

TEACHING GUIDE

Course Information	
Full name	Asset Management and Behavioural Finance
Code	0000012220
Degree	Master in Finance
Taught in	Advantere School of Management
Level	Postgraduate Official Master's Degree
Term	3
Credits	3
Type	Elective
Person in charge	Javier López Bernardo, Ph.D., CFA
Office hours	Continuous availability via email

Professor Information	
Professor	
Name	Javier López Bernardo, Ph.D., CFA
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SPECIFIC COURSE INFORMATION

Course contextualization
<p>Contribution to the professional profile of the degree</p> <p><u>Asset management and behavioral finance</u></p> <p>The core model of traditional finance (Capital Asset Pricing Model, or CAPM) assumes that stock returns are determined by the volatility of stock prices: those stocks with a higher beta should, in equilibrium, provide a higher return. The crucial implicit assumption of this model is that the historical volatility of a stock's price is the best measure of the risk inherent in that company.</p> <p>Under a different scheme, however, the best way to understand the risk of a particular stock is not through its volatility, but through knowledge of the particularities of that company's business. Specifically, residual earnings share valuation models organically link the operating reality of the company, its accounting, and finally the valuation of the business. The return on net operating assets is the metric that makes it possible to link these three facets, while providing information on the level of risks of the company's activities as well as their origin (operational or financial risks).</p> <p>Finally, traditional finance also assumes that markets are efficient and that their participants are rational agents, maximizing at all times the expected return on their investments for a given level of risk. Behavioral finance, however, shows that human beings have behavioral biases that are predictable and contrary to the behavior of a rational agent. Taking these biases into account when choosing assets or building a portfolio of securities yields recommendations that are completely new and more in line with the reality of today's markets.</p>

Competences – Objectives		
Competences		
GENERAL		
CG.1		Project-based learning: Ability to develop and execute in its different phases collective financial projects based on real situations, proposing real solutions and making efficient all interactions with the team, clients and any other participant
	RA1	Ability to engage in the development of experimental collective projects based on the real world, managing and aligning client needs with available resources, optimally distributing the work, communicating and projecting its different phases, providing real solutions and making efficient all interactions with the team, clients and other stakeholders.
CG.2		Critical thinking: Use critical thinking for decision making and problem solving in financial management processes
	RA1	Interpret, analyze, synthesize and evaluate ideas, and do so from a critical point of view
CG.6		Global and local orientation capacity: Analyze current financial problems, in local and global environments, taking into consideration complex economic aspects, cultural, social and ethical factors
	RA1	Ability to analyze current problems in the local and global environment, taking into consideration complex economic aspects, cultural, social and ethical factors
CG.10		Technical Capacity: Capacity of analysis, synthesis and projection, applied to situations, problems and models in the financial field
	RA1	Be able to deal with the analytical study of cases and scenarios, as well as to carry out synthesis and synthesis of information and data

SPECIFIC		
CE.13	Know and correctly apply the modern principles of advanced portfolio construction and management theory	
	RA1	Be able to develop and program valuation models -fundamental and technical- and optimization models for fixed and variable income assets, multi-asset portfolios and financial institutions, based on diverse market data (data vendors) and inserting in the analysis (data vendors), inserting in the analysis aspects of contractual finance
	RA2	Portfolio management in hedge funds, their operation, structure and the mechanics of management and performance fees. Differentiate between absolute and relative return management and its implications. Performance using various metrics, such as Sharpe and Information ratio, Omega, etc. Directional, arbitrage or global macro strategies. How the alternative management industry works and will delve into aspects such as smart beta or factor investing. Analysis on the main real assets.
COPT 3	Know what the residual benefit method is and be able to implement it when analyzing individual stocks or specific investment projects	
	RA1	Know and apply advanced asset management techniques in conjunction with behavioral finance to generate alternative asset management strategies for both traditional and alternative asset management using spot and/or derivative assets in the fixed income, equity, foreign exchange, private debt, real estate or commodities markets
	RA2	Know and know how to structure and manage alternative investment vehicles for corporate financing, as well as how to measure and quantify the real impact that such financing activities have on the company
	RA3	Know and know how to apply the new concepts, methodological techniques and paradigms that directly and indirectly impact the modern asset management industry

THEMES AND CONTENT

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Session 1
Introduction to the Course. Comparison of the fundamental axioms of traditional finance (efficient markets, rational agents) versus the postulates of behavioral finance: prospect theory, loss aversion and behavioral biases (availability, representativeness, anchoring and adjustment). Empirical review of the predictions of the capital asset pricing model (CAPM).
Session 2

Introduction to the residual benefit model. Explanation of the concepts of opportunity cost, economic benefits and accrual principle. Explanation of the interrelation between the income statement and the balance sheet when projecting book value and earnings per share.

Session 3

Real case applications of the residual profit model. Importance of clean surplus accounting and comprehensive income items.

Session 4

Reverse engineering of the residual profit model for growth rates. Application of the statistical concept of statistical prime rates when forecasting the main variables of the model. Explanation of the most common biases and solutions offered by behavioral finance when forecasting highly uncertain variables.

Session 5

Importance of financial leverage in generating economic benefits as well as the risk associated with it. Introduction to the residual operating profit model, explanation of how to reorganize the financial statements into operating and financial activities (balance sheet and income statement), and presentation of the fundamental equation linking the unleveraged variables of the three financial statements.

Session 6

Real case applications of the residual operating profit model. Explanation of the analytical solutions to the most popular valuation ratios for simple perpetuity models.

Session 7

Relationship between discount rates and growth rates in the operating residual earnings model. Explanation of how we can incorporate the risk of a given company by calculating the implicit discount rates at current prices and the relationship with the company's growth. Explanation of the behavioral finance concepts known as framing and myopic loss aversion, as well as their importance when performing valuation models, especially those aimed at calculating an implied discount rate vs. those that calculate target prices (long-term mentality vs. short-term mentality).

Session 8

Limitations and shortcomings of traditional asset valuation models (discounted cash flow, multiples and dividends) versus the residual earnings model. Explanation of the problems of the discounted cash flow model in correctly accounting for business investments. Exploration of the limitations of the multiples model due to the capital structure of the company. Explanation of the behavioral concept of the beauty contest and herding as additional limitations of valuation multiples.

Session 9

Explanation of the value vs. growth debate. Review of the traditional literature (Fama-French 3-factor model) and refocusing of the whole debate based on the lessons learned in the previous lessons.

Session 10

Final behavioral observations when analyzing and making investment decisions. Explanation of the most important biases not covered so far in the course, among others: illusion of knowledge, overconfidence, information overload and confirmation bias.

Session 11

Group work presentation: sharing of ideas and analysis of points of view.

Session 12: **Final Exam**

TEACHING METHODOLOGY

General methodological course aspects
Presential Methodology: Activities
<p><i>Cooperative work of students who, in pairs or small groups, are given a task, case or assumption that requires sharing information and resources among members in order to achieve the common goal. Based on the case method, studied by each student and discussed by each group before the individual interventions of each general session.</i></p> <p>The case method stimulates inductive learning. From the analysis of concrete examples, the different tools of analysis are built and general rules of application to all types of companies and sectors are induced. Therefore, prior study of the cases and active participation in the discussions of the general sessions is essential.</p> <p>Exhibitions on their competences and skills to get a job.</p> <p>The presentations should be evaluated and critiqued by the rest of the classmates or by the professor in order to go deeper into the topic.</p> <p>Lessons of an expository nature.</p>
Non-presential Methodology: Activities
<p>Individual study</p> <p>Individual reading of texts of different types, mainly books, scientific articles and financial reports and presentations of companies</p> <p>Cooperative work of students who, in small groups, are given a task that requires sharing information and resources among members.</p>

SUMMARY OF STUDENT WORK HOURS

PRESENTIAL HOURS					
Professor Exposition	Student exhibition. Debates and group dynamics	Exercises and problem solving. Elaboration of applied work	Analysis and documentation	Tutorial sessions	Development of real projects for organizations
6	13	10	0	1	1
NON-PRESENTIAL HOURS					

Professor Exposition	Student exhibition. Debates and group dynamics	Exercises and problem solving. Elaboration of applied work	Analysis and documentation	Tutorial sessions	Development of real projects for organizations
0	0	29	29	1	1
CREDITS ECTS: 3,0 (90,00 hours)					

EVALUATION AND GRADING CRITERIA

Graded Activities	Evaluation Criteria	% of Total Grade
Assessment of individual or group work carried out by students, some of them presented in class	<ul style="list-style-type: none"> Work adequacy to the objectives set On-time delivery Goal adequacy and focus Results achieved Compliance with deadlines The participation of ALL members of each team in the presentations and elaborations is required 	50
Realización de exámenes orales, escritos, defensas públicas y pruebas tipo test, pruebas de conceptos y resolución de casos prácticos a modo de examen	<ul style="list-style-type: none"> Throughout the program, exams or written tests will be given to test the solidity of the concepts acquired. In order to pass the course, the final exams and tests of each section of the course must be passed. If there are several exams in the same section or block of a course, the weighted average of them must be higher than 5 as a necessary condition to pass the course. 	30
Participation and utilization of the classes	<ul style="list-style-type: none"> When we talk about participation, it is clear that both the positive and negative ones are counted and that the quality of participation is as important as the quantity. The students' participation in class, the quality and timeliness of their interventions, the quality in the preparation and presentation of their work, predisposition and commitment, initiative, attendance. 	20

Grades

The evaluation criteria of the course are governed by the following regulations:

1. All students must comply with 100% attendance on the days set for this course. Any absence must be justified.
2. The final grade corresponds to the sum of the graded activities, evaluation criteria and % of total grade described in the Evaluation and Grading Criteria section.
3. Individual and group work must be delivered on time and in the manner planned by the course Professor.
4. A final mark below 5 implies the completion of an extraordinary test. The final grade in this exam may not be higher than the median of those passed at the time of set exams.

The Evaluation Criteria to enroll for a second year

The student enrolled in the course for the second year must comply with the individual and group tasks set by the course Professor. The same evaluation criteria described in the Evaluation and Grading Criteria section will be maintained.

For those circumstances not foreseen in this Teaching Guide, the Advantere School of Management Regulations and the Comillas General Regulations will apply.

Evaluation criteria to be applied in the case of dispensation of schooling:

In cases of schooling dispensation, provided that the student duly justifies it, the grading criteria will be 70% exam (if the course allows it, two exams will be developed, 35% each) and 30% for individual work. The individual work will serve to control the evolution of the student's learning. In those cases in which it is not possible for the student to answer in writing, and provide evidence to justify it, only in those cases the exam may be oral and the content of the student's answers will be transcribed.

Health alert criteria:

Students must be permanently identified, in class with an identification sign and remotely with their full name. Students should not change the spaces they occupy in the classroom, until a professor or the program management indicates they can do so.

Failure to comply with any of the health recommendations during class sessions may result in failure of the course

BIBLIOGRAPHIES AND RESOURCES

Basic Bibliographies

- Penman, S. (2011). *Accounting for Value*. Columbia University Press.
- Mauboussin, M., Callahan, D., & Majd, D. (2016). *The Base Rate Book: Integrating the Past to Better Anticipate the Future*. Credit Suisse Global Financial Strategies.
- Montier, J. (2007). *Behavioural Investing: A Practitioner's Guide to Applying Behavioural Finance* (1st ed.). Wiley & Sons.

Additional Bibliographies

- Kahneman, D., & Tversky, A. (1979). Prospect Theory: An Analysis of Decision Under Risk. *Econometrica*, 47(2), 263-292.
- Mauboussin, M., & Callahan, D. (2021). *The Impact of Intangibles on Base Rates*. MS Counterpoint Global Insights.
- Montier, J. (2010). *The Little Book of Behavioural Investing: How Not to be Your Own Worst Enemy* (1st ed.). Wiley & Sons.
- Penman, S. (2013). *Financial Statement Analysis and Security Valuation* (5th Intern). McGraw-Hill Education.
- Penman, S., & Reggiani, F. (2018). Fundamentals of Value versus Growth Investing and an Explanation for the Value Trap. *Financial Analysts Journal*, 74(4), 103-119.
- Thaler, R. (2015). *Misbehaving. The Making of Behavioral Economics*. W. W. Norton & Company.