Econ 3A: Introduction to Investments

UCLA Summer, 2020

Syllabus

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Lecture Time and Location
9:30 AM- 11:30 AM, Zoom meeting

Course Description

Units: 2. Lecture, two hours. This course provides a broad introduction to investments. No previous financial, economic or math background is needed. Students will learn an organizing framework with which to understand the investing landscape with a highlight on key concepts and functionality related to business and personal investments. Specific topics covered include why financial markets exist and how they work, efficient market hypothesis, risk versus reward, investment styles, valuation techniques, simple quantitative analysis, the power of compound interest, financial crises, and the role private equity, venture capital, innovation and start-ups, and personal financial advisors. This class does not count for credit toward a major, but it is an excellent introduction to career paths in finance and for those who want to increase their financial literacy. P/NP grading.

Computation of the Course Grade

The course is only offered on a P/NP basis. Course evaluation is based on class participation (20%), midterm exam (30%) and a Final exam (50%).

This course offers a basic and broad introduction to financial concepts without requiring a strong mathematical background. Although this class does not count for credit toward the major, we consider it as an excellent introduction to career paths in finance and for those who want to increase their financial literacy. It is something that all of our students will find particularly valuable. Enthusiastically supported by the Chair, Dora Costa, and the ladder faculty.

Learning Outcomes

1. Understand the structure of US and global financial markets, why they exist and how they work, and be able to see how they impact our daily lives.

2. To be introduced to valuation styles and historical risk and returns.

3. An understanding of what is meant by an efficient market and why it matters when making investment decisions.

4. Gain insight into the power of compounding interest, concept of present value, the impact of management fees, and historical rates of return for various investment classes.

5. Achieve a solid financial literacy foundation.

6. Gain the tools needed to begin a personal financial plan

Course Schedule and Readings

Lecture	Topic	Readings
July 7, Tuesday		
1	How markets work and why they exist	2, 3, 4
	• [Notes: *Money as commodity (gold) or fiat (paper, backed by nothing more than the creditor institution; Credit – for corporations and individuals*]	
	• Case Study: *A World of Money*	3, p. 17-64
2	Stock Ownership of stock, bonds, RE, commodities	6
	• [Notes: *Stocks are an ownership stake in a company. What is the purpose of a company and their financial statements?]*	
3	Historical returns	6, 8
	• [Notes: *The economic cycle, The risk-free rate and inflation, the power of compounding*]	
	• Case Study: *220 years of Returns*	6, p.3-22
	• [Notes: *A long-term horizon? Timing the market? Buy high and sell low… or how about, never sell?]*	
July 8, Wednesday		
4	The Federal Reserve, Economics cycles	13
	• Case Study: The Business Cycle	6, p. 207-236

5	Financial Panics Through Time… and what to do?	7
	• Case Study: *Tulip Mania!*	*7, 15*
	• Case Study: *The Big Short*	*watch it at home*
6	When is the next recession?	1

July 9, Thursday

7	Passive vs. Active	class lecture
8	Value vs. Growth	10, 11, 12 (Chs. 4, 8)
	• Case Study: *Cigar Butts*	
	• Case Study: *Mr. Market*	11, p.63, p.200
9	Quantitative analysis	1
	• Case Study: *TwoSigma*	

July 10, Friday, First Exam

July 13, Monday

10	Technical, indexing, income (dividends)	class lecture
11	Is AI replacing investment careers for humans?	1
	• Case Study: *Kensho*	1
12	Efficient Market Theory	6
	• Case Study: Throwing Darts demonstration	8
	• Case Study: *The Flow of Data via Bloomberg*	1

July 14, Tuesday

13	Investor Behavior and Alpha	9
	• Case Study: *SeekingAlpha.com*	
	• Case Study: *Cognitive Biases*	6 p. 319-340; 16
	• Case Study: *Rare Events?*	9, p. 86-115
14	Where do I start?	
	• Case Study: Beating the Market	6, p.341-57
	• [Notes: *How much you need in retirement? Lifestyle choices, Risk tolerance, The FIRE movement; Where do I invest my money? 401k, IRA, Social security, day trading; Is a house an investment? How about a car or an education?]*	
	▪ Should I use a personal financial advisor?	8, P.421-460
15	Where do we go from here?	
	• Case Study: *Investment Advice on a Post-card*	
	• Case Study: *Magic Formula Investing*	14

July 15, Wednesday

16	Global Markets	1,6 p. 161-186
	• Case Study: *BRIC and Frontier Markets*	1
17	Income Inequality over time and why does it matter	5
	• Case Study: *Global Inequality*	5, p. 430
18	Low Cost Investing Case Studies	
	• Case Study: Low-cost, passive with Jack Bogle	

July 16, Thursday, Final Exam

Course Reading Number – *selections from journals, newspapers, and books*

1. *The Economist*, *Bloomberg Businessweek, The WSJ* and *The Financial Times*
2. *Against the Gods: The Remarkable Story of Risk*, Peter L. Bernstein.
3. *Ascent of Money – A Financial History of the World,* Niall Ferguson.
4. *Capitalism and Freedom*, Milton Friedman.
5. *Capital in the Twenty-First Century,* Thomas Piketty.
6. *Stocks for the Long Run,* Jeremy S. Siegel.
7. *Extraordinarily Popular Delusions and the Madness of Crowds,* Charles Mackay.
8. *A Random Walk Down Wall Street,* Burton G. Malkiel.
9. *Fooled By Randomness,* Nassim Nicholas Taleb.
10. *Letter to the Shareholders of Berkshire Hathaway Inc., 2018*, Warren Buffett.
11. *The Essays of Warren Buffett: Lessons for Corporate America,* Warren Buffett.
12. *The Intelligent Investor,* Benjamin Graham.
13. *Secrets of the Temple: How the Federal Reserve Runs the Country,* William Greider.
14. *The Little Book that Beats the Market,* Joel Greenblatt.
15. *A Short History of Financial Euphoria,* John Kenneth Galbraith.
16. *Thinking Fast and Slow,* Daniel Kahneman.
17. *Liar's Poker, Michael Lewis.*
18. *Freakonomics,* Steven D. Levitt and Stephen J. Dubner