The ultimate goal of this elective course is to provide you with many tools widely used by finance practitioners. The course is 100% applied and practical and you will not just read or hear about these tools; you will also get to apply them yourself. The course is mostly on Portfolio Management but some of the tools discussed have Corporate Finance applications. Most of the issues discussed have direct implications for wealth management, and for this reason this course will help you become a better investor of your own money or that of others. The following questions illustrate some of the issues addressed in the course:

- You probably believe that stocks are riskier than bonds, but did you know that for long-term investors the opposite may actually be the case? (We'll discuss the implications of this for your investment decisions.)
- Forecasting short-term returns involves more luck than knowledge, but did you know that there is at least one reliable model to forecast long-term returns? (We'll discuss it and use it to assess the perspective of major equity markets over the next several years.)
- The standard deviation is a widely-used measure of risk, but did you know that it can be badly misleading? (We'll discuss why and explore alternatives, such as the semideviation.)
- The CAPM is one of the models most widely used in finance, but did you know that there is an increasingly-popular alternative model used to estimate required returns? (We'll discuss it and highlight both its Portfolio Management and Corporate Finance applications.)
- Rankings that track the performance of mutual funds are usually based on one-year returns, but did you know that such rankings are misleading in many ways? (We'll discuss why and explore several appropriate ways of ranking funds and assets in general.)
- Optimizing portfolios seems to be a very technical task reserved only for those with specialized software, but did you know that Excel can do a great job at it? (In some 30 minutes we'll build a simple but powerful portfolio optimizer.)
- It is usually assumed in finance that investors should maximize risk-adjusted returns, but is that what you really want? Don't you want your capital to grow at the fastest possible rate? (We'll explore a criterion that aims to achieve just that, and we'll implement its solution in Excel.)
- How have emerging markets performed over the last several years? How risky have they been? How should risk be assessed in these markets? How should required returns be estimated in these markets? (We'll discuss these and many more issues related to this increasingly-popular asset class.)

Class discussions will be based on the articles in the course package (see details in the next two pages), as well as on a substantial amount of additional material introduced in class and distributed after class. Critically important, discussions will also be based on your own application and extensions of the tools discussed in class.

Performance in the course will be evaluated through four applications (75% of the final credit) that consist of processing data, applying tools, interpreting results, and generating a brief report, as well as on class participation (25%). The guidelines for the applications are posted on the Web page of the course.

My office, phone number, email address, and Web page are U-309, 4322, jestrada@iese.edu, and http://web.iese.edu/jestrada, respectively. My secretary is Ana Amat, her office is T-500, and her phone number is 4447.
Outline & Readings

• Overview and Background

  • Course Overview
    ☐ No readings.

  • Background: Mean Returns

• Long-Term Trends

  • Long-Term Trends (I): Return

  • Long-Term Trends (II): Risk

  • Long-Term Trends (III): Forecasting

• Risk Revisited

  • Risk Revisited (I): downside risk

  • Risk Revisited (II): The Three-Factor Model

• Risk and Return

  • Risk and Return (I): Risk-Adjusted Returns

  • Risk and Return (II): Stars and Costs
• **Portfolio Optimization**

  • *Portfolio Optimization (I): Optimization in Excel*
    

  • *Portfolio Optimization (II): Geometric Mean Maximization*
    

• **Emerging Markets**

  • *Emerging Markets (I): Performance*
    

  • *Emerging Markets (II): Risk*
    

  • *Emerging Markets (III): Cost of Capital*
    

  • *Emerging Markets (IV): Project Evaluation*
    
    Project Evaluation in Emerging Markets: Exxon Mobil, Oil, and Argentina (IESE, F-803-E).

• **Applications**

  • *Applications 1-4 – Brief Discussion & Extensions (4 sessions)*
    
    No readings.

• **Assessment**

  • *Key Messages and Learning Points*
    
    No readings.
# Schedule

## Week 1
- Jan/27: Course Overview
- Jan/28: Background: Mean Returns

## Week 2
- Feb/3: Long-Term Trends (I): Return
- Feb/4: Long-Term Trends (II): Risk

## Week 3
- Feb/10: Long-Term Trends (III): Forecasting
- Feb/11: Application 1 – Brief Discussion & Extensions

## Week 4
- Feb/24: Risk Revisited (I): Downside Risk
- Feb/25: Risk Revisited (II): The Three-Factor Model

## Week 5
- Mar/10: Risk and Return (I): Risk-Adjusted Returns
- Mar/11: Risk and Return (II): Stars and Costs

## Week 6
- Mar/17: Portfolio Optimization (I): Optimization in Excel
- Mar/17: Portfolio Optimization (II): Geometric Mean Maximization
- Mar/18: Application 2 – Brief Discussion & Extensions
- Mar/18: Application 3 – Brief Discussion & Extensions

*(*) Please note the double sessions on both Monday and Tuesday

## Week 7
- Mar/24: Application 4 – Brief Discussion & Extensions

## Week 8
- Mar/31: Emerging Markets (II): Risk
- Apr/1: Emerging Markets (III): Cost of Capital

## Week 9
- Apr/7: Emerging Markets (IV): Project Evaluation
- Apr/8: Key Messages and Learning Points
Instructor’s Bio

Javier Estrada is a Professor at the Finance Department of IESE Business School, in Barcelona, Spain. He holds a B.A. in Economics from the National University of La Plata (Buenos Aires, Argentina), and both an M.S. in Finance and a Ph.D. in Economics from the University of Illinois at Urbana-Champaign (USA). His areas of specialization are wealth management, portfolio management, investments, equity markets, emerging markets, and law & economics.

Javier held positions at both the Economics Department and the Business Department of the Carlos III University (Madrid, Spain). He is also a regular visiting professor at HANKEN (Helsinki, Finland), IPADE (Mexico City, Mexico), Torcuato Di Tella University (Buenos Aires, Argentina), and the University of Montevideo (Montevideo, Uruguay), and has lectured to executives, graduates, and undergraduates around the world.

Javier is the author of Finance in a Nutshell (FT Prentice Hall, 2005), originally written in English and subsequently translated into Spanish, Italian, and Chinese; a second edition of this book was published in 2011, is entitled The FT Guide to Understanding Finance, and was translated into Korean. He is also the author of The Essential Financial Toolkit – Everything You Always Wanted To Know About Finance But Were Afraid To Ask (Palgrave Macmillan, 2011).

Javier has done extensive research in the areas of portfolio management, investment strategies, and risk with a special focus on downside risk. He has also done research on emerging markets and insider trading. His articles have appeared in the Journal of Portfolio Management, the Journal of Wealth Management, the Journal of Asset Management, the Journal of Investing, and the Journal of Applied Corporate Finance, among other journals.

Javier is the founding editor of the Emerging Markets Review, the leading journal on emerging markets, was editor of the journal between inception in 2000 and the end of 2006, and currently remains an associate editor. He is also in the advisory board of several other academic journals.

Javier is Director of the SEP (Senior Executive Program) that takes place between New York and Miami, and the open-enrollment programs on ‘Managing Your Own Portfolio’ and ‘Corporate Finance.’

Javier is a partner and financial advisor at Sports Global Consulting Investments, a company that specializes in providing wealth management advise to professional athletes; is a member of the CFA Institute’s Speaker Retainer Program; and was a tennis instructor.