

Chapter Assignments:

Required: See below (5 points)

Due: TueThurs May 7th; Online May 9th

Chapter Sections:

Expected Returns and Variances
Portfolios
Diversification and Portfolio Risk
Correlation and Diversification
The Markowitz Efficient Frontier

Chapter Terms:

diversification
risk
risk *versus* return
variance *and* standard deviation
correlation
correlation coefficient
positive correlation – correlation coefficient = 1.0
negative correlation – correlation coefficient = -1.0
neutral correlation (a.k.a. no correlation) – correlation coefficient = 0.0
asset allocation
rebalancing
dollar cost averaging
mutual funds and diversification
other measures of risk:
alpha – the higher the better, greater than 1.0 is good
beta – 1.0 = same level of risk as the market, higher than 1.0 means riskier than market, less than 1.0 means less riskier than market
r-squared – the closer to 1.0, the more *beta* can be trusted
Sharpe ratio – the higher the better
Treynor ratio – the higher the better
Morningstar risk rating

Assignment:

Go to morningstar.com or finance.yahoo.com (or whichever information service you prefer) and lookup the *10-year standard deviation* for at least five mutual funds. Choose your mutual funds by visiting mutual fund company web sites, the funds available in your 401(k) at work, or any other method you choose. Also report the 10-year *alpha*, *beta*, and *R-squared* (correlation coefficient) values. For your own enrichment, research the definitions of alpha and beta. What are alpha and beta and what are they designed to describe about a mutual fund? (You could use www.investopedia.com to research the definitions of alpha and beta.) Did the funds with the lowest risk ratings have low, moderate, or high returns? Morningstar now reports the upside / downside capture ratios. Research what these numbers signify and whether you as an investor are more concerned with the upside or the downside capture.

Here are some of my favorite mutual funds: awshx, newfx, cwgix, agthx, anpwx, ancfx, caibx, aivsx

Here are some other mutual funds web sites:

www.dodgeandcox.com, www.vanguard.com, www.fidelity.com, www.troweprice.com, www.leggmason.com,
www.oppenheimerfunds.com, www.tiaa-cref.org, www.franklintempleton.com, www.putnam.com,
www.pimco.com, www.mfs.com, www.blackrock.com, www.janus.com, www.dreyfus.com

NOTE: Careful! Morningstar will try to get you to enroll in their premium fee-based service. Get it free at the library.