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Licence this eBook for your library Institutional subscriptions This textbook provides a comprehensive introduction to portfolio management and investments. Focusing on four core areas – portfolio management, equities, bonds, and derivatives – it is primarily intended for undergraduate and graduate students alike. However, it will also benefit practitioners working in the fields of financial analysis and portfolio management and professionals who aspire to such professional activities in the financial industry. To ensure its high practical relevance, the book includes a host of case studies and examples from real-world practice, mainly from the German and Swiss financial markets. Additionally, the book shows how to implement the models in Microsoft Excel. Enzo Mondello is owner and managing director of CBS Center for Business Studies AG (Switzerland), where he provides live and online preparatory courses for the Chartered Financial Analyst (CFA®), Financial Risk Manager (FRM®), Chartered Alternative Investment Analyst (CAIA®), and Certified Management Accountant (CMA) certifications. From 2003 to 2011, he developed and directed both the Master of Advanced Studies (MAS) in Corporate Finance and Banking and Finance (CFA® Track) at the University of Applied Sciences Northwestern Switzerland. He has published several books with Springer Gabler. In addition to his work, he is currently also a lecturer at the University of St. Gallen (Switzerland) for financial risk management and applied finance and for banking and corporate finance at Kalaidos University of Applied Sciences in Zurich (Switzerland). Page 2 Authors: Dieses Buch gibt einen umfassenden und gut verständlichen Einstieg in die Finanzmarkttheoretischen Konzepte der Kapitalanlage. Dazu gehören die Grundlagen des Portfoliomanagements, die wichtigsten Anlageinstrumente sowie die Verfahren zu ihrer Analyse und Bewertung. Jedes Kapitel besteht aus einer Einleitung, dem eigentlichen Lehrinhalt, einer Zusammenfassung, Aufgaben und Lösungen, Microsoft-Excel-Applikationen und dem Literaturverzeichnis. Das Buch ist praxisorientiert, da zum einen die im Buch aufgeführten Aufgaben vorwiegend reale Beispiele enthalten und zum anderen am Ende der Kapitel die Microsoft-Excel-Applikationen aufgeführt sind, welche die Umsetzung der im Kapitel vorgestellten Finanz-Konzepte ermöglichen. Portfoliotheorie Aktien Anleihen Derivate Kapitalmarkt CAPM Dr. Enzo Mondello ist seit 2001 Gründer, Inhaber und Leiter von CBS Center for Business Studies AG mit den Schwerpunkten CFA®, FRM®, CAIA® und CMA. Er verfügt über eine langjährige Lehrerschaft an Universitäten, Fachhochschulen und in CFA®-Vorbereitungskursen. A career's worth of portfolio management knowledge in one thorough, efficient guide Portfolio Management is an authoritative guide for those who wish to manage money professionally. This invaluable resource presents effective portfolio management practices supported by their underlying theory, providing the tools and instruction required to meet investor objectives and deliver superior performance. Highlighting a practitioner's view of portfolio management, this guide offers real-world perspective on investment processes, portfolio decision making, and the business of managing money for real clients. Real world examples and detailed test cases—supported by sophisticated Excel templates and true client situations—illustrate real investment scenarios and provide insight into the factors separating success from failure. The book is an ideal textbook for courses in advanced investments, portfolio management or applied capital markets finance. It is also a useful tool for practitioners who seek hands-on learning of advanced portfolio techniques. Managing other people's money is a challenging and ever-evolving business. Investment professionals must keep pace with the current market environment to effectively manage their client's assets while students require a foundation built on the most relevant, up-to-date information and techniques. This invaluable resource allows readers to: Learn and apply advanced multi-period portfolio methods to all major asset classes. Design, test, and implement investment processes. Win and keep client mandates. Grasp the theoretical foundations of major investment tools Teaching and learning aids include: Easy-to-use Excel templates with immediately accessible tools. Accessible PowerPoint slides, sample exam and quiz questions and sample syllabi Video lectures Proliferation of mathematics in economics, growing sophistication of investors, and rising competition in the industry requires advanced training of investment professionals. Portfolio Management provides expert guidance to this increasingly complex field, covering the important advancements in theory and intricacies of practice. How do I cancel my subscription? Simply head over to the account section in settings and click on "Cancel Subscription" – it's as simple as that. After you cancel, your membership will stay active for the remainder of the time you've paid for. Learn more here. Can/how do I download books? At the moment all of our mobile-responsive eBook books are available to download via the app. Most of our PDFs are also available to download and we're working on making the final remaining ones downloadable now. Learn more here. What is the difference between the pricing plans? 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We have over one million books available in our catalogue for you to explore. 1.1 Introduction to the Investment Industry 1.2 What Is a Portfolio Manager? 1.3 What Investment Problems Do Portfolio Managers Seek to Solve? 1.4 Spectrum of Portfolio Managers 1.5 Layout of This Book The investment business offers the potential for an exciting career. The stakes are high and the competition is keen. Investment firms are paid a management fee to invest other people's money and their clients expect expert care and superior performance. Managing other people's money is a serious endeavor. Individuals entrust their life savings and their dreams for attractive homes, their children's educations, and comfortable retirements. Foundations and endowments hand over responsibility for the assets that support their missions. Corporations delegate management of the funds that will pay future pension benefits for their employees. Successful managers and their clients enjoy very substantial financial rewards, but sustained poor performance can undermine the well-being of the client and leave the manager searching for a new career. Many bright and hard-working people are attracted to this challenging industry. Since their competitors are working so hard, portfolio managers must always be at their best, and continue to improve their skills and knowledge base. For most portfolio managers, investing is a highly stimulating vocation, requiring constant learning and self-improvement. Clients are demanding, especially when results are disappointing. While considered a stressful job by many people, it is not unheard of for professionals to manage money into their eighties or nineties. 1 Portfolio management is becoming increasingly more sophisticated due to the ongoing advancement of theory and the growing complexity of practice, led by a number of trends, including: Advances in modern portfolio theory. More complex instruments. Increased demands for performance. Increased client sophistication. Rising retirement costs, and the growing trend toward individual responsibility for those costs. Dramatic growth in assets under management. These trends parallel the growing use of mathematics in economics, the improvements in investment education of many savers, and the increasing competitiveness of the industry. Assets controlled by individual investors have grown rapidly. In 2016, just under half of all U.S. households owned stock, but fewer than 14 percent directly owned individual stocks. 2 By year-end 2017, U.S.-registered investment company assets under management had expanded to \$22.5 trillion from \$2.8 trillion in 1995, managed over 16,800 funds, and employed an estimated 178,000 people. 3 The global money management business has grown in parallel. Exhibit 1.1 shows that worldwide assets under management have expanded over 2.5× from 2005 to 2017. Source: Based on data from Pension & Investments. EXHIBIT 1.1 Total Worldwide Assets Under Management Portfolio management is based on three key variables: the objective for the investment plan, the initial principal of the investment, and the cumulative total return on that principal. The investment plan, or strategy, is tailored to provide a pattern of expected returns consistent with meeting investment objectives within acceptable levels of risk. This investment strategy should be formed by first evaluating the requirements of the client, including their willingness and ability to take risk, their cash-flow needs, and identifying any constraints, such as legal restrictions. Given the cash flow needs and acceptable expected risk-and-return outcomes, the allocation between broad asset classes is set in coordination with funding and spending policies. Once investment vehicles are selected and the plan is implemented, subsequent performance should be analyzed to determine the strategy's level of success. Ongoing review and adjustment of the portfolio is required to ensure that it continues to meet the client's objectives. The year 2008 was a terrible one for the markets. The S&P 500 fell nearly 40 percent, high-yield bonds declined over 25 percent, and in December Bernie Madoff admitted to what he claimed was a \$50 billion Ponzi scheme. While these numbers are shocking, they are not unprecedented and the reasons behind them are not new. Security values can change drastically, sometimes with surprising speed. Declining values can be a response to peaking long-term market cycles, short-term economic shocks, or the idiosyncratic risk of an individual security. Market cycles can take months or years to develop and resolve. The dot-com bubble lasted from 1995 to 2001. The March 2000 peak was followed by a 65+ percent multiyear decline in the NASDAQ index as once-lofty earnings growth forecasts failed to materialize. The S&P 500 dropped over 40 percent in 1973 and 1974 as the economy entered a period of stagflation following the boom of the 1960s and the shock of the OPEC oil embargo. Black Monday, October 19, 1987, saw global equity markets fall over 20 percent in the course of a single day. The collapse of Enron destroyed more than \$2 billion in employee retirement assets and more than \$60 billion in equity market value. While the true cost may never be known, economists at the Federal Reserve of Dallas conservatively estimate the cost of the 2007–09 financial crisis to the U.S. alone was \$6–\$14 trillion. 4 Each of these examples had a different cause and a different time horizon, but in each case the potential portfolio losses were significant. To assist investors, this book outlines the basic—and not so basic—principles of sound portfolio management. These techniques should prepare the investor to weather market swings. The broad themes include: Creating and following an investment plan to help maintain discipline. Investors often appear driven by fear and greed. The aim should be to avoid panicking when markets sell off suddenly (1974, 1987) and risk missing the potential recovery, or overallocating to hot sectors (the dot-com bubble) or stocks (Enron) and being hurt when the market reverts. Focus on total return and not yield or cost. Establishing and following a proper risk management discipline. Diversification and rebalancing of positions help avoid outsized exposures to particular systematic or idiosyncratic risks. Performance measurement and attribution provide insight into the risks and the sources of return for an investment strategy. Not investing in what you do not understand. In addition to surprisingly good performance that could not be explained, there were additional red flags, such as lack of transparency, in the Enron and Madoff cases. Behave ethically and insist others do, too. Although attractive or even positive returns cannot be guaranteed, following the principles of sound portfolio management can improve the likelihood of achieving the investor's long-range goals. This book presents effective portfolio management practice, not simply portfolio theory. The goal is to provide a primer for people who wish to run money professionally. The book includes the information a serious portfolio manager would learn over a 20-year career—grounded in academic rigor, yet reflecting real business practice and presented in an efficient format. Importantly, this book presents tools to help manage portfolios into the future; that is what a portfolio manager is paid to do. Although the book discusses the value of historical data, it guides the reader to think more about its implications for the future. Cover About the Authors Acknowledgments Preface CHAPTER 1: Introduction CHAPTER 2: Client Objectives for Diversified Portfolios CHAPTER 3: Asset Allocation: The Mean-Variance Framework CHAPTER 4: Asset Allocation Inputs CHAPTER 5: Advanced Topics in Asset Allocation CHAPTER 6: The Investment Management Process CHAPTER 7: Introduction to Equity Portfolio Investing: The Investor's View CHAPTER 8: Equity Portfolio Construction CHAPTER 9: Fixed-Income Management CHAPTER 10: Global Investing CHAPTER 11: Alternative Investment Classes CHAPTER 12: Portfolio Management Through Time: Taxes and Transaction Costs CHAPTER 13: Performance Measurement and Attribution CHAPTER 14: Incentives, Ethics, and Policy CHAPTER 15: Investor and Client Behavior CHAPTER 16: Managing Client Relationships Sample Cases Jerry W. MSSI McClain Capital The Fairbanks Fund Glossary References Index End User License Agreement