

THIRD EDITION

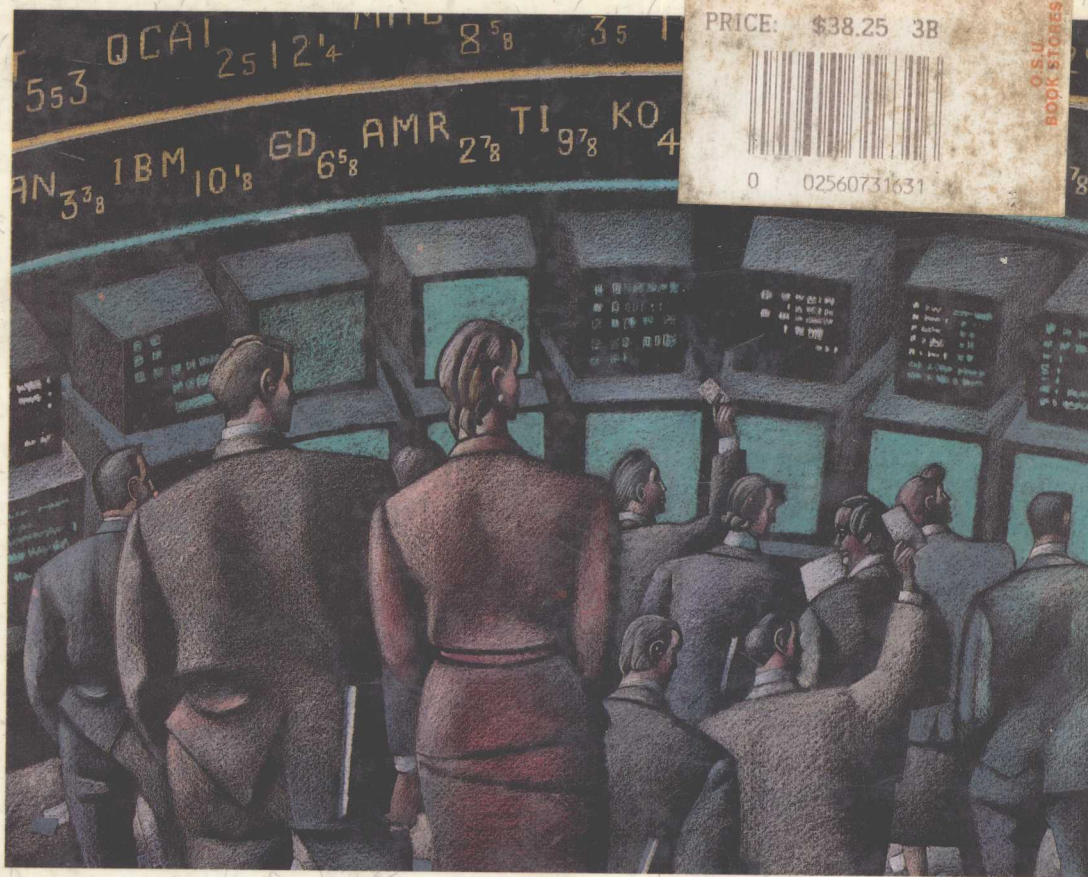
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FUNDAMENTALS OF INVESTMENT MANAGEMENT

THIRD EDITION

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PREFACE

The first edition of *Fundamentals of Investment Management* was published in the early 1980s, and since then many changes have taken place in the financial markets. However, the one constant for this text has been a sincere commitment by the authors to present a book that captures the excitement and enthusiasm that we feel for the topic of investment management.

Throughout the book, we attempt to establish the appropriate theoretical base, while at the same time following through with real-world examples. Students ultimately should be able to translate what they have learned in the course to actual participation in the financial markets.

NEW FEATURES IN THE THIRD EDITION

A number of features have been added to the Third Edition to make Hirt and Block an even more exciting and beneficial learning experience.

- A complete chapter on mutual funds—the latest look at shareholder services, innovative types of funds, hidden costs in buying and selling funds, and so forth.
- CFA exam questions at the back of selected chapters—Actual questions and solutions from recent CFA Level-One exams. They cover topics related to stock valuation, bond valuation, financial analysis, etc. This material is presented in addition to the normal end-of-chapter questions and problems.
- Illustrative boxes emphasize key points. Features from *The Wall Street Journal* cover such topics as asset allocation decisions, computer-assisted investments, junk bonds, and even baseball cards as investments.
- Increased coverage of special situation investing—While Hirt and Block is already way ahead of the field in identifying anomalies that seem to refute the efficient market hypothesis, many more have been added to Chapter 14, “Investments in Special Situations.” These include new or expanded coverage of the January effect, the small-firm–low P/E effect, the value line effect, the surprise earnings effect, and much more. The end-of-chapter references cite 46 different studies covering 11 different types of anomalies.
- Expanded emphasis on international markets—Hirt and Block covers international financial markets as a significant component of the investment opportunity set. While the Second Edition had a chapter on international

securities, the Third Edition continues and enhances that tradition. International implications also are covered in many sections of the book.

- Implications of program trading and the market crash of 1987—The Third Edition highlights the effects of program trading, institutional dominance, and the impact of the crash.
- Implications of insider trading—The problem of insider trading was never more evident than in the late 1980s with the Ivan Boesky and Dennis Levine scandals. The authors maintain that this is an issue for the 1990s as well, and introduce the student to the topic of illegal use of privileged information and to the potential legislation in this area.
- Tax-planning implications of recent legislation—The one sure principle about tax laws is that they will change faster than you can understand them. Nevertheless, Hirt and Block brings the reader fully up-to-date on the effects of the Tax Reform Act of 1986, legislation that is being implemented in the 1987–1991 time period. Discussion covers such items as capital gains, individual retirement accounts, passive investments in real estate, and so on. To the extent there are any new major changes in the tax laws during the existence of the third edition of Hirt and Block, the authors will quickly provide their users with supplementary material.

PEDAGOGICAL FEATURES

The authors believe in establishing a very sound base for analysis. For example, in Chapter 6 the student is strongly encouraged to use appropriate valuation techniques to evaluate equities. These include present value techniques under different assumptions of growth rates. Similar approaches are used to evaluate bonds, options, and other forms of investments. At the same time, the authors consider it essential that real-world material be integrated into the analysis. For example, in valuing equity securities, the common stock of K mart Corporation is used rather than some hypothetical firm. Ratio and financial statement analysis are focused through the eyes of one reading the Coca-Cola annual report. The discussion of convertible bonds is based on securities issued by the Tandy Corporation. The same principle is followed in virtually every chapter of the book.

Nowhere is the emphasis on the real world more evident than in Appendix F, which covers 25 pages of financial and economic information. Here, the reader will find current and historical information on stock market indexes, interest rates, gross national product, inflation, and corporate profits.

Approach in Teaching

The book is sufficiently flexible so that the instructor can use the text on a quarter or semester basis. Furthermore, there is a large enough range of topics to allow the instructor to use a traditional approach to investments or expand into a variety of new areas.

Traditional Approach

- Part 1—Introduction to Investments
 - Security Markets
 - Buying and Selling Securities
 - Sources of Investment Information
- Part 2—Analysis and Valuation of Equity Securities
 - Economic and Industry Analysis
 - Valuation of the Individual Firm
 - Financial Statement Analysis
 - Technical Analysis and Market Efficiency
- Part 3—Fixed-Income and Leveraged Securities
 - Bond and Fixed-Income Fundamentals
 - Principles of Bond Valuation
 - Convertible Securities and Warrants
 - Put and Call Options

Expanded Version beyond Traditional Approach

All of the above plus:

- Part 4—Broadening the Investment Perspective
 - Investments in Special Situations—Anomalies
 - Commodities and Financial Futures
 - Stock Index Futures and Options
 - Investments in Real Assets
 - International Security Markets

Adding in Portfolio Considerations

This would include either a traditional approach or an expanded version of the traditional approach, plus:

- Part 5—Introduction to Portfolio Management
 - Portfolio Management and Capital Market Theory
 - Measuring Risks and Returns of Portfolio Managers

END-OF-CHAPTER MATERIAL

There are comprehensive questions and problems at the end of each chapter. The authors provide more problem material than any other introductory investment text. The problems are carefully annotated in the margin to indicate the topic covered (i.e., bond valuation, margin requirements, dividend valuation model, etc.). To further enforce the student's learning process, many of the analytical chapters also have questions and solutions from prior CFA Level-One exams. The intent is to illustrate that much of what the students are learning is in line with what professional financial analysts are expected to

know for certification. Also at the end of each chapter is a listing of the important words and concepts from the chapter. These items are fully defined in the glossary.

A number of the chapters have appendixes that cover such diverse topics as career opportunities in investments, individual retirement accounts, innovations in the debt markets, and the Black-Scholes Option Pricing model.

TEACHING SUPPORT PACKAGE

The teaching support package includes:

1. *Instructor's Manual and Test Bank*—The first element in the package contains detailed solutions for all the problems in the text. It also contains teaching strategies for the 21 chapters.
Furthermore, there is a test bank of well over 1,000 questions. These include true-false, multiple-choice, matching quizzes, and many problems for those chapters that lend themselves to problem material.
2. *Transparency Masters*—Numerous transparency masters at the back of the *Instructor's Manual and Test Bank* include illustrations of major items from the text.
3. *Investments Templates* (Software)—There will be investment templates software to accompany the third edition of Hirt and Block. This software is based on LOTUS 1-2-3® templates and is based on the calculations and formulas found in the textbook. These templates are designed to test the sensitivity of the investment relationships found in the chapters of the textbook. The software will allow the student to solve most of the homework problems at the end of the chapters. For example, the templates and exercises include the stock valuation models found in Chapter 6, bond valuation, duration calculations, convertible bond analysis, option pricing models, and portfolio analysis models.
4. *Investment Self-Study* (Software)—This package will be available free for student use with the text. The diskette contains true-false questions and multiple-choice questions that are similar to those in the instructor's manual, but not the same. These questions may be studied a chapter at a time in a quiz format, and the student has the choice of taking either true-false, multiple-choice, or a combination quiz. The questions are randomly selected so that the student will be quizzed in a different order each time he or she requests a quiz from selected chapters. The student can also select a test from a combination of up to 10 chapters.

Investment Self-Study also includes the complete glossary found at the back of the text plus some additional terms. From this glossary the student can select matching quizzes or look up definitions either by typing the word into the computer for a word search or by selecting a letter of the alphabet and scrolling through the words beginning with that letter. This glossary is also keyed into the true-false and multiple-choice questions so that when a student misses a question he or she can look up key words directly after missing the

question. A chapter outline and the summary for each chapter are also part of the tutorial.

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Geoffrey A. Hirt
Stanley B. Block

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