Modern investment theory says that, at all times, market prices equal fundamental value and that asset returns in the cross-section reflect relative exposures to systematic non-diversifiable risk. Despite decades of data analysis, empirical support for this theory remains thin. For instance, capital asset pricing model betas are at best weakly related to returns and there is much unexplained volatility in asset prices. Shareholder trading practices are also difficult to reconcile with the standard theory. Periods of price turbulence, accompanied by heavy trading volume, are followed by periods of relative calm.

This course is an introduction to the principles, issues, and methods of security analysis and investment strategy. We take a psychological approach as we study the determinants of asset prices and trading volume. We put great emphasis on the decision processes and the behavior of individual and institutional investors.

**Topics and assignments**

**WEEK 1: FOUNDATIONS OF FINANCE**


**WEEK 2: RISK AND RETURN IN FINANCIAL MARKETS**


*(recommended) Robert Haugen, *The New Finance, 1995*
WEEK 3: PRICE AND VALUE ON WALL STREET


WEEK 4: INVESTOR PSYCHOLOGY


WEEK 5: SUPERSTARS
WEEK 6: THE QUALITY OF ANALYST EARNINGS FORECASTS


WEEK 7: INVESTMENT STRATEGY (1)


WEEK 8: INVESTMENT STRATEGY (2)

Werner De Bondt, *Earnings forecasts and share price reversals*, 1992


**WEEK 9: INVESTMENT STRATEGY (3)**


Louis Chan, Jason Karceski and Josef Lakonishok, "New paradigm or same old hype in equity investing?” *Financial Analysts Journal*, 2000