

INDICE

Part One	
Introduction	
CHAPTER 1	3
The Investment en Environment	
1.1. Real Assets versus Financial Assets	4
1.2. Finacila Markets and the economy	6
Consumption timing	6
Allocation of Risk	6
Separation of ownership and Management	7
A crisis i corporate governance	8
Accountig Scandals	8
Analista scandals	10
Inicial public offerings	11
1.3. Clients of the financial System	11
The household sector	12
The Business sector	12
The government sector	13
1.4. The Environment responds to clientele Demands	14
Financial intermediation	14
Investment banking	16
Financial innovetion and derivaties	17
Response to taxation and regulation	18
1.5. Markets and market structure	20
1.6. Ongoing trens	21
Globalization	21
Financial engineering	24
Computer Networks	25
Summary	25
Key Terms	26
Websites	26
Problems	27
Standard and Poor´s	29
E – Investment: Track your portfolio	29
Solutions to concept chefs	30
CHAPTER 2.	
Financial Instruments	
2.1. The Money market	32
Treasury Bills	32
Certificates of deposit	33
Commercial Paper	33
Bankers´ Acceptances	33
Eurodollars	34
Repos and Reverses	34
Federal Funds	34
Brokers´ Calls	35
The LIBOR Market	35
Yields on Money Market Instruments	35

2.2. The Bond Market	35
Treasury Notes and Bonds	36
Federal Agency Debt	36
International Bonds	38
Municipal Bonds	39
Corporate Bonds	41
Mortgages and Mortgage – Backed Securities	42
2.3. Equity Securities	44
Common Stocks as Ownership Shares	44
Characteristics of Common Stock	45
Stock market listings	46
Preferred stock	47
2.4. Stock and Bond Market Indexes	47
Stock Market Indexes	47
Dow Jones Averages	48
Standard & Poor's Indexes	51
Other U. S. Market – Value Indexes	52
Equally Weighted Indexes	52
Foreign and International Stock Market Indexes	53
Bond Market Indicators	53
2.5. Derivative Markets	54
Options	54
Futures Contracts	57
Summary	58
Key Terms	59
Websites	59
Problems	60
Standard and Poor's	63
E – Investments: Security Prices and Returns	63
Solutions to concept checks	63
CHAPTER 3	65
How Securities Are Traded	
3.1. How Firms Issue Securities	66
Investment Bankers and underwriting	66
Shelf Registration	
Private placements	68
Initial Public Offering	68
3.2. Where Securities Are Traded	71
The secondary markets	72
The Over – the – Counter Market	73
The Third and fourth market	75
The national Market system	76
Bond Trading	77
3.3. Trading on exchanges	77
The participants	77
Types of Orders	78
Market orders	78
Limit Orders	78

Specialists and the execution of trades	80
Block sales	81
The Super DOT system	82
Settlement	82
3.4. Trading on the PTC Market	82
Market structure in Other Countries	84
London	84
Euronext	84
Tokio	85
Globalization of Stock Markets	85
3.5. Trading Costs	86
3.6. Buyin on Margin	88
3.7. Short sales	91
3.8. Regulation of securities Markets	94
Government Regulation	94
Regulatory Responses to Recent Scandals	95
Self – Regulation and Circuit Breakers	96
Insider Trading	98
Summary	99
Key Terms	100
Websites	100
Problems	101
Standard and poor's	105
E – Investments: Short Sales	105
Solutions to concept Checks	105
CHAPTER 4	107
Mutual Funds and Other Investment Companies	
4.1. Investment Companies	108
4.2. Types of Investment Companies	109
Unit Investment trust	109
Managed Investment Companies	109
Other Investment Organizations	111
Commingled Funds	111
Real Estate Investment Trust (REITS)	111
Hedge Funds	111
4.3. Mutual Funds	112
Investment Policies	112
Money Market Funds	112
Bond Funds	113
International funds	113
Balanced and income Funds	113
Asset Allocation and Flexible Funds	113
Index Funds	113
How Funds Are Sold	115
4.4. Costs of investing in Mutual Funds	116
Fee Structure	116
Front – End Load	116
Back End Load	116

Operating Expenses	116
2b – Charges	116
Fees and mutual Fund Returns	117
4.5. Taxation of Mutual Fund Returns	117
Taxation of mutual Funds Income	119
4.6. Exchange – Traded Funds	120
4.7. Mutual Funds Investment Performance: A First Look	122
4.8. Information on Mutual Funds	125
Summary	129
Key Terms	129
Websites	130
Problems	131
Standard and Poor's	133
E – Investment: Choosing a Mutual Fund	133
Solutions to Concept Checks	133
Part TWO	135
Portfolio Theory	
CHAPTER 5	
History Of Interest Rates And Risk Premiums	
5.1. Determinants of the Level of Interest Rates	138
Real and Nominal Rates of Interest	138
The Equilibrium Real Rate of Interest	139
The Equilibrium Nominal Rate of Interest	140
Bills and Inflation, 1963 - 2002	141
Taxes and the Real Rate of Interest	142
5.2. Risk and Risk Premiums	142
5.3. The Historical Record	144
Bills, Bonds, and Stocks, 1936 - 2002	144
5.4. Real Versus Nominal Risk	150
5.5. Return Distributions and Value at Risk	151
5.6. A Global View of the historical Record	154
5.7. Forecasts for the Long Haul	154
Summary	156
Key Terms	156
Websites	157
Problems	158
Standard and Poor's	162
E – Investments: Analytics Tutorial	162
Solutions to concept Checks	162
Appendix: Continuous Compounding	162
CHAPTER 6	165
Risk And Risk Aversion	
6.1. Risk and Risk Aversion	166
Risk with simple prospects	166
Risk, Speculation, and Gambling	167
Risk Aversion and Utility Values	168
6.2. Portfolio Risk	173
Asset Risk versus Portfolio Risk	173
A Review of Portfolio Mathematics	174

Rule 1	174
Rule 2	174
Rule 3	175
Rule 4	175
Rule 5	178
Summary	179
Key Terms	179
Websites	179
Problems	180
Standard and Poor	182
E – Investments: Risk and return	182
Appendix A: A defense of Mean – Variance Analysis	184
Appendix B: Risk Aversion, Expected Utility, and the St. Petersburg Paradox	191
CHAPTER 7.	197
Capital Allocation Between The Risky Asset And The Risk – Free Asset	
7.1. Capital Allocation across Risky and Risk – Free Portfolios	198
7.2. The Risk – Free Asset	200
7.3. Portfolios of One Risky Asset and One Risk – Free Asset	201
7.4. Risk Tolerance and Asset Allocation	205
7.5. Passive Strategies: The Capital Market Line	210
Summary	214
Key Terms	214
Websites	215
Problems	215
Standard and Poor	219
E – Investments: the S&P 500	219
Solutions to concept Checks	219
CHAPTER 8.	223
Optimal Risky Portfolios	
8.1. diversification and portfolio Risk	224
8.2. Portfolios of Two Risky Assets	225
8.3. Asset Allocation with Stocks, Bonds, and Bills	234
The Ultimate Risky Portfolio with two Risky Assets and a Risk – Free Asset	235
8.4. The Markowitz portfolio selection Model	240
Security Selection	240
8.5. The Spreadsheet Model	246
Calculation of Expected Return and variance	246
Capital Allocation and the separation Property	251
Asset Allocation and security selection	253
8.6. Optimal portfolios with restrictions on the Risk – Free Asset	254
Summary	258
Key Terms	259
Websites	259
Problems	260
Standard and Poor	260
E – Investments: Risk Comparison	266

Solutions to concept Checks	266
Appendix A: The Power of Diversification	269
Appendix B: The Insurance Principle: Risk – sharing versus Risk – Pooling	272
Appendix C: The Fallacy of time Diversification	274
Part Three	279
Equilibrium in Capital Markets	
9.1. The Capital Asset Pricing Model	281
Why Do All Investors Hold the Market Portfolio?	283
The Passive Strategy Is Efficient	285
The risk Premium of the Market portfolio	285
Expected Returns Terurns on Individual Securities	286
The Security Market Line	289
9.2. Extensions of the APM	292
The CAPM with Restricted Borrowing: The Zero – Beta Model	293
Lifetime Consumption and the CAPM	297
The CAPM and Liquidity	297
Summary	303
Key Terms	304
Websites	304
Problems	304
Standard and Poo’s	309
E – Investments: Beta Comparisons	309
Solutions to concept Checks	310
Appendix: Demand for Stocks and Equilibrium Prices	311
CHAPTER 10.	317
Index Models	
10.1. A single – Index security Market	318
Systematic Risk versus Firm – Specific Risk	318
Estimating the Index Model	321
The Index Model and Diversification	324
10.2. The CAPM and the Index Model	326
Actual Returns versus Expected Returns	326
The Index Model and Realized Returns	326
The Index Model and the Expected Return – Beta Relationship	327
10.3. The Industry Versión of the Index Model	329
Predicting Betas	333
10.4. Index Models and tracking Portfolios	334
Summary	336
Key Terms	336
Websites	336
Problems	336
E – Investments: Comparing Volatilies and Beta Coefficients	340
Solutions to concept Checks	341
CHAPTER 11.	343
Arbitrage Pricing theory and Multifactor Models Of Risk And Return	
11.1. Multifactor Models: An Overview	344
Factor Models of Security Returns	344

A Multifactor security Market Line	346
11.2. Arbitrage Pricing Theory	348
Arbitrage, Risk Arbitrage, and equilibrium	349
Well – Diversified Portfolios	350
Beta and Expected Returns	351
The One – Factor Security Market Line	353
11.3. Individual Assets and the CAPM	356
11.4. A multifactor APT	356
11.5. Where Should We Look for factors?	358
11.6. A multifactor CAPM	361
Summary	362
Key Terms	363
Websites	363
Problems	363
Standard and Poor's	367
E – Investments: APT versus CAPM	368
Solutions to concept Checks	368
CHAPTER 12.	
Market Efficiency And Behavioral Finance	
12.1. Random Walks and the Efficient Market Hypothesis	370
Competition as the source of efficiency	372
Versions of the Efficient market Hypothesis	373
12.2. Implications of the EMH	373
Technical Analysis	373
Fundamental Analysis	377
Active versus passive portfolio management	378
The role of portfolio Management in an efficient Market	380
12.3. Event Studies	381
12.4. Are Markets Efficient?	384
The Issues	384
The Magnitude Issue	384
The Selection bias Issue	385
The lucky event Issue	385
Weak – Form Test: Patterns in Stock Returns	386
Returns over short Horizons	386
Returns over Long Horizons	387
Predictors of Broad Market Returns	388
Semistrong Test: Market Anomalies	388
The small – Firm – in – January effect	389
The Neglected – Firm Effect and liquidity effects	391
Book – to – Market Ratios	391
Post – Earnings – Announcement Price Drift	392
Strong – Form Tests: Inside Information	394
Interpreting the Evidence	394
Anomalies or Data Mining?	396
12.5. A Behavioral Interpretation	396
Information Processing	397
Forecasting Errors	397

Overconfidence	397
Conservatism	398
Sample – Size Neglect and Representativeness	398
Behavioral Biases	398
Framing	398
Mental Accounting	398
Regret Avoidance	399
Limits to Arbitrage	399
Fundamental Risk	399
Implementation Costs	400
Model Risk	400
Evaluating the Behavioral Critique	400
12.6. Mutual Fund Performance	401
So, Are Markets Efficient?	405
Summary	405
Key Terms	406
Websites	406
Problems	407
Standard and Poo's	413
E – Investments: Efficient Markets and Insider Trading	413
Solutions to concept Checks	413
CHAPTER 13.	
Empirical Evidence On Security Returns	
13.1. The Index model and the Single – Factor APT	416
The Expected Return – Beta Relationship	416
Setting Up the sample Data	417
Estimating the SCL	417
Estimating the SML	417
Tests of the CAPM	418
Accounting for Human Capital and Cyclical Variations in Asset APT	426
A Macro Factor Model	426
13.2. Tests of Multifactor CAPM and APT a macro Factor Model	426
13.3. The Fama – French therr – Factor Model	429
13.4. Time – Varying Volatility	432
13.5. The Equity Premiun Puzzle	435
Expected versus realized Returns	435
13.6. Survivorship Bias and Tests of Market Efficiency	438
Summary	441
Key Terms	441
Websites	441
Problems	442
Standard and Poo's	444
E – Investments: Portfolio Theory	444
Solutions to concept Checks	444
Part Four	445
Fixed – Income Securities	
CHAPTER 14.	447
Bond Prices And Yields	

14.1. Bond Characteristics	448
Treasury Bonds and Notes	448
Accrued Interest and Quoted Bond Prices	450
Corporate Bonds	450
Call Provisions on Corporate Bonds	451
Convertible Bonds	452
Puttable – Rate Bonds	452
Preferred Stock	452
Other Issuers	453
International Bonds	453
Innovation in the Bond Market	453
Inverse Floaters	454
Asset – Backed Bonds	454
Catastrophe Bonds	454
Indexed Bonds	454
14.2. Bond Pricing	455
Bond Pricing between Coupon Dates	458
14.3. Bond Yields	459
Yield to Maturity	459
Yield to call	462
Realized Compound Yield versus yield to maturity	464
14.4. Bond Prices over Time	466
Yield to maturity versus holding – Period return	468
Zero – Coupon Bond	468
After – Tax Returns	469
14.5. Default Risk and Bond Pricing	471
Junk Bonds	471
Determinants of Bond Safety	471
Bond Indentures	474
Sinking Funds	474
Subordination Restrictions	475
Collateral	476
Yield to maturity and default Risk	477
Summary	478
Key Terms	479
Websites	479
Problems	480
Standard and Poor's	485
E – Investments: Credit Spreads	485
Solutions to concept Checks	485
CHAPTER 15.	487
The Term Structure Of Interest Rates	
15.1. The Term Structure Under Certainty	488
Bond Pricing	488
Bond Stripping and Pricing of Coupon Bonds	491
Holding – Period returns	492
Forward Rates	493
15.2. Interest Rate Uncertainty and Forward Rates	495

15.3. Theories of the Term, Structure	497
The Expectations Hypothesis	497
Liquidity Preference	497
15.4. Interpreting the Term Structur	498
15.5. Forward Rates as Forward Contracts	503
15.6. Measuring the Term structure	505
Summary	509
Key Terms	509
Websites	509
Problems	510
E – Investments: Expectations and Term Spreads	516
Solutions to concept Checks	516
CHAPTER 16.	519
Managing Bond Portfolios	
16.1. Interest Rate Risk	520
Interest Rate Sensitivity	520
Duration	523
What determines duration?	527
Rule 1 for Duration	528
Rule 2 for Duration	528
Rule 3 for Duration	528
Rule 4 for Duration	529
Rule 5 for Duration	529
Rule 6 for Duration	530
Rule 7 for Duration	530
Rule 8 for Duration	530
16.2. Convexity	531
Why Do Investors Like Convexity?	534
Duration and Convexity of Callable Bonds	534
16.3. Passive Bond Management	536
Bond – Index Funds	537
Immunization	538
Cash Flow Matching and Dedication	546
Other problems with conventional Immunization	546
16.4. Active Bond Management	547
Sources of potential profit	547
Horizon Analysis	548
Contingent Immunization	549
16.5. Interest Rate Swaps	551
Swaps and Balance Sheet Restructuring	552
The Swap Dealer	552
16.6. Financial Engineering and Interest Rate Derivaties	553
Summary	555
Key Terms	556
Websites	556
Problems	557
Standard and Poo´s	566
E – Investments: Bond calculations	566

Solutions to concept Checks	566
Part Five	569
Security Analysis	
CHAPTER 17	571
Macroeconomic And Industry Analysis	
17.1. The Global Economy	572
17.2. The Domestic Economy	574
17.3. Demand and Supply Shocks	576
17.4. Federal Government Policy	576
Fiscal policy	577
Monetary policy	578
Supply – side policies	579
17.5. Business Cycles	579
The Business Cycle	579
Economic Indicators	581
17.6. Industry Analysis	585
Defining an Industry	586
Sensitivity to the Business Cycle	587
Sector Rotation	590
Industry life Cycles	591
Start – Up Stage	592
Consolidation Stage	592
Maturity stage	592
Relative decline	593
Industry Structure and Performance	594
Threat of Entry	594
Rivalry between Existing Competitors	549
Pressure from substitute products	594
Bargaining power of buyers	594
Bargaining power of suppliers	595
Summary	595
Key Terms	595
Websites	595
Problems	596
Standard and Poo’s	602
E – Investments: The Macroeconomy	602
Solutions to concept Checks	602
CHAPTER 18.	605
Equity Valuation Models	
18.1. Valuation by Companies	606
Limitations of Book Value	607
18.2. Intrinsic value versus market price	608
18.3. Dividende Discount Models	609
The Constant – Growth DDm	611
Convergence of price to Intrinsic Value	614
Stock prices and Investment Opportunities	615
Life Cycles and Investmenr Opportunities	615
Multistage Growth Models	618

Multistage Growth Models	622
18.4. Price – Earning Ratio	622
The Price – Earnings Ratio and Growth Opportunities	622
P/E Ratios and stock Risk	626
Pitfalls in P/E Analysis	627
Combining P/E Analysis and the DDM	631
Other Comparative Valuation Ratios	632
Price – to – Book Ratio	632
Price – to – Cash – Flow Ratio	632
Price – to – Sales	633
18.5. Corporate finance and the free cash flow approach	634
18.6. Inflation and Equity Valuation	636
18.7. The Aggregate Stock Market	639
Explaining Past Behavior	639
Forecasting the Stock Market	640
Summary	642
Key Terms	643
Websites	643
Problems	644
Standard and Poo’s	651
E – Investments: Equity Valuation	652
Solutions to concept Checks	652
CHAPTER 19.	655
Financial Statement Analysis	
19.1. The Major Financial Statements	656
The Income Statement	656
The Balance sheet	657
The Statement of Cash Flows	658
19.2. Accounting versus Economic Earning	659
19.3. Return on Equity	660
Past versus future ROE	661
Financial Leverage and ROE	662
19.4. Ratio Analysis	664
Decomposition of ROE	664
Turnover and Other Asser Utilization Ratios	665
Liquidity and Coverage Ratios	667
Market Price Ratios	667
Choosing a Benhmark	667
19.5. economic Value Added	671
19.6. An Illustration of Financial Statement Analysis	672
19.7. Comparabilty Problems	674
Inventory Valuation	674
Depreciation	675
Inflation and Interest Expense	676
Quality of Earnings	676
International Accounting Conventions	679
18.8. Value Investing: The Graham technique	680
Summary	681

Key Terms	682
Websites	682
Problems	683
Standard and Poo's	692
E – Investments: Financial Statement Analysis	693
Solutions to concept Checks	693
Part SIX.	695
Options, Futures, And Other Derivatives	
CHAPTER 20.	697
Options Markets: Introduction	
20.1. The option Contract	698
Options Trading	700
American and European Options	702
Adjustments in option Contract Terms	702
The Option Clearing Corporation	702
Other Listed Options	703
Index options	703
Futures options	705
Foreign Currency Options	705
Interest Rate Options	705
20.2. Values of Options at Expiration	705
Call Options	705
Put Options	707
Option versus Stock Investments	709
Protective put	711
Covered calls	713
Straddle	715
Spreads	716
Collars	716
20.4. The Put – Call Parity Relationship	719
20.5. Optionlike Securities	721
Callable Bonds	721
Convertible Securities	723
Warrants	725
Collateralized Loans	726
Levered Equity and Risky Debt	727
20.6. Financial Engineering	728
Asia Options	731
Barrier Options	731
Lookback Options	731
Currency – Traded Options	731
Binary Options	732
Summary	732
Key Terms	732
Websites	732
Problems	733
Standard and Poo's	740
E – Investments: Options and Straddles	740

Solutions to concept Checks	740
CHAPTER 21.	745
Option Valuation	
21.1. Option Valuation: Introduction Intrinsic and Time Values	746
Determinants of option values	747
21.2. Restrictions on Option Values	748
Restrictions on the value of a call option	749
Early Exercise and Dividends	751
Early Exercise of American Puts	751
2.3. Binomial Option Pricing	752
Two – state option pricing	752
Generalizing the Two – State Approach	755
21.4. Black – Scholes Option Valuation	758
The Black – Scholes formula	759
Dividends and call option valuation	765
Put option valuation	766
21.5. Using the Black – Scholes Formula	767
Hedge Ratios and the Black – Scholes Formula	767
Portfolio insurance	77
Hedging Best on mispriced options	774
21.6. Empirical Evidence on option pricing	778
Summary	779
Key Terms	780
Websites	780
Problems	781
Standard and Poo's	787
E – Investments: Black – Scholes Option Pricing	788
Solutions to concept Checks	788
CHAPTER 22.	791
Futures Markets	
22.1. The futures contract	792
The Basics of futures contracts	792
Existing Contracts	796
22.2. Mechanics of Trading in futures markets	796
The clearinghouse and open Interest	796
Marking to market and the margin Account	799
Cash versus actual delivery	801
Regulations	802
Taxation	802
22.3. Futures markets strategies	802
Hedging and speculation	802
Basic risk and hedging	805
22.4. The determination of futures prices	806
The sport – futures parity Theorem	806
Forward versus futures pricing	810
22.5. Futures prices versus Expected Spot Prices	811
Expectation Hypothesis	811
Normas Backwardation	812

Contango	812
Modern Portfolio theory	812
Summary	813
Key Terms	814
Websites	418
Problems	815
Standard and Poo's	817
E – Investments: Contract Specifications for Financial Futures and Options	818
Solutions to concept Checks	818
CHAPTER 23.	821
Futures And Swaps: A Closer Look	
23.1. Foreign exchange futures	822
The markets	822
Interest Rate Parity	822
Direct versus Indirect Quotes	826
Using futures to manage exchange Rate Risk	826
23.2. Stock Index Futures	829
The contracts	829
Creating synthetic stock positions: An Asset Allocation Tool	830
Empirical Evidence on pricing of stock – Index Futures	832
Index Arbitrage and the Triple – Witching Hour	834
Using Index futures to Hedge Market Risk	835
23.3. Interest Rate Futures	837
Hedging Interest Rate Risk	837
Other Interest Rate Futures	839
23.4. Commodity Futures Pricing	840
Pricing with storage Costs	840
Discounted Cash Flow Analysis for Commodity Futures	843
23.5. Swaps	844
Swap pricing	846
Credit Risk in the Swap Market	847
Swap Variations	848
Summary	849
Key Terms	850
Websites	850
Problems	851
Standard and Poo's	856
E – Investments: Describing Different Swap	856
Solutions to concept Checks	857
Part Seven	859
Active Portfolio Management	
CHAPTER 24.	861
Portfolio Performance Evaluation	
24.1. Measuring Investment Returns	862
Time – Weighted Returns versus Dollar – Weighted Returns	862
Arithmetic versus geometric Averages	863
24.2. The Conventional Theory of Performance Evaluation	866

The M2 Measure of performance (M2)	869
Sharpe's measure as the Criterion for Overall portfolios	870
Appropriate performance measures in three sections	871
Jane's Portfolio Represents Her Entire Risky Investment fund	871
Jane's Portfolio is an Active portfolio and Is Mixed with a Passive Market Index	872
Jane's Choice Portfolio Is One of Many Portfolios Combined into a large Investment Fund	872
Relationships among the various performance measures	874
Actual performance Measurement: An Example	875
Realized Returns versus Expected Returns	875
24.3. Performance measurement with Changing portfolio composition	877
24.4. Market timing	879
24.5. Performance Attribution procedures	881
Asset Allocation decisions	883
Sector and security selection decisions	884
Summing Up Component Contributions	885
24.6. Style Analysis	886
24.7. Morningstar's Risk – Adjusted Rating	889
24.8. Evaluating Performance Evaluation	890
Summary	892
Key Terms	893
Websites	893
Problems	894
Standard and Poo's	901
E – Investments: Performance of Mutual Funds	902
Solutions to concept Checks	902
CHAPTER 25.	905
International Diversification	
25.1. Global Markets for Equities	906
Developed Countries	906
Emerging Markets	906
Market Capitalization and GDP	908
Home – Country Bias	910
25.2. Risk Factors in International Investing	910
Exchange Rate Risk	910
Country – Specific Risk	914
25.3. International Investing: Risk, Return, and Benefits from diversification	917
Risk and Return: Summary Statistics	918
Are Investment in Emerging Market Riskier?	918
Are Average Returns in Emerging Greater?	918
Is Exchange Rate Risk Important in International Portfolios?	920
Benefits From international Diversification	925
Misleading Representation of Diversification Benefits	922
Realistic Benefits from international Diversification?	925
Are Benefits from international diversification preserved in Bear Markets?	927
25.4. International Investing and Performance Attribution	929

Summary	932
Key Terms	932
Websites	933
Problems	933
Standard and Poo's	937
E – Investments: International Diversification	937
Solutions to concept Checks	937
CHAPTER 26.	939
The Process of Portfolio Management	
26.1. Making Investment Decisions	940
Objectives	940
Individual Investors	942
Personal Trusts	942
Mutual funds	942
Pension funds	942
Endowmnt funds	942
Life Insurance companies	942
Non – Life Insurance Companies	943
Banks	943
26.2. Constraints	943
Liquidity	944
Investment Horizon	944
Regulations	944
Tax Considerations	944
Unique Needs	944
26.3. Asset Allocation	946
Policy statements	947
Taxes and asset Allocation	947
26.4. Managing Portfolios of Individual Investors	948
Human Capital and Insurance	948
Investment in residence	949
Savins for retirement and the assumption of risk	949
Retirement planning models	950
Manage your own portfolio or Rely on Others?	950
The Tax – Deferral Option	952
Tax – Deferred Retirement Plans	953
Variable and universal life insurance	954
26.5. Pension Funds	955
Defined contribution plans	955
Defined benefit Plans	956
Alternative perspectives on defined benefit pension obligations	956
Pension investment strategies	957
Investing in equities	958
Wrong Reasons to invest in equities	959
26.2. Future Trends in portfolio management	960
Summary	961
Key Terms	962
Websites	962

Problems	963
E – Investments: Personal Diversification	973
Solutions to concept Checks	973
Appendix: A Spreadsheet Model for Long – Term Investing	974
CHAPTER 27.	981
The Theory Of Active Portfolio Management	
27.1. The Lure of active management	982
27.2. Objectives of active portfolios	983
27.3. Market timing	984
Valuing market timing as an Option	986
The value of imperfect forecasting	987
27.4. Security selection: The Treynor – Black Model	988
Overview of the Treynor – Blac Model	988
Portfolio Constrution	989
27.5. Multifactor models and active portfolio management	995
27.6. Imperfect forecast of alpha values and the Use the Treynor – Black model in industry	996
Summary	998
Key Terms	999
Problems	999
Solutions to concept Checks	1002
Appendix A: Quantitative Review	1005
Appendix B: References to CFA Questions	1043
Appendix C: Glossary	1047
Name Index	1061
Subject Index	1065