The goal of this course is to go over a wide cross-section of Finance topics in the limited time available. These topics include some essential financial tools; some important valuation models; some widely-used measures of risk, return, and risk-adjusted return; some basic ideas on wealth management; and some relevant issues related to emerging markets.

In the first topic (Essential Financial Tools), we will discuss financial magnitudes that are the backbone of financial theory and practice, such as mean returns, volatility, correlation, and beta. We will also discuss the cost of capital, one of the most essential magnitudes for any company; and NPV and IRR, the two essential tools used to evaluate investment projects.

In the second topic (Stock Pricing), which focuses on equity and equity markets, we will discuss the widely used and abused multiples, such as the ubiquitous P/E; the DCF model in general and its WACC version in particular; and the RDM, one of the few useful models to forecast returns.

In the third topic (Risk & Return), we will discuss an innovative way of thinking about risk which focuses on the downside faced by companies and investors. We will also discuss several magnitudes that put together risk and return in order to assess risk-adjusted returns; and we will look into the impact of costs on returns and risk-adjusted returns.

In the fourth topic (Wealth Management), we will discuss basic ideas for the better management of your own money or that of others. We will focus on the most important asset classes and their role in the portfolio of individual investors; on the wide variety of financial instruments currently available in financial markets; on the importance of the investment horizon; and on how to build and monitor a sensible portfolio.

Finally, in the fifth topic (Emerging Markets), we will discuss the performance of emerging markets over the last 20+ years; how to assess risk in this environment; some big mistakes often made when evaluating investment opportunities; and how to estimate discount rates in these markets.

Class discussions will be based on the cases and articles included in the course package, as well as on a substantial amount of complementary information discussed in class. Performance in the course will be evaluated based on a project to be delivered shortly after the end of the course, as well as on class participation.

My office, phone number, and email address are U-309, 4322, and jestrada@iese.edu. My secretary is Ana Amat, her office is T-500, and her phone number is 4447. I do not have formal office hours, but if you want to see me just let me know and we will find an appropriate time to meet.
Javier Estrada              Finance             April/May, 2010

• **Day 1 (April 9 – 8.15a, 9.45a, and 11.15a) – Essential Financial Tools**

1. Essential Financial Tools (I) – Basic magnitudes
   - **Readings:** N/A

2. Essential Financial Tools (II) – The cost of capital
   - **Readings:** “The CAPM, the Cost of Capital, and Project Evaluation”
   - **Case:** The Boeing 777 (Preparation sheet, part 1)

3. Essential Financial Tools (III) – NPV and IRR
   - **Readings:** Same readings as in the previous session
   - **Case:** The Boeing 777 (Preparation sheet, part 2)

• **Day 2 (April 16 – 8.15a, 9.45a, and 11.15a) – Stock Pricing**

4. Stock Pricing (I) – Multiples
   - **Readings:** “Investopedia – P/E Ratio Tutorial”
   - **Case:** Hilton Hotels, Corp. (Preparation sheet)

5. Stock Pricing (II) – DCF
   - **Readings:** “Investopedia – Discounted Cash Flow Analysis”
   - **Case:** Cooper Industries, Inc. (Preparation sheet)

6. Stock Pricing (III) – RDM
   - **Readings:** “Investing in the 1990s”

• **Day 3 (April 29 – 2.00p, 3.30p, and 5.00p) – Risk & Return**

7. Risk & Return (I) – Downside risk
   - **Readings:** “Risky Business”

8. Risk & Return (II) – Risk-adjusted return
   - **Readings:** “Measure Your Portfolio’s Performance”

9. Risk & Return (III) – Stars and costs
   - **Readings:** “An Index Fund Fundamentalist”

• **Day 4 (May 6 – 2.00p, 3.30p, and 5.00p) – Wealth Management**

10. Wealth Management (I) – Asset classes and financial instruments
    - **Readings:** “Sources of Return”

11. Wealth Management (II) – The investment horizon
    - **Readings:** “Time”

12. Wealth Management (III) – Portfolio choice and rebalancing
    - **Readings:** “Building Your Portfolio”

• **Day 5 (May 13 – 2.00p, 3.30p, and 5.00p) – Emerging Markets**

13. Emerging Markets (I) – Performance
    - **Readings:** “Investment Opportunities Flourish Outside the Developed World”

    - **Readings:** “Emerging Markets Aren’t As Risky As You Think”

15. Emerging markets (III) – Discount rates
    - **Readings:** “A Practical Approach to Calculating Costs of Equity for Investments in EMs”