Executive MSc in Finance

Module III, Week 2
HEC Paris, Jouy en Josas

Asset Management Part II
January 20-21

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Course General Overview

This class provides students with an overview of the asset management industry, with an emphasis on performance, market efficiency, and liquidity. We first discuss market efficiency and arbitrage from the point of view of investors: Are prices predictable? How can smart investors take advantage of market inefficiencies? What are the risks involved? We then discuss the performance of various types of investors: individual investors, pension funds, mutual funds, and hedge funds. Do any of these investors have superior investment skills?   Finally, we provide an overview of asset management with an eye towards practical issues: What are the asset classes in which we can invest? How much do we know about these assets? How liquid are they? How should we invest in practice?

1.   Course structure

Day 1 (January 20): Market Efficiency and Smart Investors

Morning

    Market efficiency: mispricing, arbitrage, and the Law of One Price.

        Mini-case: The Red Dollar and the Blue Dollar [introduced in class]

    Arbitrage in practice.

        Article: Can the Market Add and Subtract? Mispricing in Tech Stock Carve-outs

        HBS case: Strategic Capital Management

Afternoon

    Smart investors and hedge funds.

    Performance of the hedge fund industry.

        HBS case: Long-Term Capital Management

Day 2 (January 21): Investment Performance in Practice

Morning

Pension funds. Mutual funds: active vs. passive. Liquidity.

Performance of the money management industry: individual investors, pension funds, mutual funds.

HBS case 1: Dimensional Fund Advisors (DFA)

HBS case 2: DFA's Entry into the Retirement Market

Afternoon

Asset classes and asset management in practice.

How do you invest if you are smart? The Black-Litterman model.

HBS case: Harvard Management Company

2. Course Materials

We will discuss multiple HBS case studies. Please read these cases before the start of the first lecture. Lecture slides will be available before each class.

3. Prerequisites

For this class, you need to have a good understanding of the basic concepts of statistics, corporate finance, and financial markets.

4. Course evaluation

Your evaluation is based on a pre-class assignment and class participation, with the following weights:
- Pre-class assignment   20%
- Class participation   80%

The assignment contains one question on each case study that will be discussed in class. The assignment is due before the start of the first class.

Key elements of class participation include coming to the class prepared; contributing to the conversation while showing an interest in others' contributions; participating actively in any in-class assignments.

5. Biography

Ioanid Rosu is Associate Professor of Finance at HEC Paris since 2010. Previously, he earned two PhDs from MIT, one in mathematics in 1999 and one in financial economics in 2004. Between 2004 and 2010, he was Assistant Professor of Finance at the University of Chicago, Booth School of Business, where he taught the introductory finance course in the MBA and Executive MBA programs. His research focuses on the liquidity of financial markets and its effect on asset prices and investor decisions.   He is also interested in mergers and acquisitions, option pricing, and high frequency trading. He enjoys fine dining (including sushi), and plays soccer, chess and bridge.