

Econ 4: *Introduction to Investments*

UCLA Summer, 2023

Syllabus

Instructors: Dr. Patrick Convery
Office: Bunche 8420
Office Hours: 11:00-12:00 on Wednesdays
Email: pconvery@ucla.edu

Lecture Time and Location

- 9:00 AM - 11:00 AM, Pacific Daylight time (PDT) starting Tuesday, June 20
- Location: TBD on UCLA campus
- Note that students will also have PLF Sessions each day, 1:00 - 2:30 PM PST

Course Description

- Units: 4. Lecture: two hours, daily.
- Grading: Letter grade. Option for P/NP grading if requested.

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 **letter grading basis**. There is an option for P/NP basis. Course evaluation is based on class participation (20%), homework (20%) midterm exam (30%) and a Final exam (30%).

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	Investing Frameworks I <ul style="list-style-type: none">• How to Value a Money Machine• Time Value of Money• Net Present Value• How markets work and why they exist
Part 2	Investing Frameworks II <ul style="list-style-type: none">• Cycles• Bubbles!• Compounding<ul style="list-style-type: none">▪ Case Study: <i>Tulip Mania!</i>▪ Case Study: watch <i>The Big Short</i>, at home▪ Case Study: <i>220 years of Returns</i>
Midterm Exam: Monday in class, June 26, 9:00-11:00 AM	
Part 3	Investing Frameworks III <ul style="list-style-type: none">• Risk & Return• Diversification• Passive vs. Active• Value vs. Growth
Part 4	Investing Implementation <ul style="list-style-type: none">• alpha• Financial Statements• Personal Finance<ul style="list-style-type: none">▪ Case Study: <i>Investment Advice on a Post-card</i>▪ Case Study: <i>Magic Formula Investing</i>
Part 5	Careers in Investing <ul style="list-style-type: none">• Career Paths• The impact of Big Data• College Majors for Investing• Investing experience before graduation

Final Exam: Friday in class, July 7, 9:00-11:00 AM PST

Course Readings – selections from journals, newspapers, and books

1. (required) *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.

Here are short reading or videos that we will cover in class. Typically I ask students to read/watch these the day before we discuss them in class:

- Shareholder's Letters by Warren Buffet - free download at: <https://www.berkshirehathaway.com/letters/letters.html>
- *The Superinvestors by Warren Buffett* - <https://www8.gsb.columbia.edu/sites/valueinvesting/files/files/Buffett1984.pdf>
- (from YouTube)
- *Everything You Need to Know About Finance and Investing in Under an Hour* by William Ackman: <https://www.youtube.com/watch?v=WEDlj9JBTC8&t=1s>
- Ray Dalio - multiple lectures found free on YouTube, including the following:
 - *Principles for Dealing with the Changing World Order* by Ray Dalio: <https://www.youtube.com/watch?v=xguam0TKMw8&t=1983s>
 - *How the Economic Machine Works* by Ray Dalio: <https://www.youtube.com/watch?v=PHe0bXAluk0&t=733s>

The remaining books in the list below are completely optional and are not required to do well in the class. However, if you want to learn more beyond this class, and if you are curious about a particular topic, I encourage you to buy any of the book(s) below 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. *The Essays of Warren Buffett: Lessons for Corporate America*, Warren Buffett.
10. *The Intelligent Investor*, Benjamin Graham.
11. *Mastering the Market Cycle*, Howard Marks.
12. *The Most Important Thing - Illuminated*, Howard Marks.
13. *Freakonomics*, Steven D. Levitt and Stephen J. Dubner

14. *Capitalism and Freedom*, Milton Friedman.
15. Movie: *The Big Short* (note that this movie is rated R)
16. Movie: *Margin Call* (note that this movie is rated R)
17. *Surely You're Joking Mr. Feynman!*, Richard P. Feynman. (This book is not about investments. The book is about how one of the greatest minds of all time, got that way partly through curiosity and playfulness. These characteristics can be applied to the study of financial markets.).

The remaining books below are somewhat more advanced.

18. *Secrets of the Temple: How the Federal Reserve Runs the Country*, Greider.
19. *Thinking Fast and Slow*, Daniel Kahneman.
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. *Extraordinarily Popular Delusions and the Madness of Crowds*, Charles Mackay.
23. (various readings) *The Economist*, *Bloomberg Businessweek*, *The WSJ* and *The Financial Times*.