

高等学校金融学类英文版教材

Investment Analysis and Portfolio Management 7e

Frank K. Reilly Keith C. Brown 著

投资分析与 组合管理

林海(厦门大学) 改编
赵锡军(中国人民大学) 审校

 高等教育出版社
THOMSON
★

高等学校金融学类英文版教材

1. Survey of Accounting 2e 会计学
2. Bank Management 5e 银行管理学
3. Investment Analysis and Portfolio Management 7e 投资分析与组合管理
4. International Monetary and Financial Economics 3e 国际货币与金融经济学
5. Financial Markets and Institutions 6e 金融市场与机构
6. Fundamentals of Financial Management 10e 财务管理基础
7. An Introduction to Derivatives & Risk Management 6e 衍生工具与风险管理
8. Risk Management and Insurance 12e 风险管理与保险

高等学校会计学类英文版教材

1. Financial Accounting 2e 财务会计
2. Financial Accounting 9e 财务会计
3. Intermediate Accounting 9e 中级会计学
4. Managerial Accounting 7e 管理会计
5. Business Analysis and Valuation: Using Financial Statements 3e 企业分析与估价
6. Financial Reporting and Analysis: Using Financial Accounting Information 9e 财务报告与分析

高等学校经济学类英文版教材

1. Essentials of Economics 3e 经济学原理
2. Principles of Microeconomics 3e 微观经济学原理
3. Principles of Macroeconomics 3e 宏观经济学原理
4. Introductory Econometrics 2e 计量经济学导论
5. International Economics 9e 国际经济学
6. Fundamentals of Managerial Economics 7e 管理经济学基础

● 封面设计 刘晓翔

ISBN 7-04-016164-8



9 787040 161649 >

定价 39.00 元

高等学校金融学类英文版教材

I nvestment Analysis and Portfolio Management 7e

Frank K. Reilly Keith C. Brown 著

投资分析与组合管理

林 海(厦门大学) 改编
赵锡军(中国人民大学) 审校

 高等教育出版社
THOMSON



™

图字:01-2004-6498号

Frank K. Reilly & Keith C. Brown

Investment Analysis and Portfolio Management, seventh Edition

ISBN:0-324-17173-0

Copyright© 2003 by South-Western, a division of Thomson Learning

Original language published by Thomson Learning (a division of Thomson Learning Asia Pte Ltd). All Rights reserved. 本书原版由汤姆森学习出版集团出版。版权所有,盗印必究。

Higher Education Press is authorized by Thomson Learning to publish and distribute exclusively this Adaptation edition. This edition is authorized for sale in the People's Republic of China only (excluding Hong Kong, Macao SAR and Taiwan). Unauthorized export of this edition is a violation of the Copyright Act. No part of this publication may be reproduced or distributed by any means, or stored in a database or retrieval system, without the prior written permission of the publisher.

本书改编版由汤姆森学习出版集团授权高等教育出版社独家出版发行。此版本仅限在中华人民共和国境内(不包括中国香港、澳门特别行政区及中国台湾)销售。未经授权的本书出口将被视为违反版权法的行为。未经出版者预先书面许可,不得以任何方式复制或发行本书的任何部分。

981-265-084-9

图书在版编目(CIP)数据

投资分析与组合管理 = Investment Analysis and Portfolio Management: 英文改编 / (美)基思 (Reilly, F. K.), (美)布朗 (Brown, K. C.) 著. —北京:高等教育出版社, 2005. 1

ISBN 7-04-016164-8

I. 投... II. ①基... ②布... III. 证券投资-分析-经济师-资格考核-教材-英文 IV. F830.91

中国版本图书馆 CIP 数据核字(2004)第 127886 号

策划编辑 于明 责任编辑 于明 封面设计 刘晓翔 责任印制 杨明

出版发行	高等教育出版社	购书热线	010-64054588
社 址	北京市西城区德外大街4号	免费咨询	800-810-0598
邮政编码	100011	网 址	http://www.hep.edu.cn
总 机	010-58581000		http://www.hep.com.cn
经 销	新华书店北京发行所		
印 刷	中国农业出版社印刷厂		
开 本	850×1168 1/16	版 次	2005年1月第1版
印 张	33	印 次	2005年1月第1次印刷
字 数	930 000	定 价	39.00元

本书如有缺页、倒页、脱页等质量问题,请到所购图书销售部门联系调换。

版权所有 侵权必究

物料号:16164-00

出版前言

自教育部在《关于加强高等学校本科教学工作 提高教学质量的若干意见》【教高(2001)4号】中提出双语教学的要求后,各地高校相继开设了一系列双语教学课程。这对提高学生的学科和外语水平,开阔国际视野,培养创新型人才起到了重要的作用;一大批教师也逐渐熟悉了外文授课,自身的教学水平和能力得到较大提高,具备国际学术思维的中青年教师脱颖而出。同时,经过近几年的双语教学实践,国外原版教材量大、逻辑不够清晰、疏离中国现实等问题也影响了双语教学的效果。因此,对外版教材进行本土化的精简改编,使之更加适合我国的双语教学已提上教材建设日程。

为了满足高等学校经济管理类双语课程本土化教学的需要,在教育部高等教育司的指导和帮助下,高等教育出版社同Thomson Learning等国外著名出版公司通力合作,在国内首次推出了金融、会计、经济学等专业的英文原版改编教材。本套教材的遴选、改编和出版严格遵循了以下几个原则:

1. 择优选取权威的新版本。在各专业选书论证会上,我们要求入选改编的教材不仅是在国际上多次再版的经典之作的最新版本,而且是近年来已在国内被试用的优秀教材。

2. 改编后的教材力求内容规范简明,逻辑更加清晰,语言原汁原味,适合中国的双语教学。选择的改编人既熟悉原版教材内容又具有本书或本门课程双语教学的经验;在改编过程中,高等教育出版社组织了知名专家学者召开了数次改编和审稿会议,改编稿征求了众多教师的意见。

3. 改编后的教材配有较丰富的辅助教学支持资源,教师可在网上免费获取。同时,改编后的教材厚度适中,定价标准较低。

由于原作者所处国家的政治、经济和文化背景等与我国不同,对书中所持观点,敬请广大读者在阅读过程中注意加以分析和鉴别。

此次英文改编教材的出版,得到了很多专家学者的支持和帮助,在此深表谢意!我们期待这批英文改编教材的出版能对我国经济管理类专业的教学能有所帮助,欢迎广大读者给我们提出宝贵的意见和建议。

高等教育出版社
2005年1月

Acy 71/03

关于本书

内容简介

本书作为注册金融分析师（CFA）资格考试指定用书，集当代投资理论和分析技术之大成的投资学的权威教材，全书包括6个部分，共21章，循序渐进地介绍投资分析和组合管理的基本内容。其中第1和第2部分分别介绍了投资分析的背景和相关理论。从第3部分开始，从理论过渡到实际，分析投资分析中具体的估值方法和实践。第3部分介绍基本的方法，第4部分和第5部分则是分别介绍对股票和债券的分析。第6部分介绍了投资策略的比较和评价。

本书理论阐述新颖，案例分析翔实。特别适合作为高等院校投资学、金融学、金融工程专业双语教学的高年级本科教材和研究生教材，也可以作为实际运用工作者的参考书。

作者简介

Frank K. Reilly 美国圣母玛利亚大学的金融学教授，曾担任过工商管理学院的院长。他先后在伊利诺伊大学、康萨斯大学、怀俄明州大学以及圣母玛利亚大学任教，并担任过众多学术组织，如财务管理学会、中西部工商管理学会以及中西部金融学会的主席。作为著名的金融学者，他在许多一流的金融经济杂志，如 *Journal of Finance*, *Journal of Financial and Quantitative Analysis* 等发表了100多篇的学术论文。

Keith C. Brown 美国德克萨斯大学商学院的金融学教授。他一直为MBA和博士开设投资学、衍生产品以及资本市场的相关课程，并先后获得6次的教学奖励。他在美国一流的金融经济杂志先后发表过40余篇的论文，并分别在1990和1996年获得 *Financial Analyst Journal* 和 *Journal of Finance* 的最佳论文奖。

改编及审校者简介

林海，金融学博士，现在厦门大学金融系从事教学科研工作。在《金融研究》、《世界经济》等国内外公开刊物发表文章近30篇，出版一本专著。研究方向为资产定价、金融工程与风险管理。

赵锡军，经济学博士，中国人民大学财政金融学院教授，博士生导师，现任中国人民大学国际交流处处长，金融与证券研究所所长。主要研究方向为国际金融、证券投资、金融监管、公司财务，主要讲授国际金融、金融投资学、金融市场运行分析等课程。

教学支持资源（见本书教学支持说明页）

1. Instructor's Manual
2. PowerPoint
3. Test Bank
4. 第4、6、19章学习补充材料
5. Others

导 读

本书是在由Frank K. Reilly和Keith C. Brown撰写的《投资分析与组合管理》(第7版)的基础上改编而成。原书长达1 200多页,对投资学的相关内容进行了比较细致全面地论述,讲述也比较生动活泼,但是内容繁杂,书中相当一部分内容介绍的是其他国家的情况,与中国实际情况关系不大。而且,书中有一些内容已经超过了本科生的承受能力。如果直接将原版书作为本科生教材,存在着学生负担过重和实际脱节的问题。因此,本教材改编的基本原则是在不改变原书理论框架、论述风格的前提下删掉那些和中国实际严重脱节的部分,并在适当的地方增加对中国情况的介绍。由于整本书的篇幅过长,在改编的过程中还对原书比较冗长的部分,特别是大量的例子和课后习题进行了大幅的删减,力求做到精练、简洁、明确。

改编之后的教材和原书相比,突出了以下几个特征:

1. 语言精练,内容明确、简洁,更适应中国国情。改编的教材删掉了原文中大量的用国外数据进行的举例说明,使得书的结构更为清晰,体系更为清楚。同时也给国内高校教师进行实际教学提供了更多发挥的空间。国内高校的教师在具体适用时可以直接使用原书的例子,也可以利用中国的实际数据进行分析。在举例方面本书增加了对中国证券市场有效性、中国利率期限结构以及中国证券市场指数的分析和介绍,可供教师参考。

2. 课后习题大大减少,以突出课程重点。原书中每章结束都有大量的习题,一方面无法突出本章的教学和复习的重点,另一方面也远远超过学生的承受能力,使得学生没有积极性去解决习题,教师在布置作业时也不知重点。改编之后的教材在这方面作了大量的精简,从大量的课后习题中挑选出适合本科生水平的习题,以此加深对相关知识点的掌握。同时题量合适,也利于学生解决。

3. 将分析的重点放在投资学的基本理论框架以及应用的介绍上,对于和其他学科的交叉部分,则大大缩减,有的甚至整个部分删掉。比如对有关财务指标的分析,一般的会计学原理中都会接触到,所以在改编过程中进行了大大的缩减。而衍生产品部分,则专门有衍生产品的教材和课程,所以就将这部分整个删掉,以突出重点。再如对证券市场指数的介绍,基本上和中国无关,所以也整章删掉,只在附录中增加对中国证券市场指数的简单介绍。

经过改编之后,本书共包括6个部分,共21章,循序渐进地介绍投资分析和组合管理的基本内容。其中第1和第2部分分别介绍了投资分析的背景和相关理论。从第3部分开始,就从理论开始过渡到实际,分析投资分析中具体的估值方法和实践。第3部分介绍基本的方法,第4部分和第5部分则是分别介绍对股票和债券的分析。在上面分析的基础上,各个资产管理者就会形成各自的投资策略。但是这些投资策略如何比较和评价呢?如何判断一种投资策略比另一种投资策略好呢?这就是第6部分要解决的问题。

1. 投资的背景。总共4章。第1章介绍投资的分析框架,对投资的定义,以及投资

所主要涉及到的概念,如收益率和风险进行详细的界定。第2章介绍资产配置的决定,论述人的生命周期和资产配置之间的关系,以及资产配置的重要性。第3章主要介绍一些全球性的投资工具。第4章介绍证券市场的组织结构和功能。

2. 投资理论的发展。对投资理论的产生以及发展作了一个历史性的回顾,共4章,主要介绍一个投资分析的经典理论,包括市场效率假说(第5章),投资组合理论(第6章),资本资产定价理论(第7章)以及套利定价理论和多因子定价模型(第8章)。

3. 估值的方法和实践。分3章从3个层面介绍资产估值的方法。第9章介绍财务报表的分析,具体介绍一些财务指标的计算和分析。第10章简单地介绍证券估值的方法,包括三步估值法、股利贴现模型、现金流贴现模型等。该章还简单地介绍了各种证券的估值方法,包括债券、优先股、普通股等。其中普通股和债券会在后面两个部分中详细论述。第11章则论述资产估值的宏观分析,介绍整体宏观经济和证券价格之间的关系。

4. 普通股的分析和管理。详细介绍普通股的分析和管理策略,共5章。普通股分析包括价值分析和技术分析。第12章至第14章沿着市场、行业和公司的从宏观到微观的思路,介绍普通股的价值分析方法。第12章分析整个股票市场,使用的模型和方法包括股利贴现模型和相对定价法。第13章进行行业分析,介绍行业分析的具体内容,第14章则是论述公司分析的具体方法。第15章简单介绍技术分析的一些具体方法和指标。第16章则是对上面几章分析的一个总结,介绍普通股组合的管理策略。

5. 债券的分析和管理。详细介绍债券的分析和管理策略,共3章。第17章先对债券的一些基本知识进行介绍,包括债券的种类、特征以及全球债券的发展等。第18章是该部分的核心章节,主要介绍债券的分析和估值方法,以及和债券分析密切相关的知识,包括利率期限结构及其假设、远期利率、久期等。第19章主要介绍债券组合的策略。

6. 资产管理规范与评价。主要介绍资产管理的一些基本规范和策略,并通过一些具体指标对不同资产组合的表现进行评价,共2章。第20章根据不同的投资主体,包括私人投资、投资公司以及基金等,介绍其资产管理的方法。第21章介绍几个主要的组合评价指标,包括Treynor指标、sharpe指标、Jensen指标以及信息比率指标等,并利用这些指标对一些投资组合进行了分析和评价。

本书既可以作为全国高等院校投资学、金融学、金融工程专业双语教学的高年级本科教材和研究生教材,也可以作为实际运用工作者的参考书。

本书在改编过程中,得到了厦门大学金融系的大力支持,在此表示感谢。对高等教育出版社给予的大力配合,本人也不胜感激。由于本人学识有限,在改编过程中难免出现差错,希望各位老师和同学多多批评指正。

改编及审校者

2004年10月

Contents

Part 1 THE INVESTMENT BACKGROUND	1	Investment Companies	50
Chapter 1 The Investment Setting	3	Real Estate	52
<i>What Is an Investment?</i>	3	Low-Liquidity Investments	53
Investment Defined	4	Historical Risk-Returns on Alternative Investments	54
Measures of Return and Risk	4	Stocks, Bonds, and T-Bills	54
Measures of Historical Rates of Return	4	World Portfolio Performance	56
Computing Mean Historical Returns	6	Chapter 4 Organization and Functioning of Securities Markets	61
Calculating Expected Rates of Return	9	<i>What Is a Market?</i>	61
Measuring the Risk of Expected Rates of Return	10	Characteristics of a Good Market	62
Risk Measures for Historical Returns	12	Organization of the Securities Market	63
Determinants of Required Rates of Return	12	Primary Capital Markets	63
The Real Risk-Free Rate	12	Government Bond Issues	63
Factors Influencing the Nominal Risk-Free Rate (NRFR)	13	Municipal Bond Issues	63
Risk Premium	14	Corporate Bond Issues	64
Risk Premium and Portfolio Theory	16	Corporate Stock Issues	65
Fundamental Risk versus Systematic Risk	16	Private Placements	65
Relationship between Risk and Return	17	Secondary Financial Markets	66
Movements along the SML	17	Why Secondary Markets Are Important	66
Changes in the Slope of the SML	17	Secondary Bond Markets	66
Changes in Capital Market Conditions or Expected Inflation	19	Financial Futures	67
Chapter 2 The Asset Allocation Decision	23	Secondary Equity Markets	67
Individual Investor Life Cycle	23	Regional Exchanges and the Over-the-Counter Market	73
The Preliminaries	23	Regional Securities Exchanges	73
Life Cycle Net Worth and Investment Strategies	24	Over-the-Counter (OTC) Market	74
Life Cycle Investment Goals	25	Third Market	75
The Portfolio Management Process	25	Fourth Market	75
The Need for a Policy Statement	27	Changes in the Securities Markets	76
Understand and Articulate Realistic Investor Goals	27	Evidence and Effect of Institutionalization	76
Standards for Evaluating Portfolio Performance	27	Negotiated Commission Rates	77
Other Benefits	27	The Impact of Block Trades	77
Input to the Policy Statement	28	Institutions and Stock Price Volatility	78
Investment Objectives	28	National Market System (NMS)	78
Investment Constraints	30	New Trading Systems	79
Constructing the Policy Statement	33	Global Market Changes	80
The Importance of Asset Allocation	34	Future Developments	80
Real Investment Returns after Taxes and Costs	36	Part 2 DEVELOPMENTS IN INVESTMENT THEORY	83
Returns and Risks of Different Asset Classes	39	Chapter 5 Efficient Capital Markets	85
Asset Allocation and Cultural Differences	40	<i>Why Should Capital Markets Be Efficient?</i>	85
Chapter 3 Selecting Investments in a Global Market	43	Alternative Efficient Market Hypotheses	86
Global Investment Choices	43	Weak-Form Efficient Market Hypothesis	86
Fixed-Income Investments	43	Semistrong-Form Efficient Market Hypothesis	87
International Bond Investing	47	Strong-Form Efficient Market Hypothesis	87
Equity Instruments	47	Tests and Results of Efficient Market Hypotheses	87
Special Equity Instruments: Options	49	Weak-Form Hypothesis: Tests and Results	87
Futures Contracts	50		

Semistrong-Form Hypothesis: Tests and Results	90	Security Valuation with the APT: An Example	154
Strong-Form Hypothesis: Tests and Results	99	Empirical Tests of the APT	156
Behavioral Finance	102	Multifactor Models and Risk Estimation	161
Explaining Biases	102	Multifactor Models in Practice	162
Implications of Efficient Capital Markets	103		
Efficient Markets and Technical Analysis	104		
Efficient Markets and Fundamental Analysis	104		
Chapter 6 An Introduction to Portfolio Management	105	Part 3 VALUATION PRINCIPLES AND PRACTICES	165
Some Background Assumptions	105	Chapter 9 Analysis of Financial Statements	167
Risk Aversion	106	Major Financial Statements	167
Definition of Risk	106	Generally Accepted Accounting Principles	167
Markowitz Portfolio Theory	106	Balance Sheet	168
Alternative Measures of Risk	107	Income Statement	168
Expected Rates of Return	107	Statement of Cash Flows	168
Variance (Standard Deviation) of Returns for an Individual Investment	108	Purpose of Financial Statement Analysis	169
Variance (Standard Deviation) of Returns for a Portfolio	108	Analysis of Financial Ratios	170
Standard Deviation of a Portfolio	110	Importance of Relative Financial Ratios	172
A Three-Asset Portfolio	117	Computation of Financial Ratios	172
Estimation Issues	118	Common-Size Statements	172
The Efficient Frontier	118	Evaluating Internal Liquidity	173
The Efficient Frontier and Investor Utility	119	Internal Liquidity Ratios	175
Chapter 7 An Introduction to Asset Pricing Models	123	Evaluating Operating Performance	178
Capital Market Theory: An Overview	124	Operating Efficiency Ratios	178
Background for Capital Market Theory	124	Operating Profitability Ratios	179
Risk-Free Asset	125	Risk Analysis	183
The Market Portfolio	129	Business Risk	184
The Capital Asset Pricing Model: Expected Return and Risk	132	Financial Risk	185
The Security Market Line (SML)	133	Proportion of Debt (Balance Sheet) Ratios	186
Relaxing the Assumptions	137	Earnings Flow Ratios	187
Differential Borrowing and Lending Rates	137	Cash Flow Ratios	187
Zero-Beta Model	138	External Liquidity Risk	188
Transaction Costs	139	Analysis of Growth Potential	189
Heterogeneous Expectations and Planning Periods	140	Importance of Growth Potential	189
Taxes	141	Determinants of Growth	190
Empirical Tests of the CAPM	141	Comparative Analysis of Ratios	191
Stability of Beta	142	Internal Liquidity	191
Relationship between Systematic Risk and Return	142	Operating Performance	191
Effect of Skewness on the Relationship	143	Risk Analysis	191
Effect of Size, P/E, and Leverage	143	Growth Analysis	193
Effect of Book-to-Market Value:		The Value of Financial Statement Analysis	193
The Fama-French Study	143	Specific Uses of Financial Ratios	194
Summary of CAPM Risk-Return Empirical Results	144	Stock Valuation Models	194
The Market Portfolio: Theory versus Practice	145	Estimating Systematic Risk	195
What Is Next?	149	Estimating the Credit Ratings on Bonds	195
Chapter 8 Multifactor Models of Risk and Return	151	Predicting Insolvency (Bankruptcy)	196
Arbitrage Pricing Theory	151	Limitations of Financial Ratios	196
		Chapter 10 An Introduction to Security Valuation	199
		An Overview of the Valuation Process	199
		Why a Three-Step Valuation Process?	201
		General Economic Influences	201

<i>Estimating Industry Rates of Return</i>	268	Political (Country) Risk	296
Valuation Using the Reduced Form DDM	268	Transaction Costs	296
<i>Industry Analysis Using the Relative Valuation Approach</i>	269	Valuation Differences	296
The Earnings Multiple Technique	269	Summary	296
<i>Other Relative Valuation Ratios</i>	271		
<i>Global Industry Analysis</i>	271		
Chapter 14 Company Analysis and Stock Valuation	273	Chapter 15 Technical Analysis	303
<hr/>		<hr/>	
<i>Company Analysis versus the Valuation of Stock</i>	274	<i>Underlying Assumptions of Technical Analysis</i>	303
Growth Companies and Growth Stocks	274	<i>Advantages of Technical Analysis</i>	305
Defensive Companies and Stocks	275	<i>Challenges to Technical Analysis</i>	306
Cyclical Companies and Stocks	275	Challenges to Technical Analysis Assumptions	306
Speculative Companies and Stocks	275	Challenges to Technical Trading Rules	306
Value versus Growth Investing	276	<i>Technical Trading Rules and Indicators</i>	307
<i>Economic, Industry, and Structural Links to Company Analysis</i>	276	Contrary-Opinion Rules	308
Economic and Industry Influences	276	Follow the Smart Money	309
Structural Influences	276	Other Market Environment Indicators	313
<i>Company Analysis</i>	277	Stock Price and Volume Techniques	314
Firm Competitive Strategies	277		
Focusing a Strategy	278		
SWOT Analysis	279		
Some Lessons from Lynch	280		
Tenets of Warren Buffett	280		
<i>Estimating Intrinsic Value</i>	281		
<i>Analysis of Growth Companies</i>	282		
Growth Company Defined	282		
Actual Returns above Required Returns	282		
Growth Companies and Growth Stocks	283		
Growth Companies and the Dividend	283		
Discount Model	283		
Alternative Growth Models	283		
No-Growth Firm	283		
Long-Run Growth Models	284		
The Real World	287		
<i>Measures of Value Added</i>	287		
Economic Value Added (EVA)	288		
Market Value Added (MVA)	290		
Relationships between EVA and MVA	290		
The Franchise Factor	290		
Growth Duration Model	291		
<i>Influences on Analysts</i>	294		
Efficient Markets	294		
Paralysis of Analysis	295		
Analyst Conflicts of Interest	295		
<i>Global Company and Stock Analysis</i>	295		
Availability of Data	296		
Differential Accounting Conventions	296		
Currency Differences (Exchange Rate Risk)	296		
		Chapter 16 Equity Portfolio Management Strategies	323
		<hr/>	
		<i>Passive versus Active Management</i>	323
		<i>An Overview of Passive Equity Portfolio Management Strategies</i>	324
		Index Portfolio Construction Techniques	325
		Tracking Error and Index Portfolio Construction	326
		Methods of Index Portfolio Investing	328
		<i>An Overview of Active Equity Portfolio Management Strategies</i>	329
		Fundamental Strategies	330
		Technical Strategies	330
		Anomalies and Attributes	331
		Miscellaneous Issues	332
		<i>Value versus Growth Investing: A Closer Look</i>	333
		<i>An Overview of Style Analysis</i>	335
		<i>Asset Allocation Strategies</i>	338
		Integrated Asset Allocation	338
		Strategic Asset Allocation	340
		Tactical Asset Allocation	340
		Insured Asset Allocation	341
		Selecting an Active Allocation Method	341
		<i>Using Futures and Options in Equity Portfolio Management: An Overview</i>	341
		Modifying Portfolio Risk and Return: An Introduction	342
		Using Derivatives in Passive Equity Portfolio Management	342
		Using Derivatives in Active Equity Portfolio Management	342

**Part 5 ANALYSIS AND
MANAGEMENT OF BONDS 347**
Chapter 17 Bond Fundamentals 349

<i>Basic Features of a Bond</i>	349
Bond Characteristics	350
Rates of Return on Bonds	352
<i>The Global Bond Market Structure</i>	352
Participating Issuers	353
Participating Investors	355
Bond Ratings	355
<i>Alternative Bond Issues</i>	356
Domestic Government Bonds	357
Government Agency Issues	360
Municipal Bonds	361
Corporate Bonds	362
International Bonds	369

**Chapter 18 The Analysis and Valuation
of Bonds 371**

<i>The Fundamentals of Bond Valuation</i>	371
The Present Value Model	371
The Yield Model	373
<i>Computing Bond Yields</i>	375
Nominal Yield	375
Current Yield	375
Promised Yield to Maturity	376
Promised Yield to Call	378
Realized (Horizon) Yield	379
<i>Calculating Future Bond Prices</i>	380
Price and Yield Determination on Noninterest Dates	382
Yield Adjustments for Tax-Exempt Bonds	382
Bond Yield Books	383
<i>Bond Valuation Using Spot Rates</i>	383
<i>What Determines Interest Rates?</i>	384
Forecasting Interest Rates	385
Fundamental Determinants of Interest Rates	386
Term Structure of Interest Rates	389
<i>Calculating Forward Rates from the Spot Rate Curve</i>	394
<i>Term Structure Theories</i>	397
Expectations Hypothesis	397
Liquidity Preference Hypothesis	398
Segmented Market Hypothesis	399
Trading Implications of the Term Structure	400
Yield Spreads	400
<i>What Determines the Price Volatility for Bonds?</i>	401
Trading Strategies	402
Duration Measures	402
Modified Duration and Bond Price Volatility	405
Bond Convexity	406

Limitations of Macaulay and Modified Duration	409
<i>Yield Spreads with Embedded Options</i>	411
Static Yield Spreads	411

**Chapter 19 Bond Portfolio
Management Strategies 413**

<i>Alternative Bond Portfolio Strategies</i>	413
Passive Management Strategies	414
Active Management Strategies	415
A Global Fixed-Income Investment Strategy	421
Core-Plus Bond Portfolio Management	421
Matched-Funding Techniques	422
<i>Implications of Capital Market Theory and the EMH on Bond Portfolio Management</i>	429
Bonds and Total Portfolio Theory	430
Bonds and Capital Market Theory	430
Bond Price Behavior in a CAPM Framework	430
Bond Market Efficiency	432

**Part 6 SPECIFICATION AND
EVALUATION OF ASSET
MANAGEMENT 435**
**Chapter 20 Professional Asset
Management 437**

<i>The Asset Management Industry: Structure and Evolution</i>	437
<i>Private Management and Advisory Firms</i>	439
Investment Strategy at a Private Money Management Firm	440
<i>Management of Investment Companies</i>	442
<i>Valuing Investment Company Shares</i>	442
<i>Closed-End versus Open-End Investment Companies</i>	443
Closed-End Investment Companies	443
Open-End Investment Companies	444
Fund Management Fees	444
<i>Types of Investment Companies Based on Portfolio Makeup</i>	445
Common Stock Funds	445
Hybrid Funds	445
Bond Funds	445
Money Market Funds	445
Breakdown by Fund Characteristics	446
<i>Global Investment Companies</i>	447
<i>Ethics and Regulation in the Professional Asset Management Industry</i>	448
<i>Performance of Investment Companies</i>	450
Analysis of Overall Performance	450
Investment Style and the Classification of Mutual Funds	452

Investment Style and Performance Persistence	453	<i>Performance Attribution Analysis</i>	479
What Performance Studies Mean to You	453	Asset Class Attribution Analysis: An Example	480
Chapter 21 Evaluation of Portfolio Performance	457	<i>Measuring Market Timing Skills</i>	481
<hr/>		<i>Factors That Affect Use of Performance Measures</i>	482
<i>What Is Required of a Portfolio Manager?</i>	457	<i>A Demonstration of the Global Benchmark Problem</i>	484
<i>Composite Portfolio Performance Measures</i>	458	Implications of the Benchmark Problems	485
Portfolio Evaluation before 1960	458	Required Characteristics of Benchmarks	485
Peer Group Comparisons	459	<i>Evaluation of Bond Portfolio Performance</i>	486
Treynor Portfolio Performance Measure	459	A Bond Market Line	487
Sharpe Portfolio Performance Measure	463	Decomposing Portfolio Returns	489
Jensen Portfolio Performance Measure	465	Analyzing Sources of Return	490
The Information Ratio Performance Measure	467	Consistency of Performance	492
<i>Application of Portfolio Performance Measures</i>	468	<i>Reporting Investment Performance</i>	492
Components of Investment Performance	474	Time-Weighted and Dollar-Weighted Returns	493



Part 1

The Investment Background

Chapter 1

The Investment Setting

Chapter 2

The Asset Allocation Decision

Chapter 3

*Selecting Investments
in a Global Market*

Chapter 4

*Organization and Functioning
of Securities Markets*





Chapter 1

The Investment Setting

After you read this chapter, you should be able to answer the following questions:

- Why do individuals invest?
- What is an investment?
- How do investors measure the rate of return on an investment?
- How do investors measure the risk related to alternative investments?
- What factors contribute to the rates of return that investors require on alternative investments?
- What macroeconomic and microeconomic factors contribute to changes in the required rates of return for individual investments and investments in general?

WHAT IS AN INVESTMENT?

For most of your life, you will be earning and spending money. Rarely, though, will your current money income exactly balance with your consumption desires. Sometimes, you may have more money than you want to spend; at other times, you may want to purchase more than you can afford. These imbalances will lead you either to borrow or to save to maximize the long-run benefits from your income.

When current income exceeds current consumption desires, people tend to save the excess. They can do any of several things with these savings. One possibility is to put the money under a mattress or bury it in the backyard until some future time when consumption desires exceed current income. When they retrieve their savings from the mattress or backyard, they have the same amount they saved.

Another possibility is that they can give up the immediate possession of these savings for a future larger amount of money that will be available for future consumption. This tradeoff of *present* consumption for a higher level of *future* consumption is the reason for saving. What you do with the savings to make them increase over time is *investment*.¹

Those who give up immediate possession of savings (that is, defer consumption) expect to receive in the future a greater amount than they gave up. Conversely, those who consume more than their current income (that is, borrow) must be willing to pay back in the future more than they borrowed.

The rate of exchange between *future consumption* (future dollars) and *current consumption* (current dollars) is the *pure rate of interest*. Both people's willingness to pay this difference for borrowed funds and their desire to receive a surplus on their savings give rise to an interest rate

¹In contrast, when current income is less than current consumption desires, people borrow to make up the difference. Although we will discuss borrowing on several occasions, the major emphasis of this text is how to invest savings.