

## **FIN 253: Fundamentals of Investment**

**Nature of the Course: Concentration**  
**Lecture Hours: 150**

**Full Marks: 100**  
**Pass Marks: 35**

### **Course Objective**

The objective of this course is to provide students with a basic understanding of fundamental concepts and principles of investing and equip them with the tools and techniques for analyzing individual securities and portfolios. By the end of this course, the student will be familiar with the investment environment and be able to analyze securities and other investment vehicles and make correct investment decisions from the viewpoint of individual and institutional investors.

### **Course Description**

This course deals with the investment environment, principles, and process of investing in securities. It also provides students opportunities to learn techniques for analyzing securities and forming portfolios. The topics covered in this course are investment environment, securities markets and transactions, risk and return, modern portfolio, investment in common stocks, bonds, mutual funds, and derivative securities and real estate.

### **Course Details**

#### **Unit 1: The Investment Environment**

**LH 8**

Meaning of investment; Types of investment; Structure of investment process; Investment vehicles: short-term vehicles, common stock, fixed income securities, mutual funds, derivative securities, other investment vehicles; Investment plan: steps in investing, considering personal taxes, investing over the life cycle, investing in different economic environment; Meeting liquidity needs: the role of short-term vehicles, investment suitability; Ethics in investing; The investment environment in Nepal.

#### **Unit 2: Securities Markets**

**LH 12**

Meaning of securities markets; Types of securities markets: primary and secondary markets, broker and dealer markets, alternative trading system; General market conditions; Globalization of securities markets: growing importance of international markets, ways to invest in foreign securities, risk of investing internationally; Securities markets in Nepal: introduction, trading hours and regulations; Basic types of securities transactions: long purchase, margin trading and short selling.

#### **Unit 3: Investment Information and Securities Transactions**

**LH 15**

Introduction to online investing; Types and sources of investment information; Market averages and indexes: introduction, uses, types and their construction including NEPSE Indexes; Making securities transactions: role of stock broker, basic types of orders, online transactions, transaction costs and investor protection; Recent developments of securities transactions in Nepal: online and

automation, C-ASBA and DMAT, OTC transactions, cost of trading, taxes on capital gains and dividends, credit rating in Nepal.

#### **Unit 4: Risk, Return and Portfolio Management**

**LH 25**

Concept of return: components of return, importance of return, factors affecting the level of return, historical returns; Measuring return: real, risk-free and required return, holding period return, expected return; Meaning of risk; Sources of risk; Risk of a single asset: standard deviation, coefficient of variation; Combining risk and return of single asset; Concept of portfolio; Measuring portfolio return and risk; Correlation and diversification; The Capital Assets Pricing Model (CAPM): components of risk, beta, estimating return using CAPM, the security market line; Traditional approach to portfolio management: Modern portfolio theory: the efficient frontier, portfolio beta, and the risk return trade-off.

#### **Unit 5: Common Stock Fundamentals**

**LH 10**

Pros and cons of stock ownership; Basic characteristics of common stock: common stock as a corporate security, buying and selling stocks, common stock values; Common stock dividends: the dividend decision, types of dividends, dividend reinvestment plans; Alternative investment strategies.

#### **Unit 6: Common Stock Analysis and Valuation**

**LH 15**

Principles of security analysis; Economic analysis; Industry analysis; Fundamental analysis: the concept, financial statements, key financial ratios, ROA-ROE interaction, common stock ratios; The valuation process; Stock valuation models: the dividend valuation model, other approaches to stock valuations, other price relative procedures; Valuing a company; Efficient markets and behavioral finance: level of market efficiency, investor behavior and stock prices.

#### **Unit 7: Fixed Income Securities**

**LH 10**

Meaning and types of fixed income securities; Essential features of a bond: bond interest and principal, maturity date, call features, sinking fund, bond ratings; The market for debt securities; Specialty issues; Convertible securities: conversion privilege, conversion value, conversion premium, payback period, investment value. Fixed income securities market in Nepal.

#### **Unit 8: Bond Valuation**

**LH 15**

The behavior of market interest rate; The term structure of interest rate and yield curve; The basic bond valuation model; Measures of yield and return; Duration and immunization: the concept of duration, measuring duration; Bond duration and price volatility; Uses of bond duration measures; Bond investment strategies.

#### **Unit 9: Mutual Fund and Performance Evaluation**

**LH 10**

An overview of mutual fund; Open end and closed-end fund; Exchange traded funds; Other types of investment companies; Types of mutual funds and services; Investing in mutual funds: investor uses

of mutual funds, the selection process, investing in closed-end funds, measuring performance; Mutual funds in Nepal.

### **Unit 10: Managing Portfolios**

**LH 10**

Constructing a portfolio: role of investor's personal characteristics, portfolio objectives and policies, developing an asset allocation scheme; Evaluating the performance of individual investments: collection of necessary data, analyzing the index of market performance, measuring the performance of investment vehicles, comparing the performance; Assessing portfolio performance: measuring portfolio return, comparison of portfolio return with overall market measures – Sharpe's measure, Treynor's measure, Jensen's measure; Portfolio revision.

### **Unit 11: Derivative Securities**

**LH 10**

Concept of derivative securities; Put and call options: basic features, advantages and disadvantages; Option markets; Stock options; Option pricing and trading: profit potential from puts and calls, intrinsic value; Other types of options: stock-index option, options on exchange-traded funds, interest rate options, currency options, LEAPS; The future market: market structure, trading in future market; Trading commodities: speculating and spreading; Financial futures: the financial futures market, trading techniques; Derivative markets in Nepal.

### **Project Work**

**LH 10**

The students shall have to prepare and submit a project work in the area studied in the course. The subject teachers have to discuss with students on possible topics of the project work, availability and sources of literature, availability of data, data collection methods, appropriate tools of data analysis, etc. relevant to the subject within 10 lecture hours.

### **Text Book**

Gitman, L. J., Joehnk, M. D., & Smart, S. B. *Fundamentals of investing*. New Delhi: Pearson Education.

### **References**

Bodie, Z., Kane, A. & Marcus, A. J. *Essentials of investment*. USA: Mc-Graw-Hill Education.

Alexander, G. J., Sharpe, W. F. & Jeffery V. B. *Fundamentals of investments*. Delhi: Pearson Education.