

AEM 4260
Fixed Income Securities

Fall 2011

TTh 10:10am – 11:25am, B108 Comstock

Instructor

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Course Description: This course focuses on fixed-income securities including treasuries, corporate bonds, default-free bonds, and floating rate notes. Other topics include related financial instruments such as bond options, mortgage-backed securities, collateralized mortgage obligations, and credit derivatives. In addition to the analysis of specific types of fixed-income securities, there will be an examination of the tools used in bond portfolio management.

Course Prerequisites: AEM 2100 or equivalent, MATH 1110 or equivalent, and AEM 3240.

Required Readings: 1) *Bond Markets, Analysis, and Strategies* by Frank J. Fabozzi, 2) *When Genius Failed* by R. Lowenstein, 3) *House of Cards* by W. Cohan, 4) *The Big Short* by M. Lewis, and 5) Additional articles. A copy of *Bond Markets, Analysis, and Strategies* by Frank J. Fabozzi has been placed on reserve in Mann Library.

Course Requirements:

	<u>Option I</u>	<u>Option II</u>
Final (cumulative)	35%	35%
Midterm Exam	20%	0%
In-Class Quizzes	0%	20%
Homework	10%	10%
Bloomberg Lab	5%	5%
Class Participation	15%	15%
Hedge Fund Project	15%	15%

Exams: The in-class midterm exam is September 22, 2011. No need to request a make-up exam because of a conflict with a job interview. Only in the case of a family emergency or medical emergency, confirmed by a dean, will a make-up midterm exam be given. In the event of a mistake in grading an exam, a student may request a re-grade. For a re-grade, the student must: 1) Write a legible report that list the question(s) that the student believes was graded incorrectly with an explanation of how his/her answer conforms to the one provided in the answer key. 2) Submit the report to the instructor within one week (7 days) of receiving the graded exam. Be advised that re-grading is just that. The entire exam will be re-graded and a student's grade may increase/decrease/remain unchanged.

The final exam will be scheduled by the registrar. Please note that historically, the final for this course has been scheduled **on or near the end of the final exam period**. The registrar has scheduled the final exam for Dec. 12, 2011 at 9:00am. Please plan accordingly, as I cannot change the date of the final.

Quizzes: There will be five quizzes in class during the course of the semester. At the end of the semester, I will drop your lowest quiz grade. Each quiz will contain 1-3 questions *similar to* questions from a previous homework assignment. No make-up quizzes will be given. *While there may be an identified focus for each quiz, the quizzes can be cumulative.

Homework: Late homework assignments will **NOT** be accepted. If homework is e-mailed, it must be received before the start of the class in which it is due. E-mail homework to Ethan Gilbert at edg35@cornell.edu. At the end of the semester, I will drop your two lowest homework grades. Homework answers will be posted on the course web page.

Bloomberg Lab: The lab requires completion of approximately 4 hours of the Bloomberg Essentials program. For this class, you will need to take the "Core Exam" and the "Fixed Income Market Sector Exam". If you successfully complete the process, you will receive completion acknowledgements from Bloomberg. You must submit a copy of the completion acknowledgement or proof of completion of both exams.

Learning Teams: You will be assigned to a learning team for the purpose of doing group assignments. There will be two major group assignments during the semester (hedge fund project and warm-up presentation). Additionally, there will be small, in-class assignments done in your learning team groups. At the end of the course, the other members of your group will evaluate your participation. These peer evaluations will be factored in as part of your class participation grade.

Hedge Fund Project: Over the course of the semester your learning team will be responsible for creating and managing a hedge fund. Details regarding the hedge fund goals will be provided in class. The final presentation of the hedge fund project will be on Nov. 29, 2011 starting at 9:00 am. Please be prepared to come to class early on that day. I will not be able to make exceptions.

Warm-Ups: Each class, one learning team will be assigned to present an example of "Fixed Income in the News". Each learning team will be required to discuss a recent (past 4 months) article found in the Wall Street Journal, the Financial Times, The Economist, etc. that pertains to something (anything) covered in the course. The presentation should address: 1) how the article is related to fixed income, 2) why the issue is important and 2) how the article is related to a previous lecture or class discussion. The presentation should be approximately 5-10 minutes.

Class Participation: The total class participation grade is comprised of three components: 1) participation in class discussions, 2) your “warm-up” presentation, 3) your peer evaluations.

Mandatory Section: There will be a mandatory section for this class on Tuesdays from 7:00pm – 8:00pm in Plant Science G37. Attendance will be taken in section. Missing more than five sections (other than for illness) will negatively affect the class participation portion of your grade.

Extra Credit Opportunities: During the course of the semester, you may be able to take advantage of extra credit opportunities for improving your grade. Details of each opportunity will be discussed in class. There will be no make ups for extra credit opportunities and no special extra credit opportunities will be provided to individual students.

Academic Integrity: You are expected to adhere to Cornell’s Code of Academic Integrity which can be found at: <http://web.cornell.edu/UniversityFaculty/docs/AI.Acknow.pdf>

Classroom Conduct Expectations: 1) Conduct yourself in a “professional manner”, 2) Come to class on time, 3) Be prepared to participate, 4) No eating during class, 5) No side conversations when someone else has the floor.

E-mail Policy: I check student e-mails once per *weekday*. Make sure to put AEM 4260 in the subject line of the e-mail. E-mail is to be used for *short*, non-technical questions. Please be respectful when sending e-mail.

Special Student Needs: Any student with a documented physical or learning disability in need of accommodation should notify me at the beginning of the semester.

LECTURE SCHEDULE
(Subject to Change)

Date	Topic	Reading Due	Homework Due	Quiz Focus*
Aug. 25, 2011	Overview of Fixed Income Securities			
Aug. 30, 2011	NO CLASS DUE TO DOUBLE CLASS ON 11-29-11			
Sept. 1, 2011	Bloomberg Essentials & Fixed Income Portfolio Management in Bloomberg		CLASS MEETS IN THE STONE CLASSROOM OF MANN LIBRARY	
Sept. 6, 2011	The Building Blocks of Bonds – Part I: Bond Pricing & Bond Yields	Ch. 1 & 2		
Sept. 8, 2011	The Building Blocks of Bonds – Part I: Bond Pricing & Bond Yields	Ch. 3	Ch. 1 – #s 4, 6, 19, 21 & 23	
Sept. 13, 2011	The Building Blocks of Bonds – Part II: Bond Price Volatility & Term Structure of Interest Rates	Ch. 4		
Sept. 15, 2011	The Building Blocks of Bonds – Part II: Bond Price Volatility & Term Structure of Interest Rates	Ch. 5	Ch. 2 – #s 2, 8, 9 & 11; Ch. 3 – #s 5, 7 & 12	
Sept. 20, 2011	Bond Math Jeopardy		Ch. 4 – #s 2, 3, 10 & 17; Ch. 5 – #s 1, 2, 13 & 21	
Sept. 22, 2011	Midterm			
Sept. 27, 2011	Midterm Review / Fund Management			
Sept. 29, 2011	Guest Lecture – Dennis Rhee / Mike Troy		Bloomberg lab completion certificate due	
Oct. 4, 2011	Treasury, Agency, and Municipal Securities	Ch. 6 & 8	Ch. 6 – #s 8 & 9; Ch. 8 – #s 2, 17 & 23 <i>Fund name, investment objective, and strategy due</i>	
Oct. 6, 2011	Corporate Debt Instruments; Corporate Bond Credit Analysis	Ch. 7 & 21	<i>Security selection due – Treasury and Agency</i>	
Oct. 13, 2011	Foreign Bond Market; Case – Swedish Lottery Bonds	Ch. 9; Swedish Lottery Bond Case	<i>Security selection due – Muni</i>	Chapters 1-6 & 8
Oct. 18, 2011	Mortgage-Backed Securities: Residential Mortgage Loans	Ch. 10	Ch. 7 – #s 2, 5, 23 & 25; Ch. 21 – #s 5, 12 & 13; Ch. 9 – #s 9, 16, 20 <i>Security selection due – Corporate</i>	

LECTURE SCHEDULE (cont.)
(Subject to Change)

Date	Topic	Reading Due	Homework Due	Quiz Focus*
Oct. 20, 2011	Residential Mortgage-Backed Securities: Agency and Non-Agency Securities	Ch. 11 & 13	Ch. 10 – #s 17, 19, 20 & 21; <i>Security selection due – Foreign bond</i>	
Oct. 25, 2011	Residential Mortgage-Backed Securities			Chapters 7, 9, 10 & 21
Oct. 27, 2011	Mortgage-Backed Securities: Analysis of Residential MBSs, Commercial MBSs	Ch. 19 & 14	Ch. 11 – #s 12, 14 & 15; Ch. 13 – # 14	
Nov. 1, 2011	Mortgage-Backed Securities: CMOs	Ch. 12		
Nov. 3, 2011	Collateralized Debt Obligations	Ch. 16	Ch. 19 – #s 1 & 5; Ch. 14 – #18, 19 <i>Security selection due – Mortgage related security</i>	Chapters 11 & 13
Nov. 8, 2011	Other Asset-Backed Securities; The Mortgage Crisis	Ch. 15; ML book	Ch. 12 – #s 5, 12, 16, 19, 20 & 23; Ch. 16 – #s 5 & 11	
Nov. 10, 2011	Bonds with Embedded Options	Ch. 17 & 18	<i>Security selection due – ABS</i>	Chapters 12, 14, 16 & 19
Nov. 15, 2011	Convertible Bonds	Ch. 20	Ch. 15 – #s 10, 12 & 13; Ch. 17 – #s 2 & 14; Ch. 18 – #s 2 & 13 <i>Security selection due – Fixed Income derivative</i>	
Nov. 17, 2011	Credit Derivatives	Ch. 30		Chapters 15, 17, 18 & 20
Nov. 22, 2011	Long Term Capital Management: Video Trillion Dollar Bet		Ch. 20 – #s 5, 7 & 9	
Nov. 29, 2011	Fixed Income Fund Presentations – CLASS STARTS AT 9:00AM			
Dec. 1, 2011	Case – LTCM and Bear Sterns	RL & WC – both books	Ch. 30 - #'s 10, 12 & 13	

*Quiz focus subject to change. Note that quizzes **can** be cumulative.

All reading is from *Bond Markets, Analysis, and Strategies* by Frank Fabozzi, unless otherwise noted.

RL – *When Genius Failed* by R. Lowenstein

WC – *House of Cards* by William Cohan

ML – *The Big Short* by Michael Lewis