**Finance 605**

**Advanced Financial Management**

**Fall 2022**

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**Instructor**: Rose Liao

**Phone** (Cell): 973 380 7480

**E-mail**: rliao@business.rutgers.edu

**Class Times and Locations:** Mondays 6pm – 830pm on Zoom[[1]](#footnote-1)

**Office Hours**: Mondays 4:00pm – 6:00pm or by appointment.

**Course Web Page**: Canvas (for pre-class material) and MS Teams (for in-class collaboration)

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**1 The Course**

Students taking this course should expect to learn about why and how financial and investment decisions are made from the perspective of a financial manager. The course will focus on the fundamental principles of financial planning, capital budgeting, risk and return, financing and investment decisions, and more importantly, on how to apply the key principles to real world problems.

There are two goals for the course. First, to provide students with a theoretical framework they can apply to help break down and understand complicated financial strategies that are commonly used in business. Second, to provide students with the technical skills necessary for a future career in finance, be it within a corporation, a financial institution, an advisory firm, or an investment fund. Both sets of skills will be developed through live cases, homework assignments, lectures, and discussions.

**2 Is the course right for you?**

The course will be intellectually demanding, with an emphasis on applying finance theory to real world situations. You will be introduced to techniques that are commonly used in both industry and academia. The course, at times, will deal with complex analytic concepts and quantitative analysis, but will not focus on mathematical derivations or modeling. The workload will be heavy. You will be expected to conduct extensive analysis in Excel. This is not the course for you if you are looking for a “hot topic” course or a fast-track way to make money in the markets.

The course requires students to understand the following concepts:

* Discounted cash flows and net present value
* Basic statistics (mean, variance, standard deviation, covariance, and correlation)
* Regression analysis

If you are shaky on these topics then dust off your old notebooks now and get yourself up to speed with this material. You should also be comfortable using Microsoft Excel.

**3 Teaching Method**

To help students learn effectively I use two related teaching techniques, active learning and experiential learning. Active learning consists of two components – out-of-class learning and in-class learning. Out-of-class learning involves watching video lectures online prior to attending each class. The out-of-class lectures work through topics in detail. In-class learning involves the discussion of conceptual questions to get you thinking carefully about the topics you have been studying in the out-of-class lectures (active learning), and applications of the concepts to real world problems (experiential learning).

**Out-of-class learning:**

Students are required to watch pre-recorded lectures before attending each class. The pre-recorded lectures typically last for 15 - 25 minutes each. To incentivize you to watch the lecture prior to coming to class, you will have to complete a short multiple choice quiz on Canvas **before** the start of each class. You score either zero, one, two points on each quiz, and these points count towards 20% of the final grade. Quizzes are graded as follows: 0% - 35% = 0; 35% - 70% = 1; 70% - 100% = 2

**In-class learning:**

In-class lectures typically take the following format:

1. A discussion of the latest events in the economy and their impact on financial markets and corporations.
2. Conceptual and numerical questions based on the video lectures for that day.
3. Discussion of a real world example using the concepts covered.
4. Applying concepts to homework problems.

The classes are meant to be fun and interesting for students. Students are expected to contribute frequently. This format should challenge you to think critically about concepts rather than focusing on memorization.

The class format is the reverse of a typical class. I require you to watch video lectures outside the classroom to grasp the key concepts. In class, we build on these concepts and apply them to homework problems. Nearly all homework problems will be completed during class time.

**4 Groups**

Working effectively in groups is an important skill to learn. You will work in groups of three or four students to complete ALL homework assignments. During classes group members will be required to join pre-assigned breakout rooms as classes will involve considerable within-group discussions.

When groups are initially formed on the first day of class, each group will be asked to draw up and sign a one page contract regarding the expectations the group members have about what it takes to be a good, considerate group member. As a group member, you will be expected to abide by the terms of the contract. In an extreme situation in which a group member has consistently violated the terms of the contract, the remaining group members may fire the group member, but only with the instructor’s permission. If a group member is fired, he/she will have to complete the homework assignments individually.

There will be **8** homework assignments and **1** term project to be completed in groups. These assignments will count towards 40% of your final grade. Each group will be asked to submit one set of answers for each assignment on **Microsoft (MS) Teams[[2]](#footnote-2)**. Late assignments will not be accepted except for the most serious of reasons.

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| **Assignment** | **Due Date** | **Points** |
| **Homework 1**: Draw up and sign group contracts | 12th Sep, 2022 | 2 |
| **Homework 2**: Wealth Planning | 12th Sep, 2022 | 3 |
| **Homework 3**: Uncertainty and Wealth Planning | 19th Sep, 2022 | 5 |
| **Homework 4**: Valuing Sneaker 2013 | 3rd Oct, 2022 | 5 |
| **Homework 5:** Persistence | 3rd Oct, 2022 | 4 |
| **Homework 6:** Bond Valuation and Duration (Disney) | 10th Oct, 2022 | 3 |
| **Homework 7:** Cost of Debt (Land Rover) | 17th Oct, 2022 | 4 |
| **Homework 8:** Cost of Capital (Nike)  | 7th Nov, 2022 | 4 |
| **Term Project:** Applied Valuation (using CapitalIQ platform) | 5th Dec, 2022 | 10 |

**5 Class Meetings**

I expect that students watch the pre-recorded video lectures, read assigned readings, and complete online quizzes before class. Students will be required to join pre-assigned breakout rooms in class. Students are responsible for all announcements made on Canvas and in class.

Most classes will focus on solving either conceptual or numerical problems. I will be using a polling software called “Turning Point” for most in-class polls. You can download the TurningPoint app from the Google Play or App Store for free, or you can go to ttpoll.com to respond to questions if you do not have a smart phone.

If you do not have an existing subscription with turning point from other classes ($24.99 per year for all classes that use turningpoint) and/or have not yet linked your subscription to Canvas, please register and link your account before the first day of the class. **Note that all you need is a subscription. You do not need to purchase clickers.[[3]](#footnote-3)**

To join polling sessions during classes, you just need to open the app or go to ttpoll.com and input our session ID “**roseliao**”. You can also watch a 2-minutes video on how to download and use the app here: [TurningPoint app overview](https://nam02.safelinks.protection.outlook.com/?url=https%3A%2F%2Fgo.turningtechnologies.com%2Fe%2F837103%2Fmedias-jtxhq8q6yo%2F2t23%2F6830892%3Fh%3DNqqCmFS__w6mQdb36VtUqmDXR8L5g0DMbl4U4RAU8U4&data=02%7C01%7Cliao%40business.rutgers.edu%7C17d1cfb3ea5c47147a9508d7dfd044c1%7Cb92d2b234d35447093ff69aca6632ffe%7C1%7C0%7C637223958211418153&sdata=UsHgrRDIIG8rRzj403%2BG7kAqTNwJyucnlM2iPRmnCug%3D&reserved=0).

You should have a calculator and a computer that has a camera, a microphone, and MS office software for every class.

**Some students may use Apple Computers. The functionality of Excel differs across Apple and Windows-based computers. I will be teaching using a Windows-based computer. I will not be able to provide additional support for people using Apple computers as I only use Windows-based computers. Note that Chromebook does not work well for a lot of in-class assignments using Excel.**

**All cell phones must be switched off prior to the start of class** unless you are using it to answer polling questions**.**  I consider the use of cell phones during class to be rude and inconsiderate to your fellow students. In addition, Canvas breakout groups only work on computers (not smart phones).

As most of the in-class meetings involve polling, group discussions, and group homework, I will not be recording in-class meetings, but will distribute all in-class notes and Excel work on “**MS Teams**” (such as solving questions on zoom whiteboard). [[4]](#footnote-4)

**6 Course resources**

**Powerpoint Slides**: Available from Canvas

**Pre-recorded Lectures**: Available from Canvas

**Additional Readings**: Available from Canvas

**Class Meeting Notes**: Available from MS Teams

**Harvard Business School Cases:** [**https://hbsp.harvard.edu/import/951846**](https://hbsp.harvard.edu/import/951846)

There will be four Harvard Business Cases used in this course. It can be downloaded via the link provided above. Harvard charge $4.25 per case and each group only need to obtain one copy.

There is no textbook required for this class. Finance textbooks are very expensive, and while there are a number of excellent textbooks available on the topic of financial management, none cover all of the topics to be discussed in this class. I have multiple copies of these textbooks which I am happy to let you borrow. If you want to purchase or rent a book, then I would recommend buying/renting the first one on the list below:

**Damodaran,** Applied Corporate Finance, 4th edition: provides the practical advice students and practitioners need and applies corporate finance theory to real companies.

**Berk, and DeMarzo**, Corporate Finance, the core (Pearson) 1st – 5th  edition: A more recent textbook and provides a good overview of key topics.

**Brealey, Myers, and Allen**, Principles of Corporate Finance (McGraw Hill) 5th – 13th edition: Covers a lot of topics.

**Ross, Westfield, and Jaff**, Fundamentals of Corporate Finance, 5th- 13th Edition (McGraw Hill): a comprehensive book that serves as a good reference book.

**Benninga**, Financial Modeling, 2nd – 5th Edition (MIT Press): The book covers the vast majority of empirical applications covered in this class, but the writing style is terse. A great book if you want to learn more about Excel and how to program in Visual Basic.

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**7 Course Evaluation**

Your final grade will be based on points earned in exams, group assignments, online quizzes, and class participation. These items will be weighted according to the following schedule:

Individual Classroom Contribution 15%

Online Quizzes 20%

Group Assignments 40%

Exam 25%

The grade distribution in the course is likely to follow the distribution outlined below:

A 35%

B 50%

C 15%

D or F 0%

I reserve the right to alter the distribution as I deem necessary.

**Individual Classroom Contribution:**

Class participation is an important part of the course. I consider such things as asking thoughtful questions, attendance, respecting your fellow classmates’ views on particular issues, contributing to a positive atmosphere in the class, and preparation for the scheduled lecture topic as class participation.

**Exams:**

Absence from the exam will not be excused except for the most serious reasons. Such serious circumstances must be validated in writing by an appropriately accredited professional (i.e. medical doctor).[[5]](#footnote-5) The exam will cover material from lectures, assigned readings, and assigned problems. The goal is to test the level of comprehension and not merely the memorization skills of the student. There will be no formula sheet. The exam will consist of 60 multiple choice questions.

**8 Other policies**

**Fairness:**

I strive to treat students with dignity and fairness and to be particularly sensitive to the diversity that exists within the student body. No discriminatory remarks should be with regard to gender, race, age, ethnicity, sexual orientation, or disability. If you have a disability that may require some modification of seating, testing, or any other class requirement, please let me know as soon as possible so that appropriate arrangements can be made. Additional assistance is available from the [Office of Disability Services for Students](http://disabilityservices.rutgers.edu/).

**Absences and Late Assignments:**

As a matter of courtesy, I would appreciate an email or phone message if you unable to attend class.

Late assignments will not be accepted for credit, except for the most serious of reasons.

**Contacting the Instructor:**

Emails should ONLY be used for matters related to COURSE ADMINISTRATION. I will NOT answer technical questions via email. I am happy to discuss issues of concern to you on an individual basis during office hours. If you are unable to attend regular office hours an individual appointment can be set up. I ask that you let me know the subject matter so that I can be prepared.

**Appeals:**

Grading errors should be corrected. Appeals must be in writing and include a description of the question that needs to be re-examined as well as an explanation of why the original grade was incorrect. In general, the entire document will be checked for grading errors, and correcting any errors could either raise or lower the overall score.

**Academic Misconduct:**

It is my sincere hope that no student in this class submits work that is not his or her own. If I determine that any assignment was not written solely by the student whose identification number appears on the assignment, the student will be reported to the Academic Integrity Review Committee which recommends appropriate sanctions to the Office of Student Conduct. There will be no exception to this rule. Please visit the following website for more information on the University's Code of Academic Integrity and possible sanctions: <http://academicintegrity.rutgers.edu/academic-integrity-at-rutgers>.

**Grievance Policy:**

Student concerns regarding this course should first be discussed with me, the faculty member teaching this course. If we can't resolve the complaint, you may contact the Chair of the Finance and Economics Department, Professor Ivan Brick, 973-353-5155, ibrick@andromeda.rutgers.edu.

**9 Tentative Course schedule[[6]](#footnote-6)**

**09/12/2022 Week 1** Introduction and Wealth Planning theory.

 Watch the following online video lectures prior to class:

* 1. Interest Rates and Compounding
	2. Time Value of Money
	3. Time Value of Money: More challenging examples
	4. Time Value of Money: An annuity due

 Complete the online quiz prior to class.

In-class lecture involves calculations. Bring a calculator and/or computer

**Homeworks 1 and 2 due by the end of class.**

**09/19/2022** **Week 2** Wealth Planning meets reality

In-class lecture involves the use of Excel. Bring a Laptop if you have one.

**Homework 3 due by the end of class.**

**09/26/2022** **Week 3** Fundamentals of Capital Budgeting

Watch the following online lectures prior to class:

1. Investment Rules
2. Estimating Cash Flows

**Complete online quizzes prior to class.**

**Required Reading for Discussion**: **Do you know your cost of capital?**

**Start Homework 4**

In-class lecture involves the use of Excel and numerous calculations. Bring a calculator and a Laptop if you have one.

**10/03/2022 Week 4** Gregg Lampf (IRO from Ciena Corporation)

In-class lecture involves the use of Excel and numerous calculations.

**Homework 4 due by the end of class.**

**Homework 5 due by the end of class.**

**10/10/2022 Week 5** Valuing Stocks and Bonds

Watch the following online lectures prior to class:

1. Valuing Stocks
2. Valuing Bonds

**Complete online quiz prior to class.**

**Required Reading**: **“A Cautionary Tale from the Future”**

In-class lecture involves the use of Excel and numerous calculations. Bring a calculator and a Laptop if you have one.

**Homework 6 due by the end of class.**

**10/17/2022 Week 6** Cost of Debt

Watch the following online lectures prior to class:

1. Ratings and Credit Curve
2. Cost of Debt

**Complete online quizzes prior to class.**

In-class lecture involves the use of Excel and numerous calculations. Bring a calculator and a Laptop if you have one.

**Homework 7 due by the end of class.**

**10/24/2022 Week 7** Risk Aversion, Utility Functions, and Portfolio Theory

Watch the following online lectures prior to class:

* 1. Returns, Risk, and Risk Aversion
	2. Correlation and Risk Reduction
	3. Portfolio Theory

**Complete online quizzes prior to class.**

In-class lecture involves calculations. Bring a calculator.

**10/31/2022** **Week 8** No Live Class

Watch the following lectures

1. The CAPM

**Complete online quiz**

 **Register with CapitalIQ**

**Start Term Project: Part 1**

**11/07/2022 Week 9** Cost of Capital

Watch online lectures prior to class:

1. [Estimating Cost of Capital](https://www.youtube.com/watch?v=46oLXwClvkw)
2. [Unlevering Betas](https://www.youtube.com/watch?v=IbQd8udm0kI&ab_channel=CorporateFinanceInstitute)

**Complete online quizzes**

In-class lecture involves use of Excel. Bring a Laptop if you have one.

**Homework 8 due by the end of class.**

**Term Project: Part 1 due by the end of class.**

**11/14/2022 Week 10**  Dan Davidowitz (Portfolio Manager from Polen Capital)

Watch the following lectures

1. Capital Structure Theory

**Complete online quiz**

In-class lecture involves use of Excel. Bring a Laptop if you have one.

**Term Project: Part 2 due by the end of class.**

**11/21/2022 Week 11**  Glenn Votek (Former CEO and CFO; Board Director)

Watch the following lectures

1. Capital Structure Practice

**Complete online quiz**

**11/28/2022 Week 12** Valuation

Watch online lectures prior to class

1. Discounted Cash Flows
2. Relative Valuation

**Complete online quizzes**

In-class lecture involves use of Excel. Bring a Laptop if you have one.

**Term Project: Part 3 due by the end of class**

**12/05/2022 Week 13** Presentations: MBA Students’ Stock Recommendations

**Term Project due by the end of class**

**12/12/2022 Week 14 Exam**

Exam lasts 180 minutes.

Remember to bring a calculator and a pencil.

1. <https://rutgers.zoom.us/j/96502287187?pwd=NjVRV1VpaHZ2c3Z1SXhWM0tOak9nUT09> [↑](#footnote-ref-1)
2. You can find the information on Canvas under “How-to” Folder: *How to use MS Teams in Zoom class meetings: Part II* [↑](#footnote-ref-2)
3. See *How to Add/Purchase a Subscription from Turning Point polling* posted on Canvas under “How-to” Folder. [↑](#footnote-ref-3)
4. You can find information on Canvas under “How-to” Folder: *How to use MS Teams in Zoom class meetings: Part I* [↑](#footnote-ref-4)
5. Students are allowed to make up examinations which have been missed due to illness, mandatory religious obligations, University activities, or other unavoidable circumstances. [↑](#footnote-ref-5)
6. The outline of topics to be covered is subject to change depending upon the speed at which we progress through the material and availability of speakers. Students will be notified of any changes in the schedule at least one class in advance. [↑](#footnote-ref-6)