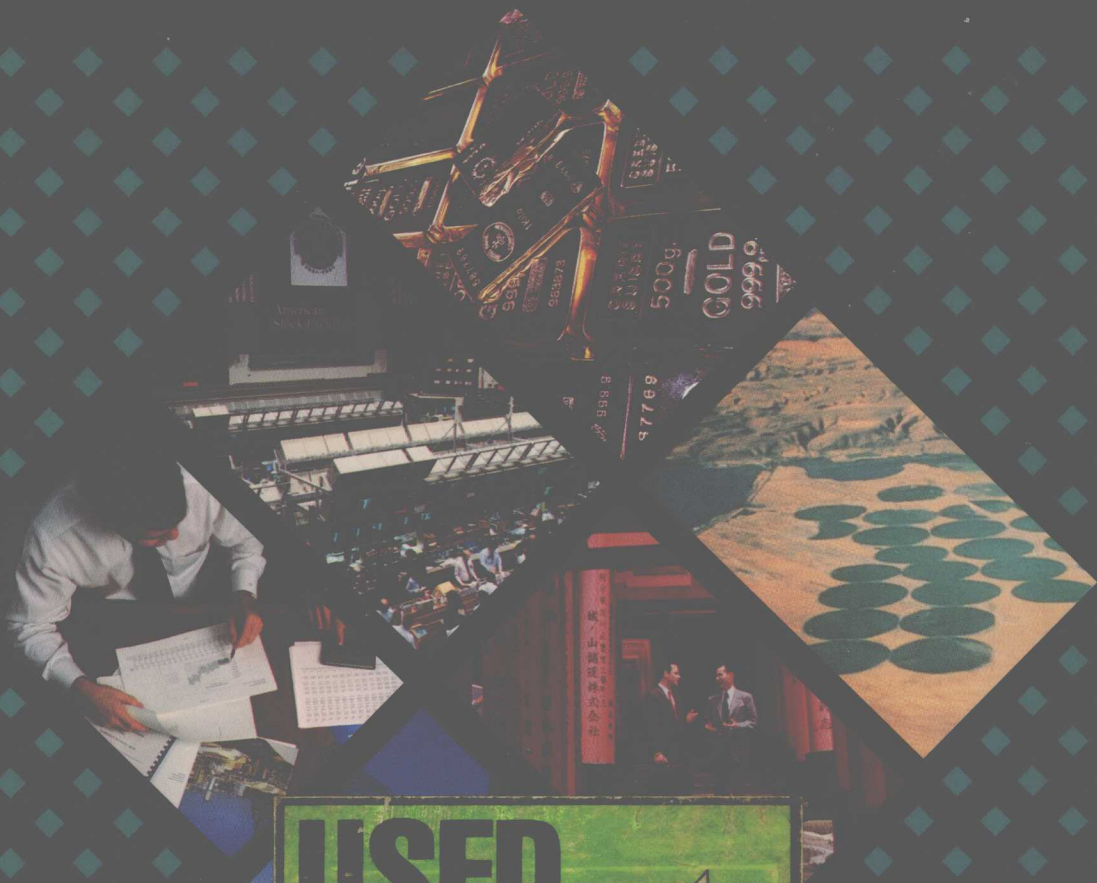


INVESTMENT MANAGEMENT



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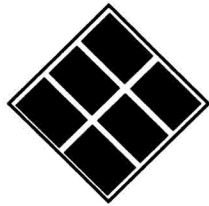


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INVESTMENT --- MANAGEMENT ---



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Preface

The past 20 years have brought dramatic changes to securities and securities markets. Traditional stocks and bonds are still the primary financial assets for most investors, but they are now supplemented by a broad range of derivative investment products not previously available. Today's investor must be familiar with a variety of financial securities including listed options on stocks, bonds, and market indexes, futures on financial instruments and indexes, options on futures, STRIPS, ARPS, puttable preferred stock, and many others. While these new instruments have increased the complexity of the portfolio manager's job, they have greatly enhanced the investment manager's ability to control risk and return. In addition, these new securities have spawned new theories of asset valuation. Unfortunately, most competing investment textbooks do not show how to use these instruments as tools for controlling risk, nor do they integrate these securities into their discussions of the portfolio management process.

Another factor dramatically changing portfolio management is the global integration of security markets. Twenty-four hour trading of securities around the world is a reality. Familiarity with global markets, indexes, and securities is essential for the new generation of portfolio managers. Investors must understand the diversification opportunities offered by trading securities in Tokyo, Hong Kong, Frankfurt, Paris, and London, as well as in New York and Chicago. To be successful, students must develop a global viewpoint about investment management.

For those accustomed to traditional investment textbooks, *Investment Management* presents concise, analytical coverage of standard investment topics such as the functioning of securities markets, and stock and bond valuation. However, it is distinctive from other books because it integrates throughout the text (1) material about derivative instruments—futures and options, and their applications in portfolio management strategies and performance analysis, and (2) information about international markets and securities which will provide students with a global perspective about investment management.

INTENDED MARKET AND USE

This text is appropriate for the first or second undergraduate course in investments, or for the investments course in an M.B.A. program. The prerequisite for using this book is the traditional first class in corporate finance. The presentation we use is analytical in nature. Knowledge of basic statistical concepts and differential calculus is useful but not mandatory. Appendices and footnotes review matrix algebra, differential calculus, Lagrange multipliers, and expectational variables.

While striving for completeness, the text contains too much material for most instructors to cover completely in one term. It is not designed with the intent of discussing all of the material in class. Rather, the material is written so that students can study and explore many topics on their own. For

example, we have found that most students are fascinated with descriptions of alternative financial assets and market mechanics; thus, we have provided significant detail about these topics in Chapter 2 and 3. Most of this material is easily read and understood by students outside of the class, enabling the instructor to focus on the more difficult concepts during class time. Also, by using chapters selectively, instructors will be able to use the text with a variety of students and objectives for courses of varying length.

In addition, the extra detail which we present about a variety of investment topics makes the text useful as a reference work, both for use in more advanced courses, and as a tool for the on-the-job application after graduation. We also hope that students can apply “Chapter 22 *Personal Portfolio Management*” to their own investments.

FEATURES

The text contains many unique features, both in content and pedagogy. A sampling of these features follow:

- The book incorporates up-to-date information available about investments and management. Included are the latest empirical research about market efficiency, (Fama and French), the CAPM (is beta dead?), APT, market anomalies, and approaches to the evaluation of institutional investment managers.
- Theoretical and practical applications are integrated throughout the text. Theoretical concepts are best understood when applied to real world situations. With this in mind, real-life data is used to illustrate concepts. For instance, stock price, dividends, and earnings data for McDonald's, TECO, and Wal-Mart are used throughout the text to illustrate concepts related to market efficiency, security analysis, and portfolio selection. Furthermore, because students are very interested in how the markets really work, we include detailed, lively descriptions of market operations in our chapters.
- Standard investment instruments such as stocks and bonds are described in interesting and concise language as well as the analytical techniques used to value them. For example, the management of bond portfolios has become increasingly complex because of increased interest rate volatility. Thus, our chapters on bonds include sections on duration, immunization, and bond swaps in addition to standard valuation procedures.
- Material about options and futures is introduced in Chapter 2, where basic characteristics of all securities are presented. Later in the book, we include two chapters covering basic features of options and futures and how these securities are priced. Two additional chapters also are included which show how to use these instruments in managing risk and constructing portfolios.
- We provide students with the techniques which will allow them to understand the risks and expected returns of alternative securities and how they can be combined to achieve stated objectives. Portfolio evaluation techniques include standard two-moment measures as well as procedures not dependent upon assumed normality of returns or quadratic utility.
- Financial markets are becoming globalized, and Japanese and European investment bankers are moving into areas that were traditionally domi-

nated by U.S. firms. Because of these developments, *Investment Management* is a text designed for investing in a global environment.

- The material in the book is useful to students both for personal investing strategies and as professional investment managers. Many chapters include information regarding institutional investors, and Chapter 17 is devoted entirely to institutional investment management. Alternatively, examples in each chapter usually address decisions faced by individual investors. Students completing the course should be able to make informed decisions about personal investments, and they will have a firm foundation for employment in professional investment management organizations.
- Each chapter contains a chapter outline and an opening vignette that places the chapter's purpose in perspective. Furthermore, most chapters contain at least one boxed item which illustrates concepts from the text through an extended example. These boxes will stimulate student interest and provide a basis for classroom discussion.
- Numerous graphs and tables are used to help illustrate difficult principles and examples. The graphs are reproduced in a large size, are explicitly detailed, and use color when necessary.
- All key terms are noted in boldface type and are defined in context. The end-of-book index provides a reference for all key terms by noting them in bold.
- Each chapter provides a selection of questions for review and problems which can be used for class discussion or homework assignment.
- In addition to the full references provided in footnotes, selected references are provided after every chapter.

ANCILLARY MATERIALS

The following have been designed to accompany the text and provide students and instructors with a complete teaching/learning package:

1. *Instructor's Manual with Test Bank and Transparency Masters*. A comprehensive manual contains: (1) suggested course outlines, (2) chapter outlines and teaching notes, (3) answers and solutions to all of the text questions and problems, (4) a selection of extra problems which can be used for testing, and (5) a set of transparency masters that reproduce exhibits from the text and provide problem solutions which have been adapted for classroom presentation. The manual has been prepared by R. Stephen Sears, Gary L. Trennepohl, and Stuart E. Michelson of Eastern Illinois University.
2. *Study Guide*. This supplement, authored by Joseph Vu of DePaul University, provides an outline for each chapter, provides students with a self-test quiz, and provides problems similar to those found in *Investment Management* and the accompanying *Test Bank* with complete solutions.
3. *Investment Management for the Personal Computer (IM/PC)*. This user-friendly, menu-driven software package designed specifically for the Dryden Press, allows students to access data, solve problems, and perform sensitivity analysis. Specific modules on the disk are designed to aid

the student in understanding concepts related to security analysis, portfolio models, and valuation issues related to bonds, stocks, options, and futures. The program was developed by James Pettijohn of Southwest Missouri State University with input from the authors. The software requires an IBM-PC or true compatible with at least 640K of memory.

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CONCLUSION

Most students want their investments texts to be clear and understandable with numerous examples; academically rigorous, yet useful and practical in nature. A strong analytical background will enable them to understand future new securities and adapt to the ever-changing investment environment. Practical illustrations of analytical techniques will allow students to step comfortably from the academic environment into their first position in the business community.

With the help of the numerous reviewers listed above, and more than fifteen years teaching graduate and undergraduate students, we believe this text meets those objectives. Combining the text with the computer software programs and data, the study guide and instructor's manual, the students can develop a firm understanding of investment management and the constantly changing investment environment.

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