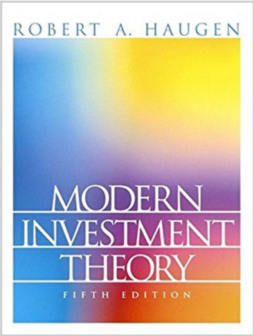

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Editorial Review

From the Publisher
This text offers accurate and intuitive coverage of investments, with an emphasis on portfolio theory. It includes extensive discussion of capital asset pricing, arbitrage pricing, pricing of derivative securities, interest rates, and bond management. Stock valuation, estimating future earnings and dividends, and fixed income markets are examined closely.

From the Back Cover

Customized directly to match the problems in the text, this new windows-based software enables students to easily and immediately see the effects of changing assumptions on the structure of asset allocation, expected returns to industries and asset classes, performance evaluation and many other investment decisions.

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Preface

This book is intended for the introductory graduate or intermediate undergraduate course in investment management. It requires a minimal level of training in mathematics and statistics. A knowledge of basic calculus is useful but not required, since it is used only in the appendixes to the main discussions in the chapters. All the statistical concepts required for an understanding of the text are provided in a review of Chapter 3.

The book differentiates itself in the following respects. First, the coverage of portfolio theory is complete and detailed, covering four chapters including a unique graphical explanation of the Markowitz procedure, as well as a new chapter on asset allocation using comprehensive simulations with real data. The material on portfolio selection is backed up by computer problems and powerful, easy-to-use computerized portfolio analysis sessions fully integrated into the text. The extensive coverage given to the predictive power of factor models reflects the increasing use of these models in the industry and, at the same time, paves the way for an easy grasp of the assumptions underlying the arbitrage pricing theory.

Second, extensive coverage is given to the issues related to capital asset pricing. The capital asset pricing model is covered in great detail. Emphasis is given to discriminating between the properties of the model that derive from economics and the properties that derive from definitional identities. The coverage of the arbitrage pricing theory is both complete and up-to-date. The issues involved in testing both CAPM and APT are also explored in detail. Emphasis is given to inherent problems associated with both the CAPM and the APT, including a discussion and analysis of the controversial article on the cross section of stock expected returns by Fama and French. It is my feeling that we no longer need to convince students that a study of modern finance will increase their human capital. Most of the theories and models in this book are widely employed in the real world. Rather than trying to convince them of their merits, they should thoroughly understand their weaknesses as well as their strengths, so they will know which models to lean on in making their investment decisions and how hard. Currently most of the analysis of investment performance in the industry is done without asset pricing models. Thus, we add a new chapter covering performance measurement without these models.

Third, the book presents four chapters on interest rates and bond management. It is no secret that interest rates can be volatile. This has increased both the complexity and excitement of bond portfolio management. Two full chapters are devoted to the economic forces that push both the general level and term structure of interest rates around. Then two more chapters are devoted to aggressive and defensive bond portfolio management. In the first of these chapters the students learn how to integrate bonds into the Markowitz approach. In the second chapter they learn how to immunize their portfolio against the threat of changing interest rates. There is great interest in immunization among pension funds and other financial institutions. A knowledge of interest immunization is now an essential weapon in the modern portfolio manager's arsenal.

Finally, as befitting the increasing popularity of these contracts, the coverage of options and forward and futures contracts is extensive. Three full chapters are devoted to option pricing. In the first chapter, on the pricing of European options, the students are taken through simplified valuation frameworks. They learn the behavioral characteristics of option prices, the concept of pricing an option to provide those who hedge with the risk-free rate of return, and finally the framework of the Black-Scholes option-pricing model. In the second chapter, on American options, they learn why American options may be exercised early and how the value of American puts and calls may exceed the values of their European counterparts. The third options chapter addresses sources of bias in option pricing and option strategies, including portfolio insurance. In the greatly simplified chapter on forward and futures contracts, emphasis is given to the pricing and use of these contracts in hedging.

In addition to these distinctions in coverage, the book presents many mini case studies, which show students how the techniques explored in the book are actually used in the real world. The individuals and firms discussed in these case studies are real. In addition to motivating the student to learn the material, they are likely to provoke in-class discussion of the material.

Completion of a book of this size is a considerable task involving the participation of many people. I would like to thank my former secretary, Valeska Wolf, and Marla Hickey Thanks to Yanbo Jin for preparing many new questions and problems. Thanks also to David Olson for programming PManager. I also wish to thank Eli Talmor for his contribution to the appendix on utility theory. In addition, thanks to Tiffany Haugen, Jim Berens, Bill Lepley, and Darius Miller for participation in writing the instructor's manual and the end-of-chapter questions and problems. I am also grateful to the reviewers of this edition: Atul Saxena, Mercer University; Manuel Tarrazo, University of San Francisco; and Joe Walker, University of Alabama at Birmingham. Finally, a special thanks goes to all the professionals who participated in the *Out on the Street* segments of the book. These people devoted their time freely to the project, and their stories should be of inspiration to the students who will follow in their footsteps.

Users Review

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