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投资学精要(第8版)

(美) Zvi Bodie Alex Kane Alan J. Marcus 著

Essentials of Investments (Eighth Edition)

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北京

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Essentials of Investments

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出 版 说 明

为了适应经济全球化的发展趋势，满足国内广大读者了解、学习和借鉴国外先进经济管理理论和管理经验的需要，清华大学出版社与国外著名出版公司 McGraw-Hill 教育出版集团合作影印出版了一系列商科英文版教材。鉴于大部分外版教材篇幅过长，且其中部分内容与我国的教学需要不符，我们请专家学者结合国内教学的实际要求，对所选图书进行了必要的删节。我们所选择的图书，基本上是在国外深受欢迎，并被广泛采用的优秀教材的缩减版，其主教材均是该领域中较具权威性的经典之作。

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我们期望这套影印书的出版对我国经济管理科学的发展能有所帮助，对我国商科的教学，尤其是商学本科的教学能有所促进。

欢迎广大读者给我们提出宝贵的意见和建议，也欢迎有关专业人士向我们推荐您所接触到的国外优秀图书。

清华大学出版社

2011.4

中国的学生要不要使用英文版的教材，一直有争议。有人认为，我们应该使用自己编写的教材，这样才能更准确地反映我们在课堂上所要表述的观点。用国外的原版教材，有些隔靴搔痒，不能解决中国的实际问题。持不同意见的观点认为，尽管各国在管理体制上有意识、制度、文化等差异，但管理本身是在国际环境下具有共同性的问题。特别是，中国的企业在经济全球化的环境下，需要更多地了解国外的管理理论与现状。在这种情况下，就需要引进一些外版的教材。一则，用于满足我们教学的部分需求；二则，更好地了解外版教材的教学服务体系；三则，为我们的师生创造英语教学的环境。

在进行 2004 年本科教指委的工作规划时，我曾特别谈及，要加强对本科教育中教书“育人”、服务于学生的使命的认识，继续优化专业课程设计，扩大精品课程建设，增加专业导向课程，尤其要加强对国际商科与经济管理学科教学进展的研究，并引进最新的教学成果，包括教材及教学资源。这一切都是为了更好地为国家与社会培养更好的人才。

为此，清华大学出版社与美国麦格劳-希尔教育出版公司的合作，引进出版这套“精编版”的英文工商管理教材，也是体现这一理念。这套教材吸收国际最新教学成果，提供全方位的教学资源，并借助英语的语言媒介，将会大力提升与发展中国工商管理教学水平，提高学生使用英语语言和网络安全手段获得长久的终生学习的能力和兴趣，进而提高我国工商界的国际竞争力。这是一件具有重大意义的工作。

讲到美国麦格劳-希尔教育出版公司，就要提到该公司的中国首席代表姜峰先生。我同他认识已经多年了。1995 年，他供职西蒙与舒斯特公司北京代表处。从那时起，他便开始来学校拜访，打破我们出版社坐等教师上门的惯例。他这种服务教学的理念就是直接同我们的教师见面，为教师提供教学资源，从早期的印刷版图书到磁盘、光盘，到在线资源、在线系统。这些年，姜峰先生尽管已经换到目前的公司工作，但他始终坚持着这一服务教学的理念，认真实践着他的教育出版观。

在同姜峰先生讨论引进国际上在工商管理教学的最新成果时，基本上确定了引进本套教材及教学资源的基本格调，即对“国际最新教学成果”的几个共同认识：一是国际上教学技术的进展究竟走到了哪一步，我们就引进到哪一步。二是要注意教学技术的发展给教学及教材带来的影响，我们要借鉴新的教学辅助手段。

最近几年，我在美国授课的过程中，注意到教学网络技术：CMS，课程管理系统。通过这个教学辅助系统，教师可以将所要讲授的课程内容简单地张贴到一个系统化的网页上，包括教学演示文件 PPT、章节提要 (Lecture Notes)、在线阅读资料，以及问答题、简答题还有课后大作业等，还可以很简单地开设自己课程的在线论坛 BBS。学生在注册后，便成为在线学生，通过该平台与教师交

互，完成习题、在线提交作业，在线考试，自动出评测分析报告。这一切是以教师为中心，完全解决了教师对于自己教学内容，以及对学 生及教学过程的网络化数字化管理的问题，并可多次复用、异地复用。这个在线学习系统 (BlackBoard, WebCT, eCollege) 等不同于国内各高校自己研发的以学籍管理或居于录像、课件的远程教学为中心的校园管理平台，直接解决大学的核心问题，即“大师”们对课程教学内容的管理问题，成为对教师授课最好的在线数字化辅助支持平台。

2003 年 12 月底，从姜峰先生处得知 BlackBoard 在中国落地，便通过他与赛尔毕博公司接触，很快决定在中国人民大学商学院引进该平台支持教学。2004 年的春季学期，我商学院 247 位教师，所有 364 门课程全面上线，2000 多名学生在线注册学习，引发了人大商学院一场真正意义上的“教学革命”。教师与学生实现了很好地沟通与互动，学生之间也有了很好地学习谈论的天地。目前，我商学院的经验，已经成为赛尔毕博支持国内院校教学上线发展的典范，成为 BlackBoard 在国内的示范教学网站。

课堂教学同网络平台结合之后，又给教学带来了新的挑战，也给教材和教材的出版商们带来了新的机遇。历史悠久的麦格劳-希尔教育出版公司积极适应这种挑战，在商科及经管教材的出版上做了战略性的调整：即将教材本身做“薄”，出版一批新型的、跨媒介的教材：将研讨性、探索性、展开式的学习内容放到网上，将动态交互性的内容放到网上；印刷版的教材从过去强调各章节内容全面，呈现教学过程、学习环节，转向到注重概念性及引导性，展现学习的核心内容。同时，他们将教材配套的教学资源做得更“全”，将更多的内容上线后全面依托网络，更加动态地呈现教学内容及教学过程；并为不同的教学平台提供完全解决方案，提供跨平台的不同版本的内容“子弹”。无论采用 BlackBoard 或 WebCT 等平台，教师们都可以从出版商处获得标准的教学资源包，为自己采用的教材轻松搭建课程网站，实现教学的在线革命。

总之，教学在革命，教学的手段也在革命。我们要看到工商管理教学在国际上的各种变化，努力跟上时代的发展变化，使我们的学生真正获得国际水准的教育。为此，我衷心地感谢这批教材的国外作者们，正是他们不懈的教学实践，为给我们学科的发展带来源源的活力；同时感谢国内外的出版界的人们，感谢他们对教材、教材市场的永恒的追求，不断地帮助我们提升教学的水准；衷心希望这批适应新的教学需要的国际最新教材的出版能抛砖引玉，再次带动整个工商管理教育无论是本科、高职高专教学还是 MBA、EMBA 教学的发展。

子曰：“学而时习之，不亦说乎。”在这场教学革命中，我们有更大的勇气面临新的教学的挑战，将中国的工商管理教育推向世界一流的前列！

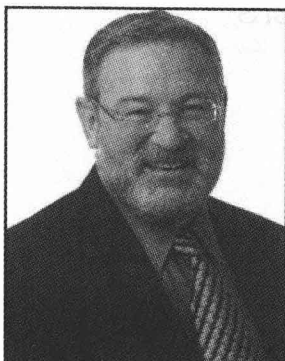
徐二明

中国人民大学

2004 年金秋于北京

To our wives and eight wonderful daughters

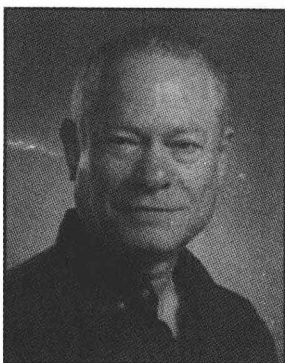
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Zvi Bodie is Professor of Finance and Economics at Boston University School of Management. He holds a PhD from the Massachusetts Institute of Technology and has served on the finance faculty at Harvard Business School and MIT's Sloan School of Management. Professor Bodie has published widely on pension finance and investment strategy in leading professional journals. His books include *Foundations of Pension Finance*, *Pensions in the U.S. Economy*, *Issues in Pension Economics*, and *Financial Aspects of the U.S. Pension System*. Professor Bodie is a member of the Pension Research Council of the Wharton School, University of Pennsylvania. His latest book is *Worry-Free Investing: A Safe Approach to Achieving Your Lifetime Financial Goals*.



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Alan Marcus is Professor of Finance in the Wallace E. Carroll School of Management at Boston College. He received his PhD from MIT, has been a Visiting Professor at MIT's Sloan School of Management and Athens Laboratory of Business Administration, and has served as a Research Fellow at the National Bureau of Economic Research, where he participated in both the Pension Economics and the Financial Markets and Monetary Economics Groups. Professor Marcus also spent two years at the Federal Home Loan Mortgage Corporation (Freddie Mac), where he helped to develop mortgage pricing and credit risk models. Professor Marcus has published widely in the fields of capital markets and portfolio theory. He currently serves on the Research Foundation Advisory Board of the CFA Institute.

A Note From the Authors . . .

The end of 2008 capped three decades of rapid and profound change in the investment industry with a financial crisis of historic magnitude. The vast expansion of financial markets over recent decades was due in part to innovations in securitization and credit enhancement that gave birth to new trading strategies. These strategies were in turn made feasible by developments in information technology, as well as by advancements in the theory of investments.

The crisis can be traced in part to macroeconomic imbalances in global trading patterns. Huge savings in exporting countries fed low interest rates and historically high leverage in business and investment portfolios around the world. Yet the crisis was rooted in cracks of the financial system. The innovation-driven, massive capacity of the system to facilitate highly leveraged investments was coupled with, and indeed enhanced by, relaxation of regulation as well as incentive schemes that reduced transparency and masked the overvaluation of investment assets.

These developments highlight the importance of two innovations that were coincidentally emerging in the theory of investments, namely, the centrality of liquidity in asset valuation and the importance of investor behaviors that contribute to herding and at times low-quality, wildly optimistic forecasts. Broadly speaking, asset liquidity is often hard to measure—and investors may at times become overly optimistic or pessimistic—but these are just additional factors in the assessment and incorporation of overall market risk in asset valuation, a central theme of this text which we have updated in this eighth edition. Still, the idea that *security markets are nearly efficient*, meaning that most securities are usually priced appropriately given their risk and return attributes, nevertheless remains a justifiably powerful approach to security valuation. While the degree of market efficiency is and will always be a matter of debate, this first principle of valuation, specifically that in the absence of private information prices are the best guide to value, is still valid. Greater emphasis on risk analysis is the lesson we have weaved into the text.

This text also continues to emphasize *asset allocation* more than most other books. We prefer this emphasis for

two important reasons. First, it corresponds to the procedure that most individuals actually follow when building an investment portfolio. Typically, you start with all of your money in a bank account, only then considering how much to invest in something riskier that might offer a higher expected return. The logical step at this point is to consider other risky asset classes, such as stock, bonds, or real estate. This is an asset allocation decision. Second, in most cases the asset allocation choice is far more important than specific security-selection decisions in determining overall investment performance. Asset allocation is the primary determinant of the risk-return profile of the investment portfolio, and so it deserves primary attention in a study of investment policy.

Our book also focuses on investment analysis, which allows us to present the practical applications of investment theory, and to convey insights of practical value. In this edition of the text, we have continued to expand a systematic collection of Excel spreadsheets that give you tools to explore concepts more deeply than was previously possible. These spreadsheets are available on the text's Web site (www.mhhe.com/bkm), and provide a taste of the sophisticated analytic tools available to professional investors.

In our efforts to link theory to practice, we also have attempted to make our approach consistent with that of the CFA Institute. The Institute administers an education and certification program to candidates for the title of Chartered Financial Analyst (CFA). The CFA curriculum represents the consensus of a committee of distinguished scholars and practitioners regarding the core of knowledge required by the investment professional.

This text will introduce you to the major issues of concern to all investors. It can give you the skills to conduct a sophisticated assessment of current issues and debates covered by both the popular media and more specialized finance journals. Whether you plan to become an investment professional, or simply a sophisticated individual investor, you will find these skills essential.

Zvi Bodie
Alex Kane
Alan J. Marcus

Organization of the Eighth Edition

Essentials of Investments, Eighth Edition, is intended as a textbook on investment analysis most applicable for a student's first course in investments. The chapters are written in a modular format to give instructors the flexibility to either omit certain chapters or rearrange their order. The highlights in the margins describe updates for this edition.

This part lays out the general framework for the investment process in a nontechnical manner. We discuss the major players in the financial markets and provide an overview of security types and trading mechanisms. These chapters make it possible for instructors to assign term projects analyzing securities early in the course.

Updated to reflect market developments during the credit crisis, such as the demise of the investment banks, new restrictions on short-selling, and turmoil in the markets for short-term instruments and money market funds.

Includes excerpts from the "Code of Ethics and Standards of Professional Conduct" of the CFA Institute.

This part contains the core of modern portfolio theory. For courses emphasizing security analysis, this part may be skipped without loss of continuity.

All data are updated and available on the Web through our Online Learning Center at www.mhhe.com/bkm. The data are used in new treatments of risk management and Value at Risk.

Introduces simple in-chapter spreadsheets that can be used to compute investment opportunity sets and the index model.

Includes greater focus on the use of factor and index models as a means to understand and measure various risk exposures.

Contains new discussion of asset price bubbles in the context of market efficiency.

Contains extensive treatment of behavioral finance and provides an introduction to technical analysis.

Part ONE

ELEMENTS OF INVESTMENTS 1

- 1 **Investments: Background and Issues** 2
- 2 **Asset Classes and Financial Instruments** 23
- 3 **Securities Markets** 52
- 4 **Mutual Funds and Other Investment Companies** 83

Part TWO

PORTFOLIO THEORY 108

- 5 **Risk and Return: Past and Prologue** 109
- 6 **Efficient Diversification** 145
- 7 **Capital Asset Pricing and Arbitrage Pricing Theory** 189
- 8 **The Efficient Market Hypothesis** 228
- 9 **Behavioral Finance and Technical Analysis** 260

Part THREE

DEBT SECURITIES 286

10 Bond Prices and Yields 287

11 Managing Bond Portfolios 329

Part FOUR

SECURITY ANALYSIS 362

12 Macroeconomic and Industry Analysis 363

13 Equity Valuation 394

14 Financial Statement Analysis 435

Part FIVE

DERIVATIVE MARKETS 473

15 Options Markets 474

16 Option Valuation 509

17 Futures Markets and Risk Management 543

Part SIX

ACTIVE INVESTMENT MANAGEMENT 577

19 Globalization and International Investing 610

21 Taxes, Inflation, and Investment Strategy 671

This is the first of three parts on security valuation.

Includes considerable new material on credit default swaps and systemic risk.

Contains spreadsheet material on duration and convexity.

This part is presented in a "top-down" manner, starting with the broad macroeconomic environment before moving to more specific analysis.

Discusses how international political developments have had major impacts on economic prospects.

Contains free cash flow equity valuation models as well as a discussion of corporate earnings management strategies.

Contains new coverage of the debate over mark-to-market accounting and its ramifications for the market crash of 2008.

This part highlights how these markets have become crucial and integral to the financial universe and are major sources of innovation.

Offers thorough introduction to option payoffs, strategies, and securities with embedded options.

Includes in-chapter spreadsheet material on the Black-Scholes model and estimation of implied volatility.

This part unifies material on active management and is ideal for a closing-semester unit on applying theory to actual portfolio management.

Provides evidence on international correlation and the benefits of diversification.

Employs extensive spreadsheet analysis of the interaction of taxes and inflation on long-term financial strategies.

Pedagogical Features

Chapter Objectives

Each chapter begins with a summary of the chapter objectives, providing students with an overview of the concepts they should understand after reading the chapter. A chapter overview follows.

After Studying This Chapter You Should Be Able To:

- Define an investment.
- Distinguish between real assets and financial assets.
- Describe the major steps in the construction of an investment portfolio.
- Identify major participants in financial markets.
- Identify types of financial markets and recent trends in those markets.

Chapter Overview

Each chapter begins with a brief narrative to explain the concepts that will be covered in more depth. Relevant Web sites related to chapter material can be found on the book Web site at www.mhhe.com/bkm. These sites make it easy for students to research topics further and retrieve financial data and information.

What constitutes a satisfactory investment portfolio? Until the early 1970s, a reasonable answer would have been a Federally insured bank savings account (a risk-free asset) plus a risky portfolio of U.S. stocks. Nowadays, investors have access to a vastly wider array of assets and may contemplate complex portfolio strategies that may include foreign stocks and bonds, real estate, precious metals, and collectibles. Even more complex strategies may

expected return and the risk of the entire portfolio. To guide us in forming reasonable expectations for portfolio performance, we will start this chapter with an examination of various conventions for measuring and reporting rates of return. Given these measures, we turn to the historical performance of several broadly diversified investment portfolios. In doing so, we use a risk-free portfolio of Treasury bills as a benchmark to evaluate the historical performance of diversified stock and bond

Key Terms in the Margin

Key terms are indicated in color and defined in the margin the first time the term is used. A glossary is available on the book Web site at www.mhhe.com/bkm.

stop order

Trade is not to be executed unless stock hits a price limit.

Therefore, investors interested in larger trades face an *effective spread* greater than the nominal one since they cannot execute their entire trades at the inside price quotes.

Until 2001, when U.S. markets adopted decimal pricing, the minimum possible spread was "one tick," which on the New York Stock Exchange was \$ $\frac{1}{8}$ until 1997 and \$ $\frac{1}{16}$ thereafter. With decimal pricing, the spread can be far lower. The average quoted bid-ask spread on the NYSE is less than 5 cents.

Stop orders are similar to limit orders in that the trade is not to be executed unless the stock hits a price limit. For *stop-loss orders*, the stock is to be *sold* if its price falls below a stipulated level. As the name suggests, the order lets the stock be sold to stop further losses from accumulating. Similarly, *stop-buy orders* specify that a stock should be bought when its price rises above a limit. These trades often accompany *short sales* (sales of securities you don't own but have borrowed from your broker) and are used to limit potential losses from the short position. Short sales are discussed in greater detail later in this chapter. Figure 3.5 organizes these types of trades in a convenient matrix.

Numbered Equations

Key equations are called out in the text and identified by equation numbers. Equations that are frequently used are also featured on the text's end sheets for convenient reference.

be necessary to provide an after-tax return equal to that of municipals. To derive this value, we set after-tax yields equal and solve for the *equivalent taxable yield* of the tax-exempt bond. This is the rate a taxable bond would need to offer in order to match the after-tax yield on the tax-free municipal.

$$r(1 - t) = r_m \quad (2.1)$$

or

$$r = \frac{r_m}{1 - t} \quad (2.2)$$

Thus, the equivalent taxable yield is simply the tax-free rate divided by $1 - t$. Table 2.3 presents equivalent taxable yields for several municipal yields and tax rates.

On the MARKET FRONT

MONEY MARKET FUNDS AND THE CREDIT CRISIS OF 2008

Money market funds are mutual funds that invest in the short-term debt instruments that comprise the money market. In 2008, these funds had investments totaling about \$3.4 trillion. They are required to hold only short-maturity debt of the highest quality; the average maturity of their holdings must be maintained at less than three months. Their biggest investments tend to be in commercial paper, but they also hold sizable fractions of their portfolios in certificates of deposit, repurchase agreements, and Treasury securities. Because of this very conservative investment profile, money market funds typically experience extremely low price risk. Investors for their part usually acquire check-writing privileges with their funds and often use them as a close substitute for a bank account. This is feasible because the funds almost always maintain share value at \$1.00 and pass along all investment earnings to their investors as interest.

Until 2008, only one fund had "broken the buck," that is, suffered losses large enough to force value per share below \$1. But when Lehman Brothers filed for bankruptcy protection on September 15, 2008, several funds that had invested heavily in its commercial paper suffered large losses. The next day, Reserve Primary Fund, the oldest money market fund, broke the buck when its value per share fell to only \$.37.

The realization that money market funds were at risk in the credit crisis led to a wave of investor redemptions similar to a run on a bank. Only three days after the Lehman bankruptcy, Putnam's Prime Money Market Fund announced that it was liquidating due to heavy redemptions. Fearing further outflows, the U.S. Treasury announced that it would make federal insurance available to money market funds willing to pay an insurance fee. This program would thus be similar to FDIC bank insurance. With the federal insurance in place, the outflows were quelled.

However, the turmoil in Wall Street's money market funds had already spilled over into "Main Street." Fearing further investor redemptions, money market funds had become afraid to commit funds even over short periods, and their demand for commercial paper had effectively dried up. Firms that had been able to borrow at 2% interest rates in previous weeks now had to pay up to 8% and the commercial paper market was on the edge of freezing up altogether. Firms throughout the economy had come to depend on those markets as a major source of short-term finance to fund expenditures ranging from salaries to inventories. Further breakdown in the money markets would have had an immediate crippling effect on the broad economy. Within days, the Federal government put forth its first plan to spend \$700 billion to stabilize the credit markets.

On the Market Front Boxes

Current articles from financial publications such as *The Wall Street Journal* are featured as boxed readings. Each box is referred to within the narrative of the text, and its real-world relevance to the chapter material is clearly defined.

Computer networks have made it much cheaper and easier for small investors to trade for their own accounts and perform their own security analysis. What will be the likely effect on financial intermediation?

CONCEPT check 1.2

Concept Checks

These self-test questions in the body of the chapter enable students to determine whether the preceding material has been understood and then reinforce understanding before students read further. Detailed Solutions to the Concept Checks are found at the end of each chapter.

EXAMPLE 1.1

Carl Icahn's proxy fight with Yahoo!

In February 2008, Microsoft offered to buy Yahoo! by paying its current shareholders \$31 for each of their shares, a considerable premium to its closing price of \$19.18 on the day before the offer. Yahoo!'s management rejected that offer and a better one at \$33 a share; Yahoo!'s CEO Jerry Yang held out for \$37 per share, a price that Yahoo! had not reached in over two years. Billionaire investor Carl Icahn was outraged, arguing that management was protecting its own position at the expense of shareholder value. Icahn notified Yahoo! that he had been asked to "lead a proxy fight to attempt to remove the current board and to establish a new board which would attempt to negotiate a successful merger with Microsoft."⁹ To that end, he had purchased approximately 59 million shares of Yahoo! and formed a 10-person slate to stand for election against the current board. Despite this challenge, Yahoo!'s management held firm in its refusal of Microsoft's offer, and with the support of the board, Yang managed to fend off both Microsoft and Icahn. In July, Icahn agreed to end the proxy fight in return for three seats on the board to be held by his allies. But the 11-person board was still dominated by current Yahoo! management. Yahoo!'s share price, which had risen to \$29 a share during the Microsoft negotiations, fell back to around \$21 a share. Given the difficulty that a well-known billionaire faced in defeating a determined and entrenched management, it is no wonder that proxy

Numbered Examples

Numbered and titled examples are integrated in each chapter. Using the worked-out solutions to these examples as models, students can learn how to solve specific problems step-by-step as well as gain insight into general principles by seeing how they are applied to answer concrete questions.

Excel Integration

Excel Applications

Since many courses now require students to perform analyses in spreadsheet format, Excel has been integrated throughout the book once again. It is used in examples as well as in this chapter feature which shows students how to create and manipulate spreadsheets to solve specific problems. This feature starts with an example presented in the chapter, briefly discusses how a spreadsheet can be valuable for investigating the topic, shows a sample spreadsheet, and then directs the student to the Web to work with an interactive version of the spreadsheet. The student can obtain the actual spreadsheet from the book's Web site (www.mhhe.com/bkm); available spreadsheets are denoted by an icon. As extra guidance, the spreadsheets include a comment feature that documents both inputs and outputs. Solutions for these exercises are located on the password-protected instructor site only, so instructors can assign these exercises either for homework or just for practice.

Excel application spreadsheets are available for the following:

- Chapter 3:** Buying on Margin; Short Sales
- Chapter 6:** Efficient Frontier for Many Stocks
- Chapter 7:** Estimating the Index Model
- Chapter 11:** Immunization; Convexity
- Chapter 15:** Options, Stock, and Lending; Straddles and Spreads
- Chapter 17:** Parity and Spreads
- Chapter 19:** International Portfolios

Spreadsheet exhibit templates are also available for the following:

- Chapter 5:** Spreadsheet 5.1
- Chapter 6:** Spreadsheets 6.1–6.6
- Chapter 10:** Spreadsheets 10.1 & 10.2
- Chapter 11:** Spreadsheets 11.1 & 11.2
- Chapter 13:** Spreadsheets 13.1 & 13.2
- Chapter 16:** Spreadsheet 16.1
- Chapter 21:** Spreadsheets 21.1–21.10

EXCEL APPLICATIONS

Performance Measures

The Excel model "Performance Measures" calculates all of the performance measures discussed in this chapter. The model available on our Web site is built to allow you to compare eight different portfolios and to rank them on all measures discussed in this chapter.

eExcel
Please visit us at
www.mhhe.com/bkm

	A	B	C	D	E	F	G	H	I	J	K
1	Performance Measurement										
2											
3											
4											
5											
6	Fund	Average Return	Standard Deviation	Beta Coefficient	Unsystematic Risk	Sharpe Ratio	Treynor Measure	Jensen Alpha	M ² Measure	T ² Measure	Appraisal Ratio
7	Alpha	.2800	.2700	1.7000	.0500	0.8148	.1294	-.0180	-.0015	-.0108	-0.3600
8	Omega	.3100	.2600	1.6200	.0600	0.9615	.1543	.0232	.0235	.0143	0.3897
9	Omicron	.2200	.2100	0.8500	.0200	0.7819	.1882	.0410	-.0105	.0482	2.0500
10	Millennium	.4000	.3300	2.5000	.2700	1.0303	.1360	.0100	.0352	.0040	-0.0370
11	Big Value	.1500	.1300	0.9000	.0300	0.6923	.1000	-.0360	-.0223	.0400	-1.2000
12	Momentum Watcher	.2900	.2400	1.4000	.1600	0.9583	.1643	.0340	.0229	.0243	0.2125
13	Big Potential	.1500	.1100	0.5500	.0150	0.8182	.1636	.0130	-.0009	.0236	0.8667
14	S&P Index Return	.2000	.1700	1.0000	.0000	0.8235	.1400	.0000	.0000	.0000	0.0000
15	T-Bill Return	.06		0							
16											
17	Ranking by Sharpe										
18		Return	S.D.	Beta	Unsys Risk	Sharpe	Treynor	Jensen	M ²	T ²	Appraisal
19	Millennium	.4000	.3300	2.5000	.2700	1.0303	.1360	-.0100	.0352	.0040	-0.0370
20	Omega	.3000	.2600	1.6200	.0600	0.9615	.1543	.0232	.0235	.0143	0.3897
21	Momentum Watcher	.2900	.2400	1.4000	.1600	0.9583	.1643	.0340	.0229	.0243	0.2125
22	S&P Index Return	.2000	.1700	1.0000	.0000	0.8235	.1400	.0000	.0000	.0000	0.0000
23	Big Potential	.1500	.1100	0.5500	.0150	0.8182	.1636	.0130	-.0009	.0236	0.8667
24	Alpha	.2800	.2700	1.7000	.0500	0.8148	.1294	-.0180	-.0015	-.0108	-0.3600
25	Omicron	.2200	.2100	0.8500	.0200	0.7819	.1882	.0410	-.0105	.0482	2.0500
26	Big Value	.1500	.1300	0.9000	.0300	0.6923	.1000	-.0360	-.0223	.0400	-1.2000
27											
28	Ranking by Treynor										

End-of-Chapter Features

connect Select problems are available in McGraw-Hill Connect. Please see the packaging options of the preface for more information. **PROBLEM SETS**

Quiz

1. What are the differences between equity and fixed-income securities?
2. What is the difference between a primary asset and a derivative asset?
3. What is the difference between asset allocation and security selection?

For Problems 20–22, download the Spreadsheet of Table 5.3: Rates of return, 1926–2008, from www.mhhe.com/bkm.

20. Calculate the same subperiod means and standard deviations for small stocks as Table 5.5 of the text provides for large stocks.
 - a. Have small stocks provided better reward-to-volatility ratios than large stocks?
 - b. Do small stocks show a similar higher standard deviation in the earliest subperiod as Table 5.5 documents for large stocks?
21. Convert the nominal returns on both large and small stocks to real rates. Reproduce Table 5.5 using real rates instead of excess returns. Compare the results to those of Table 5.5.
22. Repeat the previous problem for small stocks and compare with the results for nominal rates.

Excel
Please visit us at www.mhhe.com/bkm

Excel
Please visit us at www.mhhe.com/bkm

Excel

Problem Sets

We strongly believe that practice in solving problems is a critical part of learning investments, so we provide a good variety. New to this edition, we separated the questions by level of difficulty: Basic, Intermediate, and Challenge.

Excel Problems

Select end-of-chapter questions require the use of Excel. These problems are denoted with an icon. A template is available at the book Web site www.mhhe.com/bkm.

CFA Problems

1. A portfolio of nondividend-paying stocks earned a geometric mean return of 5.0% between January 1, 2003, and December 31, 2009. The arithmetic mean return for the same period was 6.0%. If the market value of the portfolio at the beginning of 2003 was \$100,000, what was the market value of the portfolio at the end of 2009?
2. Which of the following statements about the standard deviation is/are true? A standard deviation:
 - a. Is the square root of the variance.
 - b. Is denominated in the same units as the original data.
 - c. Can be a positive or a negative number.

CFA
PROBLEMS

CFA Problems

We provide several questions from recent CFA exams in applicable chapters. These questions represent the kinds of questions that professionals in the field believe are relevant to the practicing money manager. Appendix B, at the back of the book, lists each CFA question and the level and year of the CFA Exam it was included in, for easy reference when studying for the exam.

Use data from the Standard & Poor's Market Insight Database at www.mhhe.com/edumarketinsight to answer the following questions.

1. Select the Company tab and enter ticker symbol RRD. Click on the Company Profile in the Compustat Reports section. What kind of firm is Donnelley & Sons?
2. Open the S&P Stock Report for Donnelley. How many shares of the company's stock are outstanding? How many stockholders are there? Is Insider Activity rated as unfavorable, neutral, or favorable?
3. Open the most recently available Proxy Statement for Donnelley (under the EDGAR heading). Locate the section that describes the stock ownership. How many total shares are held by directors and officers? Approximately what percentage is this of the total number of shares outstanding?
4. Look at the Executive Compensation section, which lists data for executives' salaries and other benefits. How much of each executive's compensation is in the form of stock awards? How much is in the form of option awards? Compare these numbers with the executives' salaries.
5. Scroll down further in the Proxy Statement to see what other kinds of benefits executives received. What types of benefits are listed in this section?

STANDARD & POOR'S

S&P Problems

Relevant chapters contain several problems directly related to Standard & Poor's Educational Version of Market Insight. Because of our unique relationship with S&P, students have access to this remarkable database. Problems are based on market data provided by 1,000 real companies to gain better understanding of practical business situations. The site is updated daily to ensure the most current information is available.

Web master MUTUAL FUND REPORT

Go to www.morningstar.com. In the Morningstar Tools section, click on the link for the Mutual Fund Sorsener. Set the criteria you desire, then click on the Show Results tab. If you get no funds that meet all of your criteria, choose the criterion that is least important to you and relax that constraint. Continue the process until you have several funds to compare.

1. Examine all of the views available in the drop-down box menu (Snapshot, Performance, Portfolio, and Nuts and Bolts) to answer the following questions:
 - Which fund has the best expense ratio?
 - Which funds have the lowest Morningstar Risk rating?
 - Which fund has the lowest turnover ratio? Which has the highest?
 - Which fund has the longest manager tenure? Which has the shortest?
 - Do you need to eliminate any of the funds from consideration due to a minimum initial investment that is higher than you are capable of making?
2. Based on what you know about the funds, which one do you think would be the best one for your investment?
3. Select up to five funds that are of the most interest to you. Click on the button that says Score These Results. Customize the criteria listed by indicating their importance to you. Examine

WebMaster Exercises

A great way to allow students to test their skills on the Internet. Each exercise consists of an activity related to practical problems and real-world scenarios.

Supplements

FOR THE INSTRUCTOR

Instructor's Resource CD

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This comprehensive CD contains all of the following instructor supplements. We have compiled them in electronic format for easier access and convenience. Print copies are available through your McGraw-Hill representative.

Instructor's Manual

Prepared by Tim Manuel, University of Montana, this instructional tool provides an integrated learning approach revised for this edition. Each chapter includes a Chapter Overview, Learning Objectives, and Presentation of Material that outlines and organizes the material around the PowerPoint Presentation.

Test Bank

Prepared by Edward Zajicek, Winston-Salem State University, the Test Bank contains more than 1,200 questions and includes over 300 new questions. Each question is ranked by level of difficulty (easy, medium, hard), which allows greater flexibility in creating a test. A computerized format for Windows is also available.

Computerized Test Bank

A comprehensive bank of test questions is provided within a computerized test bank powered by McGraw-Hill's flexible electronic testing program, EZ Test Online (www.eztestonline.com). You can select questions from multiple McGraw-Hill test banks or write your own, and then either print the test for paper distribution or give it online. This user-friendly program allows you to sort questions by format, edit existing questions or add new ones, and scramble questions for multiple versions of the same test. You can export your tests for use in WebCT, Blackboard, PageOut, and Apple's iQuiz. Sharing tests with colleagues, adjuncts, and TAs is easy! Instant scoring and feedback is provided and EZ Test's grade book is designed to easily export to your grade book.

PowerPoint Presentation System

These presentation slides, also developed by Tim Manuel, contain figures and tables from the text, key points, and summaries in a visually stimulating collection of slides. These slides follow the order of the chapters, but if you have PowerPoint software, you may customize the program to fit your lecture.

Solutions Manual

Matthew Will, University of Indianapolis, prepared detailed solutions to the end-of-chapter problems.

ONLINE SUPPORT

Online Learning Center

www.mhhe.com/bkm

Find a wealth of information online! At this book's Web site instructors have access to teaching supports such as electronic files of the ancillary materials. Students have access

to study materials created specifically for this text, and much more. All Excel spreadsheets, denoted by an icon in the text, are located at this site. Links to the following support material, as described below, are also included.

Related Web Sites

A list of suggested Web sites is provided for each chapter. To keep them up-to-date, the suggested sites as well as their links are now provided online. Each chapter contains specific sites of particular use.

Excel Templates

There are templates for selected spreadsheets featured within the text, as well as the ones featured among the Excel Applications boxes. Select end-of-chapter problems have also been designated as Excel problems, in which there is a template available for students to solve the problem and gain experience using spreadsheets. Each template can also be found at the book's Web site and is denoted by an icon.

Standard & Poor's Educational Version of Market Insight

McGraw-Hill/Irwin has partnered exclusively with Standard and Poor's to bring you the Educational Version of Market Insight. This rich online resource provides six years of financial data for 1,000 companies in the renowned COMPUSTAT ® database. S&P problems can be found at the end of relevant chapters of the text.

Wall Street Survivor

Students receive free access to this Web-based portfolio simulation with a hypothetical \$100,000 brokerage account to buy and sell stocks and mutual funds. Students can use the real data found at this site in conjunction with the chapters on investments. They can also compete against students around the United States. This site is powered by Stock-Trak, the leading provider of investment simulation services to the academic community.