



G F M I
GLOBAL FINANCIAL MARKETS INSTITUTE

Course Outline

2016

Portfolio Management and Capital Markets

Presented To: Cayman Islands Institute of Professional Accountants (CIIPA)

Presented By: Michael McDonald, PhD

Portfolio Management and Capital Markets

The last few years have witnessed unprecedented volatility in the capital markets. Active managers have switched between risk on and risk off trades. As the markets continue to evolve, a thorough understanding of the basics is essential. This hands-on course examines the investment process, risk and return and strategies to increase return. Differences between asset managers and institutional fund managers are explored. The course wraps up by analyzing metrics on a portfolio's performance.

Course Objectives

By the end of Day 1 of the course, participants will be able to:

- Describe terminology used in portfolio management
- Evaluate the investment process
- Explain the tradeoff between risk and return
- Compare and contrast different investment funds, such as mutual funds and pension funds
- Apply different strategies in both equity and fixed income markets
- Evaluate the results of portfolio returns

By the end of Day 2 of the course, participants will be able to:

- Explain how the capital markets operate
- Identify the main participants
- Discuss the impact the economy and interest rates have on asset values
- Distinguish between the various cash instruments
- Explain and demonstrate the use of derivatives
- Differentiate between exchange traded and over the counter markets

DAY 1

Session 1: Portfolio Management

9:00 – 10:30 a.m.

By the end of this session, course participants will be able to:

- Describe the portfolio management process including:
 - Investment policy
 - Objectives and constraints
 - Capital market expectations
 - Asset allocation
 - Implementation: Active vs. Passive management
 - Performance measurement

Morning Break

10:30 – 10:45 a.m.

Session 2: Risk and Return

10:45 a.m. – 12:00 p.m.

By the end of this session, course participants will be able to:

- Describe the relationship between risk and return
- Define how risk is measured using standard deviation
- Explain the Security Market Line
- Discuss the risk free rate and risk premium
- Discuss the Capital Asset Pricing Model (CAPM)
- Describe beta, alpha and R^2
- Explain the difference between arithmetic average and geometric average rates of return
- Describe correlation and its use in portfolio management

Lunch

12:00 – 1:00 p.m.

Session 3: Active vs. Passive Management

1:00 – 2:30 p.m.

By the end of this session, course participants will be able to:

- Interpret passive strategies
 - Indexing
 - Buy and hold
- Identify global and domestic benchmarks
- Analyze active strategies including:
 - Relative value analysis
 - Total return analysis
 - Foreign currency exposure
- Analyze different yield curve environments and discuss active strategies to match the specific forecast

Afternoon Break

2:30 – 2:45 p.m.

Session 4: Performance Evaluation

2:45 – 4:30 p.m.

By the end of this session, course participants will be able to:

- Explain and analyze performance attribution including allocation, selection and their interaction
- Compare and explain tracking error and information ratio
- Describe and analyze risk adjusted returns including:
 - Sharpe ratio
 - Treynor measure
 - Jensen's measure (alpha)

DAY 2

Session 5: Introduction to Capital Markets

9:00 a.m. – 10:30 a.m.

By the end of the session, course participants will be able to:

- Discuss the functions of Capital Markets
 - Raising capital
 - Trading
 - Investment
- Define the differences between exchange traded vs. over the counter (OTC)
- Differentiate between the primary and secondary markets
- Define the major players
 - Differentiate buy side and sell side

Morning Break

10:30 – 10:45 a.m.

Session 6: Evaluating Alternative Investments in Capital Markets

10:45 a.m. – 12:00 p.m.

By the end of the session, course participants will be able to:

- Describe and assess the key areas of concern when evaluating a hedge fund and its structure from the point of view of:
 - Investors
 - Regulators
- Describe the most important and common issues and red flags to watch out for at hedge funds
- Identify why specific hedge fund structures and policies can pose a conflict of interest or regulatory concern
- Explain what actions can be taken to improve governance and compliance procedures at a hedge fund

Lunch

12:00 – 1:00 p.m.

Session 7: Debt Markets and Their Instruments

1:00 p.m. – 2:30 p.m.

By the end of the session, course participants will be able to:

- Outline broad structure of debt markets
- Differentiate between
 - Debt and equity
 - Bonds and money market instruments
 - Public and private placements
- Identify the features and characteristics of a fixed income security
 - Par Value
 - Maturity and term to maturity
 - Coupon
 - Yield to maturity
- Classify different debt securities
 - Government Bonds
 - Agencies
 - Corporate Bonds/Rating Agencies
 - Private placements
 - Mortgage Backed Securities/Collateralized Mortgage Obligations
 - Agency versus private label
 - Asset Backed Securities
 - Credit cards
 - Autos
 - Commercial mortgages
 - Money market Instruments
 - T-Bills
 - Commercial Paper
 - Certificate of deposits
 - LIBOR
 - Repurchase agreements
- Discuss some of the major reasons for the credit crisis

Afternoon Break

2:30 – 2:45 p.m.

Session 8: Equity Markets and Their Instruments

2:45 – 4:00 p.m.

By the end of the session, course participants will be able to:

- Differentiate between the New York Stock Exchange and NASDAQ
- Classify different equity securities
 - Common stock
 - List by capitalization
 - Preferred Shares
 - Exchange Traded Funds
- Classify large cap versus small cap stocks
- Discuss alternative trading systems (ATS)
 - Electronic Communications Networks (ECNs)
 - Dark pools

Course Wrap-Up and Evaluation

4:00 – 4:30 p.m.

Prerequisites: Basic Industry Knowledge

Program Level: Intermediate with Advanced Applications

Advance Preparation: None

Computers and Financial Calculators: None required

Recommended CPE Credits: 14



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Michael B. McDonald, PhD

Michael has served as a business consultant for various companies, providing training and content authoring services as a subject matter expert in finance and economics for firms like IBM and Stanley Black & Decker. Previously Michael worked as a data scientist for a tech start-up in the financial industry, as a municipal bond trader for Wachovia Securities holding a Series 7 and Series 63 license, and for a large hedge fund in doing data mining and analysis. Currently, Michael is Assistant Professor of Finance at Fairfield University in Connecticut. He also gives lectures on a variety of corporate finance and investment topics from mergers and acquisitions to corporate governance.

Instructor Led Training Experience

Michael has developed and delivered courses in a variety of business areas and for a variety of participants ranging from undergraduate students to career professionals. He has developed a variety of courses including topics such as microeconomics, macroeconomics, business simulation, financial economics, introductory corporate finance, advanced corporate finance, investments, derivatives, and case studies in finance and economics.

Project Experience

Michael has worked on projects ranging from research projects to professional consulting assignments. For example, Michael has consulted for a mid-sized asset management fund and worked on projects related to portfolio management and asset allocation. His work in analyzing investment analysis and corporate finance has appeared in several professional journals, and has been presented at major professional meetings like the Financial Management Association Annual Meeting, the American Finance Association Annual Meeting, and the Eastern Finance Association Annual Meeting. His work has also been written up by the Wall Street Journal and CFA Institute.

Education

Ph.D. in Business Administration, Concentration in Finance, University of Tennessee
Master of Arts in Economics, Clemson University
Bachelor of Science in Industrial Engineering, Clemson University

Publications and Articles

Current Research Activity

Does it Pay to Treat Employees Well? International Evidence on the Value of an Employee-Friendly Culture (with Larry Fauver & Alvaro Taboada) – Under Submission

A “Grey Zone” in Teaching: Variance Analysis Survey Evidence In Accounting and Finance (with Thomas Conine)

Factor Premiums and the Economic Cycle (with John McDermott)

Estimating Risk Aversion Across Time (with Thomas Conine and Maury Tamarkin) – Under Submission

The Shrinking Stock Market (Solo Authored), Revise & Resubmit with the Journal of Banking & Finance

Politically Connected Analysts – (Solo Authored)

Published Research

Peer Reviewed

Bond Market Demand and Capital Structure Timing (Solo Authored) – Spring 2016 with Journal of Fixed Income (Acceptance Rate: N/A)

Stock and Industry Return Characteristics Around Price Shocks (Solo Authored) – Forthcoming in Fall 2016 with Journal of Behavioral Finance (Acceptance Rate of 10-20%)

Issues In Angel Investing Research: An Analysis of Returns Data in the US and Abroad (with Ray DeGennaro) – Forthcoming at Studies in Economics and Finance (Acceptance Rate of 10%)

Conine, T., McDonald, M.B., and Tamarkin, M. (2015) On Risk Premia and Preference for Asymmetric Gambles. Journal of Business and Behavioral Science 27-2, 93-101. (Acceptance Rate of 16%)

Fauver, L., & McDonald, M. B. (2015). Culture, agency costs, and governance: International evidence on capital structure. Pacific-Basin Finance Journal, 34, 1-23. (Acceptance Rate of 10-20%)

Fauver, Larry, and Michael B. McDonald IV. (2014). “International variation in sin stocks and its effects on equity valuation.” Journal of Corporate Finance 25, 173-187. (Acceptance Rate of 0-5%)

Editorially Reviewed & Case Studies

The State of Research and the Economic Environment in Small-Firm Finance (with Ray DeGennaro) – Forthcoming in 2016 as book chapter in The Most Important Concepts in Finance, Edward Elgin Publishing, 2016

McDonald, M. (2016), “How Does Litigation Finance Influence Attorneys”, Above The Law, Law & Finance Section

McDonald, M. (2016), “The Pros and Cons of Monte Carlo Simulations in Valuation”, Above The Law, Law & Finance Section

McDonald, M. (2016), “How Economists Measure Damages Before and After an Event”, Above The Law, Law & Finance Section

McDonald, M. (2015), “Enterprise Risk Management: A Modern Consensus From Corporate Finance Studies”, Global Financial Markets Institute, 10-2015

McDonald, M. (2016) Attorneys Facing An Uphill Battle In Litigation Should Consider Option Value When Arguing Valuation, National Law Review, 16-19.

McDonald, M. (2016), “Assessing synergies: A case study of Zillow and Trulia”, in The Business & Management Collection, Henry Stewart Talks Ltd, London

McDonald, M. (2015), “Hedging in commodities markets: Continental Resources”, in The Business & Management Collection, Henry Stewart Talks Ltd, London

McDonald, M. (2015), “Pricing strategies: the case of Verifone”, in The Business & Management Collection, Henry Stewart Talks Ltd, London

McDonald, M. (2015), “Corporate bankruptcy: the case of Kodak”, in The Business & Management Collection, Henry Stewart Talks Ltd, London

McDonald , M. (2015), “Neustar. Inc: the challenges of diversification”, in Top of the Agenda Issues, The Business & Management Collection, Henry Stewart Talks Ltd, London

McDonald , M. (2015), “Assessing business structure: a case study in the energy industry “, Top of the Agenda Issues, The Business & Management Collection, Henry Stewart Talks Ltd, London

McDonald , M. (2015), “Interest rates and asset prices: Annaly Capital Management”, in Top of the Agenda Issues, The Business & Management Collection, Henry Stewart Talks Ltd, London

McDonald , M. (2015), “Business valuation in M&A: The case of Family Dollar”, in Top of the Agenda Issues, The Business & Management Collection, Henry Stewart Talks Ltd, London

McDonald , M. (2015), “PetSmart: a case study in private equity buyouts”, in Hot Topics, The Business & Management Collection, Henry Stewart Talks Ltd, London



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Jericho, NY 11753-0388
+1 516 935 0923
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