

Freshman Advising Seminar – Fall 2007
 14.A03: The Economics of Mutual Funds
 Tuesdays, 3 – 5 p.m., E52-398

Professor Nancy L. Rose
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| Date | Topic |
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| September 11 | Introduction. Investing Basics: Return, Compound Interest, Present Discounted Value, Taxes. Asset classes: bonds, stocks, derivatives, other assets. Risk v. return, diversification. |
| Sept 18 | Mutual funds: What is a mutual fund, what types of funds exist? Who runs them, who buys them and why. |
| Sept 25 3-5 p.m. Pizza at 5 p.m. | Mutual fund performance: Returns, predictability, risk/return trade-offs. Historical perspective and trends. |
| October 2 | Measuring Performance: risk-adjusted return measures. The Organization of Mutual Funds and Investment Advice: What do investors pay for? What do they get? |
| Oct 9 | No meeting – Institute Holiday |
| <i>Oct 15 Monday, 4-6 p.m.</i> | Invitation to attend 15.965: Endowment Management for discussion of GMO Case (Forrest Berkley, guest speaker) |
| Oct 16 | Advisors and Portfolio Managers: Their job, incentives, and performance. Lab on data analysis/Excel regressions. |
| Oct 23 | Marketing and Distribution: Investment Advisors/Brokers |
| Oct 30 | How Investors Choose: Decision-making, fund flow determinants |
| Nov 6 | Taxes and Investing <i>Guest Speaker: Professor James Poterba, MIT</i> |
| Nov 13 | Mutual Fund Governance and Regulation. International comparisons. |
| Nov 20 | Alternatives to mutual funds: Hedge funds, ETFs, and other vehicles. |
| Nov 27 3 p.m. Dinner following MFS visit | Site visit to MFS. Please arrive promptly by 3 p.m. to ensure we are on-time for our appointment at MFS. http://www.mfs.com/wps/portal/us |
| December 4 | Fund Reports by students |
| Dec 11 | Seminar Wrap-up |

Seminar Expectations:

Required readings will be distributed in advance. Students are expected to come to the seminar prepared to discuss the issues raised in the readings. In addition, students will choose one equity-based mutual fund to analyze during the semester, and prepare a final project report on that fund by November 30. This assignment will provide an opportunity to apply the analytic tools developed in this seminar to evaluate a possible fund investment.

Project: Evaluate a Mutual Fund Investment: Final Project Due November 30.

Select an equity mutual fund with a minimum 10-year track record and open to individual investors—you might look at Morningstar for ideas. To ensure diversity in the set of funds analyzed, please submit two fund choices to Professor Rose by September 22. One should be a “no-load” fund (marketed directly to investors with no commissions on purchase or sales), the other may be sold through brokers or financial advisors with a front-end load.

Inputs

By Sept. 25: Confirm your mutual fund choice with Professor Rose.

By Oct. 2: Obtain the prospectus, Statement of Additional Information, and latest annual report for your fund. Begin basic research on your fund (Morningstar rating, discussions in the popular/investment press, etc.)

By Oct. 16: Obtain data on your fund’s monthly return for the past 10 years, decide what your fund’s portfolio benchmark should be, and obtain monthly returns for that benchmark portfolio (see below).

By Nov. 30: FINAL PROJECT REPORT

A. Financial analysis (Results to be appended to Fund Report)

1. Set up a spreadsheet with ten-year returns for your fund and its benchmark portfolio. Compute average annual returns to your fund from September 1, 1997 to August 31, 2007, both before and after expenses. Compare those to the return for the benchmark portfolio for your fund.
2. Calculate the exact return an investor would have received by purchasing \$1000 of the fund’s shares on September 1, 1997 and selling all shares owned on August 31, 2007:
 - a. On a before-tax basis, assuming you could purchase and sell shares at NAV, but including all 12b-1 fees and other expenses.
 - b. On a before-tax basis, including any loads the fund imposes as well as 12b-1 fees and other expenses. You may assume loads in 1997 are the same as those imposed today if you are unable to find information on 1997 loads.
 - c. On an after-tax basis including any loads, 12b-1 fees, and other expenses. You may use the after-tax return for the ten-year period reported in the most recent prospectus (in which case, please indicate the corresponding before-tax return reported in the prospectus for the same period).
3. Estimate the security market line for your fund using your fund’s benchmark portfolio. What is its “alpha” and “beta” relative to the benchmark? Repeat this analysis using the S&P500 portfolio if that is not your fund’s benchmark. Split your data in half and see what the security market line estimates look like for the first half (1997-2002) and second half (2002-2007) of the time period.
4. Calculate the Sharpe Ratio for your fund. How does this compare with the Sharpe Ratio for your fund reported in Morningstar?

B. Fund Report

Prepare a brief (no more than 2-page) summary report on your fund: what specific agency or regulatory risks does your fund present, what has been happening to your fund over the past five years, how would you evaluate its performance? In your conclusion, what advice would you give to a friend who asked whether this is a good fund to invest in? You will present the basic information on your fund and your assessment and advice to the seminar on December 4 (5-10 minute presentation).