

# Security Valuation

## (FIN469)

Fall 2024

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**Time and Location:** Mondays and Wednesdays, 2-3:15PM, Rehn 326.

**Office Hours:** Mondays and Wednesdays, 3:30-4:30PM. Extra hours will be held before exam dates. Other hours by appointment.

### 1. Course Description

This course is about the valuation of securities. The value of a financial security boils down to estimating the cashflows it promises in the future, and then discount those cashflows to today. Different financial contracts provide different cashflow structures and carry different interest rates needed to discount those cashflows. The objective of this course is to learn the tools necessary to price a wide range of products, including equities, bonds, currencies and derivatives. Each security has a specific risk-return profile, and we will dedicate this course to study them. Moreover, a collection of securities comprise a portfolio, with its corresponding risk and return, a subject of interest in this course.

Students will acquire a solid grasp of modern business finance theory and practice. This includes the understanding of the following:

- The different areas of finance, its different markets and different asset classes.
- The valuation of cashflows at different points in time.
- The pricing of assets, including equity, fixed income and derivatives securities.
- The trade-off between risk and return in a portfolio consisting of several assets.

The hallmark of modern financial theory is a mathematical and statistical approach to these topics. This approach is used by most investment banks, hedge funds and financial managers. Part of this course and the exams will therefore be quantitative in nature. The ultimate goal for the student is to understand and implement the concepts and mechanics of financial instruments and markets discussed in class.

**Prerequisites:** This course requires FIN361 as a prerequisite or concurrent enrollment in FIN361 for undergraduate students. For graduate students, the prerequisite is BA530. In addition, a basic to intermediate level of Microsoft Excel is required.

## 2. Course Strategy and Material

- Each session will start with a roadmap for the class. Then, I will give you a non-technical summary of the topic we will cover that day. I will then follow with a formal structure to those concepts. This is a quantitative course, but you first need to understand how the instruments and markets work in simple terms. If you understand how they work, math will come easy.
- The last 15 minutes of each topic will be dedicated to a Q&A session of the concepts discussed. You can ask me, I can ask you; there is no grading at this point so you must feel free to clarify any doubts or curiosities you may have, even if you think they are too simple. At this point, I am more interested in your questions rather than your answers.
- Besides the slides, each topic will include its Q&A companion file. This file includes conceptual and numerical exercises about the topic. I will first post a Q file, only with questions. I will then post a Q&A file, which includes both questions and answers.
- There is no mandatory textbook for this course, but I will point to specific books and academic papers for further reading if appropriate. The material covered in the slides and in the Q&A files is what will be tested in the exams.

## 3. Grading Policy

- **Three exams (33.3% each).** There will be three exams throughout the course. There will be no new topic to discuss the class prior to the exam. Instead, I will review the topics to be included in the exam, solve tentative conceptual and numerical exercises and discuss logistics.

**Class Participation.** I encourage students to actively participate with questions and comments related to topics discussed in class. I do not want to force students to do it, so this is not mandatory. However, your participation can positively influence the final score for your overall grade.

**Grade Contention.** The student has a one week period of grace to contend or ask feedback about a grade in an exam after the grades have been posted. A detailed request for a grade change must be made in writing. Exam grade revision is comprehensive and can make the grade increase or decrease. Requests to be excused from an exam on the scheduled date must be made in writing and at least 24 hours prior to the test. Students missing a test without approval will receive zero points. In all exams, students are expected to follow the examination code of conduct prescribed by the University administration.

#### 4. Class Policies

Students are expected to come to class on time and well-prepared. All students must behave in a professional manner during class and be respectful to all classmates. Students are welcome to stop by during office hours for questions or discussions. Students are responsible for checking the course website regularly for updated materials and important announcements.

The use of a computer must strictly be related to what we will be doing in each class. Students using a laptop or mobile device for non-class issues will be asked to leave the class and can negatively impact in the final score. This amounts to negative participation.

**University attendance policy.** According to the Office of the Registrar, students are expected to attend all classes and instructors are expected to report excessive absences. If you miss a class, you first should read the material corresponding to the missed class. You should then get the notes from another student in the class that day, making sure to ask about any administrative announcements.

#### 5. Course Schedule

The table in next page shows the tentative course schedule, which is subject to change and based on the academic calendar.<sup>1</sup> Any changes will be discussed in class. The table reports the date and the topic to cover. In all of them, the ultimate goal is to determine value of the security, be it a stock, a bond, or a portfolio of securities.

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<sup>1</sup><https://registrar.siu.edu/calendars/academic2425.php>

## Class Schedule for FIN469

Date	Topic
Mon. Aug-19	Introduction
Wed. Aug-21	Financial Staments
Mon. Aug-26	Financial Staments
Wed. Aug-28	Cashflows & Rates
Mon. Sep-2	-
Wed. Sep-4	Cashflows & Rates
Mon. Sep-9	Cashflows & Rates
Wed. Sep-11	Cashflows & Rates
Mon. Sep-16	Review for Exam 1
Wed. Sep-18	Exam 1
Mon. Sep-23	Equity Securities
Wed. Sep-25	Equity Securities
Mon. Sep-30	Fixed Income Securities
Wed. Oct-2	Fixed Income Securities
Mon. Oct-7	Fixed Income Securities
Wed. Oct-9	Derivatives Securities
Mon. Oct-14	Derivatives Securities
Wed. Oct-16	Derivatives Securities
Mon. Oct-21	Review for Exam 2
Wed. Oct-23	Exam 2
Mon. Oct-28	Currency Securities
Wed. Oct-30	Currency Securities
Mon. Nov-4	Securities Risk & Return
Wed. Nov-6	Securities Risk & Return
Mon. Nov-11	-
Wed. Nov-13	Securities Risk & Return
Mon. Nov-18	Security Portfolios
Wed. Nov-20	Security Portfolios
Mon. Nov-25	-
Wed. Nov-27	-
Mon. Dec-2	Securitization
Wed. Dec-4	Review for Exam 3
Mon. Dec-9	Exam 3

## 6. This Course During post-COVID Times

My goal is to fulfill the above schedule of classes. However, there is a probability that classes may go online (fully or partially). In that case, I will add virtual office hours (via Zoom) after each session. You should check your email and the course's site for any updates.

As your instructor, I will expect that you work with me to enable you to receive any necessary course content (including classroom lectures) and complete any assignments, quizzes, or exams that you may miss due to being sick or COVID-19-related circumstances. If you are well, have no symptoms, and are not required to remain at home for any COVID-19 or other health-related reason, you should attend class and abide by all of the University's health protocols. Attendance during this time will be recorded to comply with federal guidelines and to monitor progress, yet it may take many forms due to the various course formats being offered. Be sure to pay careful attention to the additional instructions that describe how attendance and class participation will be incorporated into my course.

## 7. Mental Health Services

Southern Illinois University strives to bring awareness to mental health, increasing access to supportive services, and normalizing discussions about the importance of mental health care in multiple settings. Below are options in case you find yourself in need for help. Do not hesitate to reach out.

