oxford University Press.

Grading:

Participation	15% (5% passive, 10% active)
Assignment 1 (Group)	20%
Assignment 2 (Group)	20%
Assignment 3 (Group)	10%
Two Quizzes	20% (10% each)
Class Presentation	15%

General Policy:

Your physical presence in class will guarantee you only one-third of your participation grade: the rest is based on your active participation. I will be assigning several students every class session to formally take a leading participation role for the next class. Everyone however is expected to be well prepared for each class discussion. Your participation on a pre-specified day will account for half of your active participation portion of the grade. The remaining half should come from your active but constructive participation in class.

Group assignments are due at the beginning of class. No late assignments will be accepted. The group composition must be known by the end of the second week of classes and remain unchanged after that. After the formation of the group, one of its members should e-mail me the list of all people in the group and their e-mail addresses. The first assignment consists of two parts. There are two options for the second assignment. There are two 30-minute close book close note quizzes.

The presentations will take place during the last three weeks of classes. Each group will have to prepare a comprehensive 30-40 minute presentation on one of the behavioral finance topics. *Students should meet with me at least a week prior to the presentation to outline the structure of the talk.* I will evaluate the presentation by its style, clarity, organization and the quality of answers to the questions from the audience.

Honor Code:

Since there are no major exams that would fully determine the level of understanding of the course material of individual students, group assignments must be completed solely by the members of the group. Cross-group work is not allowed. Moreover, similar assignments have been offered before at McGill and other universities. Any use of information from previous

assignments is prohibited. Failure to respect this rule constitutes dishonesty and is a direct violation of the University Honor Code.

Group Participation Evaluation:

After the completion of each assignment, each student is required to submit the “*Group Participation Form*.” You should be considerate but honest in filling out this form since it might affect the individual grade for the respective assignment of every member of your group including yours. The individual grade can be higher or lower than the original one given to the entire group. An equal effort by each group member to complete the assignment should be sufficient to preclude any deviation of the individual grade from the group grade.

Course Schedule

Date	Topic	Remarks
Jan. 10	Efficient Market Hypothesis	
Jan. 17	Return Dynamics: Mean-Reversion & Autocorrelation	
Jan. 24	Return Dynamics: Information Variables	
Jan. 31	Return Dynamics: Cross-Section Averages	
Feb. 7	Mutual Fund Performance: Unconditional Framework	Assn. #1 due
Feb. 14	Mutual Fund Performance: Conditional Framework	
Feb. 28	Hedge Funds: Trading Strategies and Performance	
Mar. 7	Limits to Arbitrage	Quiz #1 Assn. #2 due
Mar. 14	Aspects of Investor Psychology	
Mar. 21	Overreaction and Underreaction Hypotheses	
Mar. 28	Investor Behavior: Familiarity*, Overconfidence*	
Apr. 4	Investor Behavior: Loss Aversion*, Herding*	Assn. #3 due
Apr. 11	Review	Quiz #2

Topics to be presented by students are marked with “”*