Investment Strategies

5th module, 2022-23 academic year

Alexey Debelov, CFA
Partner at FP Wealth Solutions
debelov@gmail.com

Course description

The course provides in-depth view of investment management process in financial markets. It is focused on the buy-side (i.e. asset management) side of the markets, predominantly global stock market. The course provides deeper analysis of models and assumptions from earlier basic courses on finance, along with practical implications.
The goal of the course is to teach students to critically analyse financial markets, rigorously test financial hypotheses, and conduct their own financial research. As the result, the students should be able to apply their findings on practice in their own or fiduciary financial decisions; the ideal outcome should be the ability of a student to develop applied financial product if a form of investment or trading strategy.
During the course the students will get better understanding of financial markets and better ability to evaluate financial assets and manage portfolios.

Course requirements, grading, and attendance policies

Effective development of the course involves the students' understanding of the foundations of portfolio theory, the characteristics of the financial instruments, the understanding of investment risk, return, diversification effects.
It is assumed that students have already mastered the following courses:

- Corporate Finance
- Equity Market
- Bond Market
- Derivatives
- Mathematical statistics and Econometrics

The course grade is calculated as a weighted average. Final exam's weight is 60%, home assignment 20%, and research paper analysis 20%.
The attendance is desired, as there is no textbook and the grading will be based on lecture materials, but not explicitly required or graded.

Course contents

Topics covered in course:

- Developing active investment strategy: data analysis, ideas, and correct testing.
- Track record of macro predictions
- Statistical relations' inconsistency and its consequences: correlation, pair trading.
- Trading and fees as determinants of performance
- Efficiency of financial markets and role of passive asset management
- Applicability of different valuation methods. CAPE, its critique.
- Main requirements of constructing a correct DCF model
- Misapprehension of risks: leverage, return-maximisation, overdependence on historical data

- Constructing of typical hedge fund long-short strategy
- Value and Growth: is faster company growth equal to higher investor returns?
- Behavioural finance: how psychology affects our financial decision-making
- Non-normal nature of real-life returns distribution and its effect on analysis methods

Description of course methodology
The course is built around lectures and research papers' analysis, involving independent statistical testing of assumed dependencies.

Course materials

Recommended reading
Daniel Kahneman "Thinking: Fast and Slow"
Benjamin Graham "Intelligent Investor"
Nassim N. Taleb "Fooled by Randomness", "Black Swan", "Statistical Consequences of Fat Tails"
Carmen M. Reinhart, Kenneth S. Rogoff "This Time It's Different"
Research papers by AQR Capital Management (https://www.aqr.com/Insights/Research), annual shareholder letters of Berkshire Hathaway (https://www.berkshirehathaway.com/letters/letters.html)

Extra reading materials and papers will be provided during the course.

Academic integrity policy

Cheating, plagiarism, and any other violations of academic ethics at NES are not tolerated.