

# **Econ 4: *Introduction to Investments***

UCLA Summer, 2022

## **Syllabus**

**Instructors:** Dr. Patrick Convery  
**Office:** Bunche 8420  
**Office Hours:** Wednesday from 11:00 AM - 12:00 PM, Pacific Daylight time  
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### **Lecture Time and Location**

- 9:00 AM - 11:00 AM, Pacific Daylight time (PDT)
- location to be determined

### **Course Description**

Units: 4. Lecture: two hours, daily. P/NP grading.

This course provides a broad introduction to investments. No previous financial, economic or math background is needed. This class does not count for credit toward a major, but it's an excellent introduction to career paths in finance and for those who want to increase their financial literacy.

Students will learn organizing frameworks with which to understand the investing landscape. We will highlight key concepts and methodologies 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.

## **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, net 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

## **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 a major, we consider it an excellent introduction to career paths in finance and for those who want to increase their financial literacy.

## Tentative Course Schedule and Readings

Lecture	Topic
Part 1	<b>Investing Frameworks I</b> <ul style="list-style-type: none"><li>• How to Value a Money Machine</li><li>• Time Value of Money</li><li>• Net Present Value</li><li>• How markets work and why they exist</li></ul>
Part 2	<b>Investing Frameworks II</b> <ul style="list-style-type: none"><li>• Cycles</li><li>• Bubbles!</li><li>• Compounding<ul style="list-style-type: none"><li>▪ Case Study: <i>Tulip Mania!</i></li><li>▪ Case Study: watch <i>The Big Short</i>, at home</li><li>▪ Case Study: <i>220 years of Returns</i></li></ul></li></ul>
Part 3	<b>Investing Frameworks III</b> <ul style="list-style-type: none"><li>• Risk &amp; Return</li><li>• Diversification</li><li>• Passive vs. Active</li><li>• Value vs. Growth</li></ul>
Part 4	<b>Investing Implementation</b> <ul style="list-style-type: none"><li>• alpha</li><li>• Financial Statements</li><li>• Personal Finance<ul style="list-style-type: none"><li>▪ Case Study: <i>Investment Advice on a Post-card</i></li><li>▪ Case Study: <i>Magic Formula Investing</i></li></ul></li></ul>
Part 5	<b>Careers in Investing</b> <ul style="list-style-type: none"><li>• Career Paths</li><li>• The impact of Big Data</li><li>• College Majors for Investing</li><li>• Investing experience before graduation</li><li>• <b>Final Exam</b></li></ul>

## Course Readings – selections from journals, newspapers, and books

1. (suggested) *The Little Book of Common Sense Investing*, John Bogle.
2. (suggested) *Stocks for the Long Run*, Jeremy S. Siegel.
3. (suggested) *A Random Walk Down Wall Street*, Burton G. Malkiel.

The remaining books will be referred to partially throughout the lecture notes. If you are curious about a particular topic, I encourage you to buy the book(s) to read more. Most of them are extremely entertaining as well as informative.

4. *Fooled By Randomness*, Nassim Nicholas Taleb.
5. *Liar's Poker*, Michael Lewis.
6. *The Little Book that Beats the Market*, Joel Greenblatt.
7. *Against the Gods: The Remarkable Story of Risk*, Peter L. Bernstein.
8. *Ascent of Money – A Financial History of the World*, Niall Ferguson.
9. *Letter to the Shareholders of Berkshire Hathaway Inc., 2018*, Warren Buffett.
10. *The Essays of Warren Buffett: Lessons for Corporate America*, Warren Buffett.
11. *The Intelligent Investor*, Benjamin Graham.
12. *Mastering the Market Cycle*, Howard Marks.
13. *The Most Important Thing - Illuminated*, Howard Marks.
14. *Secrets of the Temple: How the Federal Reserve Runs the Country*, Greider.
15. *Thinking Fast and Slow*, Daniel Kahneman.
16. *Freakonomics*, Steven D. Levitt and Stephen J. Dubner
17. *Surely You're Joking Mr. Feynman!*, Richard P. Feynman. (This book is not about investments. It's about how curiosity and playfulness are the hallmarks of one of the greatest minds of all time).
18. *Capitalism and Freedom*, Milton Friedman.
19. *Extraordinarily Popular Delusions and the Madness of Crowds*, Charles Mackay.
20. *A Short History of Financial Euphoria*, John Kenneth Galbraith.
21. *Capital in the Twenty-First Century*, Thomas Piketty. (This is a large dense book, full of insights based on data. Consider finding a shorter summary online first, then read the book if you want more info.)

22. (various readings) *The Economist*, *Bloomberg Businessweek*, *The WSJ* and *The Financial Times*.