

Discipline Specific Elective Course- 6.2 (DSE-6.2): Fundamentals of Investment

Course title & Code	Credits	Credit distribution of the course			Eligibility criteria	Pre-requisite of the course (if any)
		Lecture	Tutorial	Practical/ Practice		
Fundamentals of Investment DSE-6.2	4	3	1	0	Pass in Class XII	NIL

Learning Objectives

The course aims to familiarize learners with different aspects of investment management and risks, introduce them to the framework of securities analysis and valuation and highlight the process of portfolio management.

Learning Outcomes: After completion of the course, learners will be able to:

1. Analyze the environment of investment and risk return framework.
2. Explain bonds in terms of valuation, yields, and risks.
3. Analyze equity shares using different approaches and models.
4. Construct, analyse, select and evaluate portfolios along with a deep understanding of capital market theory and associated models.
5. Comprehend and analyse futures and options and to be able to devise own investment strategies using various options trading strategies in the derivative market.

SYLLABUS OF DSE-6.2

Unit1: Introduction to Investment (9 hours)

Concept of Investment; Investment Decision Process; Avenues for investment- features and classes; Difference between investment, speculation, and gambling; Primary market and Secondary Markets- Trading of securities; Security market indices; Return and risk: concept, calculation; trade-off between risk and return; Impact of taxes and inflation on investments.

Unit 2: Bond Analysis and Valuation (9 hours)

Bond Fundamentals, Estimating bond yields; Bond Valuation; Relationship between bonds prices, interest rates and term to maturity; bond risks and credit rating.

Unit3: Equity Analysis and Valuation (9 hours)

Fundamental Analysis, Technical Analysis and Efficient Market Hypothesis; Valuation of Equity Shares using Dividend Discount Model and P/E Ratio model.

Unit4: Portfolio Management (9 hours)

Portfolio Management- Concept and need; Measurement of Portfolio Return and risk; Diversification-Markowitz Theory; Capital Asset Pricing Model.

Unit5: Mutual Fund and Derivatives (9 hours)

Mutual Fund-concept and types; Overview of Financial Derivatives-Forwards; Futures and Options.

Exercises:

The learners are required to:

1. Extract historical data on daily/monthly/annual prices for stocks in an index from a financial database. Evaluate them in terms of risk and return using appropriate software.
2. Participate in a group discussion on ‘Verifying the existence of Bond price – yield relationship in today’s times with real life examples’.
3. Estimate the Yield-to-Maturity of a corporate bond using relevant software.
4. Carry out moving average analysis on a stock of a real company to decide whether to buy, sell or hold the stock for one month using spreadsheets. Further, learners are also required to assess their decision after one month of decision making.
5. a) Draft a case study to devise an investment strategy for yourself in the short term based on your risk aversion.
b. Prepare a presentation to demonstrate real-life examples of stock market anomalies.
6. Select any 5 companies of your choice. Using appropriate models, forecast their future cash flows, growth rate and cost of capital. Estimate the intrinsic value of stocks of these companies using relevant software.
7. Select any 5 stocks of your choice. Extract past data on their prices and volumes from a financial database. Make investment decisions using appropriate technical analysis tools and techniques. Use any technical analysis software for this purpose.
8. Construct portfolios based on any firm attribute using past data on NSE 500 stocks. Assess the profitability of this investment strategy. Evaluate if the returns on this strategy are explained by standard risk models such as CAPM. Use relevant software for your estimations.
9. Build and analyse option strategies for Index and Stock options using any option building analytical tool.

Suggested Readings:

- Alexander, G. J., Sharpe, W. F., & Bailey, J. V. (2009). *Fundamentals of investments*. PHI Learning.
- Bodie, Z., Kane, A., Marcus, A. J., & Mohanty, P. (2019). *Investments*. McGraw Hill.
- Chandra, P. (2021). *Investment analysis & portfolio management*. Delhi, India: Tata McGraw Hill Education.
- Jones, C. P. (2019). *Investment analysis and management*. United States: Wiley.